INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

Proceedings of the
1977 Annual Spring Meeting

March 17-19, 1977

Tucson, Arizona

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Edited by James L. Stern
and
Barbara D. Dennis

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INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
7226 Social Science Building, University of Wisconsin
Madison, WI 53706 U. S. A. Telephone 608/262-2762

Industrial Relations Research Association Spring Meeting

March 17-19, 1977 — Tucson, Arizona

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PREFACE

Industrial Relations Research Association Series
Proceedings of the 1977 Annual Spring Meeting

The 1977 Spring meeting of the IRRA, March 17-19 in Tucson, was well attended and afforded ample opportunity for conferees to discuss professional matters and catch up with news of other members. Secretary of Labor Ray Marshall, IRRA President for 1977, in his luncheon address covered a wide range of industrial relations problems facing the United States and indicated several which he thought should be given priority. The dinner speaker was Congressman Gus Hawkins of California, who vigorously defended the need for the full-employment legislation bearing his name.

The program included sessions about bargaining trends, bargaining in hospitals, issues in full-employment policy, and employment policy and labor market institutions. The southwestern locale of the meeting was a logical place for discussion of immigration policy, particularly the problem of illegal entrants from Mexico. At another session the focus was on the role of the U. S. Employment Service. Reports about bargaining in the health-care industry brought the audience up to date about developments in that field. At the opening workshop discussion Thursday evening, a panel discussed management and labor views of the industrial relations problems to be faced by the new Administration.

IRRA President Marshall and the Association's Executive Board and staff are grateful to Guy M. Parent, FMCS, chairman of the local arrangements committee, and to committee members Robert E. Gocke of the Greyhound Corporation and Professor James C. McBrearty of the University of Arizona, for their efforts which resulted in a well-run and pleasant Spring meeting. The editors wish to express their appreciation to the speakers and discussants for getting their papers in promptly. Finally, acknowledgement should be made of the customary hard work of Elizabeth Gulesserian and her assistants in the IRRA office and the Tucson Convention Bureau who helped to make the meeting successful. As in the past, these Proceedings first appeared in the August issue of LABOR LAW JOURNAL and have been reprinted for distribution to IRRA members.

JAMES L. STERN
BARBARA D. DENNIS
Co-editors, IRRA

Where Is Industrial Relations Headed?

By RAY MARSHALL

Secretary of Labor
President, Industrial Relations Research Association.

IT IS A PLEASURE TO SHARE some ideas about where industrial relations is headed and what kinds of things we are thinking about in the Carter Administration and, especially, in the Department of Labor. I could not help but think, as I was putting together our program for this meeting, that it is a good time to be in industrial relations. As you know from the history of these matters, we go through periodic episodes of ferment in our discipline. I think there are a lot of challenges in the immediate future—a lot of important decisions and important policy changes facing us. Some, I think, will have a profound impact on the future of the country and on the future of collective bargaining and industrial relations.

A number of developments are on the horizon for which we do not yet have appropriate answers and with which we going to be dealing intensively. One of the first and most important is the effort to move toward full employment and to do it without inflation. We will have a struggle over whether or not we can do that without an incomes policy.

I have a relatively open mind on that matter, but I think we can do it without an incomes policy, as traditionally defined—that is, wage and price controls. And it seems to me that the essential problem is to figure out how to keep productivity up and avoid bottlenecks and shortages in product and labor markets as we move toward lower levels of unemployment.

The reason I think that an incomes policy is not likely to help is that wage and price controls, in my opinion, have never worked anywhere. They cut against the grain of the economy. They don't work with the economy; they tend to work against it. But that does not mean that we can ignore an inflation policy. We clearly have to deal with that problem, and I think that now is the time to deal with it because we have some slack. I do not think inflation—certainly the inflation originating in labor markets—is a serious problem for the immediate future; but the time to make decisions about all these things, and to get the relationships in order, is before we have a crisis. The worst time to do it is when there is a crisis.

