From Steady State to Atrophy

All these cross-cutting institutions helped support and sustain the social contract from the 1950s through the 1970s. During these years, as the lines in Figure 1-2 indicate, the wage-setting formula initiated by GM and the UAW in the 1940s kept productivity and real wages moving upward roughly in tandem. This is not to say that there were not rough spots along the way. In the 1960s, concerns that wage-price spirals were fueling inflation led the Kennedy and Johnson administrations to introduce wage-price “guideposts” to try to restrain inflation. In the early 1970s, runaway wage increases in the construction industry that threatened to spread to other industries led to even stronger action, the imposition of wage-price controls, by the Nixon administration. And later in the 1970s a period of “stagflation”—slow economic growth while wages and prices continued to increase—created a crisis that eventually led to dramatic change in both economic policies and political leadership. The postwar social contract had matured but was not adapting to an incrementally changing environment.

Indeed, the 1960s proved to be a tumultuous decade in both employment relations and American society in general. In employment relations the 1960s began with much concern that advances in technology (referred to at the time as “automation”) were gradually but steadily eliminating jobs and creating a population of permanently unemployed workers (called structural unemployment). A host of new “manpower” policies were implemented to support retraining, geographic relocation, and regional economic development to cope with the consequences of persistent unemployment. The employment and training policies and infrastructure in place today are essentially carryovers from these beginnings of a national labor market policy.

The automation scare proved to be overstated and premature. Just as World War II expenditures brought the labor market out of the Great Depression, expenditures for the Vietnam war in the 1960s did more to bring down the unemployment rate than the new manpower policies did, helped along by the technological innovations that spawned the growth of the emerging high-tech industries. Once again the lesson is clear:

> *When an economy needs to create new, high-quality jobs, it must have strong, growth-oriented macroeconomic policies in place and must nurture technological invention, entrepreneurship, and innovations.*

But the trauma of the Vietnam War and the civil rights battles of the 1960s began to create schisms in the fabric of the social contract. Coming of age and entering the labor force in the 1960s was a heady experience. Everyone was fighting with everyone. The Civil Rights Movement took off with marches in Selma, protests in Birmingham, and the famous March on Washington, where Martin Luther King Jr. gave his “I Have a Dream” address. The Vietnam War tore the country apart, and student

protests at leading universities brought police and the National Guard to campuses across the country, in some cases, as at Kent State, with tragic consequences. Cities on were literally on fire as the result of civil rights riots. Young people became disillusioned with all major institutions—labor unions for being "hardhats" who supported the war and resisted integration, businesses for making napalm and other horrific war materials, university leaders for being part of the establishment. American society seemed to be coming apart.

While college students opposed the war, the most visible leaders of the labor movement and in the business community continued to either support it or kept their personal misgivings to themselves. While some labor and business leaders supported civil rights activism, the most visible leaders—particularly the leaders of the AFL-CIO—remained either silent or aloof. George Meany, president of the AFL-CIO, chose to be "out of town" the day of Martin Luther King's March on Washington in 1963, leaving his rival, Walter Reuther (yes the same Reuther who brought us the contract that ushered in the productivity–cost of living wage formula) to be the highest-ranking labor leader to march with Reverend King. Young people saw unions as part of the problem in the country—part of the "establishment" and so deeply emblematic of the generation gap that was growing in society that it had little to offer the next generation.

Meanwhile, the world of work was changing under the sight lines of both established labor and management. New ideas for organizing work in more flexible ways had begun to emerge that allowed individuals and teams to flourish and informed how work was done, especially in the new high-technology industries and companies—think Hewlett Packard, Texas Instruments, Digital Equipment Corporation and later Intel, Apple, Dell, and their progeny. These "startups" used new ideas to organize work, motivate employees, and provide a satisfying and challenging work environment. Labor unions, stuck in organizing models that assumed that workers would be dissatisfied with their jobs and distrusted their bosses, never adapted in ways that made representation attractive in these emerging industries. As a result, throughout the 1960s and 1970s, union membership began what would turn out to be a long-term (40-year) steady decline.

By the mid-1970s, the divide between the unionized sector of the economy that carried forward the wage formulas and work practices of the earlier era and the newer, faster-growing high-tech sectors of the economy was apparent. Differentials between union and non-union wages had increased from about 5 percent to 10 percent in the 1950s and 1960s to an average of 20 percent by the mid-1970s—a differential that caused employers with unionized work forces to lose jobs and to become more and more concerned about their future. The pressures for significant change were building.

The most visible political warning signal—really a shot across the bow of labor-management relations—came in 1977–1978 when a mild form of labor law reform (the Labor Law Reform Act of 1978) backed by the labor movement failed in Congress. The business community was emboldened by the experience of blocking this reform in a government led by a Democratic president and Congress. Labor and the Democrats fell one vote short of breaking a Senate filibuster.

Economic warning signs were equally ominous. The stagflation of the 1970s doomed Jimmy Carter. It took the shock of a movie-star president to change the course of history, a history today's next generation is inheriting.

The lesson: Organizations and institutions fall into patterns of behavior that do not automatically or easily adapt to incremental changes in their environment. They are like the proverbial frog put in a kettle of water that is heated gradually and doesn't take action to hop out until it is too late. Radical or fundamental change—departures from well-established routines that have worked for a long time—often can only be achieved (or certainly have a higher likelihood of being tried out) in new organizations or institutions.

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