Frictional Unemployment

We are not likely to move toward full employment as fast as many of us would like, but I think we are likely to move steadily in that direction and to reduce unemployment to what we call frictional unemployment. I have a rough rule-of-thumb definition of that, and that is when nobody who wants a job has to look for one very long. The economists can fuzz that up for you and make it more complicated, but that is essentially what we are talking about.

I do not know what the full employment rate is, but we have some processes under way to find out. We will announce very soon the establishment of a commission on labor market statistics whose job will be to find a better way of defining labor market measures as well as collecting and processing data. That, too, will be extremely important for our activities. As you know, most of the data we have now was not designed for decision-making—for operational purposes. It was designed to be published, and that is different. We need information on how to make decisions about the labor market and how to get better measures.

Now the kinds of things that seem to offer some prospect for moving toward full employment without inflationary pressures are those measures that would improve the operation of labor and product markets. We need to be able to project trends and try to overcome, in advance, potential bottlenecks in the labor market and in the product market so as to counteract shortages of all kinds, and we need a longer time-horizon than we ordinarily have taken.

One of the main problems with the labor market, as you know, is that most decisions about the future are made on the basis of the present. If you have high unemployment in the present, you do not train people, and that lack of training shows up later as serious bottlenecks in the labor market.

There are all kinds of ways you can take up the slack in labor and product markets and improve efficiency. It seems to me that we need to give heavy weight to trying to develop the mechanisms to do that and, as I have said, to do it long before we begin to have serious problems—long before we get ourselves into those kinds of bottlenecks or other critical situations likely to cause trouble.

One of the problems we have had with all past efforts to control wages and prices is that we did not have adequate information to make decisions. Not only do we need information while the controls are in operation, but we need information on what to do after the controls expire. The absence of information was always a serious problem, but there were other problems with it, too. We intend to work toward trying to develop the mechanisms we need—trying to be concerned about productivity, examining government regulations to see the extent to which they contribute to the problem, and trying to do it on the basis of joint discussions with unions and employers on common problems. We have already initiated some mechanisms and have them under way. All of them have not been put in place yet, but we are thinking hard about how to do it.

International Aspects

The other dimension of the problem that we are concerned about is the international aspects of economic and labor relations policy. Those of

us who are primarily concerned with domestic policy tend to ignore the implications of international policies and trade for domestic employment and wage- and price-determining processes. This is extremely important and extremely complicated. There is a struggle going on now in Washington, as you undoubtedly know, between the free-traders who, more or less, use a traditional "comparative advantage" argument about what our trade policies ought to be, and others who are concerned about both the short- and long-run impact of free-trade policies. They are concerned about the deep penetration of foreign sales of various kinds into many of our domestic markets. And, there are those who are concerned that the theory upon which the comparative-advantage-type reasoning rests needs to be reexamined.

In a nutshell, the concern that we have is that those trade theories are based on the assumption that you get relatively competitive conditions between countries, that you do not have heavy subsidization in other countries in various hidden ways, and that their economies work the same way as ours does. But there are situations where other countries have heavy fixed costs, for example, and they will tend to react to adverse circumstances by selling at much below-average cost of production, which is very close to something like dumping. We have to be concerned about that aspect of our trade policy and try to see how we can prevent an adverse impact on us.

As you know, we have the trade-adjustment-assistance procedures, but they have not worked very well. They have not done much to soften the impact on domestic markets, either product markets or labor markets, as a result of increasing imports. So this is an area that will have to be carefully considered.

Another aspect of the international problem that frequently is ignored, but with which we are very concerned, is the international migration of workers—the international migration of people. It seems to me imperative that we integrate immigration policy and employment policy. We cannot ignore the impact of the free flow of people into the United States and the impact of those people on our labor markets. We do not know how many people are coming in. We do know how many we catch, and it is now running about 800,000 a year. We know we let 400,000 come in legally, about half of whom enter the labor market, but only about 17,000 are subjected to any kind of labor-market test.

Unlawful Immigration

Our work force is growing at a rate of about two million people a year. We could work hard to create some jobs, but those jobs could be entirely eliminated by the influx of people from abroad. This matter is very complex—especially the unlawful immigration of people into the United States—because of a number of problems.

The first is the immediate labor-market impact. We need to try to determine analytically whether or not those people are taking jobs that legal residents would not take. Your judgment about the effect of the immigration process depends heavily on your answer to that question. If the answer is yes, they do take jobs that legal residents would not take, then the importation of these people tends to promote growth here. If the answer is no, then it tends to create unemployment here.

I think one of the things that we in the Labor Department have to do is to make a vigorous effort to fill domestic jobs with people who are already here legally, and I think this means that we need to have some inventiveness. We need to develop outreach and to try to reshape labor markets to make them more attractive to legal residents. And after we make a vigorous effort to improve the match between domestic people and jobs, then we can let people come in legally to take the jobs we cannot otherwise fill.

Obviously there are serious policy questions that have to be resolved before we can integrate immigration policy with employment policy. A critical one is: What do you do about the question of making it legal or illegal for employers to hire people who are in the country unlawfully? It seems to me that we must make it unlawful for employers to hire people who are here illegally. But, as you almost always find, one solution leads to another problem—one of identification.

The identification question is: How do you know that people are here legally? How is an employer to know that? Well, that becomes a very complex civil liberties problem. The civil libertarians will object to any kind of national identification card because it conjures up images of police states. I think that is a legitimate concern, and a possible way to resolve the dilemma is not to have a special card for immigrants or a national identification card for everybody, but a card that all *workers* would have to have. We have such a card: a social security card.

A problem here is that the procedure for issuing this card has been very loose. You would have to tighten up that procedure and make the social security card noncounterfeitable in order for it to be useful for identification purposes. I'm told by the technicians of cards that it is possible to do it, and I believe them because I think that this is no longer academic. Something that there is money up on is academic. Well, there is a whole lot of money up on this. There is money up on these cards because I believe that if they can make a card that will give you money when you just poke it in a slot in the lobby of Dulles Airport, then we can make a card that you cannot counterfeit. The money people have convinced me of that—but maybe not. It's one of those areas we are still exploring.

The really serious problem we face with the present situation is that we have so many people who are here illegally, many of whom are performing satisfactorily in our system. But the fact of illegality means that they are easily exploited and will work hard and scared. Too, they compete with people who are here legally.

A more important, long-run problem is that I think we are building another massive civil rights problem for ourselves. We are creating an underclass of people who are unable to protect their interests, and I think that what we can expect is about the same thing we have always experienced with such movements over time—that the first people to come will tolerate very bad conditions because they make comparisons with the old country or back on the farm. But you can also almost count on it, as an inevitability, that their children will not be tolerant and that they will rebel.

What to do is a policy issue. Unless we do something to see that people have full legal rights—and that we do not create an underclass—

we will face serious problems down the road. It seems clear to me that we have to grant amnesty to people who have been here and who have performed satisfactorily and to legalize their existence in this country.

Now where we are with it, in the Administration, is that the President has assigned us to study the problem and to try to work out appropriate policies. An informal group, consisting of the Secretary of State, the Attorney General, and myself, is working out the international as well as the domestic implications and trying to deal with all aspects of the problem. There are things on the international front now that are terribly important for our domestic employment, and I think you will see increasing attention to all of them.

Improving the System

Another area of great concern to us, and the final one I will mention, is trying to do something to improve the collective bargaining system and to integrate collective bargaining policy with overall economic policy. We intend to work very closely with the Federal Mediation and Conciliation Service, the National Labor Relations Board, and the National Mediation Board. We believe such coordination is necessary in order to accomplish many of the things we are talking about—to see that you get the kinds of improvements in productivity you want, to get unemployment down and, more importantly, to hold it down. We have to work out some new arrangements and achieve better coordination of all our policies, international as well as domestic, in order to achieve those objectives.

As you know, there are proposals to improve collective bargaining in the public sector and to streamline and improve the operations of the National Labor Relations Board: in essence, to finally accomplish something we set out to do in 1937—that is, to really make it possible for workers to organize and bargain collectively through representatives of their own choosing. One of the problems is that the machinery has become so cumbersome that the only way workers can exercise this right has very little to do with the law, but instead has to do with their power in the market to enforce this right. One of the problems with the present system is that it does the least for those who need it most. Therefore, it seems to me that we need to do some hard thinking about how we can perfect the mechanism and improve the system of collective bargaining and, as I said, to integrate industrial relations policy more closely with overall economic policy.

[The End]

SESSION I

Labor Market Institutions and Employment Policy

The Needs of FSB Recipients for Services Related to Employment*

By DAVID L. HORNER

Mathematica Policy Research, Inc.

PUBLIC LAW 94-45 PROVIDED for a continued extension of unemployment compensation (UI) benefits to recipients after their regular benefits have been exhausted and mandated a study of the characteristics and employment needs of recipients. The period of these federal supplemental benefits (FSB) begins at the end of extended benefit (EB) receipt and continues for up to a maximum of 26 weeks. In order to better assess alternative and complementary programs, Congress requested a study of "the needs of the long-term unemployed for job counseling, testing, referral and placement services, skill and apprenticeship training, career related education programs, and public service employment opportunities." This article summarizes that study with respect to FSB recipients.[1]

Employment needs are grouped into (1) testing and counseling, (2) education and training, (3) referral and placement, and (4) public employment. Counseling and testing are placed together because they are highly complementary services. Individuals who need testing to determine if they are qualified for a particular job will usually need some counseling concerning their level of qualification. Individuals who are uncertain about their job preferences would, as part

* This paper summarizes a joint effort to which Alan Brewster, Walter Corson, Valerie Leach, Charles Metcalf, and Walter Nicholson have made major contributions. It was funded by a contract from the Department of Labor to Mathematica Policy Research, Inc. I, alone, am responsible for the quality and conclusions of this paper.

[1] Space limitations prevent a discussion of many important details and the presentation of results for Special Unemployment Assistance recipients. The full results of this study are contained in Chapter III and Appendix 7 of Walter Corson et al., *A Study of Recipients of Federal Supplemental Benefits and Special Unemployment Assistance* (Princeton, N. J.: Mathematica Policy Research, Inc.).

of their counseling, receive an aptitude and/or job preference test. Skill and apprenticeship training and career-related educational programs are also highly complementary and often overlapping. Hence, these two groups are combined in the analysis. A fifth category, job ready, represents those recipients who need either referral and placement or a public employment job but who do not need testing, counseling, education, or training prior to taking a job.

The first section briefly describes the skills and employment characteristics of FSB recipients. In the second section, the method used to determine a recipient's need is described. The results are then presented in the third section. They are based on the analysis of data on 6,831 FSB recipients selected randomly within 15 states. The sample is weighted to make it representative of the national FSB population with respect to key elements of state UI and welfare programs, state unemployment rates, and regional characteristics.

Skills and Other Employment Characteristics

This section describes several socioeconomic characteristics of FSB recipients which are relevant to employment. Table I shows the skill status, wage rates, and duration of spell out of work when individuals first received FSB. The first row of the table includes individuals with a two-year associate degree or four-year college degree; the second row includes individuals who indicated they had a license, certificate, or journeyman's card that qualified them for a particular type of work. "Other vocational training," the third row, refers to skills individuals have learned which might help them get a particular type of work but for which they have no formal accreditation. Special on-the-job training or skills learned in the military are examples of such training. "No training" includes all those not in any of the first three categories.[2]

The middle rows of Table I characterize the recipients by their inflation-adjusted pre-UI wage. About 12 percent of those on FSB had a wage rate of less than the national minimum wage in 1975 ($2.30 per hour). It is possible for individuals to have earned as much as the minimum wage in a previous year and have their adjusted rate came out to less than $2.30. However, the number of those who reported earnings below the minimum wage in the year they lost their pre-UI jobs is also high. The explanation for this is twofold: (1) certain workers were not, in fact, covered by the national minimum wage law or they were illegally receiving less than the minimum; (2) other workers underreported their wages. Although precautions are taken to avoid this type of survey error, it often occurs because individuals report take-home pay instead of gross wages. The relative influence of these two factors could not be determined.

Table I also shows the distribution of individuals by those who were out of work less than 15 weeks, from 15 to 26 weeks, and for 27 weeks or longer. The congressional mandate for this study refers not to the needs of FSB recipients per se, but to the needs of the long-term unemployed. To accommodate this request, results for FSB recipients were grouped by length of the period out of work. The "long-term unemployed" are defined as those who had been continuously out of work for 27 weeks or longer

[2] Individuals could be included in two or more the first three categories. Hence the sum of the first four rows adds to more than 100 percent.

TABLE I

The Educational Attainments, Skills, Wage Rates and Length of Spell Out of Work of FSB Recipients, by Age and Sex

Male

	Under 25	25-34	35-44	45-54	55-64	65 and over	Total Male
Percentages with:							
Degrees	6.6	12.9	10.7	11.0	9.7	10.1	10.1
Formal Skill Licenses	18.3	31.5	29.2	30.2	28.6	24.6	26.7
Other Vocational Training	58.5	57.2	60.5	56.6	54.6	52.2	57.1
No Training	32.1	25.6	23.6	28.2	28.1	29.6	28.1
Percent With No Training Who Are:							
Non High School Grads	68.3	68.0	77.2	76.6	83.0	81.6	73.8
High School Grads	31.7	32.0	22.8	23.4	17.0	18.4	26.2
Adjusted, Pre-UI Wage Per Hour:							
Less than $2.30	11.2	4.8	4.3	2.2	6.3	6.2	6.3
$2.31-$4.00	44.6	30.1	26.0	29.4	26.2	26.0	32.2
More than $4.00	44.2	65.2	69.7	68.4	67.5	67.8	61.5
Mean Wage Per Hour	$4.06	$5.07	$5.67	$5.47	$5.67	$5.72	$5.09
Median Wage Per Hour	$3.79	$4.66	$5.17	$4.88	$5.05	$5.14	$4.58
Length of Spell Out of Work at First FSB Receipt: (percentage)							
27 weeks or more	60.2	63.3	70.5	65.5	74.0	73.5	66.2
15-26 weeks	17.4	14.8	10.0	12.3	9.3	13.6	13.6
Less than 15 weeks	22.4	21.9	19.5	22.2	16.7	12.9	20.2
Weighted Sample Size	903	885	470	507	496	320	3,585

Female

	Under 25	25-34	35-44	45-54	55-64	65 and over	Total Female
Percentages with:							
Degrees	8.4	12.8	4.1	4.3	5.5	4.5	7.3
Formal Skill Licenses	11.8	17.0	11.2	10.1	6.9	5.8	11.6
Other Vocational Training	57.9	54.1	55.2	48.2	49.6	46.7	55.0
No Training	34.0	35.8	38.3	45.3	47.7	47.9	40.2
Percent With No Training Who Are:							
Non High School Grads	66.9	66.1	79.2	75.0	79.3	72.7	72.5
High School Grads	33.1	33.9	20.8	25.0	20.7	27.3	27.5
Adjusted, Pre-UI Wage Per Hour							
Less than $2.30	30.1	17.2	16.2	17.5	16.5	18.2	19.2
$2.31-$4.00	55.5	56.5	56.5	60.6	62.3	54.0	57.7
More than $4.00	14.4	26.3	27.3	21.9	21.2	27.8	23.1
Mean Wage Per Hour	$2.95	$3.55	$3.42	$3.34	$3.26	$3.73	$3.36
Median Wage Per Hour	$2.70	$3.20	$3.22	$3.08	$3.06	$3.08	$3.07
Length of Spell Out of Work at First FSB Receipt (percentage):							
27 weeks or more	64.9	69.0	65.3	72.3	74.4	78.1	69.7
15-26 weeks	18.7	12.9	11.7	10.9	8.2	5.4	12.1
Less than 15 weeks	16.4	18.1	23.0	16.8	17.4	16.5	18.2
Weighted Sample Size	547	841	578	608	427	245	3,246

All FSB Recipients

Percentages with:	
Degrees	8.8
Formal Skill Licenses	18.8
Other Vocational Training	55.0
No Training	33.9
Percent With No Training Who Are:	
Non High School Grads	73.2
High School Grads	26.8
Adjusted Pre-UI Wage Per Hour	
Less than $2.30	12.4
$2.31-$4.00	44.3
More than $4.00	43.3
Mean Wage Per Hour	$4.33
Median Wage Per Hour	$3.69
Length of Spell Out of Work at First FSB Receipt (percentage):	
27 weeks or more	67.8
15-26 weeks	12.9
Less than 15 weeks	19.3
Weighted Sample Size	6,831

at the date they received their first FSB payment.

Method of Assignment

Several approaches were considered for establishing the various needs of the recipient populations. The primary mechanism adopted assigned individuals to the various services in the same way that they might be assigned by an Employment Service counselor with the same limited information that was available in the questionnaire. It should be emphasized that this information cannot substitute for what is obtained by a trained counselor in a personal interview. For this study, individuals had to be assigned according to their response to questions that simulate only the *key* indicators of need used by the Employment Service.[3]

In order to compensate partially for this shortcoming, the final assignment also depends upon certain additional labor market and employment information, including (a) the pre-UI wage, (b) whether or not the recipient had a high school education or its equivalent, and (c) the area/occupation unemployment rate as described in the appendix.

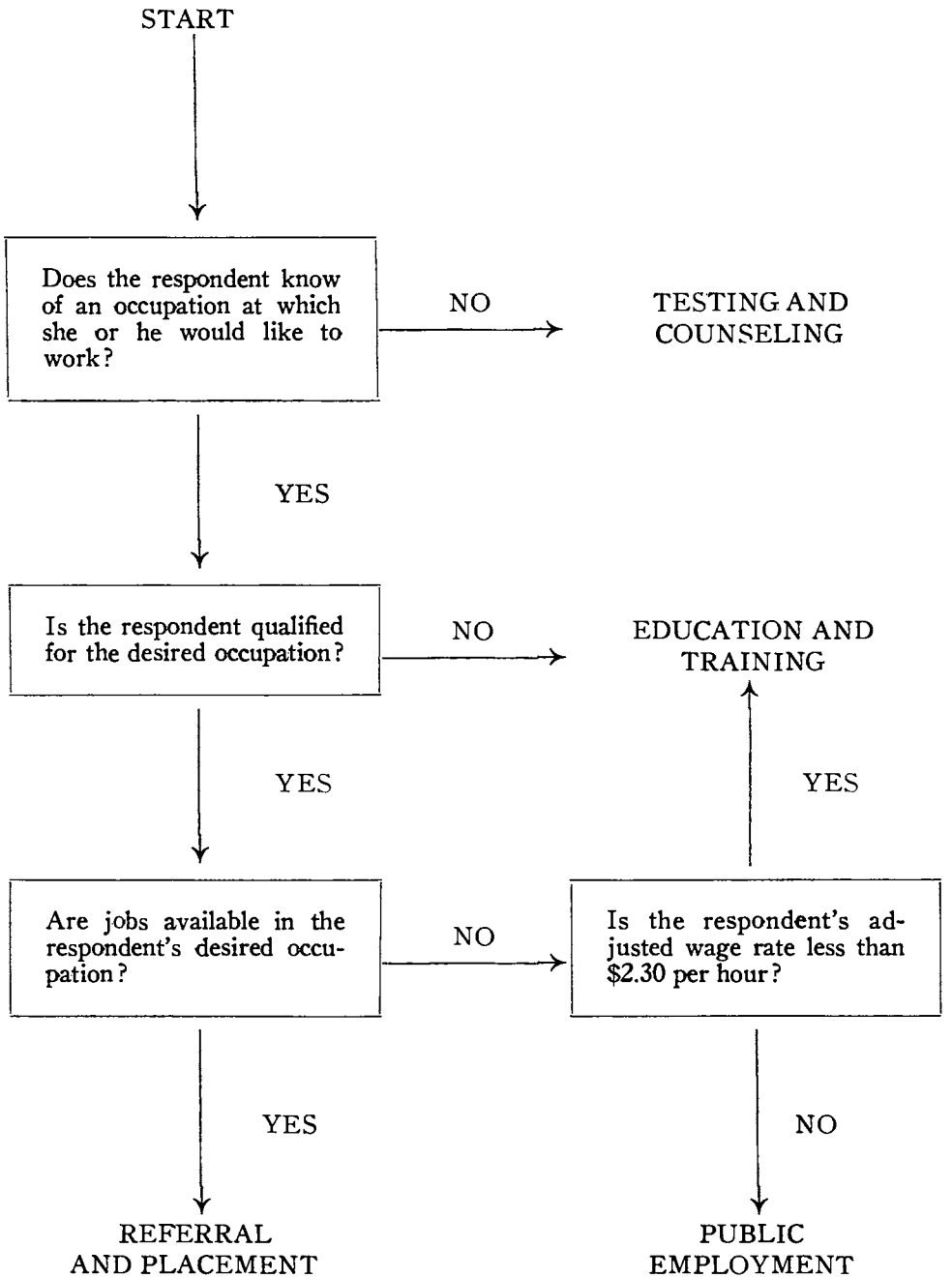
An important conceptual problem in the analysis was how to reflect the needs of recipients at the start of FSB, as opposed to at the interview date. By the interview date, a substantial number had already found satisfactory employment and did not need services then. Yet these recipients were not satisfactorily employed at the point they went on FSB. Indeed, their successful reemployment may have been the result of using one or more of the services. The final assessment reconstructs what we feel to have been the most probable need or needs of recipients at first receipt of FSB benefits.

Another problem concerned the interdependency of individual assignments. The method used in this study established a hierarchy or priority of employment services and then assigned individuals to the relevant service which came first in the hierarchy. Chart I illustrates the basic hierarchy used to simulate the initial needs of individuals. Individuals were asked a series of questions about an occupation they said they would like to have and for which they thought work was generally available. If there

[3] It should be emphasized that the method used in this study relies heavily on the perception of the recipients to determine need. Further research will compare these results with those obtained when the assessment is independent of recipient perceptions.

CHART I

The Needs Hierarchy for Initial Assignment



were no such occupation, they were initially assigned to testing and counseling. If they did know such an occupation, they were asked if they were qualified for the occupation. If not, then they were assigned to education and training.

A test of the availability of jobs in their occupation and location was made on individuals who were qualified for their desired occupation. If the individual's area/occupation unemployment rate was below a prespecified level, then recipients were assigned to referral and placement. Two levels, 5 percent and 8½ percent (the average unemployment rate in 1975) were used. If jobs were not available and an individual's adjusted wage rate was less than $2.30 per hour, then he or she was assigned to education and training. The remaining individuals were assigned to public employment.

Another issue addressed was the assignment of individuals who needed multiple services; in particular, those who were initially assigned to testing and counseling would subsequently need one of the other services. In addition, those who were initially assigned to education and training would also need placement. To avoid an unnecessary inflation of the results, it was assumed that education and training programs have a placement component and individuals assigned to this category were not also assigned to referral and placement. Further, individuals were not assigned both to referral and placement and to public employment, even though some individuals who cannot be successfully placed might end up in public employment, while many of those who take public employment will subsequently seek other jobs.

Table II illustrates the guidelines used for assigning those in testing and counseling to a further service. Those whose adjusted pre-UI wage rate was below the minimum wage in 1975 ($2.30 per hour) were automatically assigned to education and training. The rest were assigned to referral and placement if jobs were available in their pre-UI occupation.[4] If jobs were not generally available (i. e., if the area/occupation unemployment rate was greater than the specified level), then individuals were assigned to education and training if they lacked the equivalent of a high school education. Otherwise, they were assigned to public employment.

The Results

The level of need for the various employment services was calculated by combining the initial and subsequent needs of the FSB recipients, based on the guidelines of the above tables. Those individuals who were initially assigned to testing and counseling were also assigned to an additional category. Table II presents the incidence of the combined initial and subsequent needs for FSB recipients by sex and age. Testing and counseling services were needed by 44 percent of FSB recipients. Almost two-fifths of recipients needed further education and training. Given the generally high rate of unemployment, only 8 percent of the recipients were assigned to referral and placement when the area/occupation unemployment rate criterion was 5 percent;

[4] Individuals were assigned to testing and counseling because they had either expressed dissatisfaction with their pre-UI job or because they did not think there were enough jobs available in that occupation. For subsequent assignment, it seemed reasonable to assign those who earned above the minimum wage in an occupation where jobs were available to referral and placement rather than to education and training or public employment.

TABLE II

Percentages of FSB Recipients with Employment and Training Needs at the Date of First FSB Receipt, by Sex and Age

Male

Needs:	Under 25	25-34	35-44	45-54	55-64	65 and over	Total Male
Testing and Counseling	34.0	37.8	45.6	47.7	47.0	56.2	41.7
Area/Occupation Unemployment Rate at 5 percent							
Education and Training	37.5	30.2	32.0	34.9	38.3	42.6	34.9
Referral and Placement	7.6	11.6	12.3	10.4	14.0	14.4	11.0
Public Employment	55.2	58.2	55.3	54.9	47.3	42.6	54.1
Job-Ready	36.8	36.2	37.0	39.7	38.2	21.8	36.7
Area/Occupation Unemployment Rate at 8.5 percent							
Education and Training	35.5	29.2	28.8	32.9	34.4	35.2	32.4
Referral and Placement	16.1	22.0	29.2	22.9	30.1	33.9	23.4
Public Employment	48.6	48.8	42.0	44.3	35.6	31.3	44.2
Job-Ready	40.0	36.7	37.7	41.8	39.0	23.8	38.2
Weighted Sample Size	901	885	472	499	436	230	3,423

Female

Needs:	Under 25	25-34	35-44	45-54	55-64	65 and over	Total Female
Testing and Counseling	34.0	44.1	45.0	47.6	56.1	61.6	45.4
Area/Occupation Unemployment Rate at 5 percent							
Education and Training	45.8	39.2	43.3	43.2	50.0	45.0	43.5
Referral and Placement	6.1	6.5	3.9	3.2	7.2	3.4	5.2
Public Employment	48.4	54.3	52.9	53.5	43.1	51.0	51.1
Job-Ready	38.8	40.9	44.0	40.0	40.8	39.5	40.7
Area/Occupation Unemployment Rate at 8.5 percent							
Education and Training	40.3	36.4	40.1	39.2	47.2	41.6	39.9
Referral and Placement	26.5	27.2	22.6	23.5	22.4	24.8	24.9
Public Employment	33.0	36.3	37.0	37.1	30.4	33.6	35.2
Job-Ready	31.0	42.2	44.3	41.6	41.9	40.3	41.9
Weighted Sample Size	539	819	571	595	362	149	3,034

All FSB Recipients

Testing and Counseling	43.5	Area/Occupation Unemployment Rate at 8.5 percent	
Area/Occupation Unemployment Rate at 5 percent		Education and Training	35.9
Education and Training	39.0	Referral and Placement	24.1
Referral and Placement	8.3	Public Employment	40.0
Public Employment	52.8	Job-Ready	40.9
Job-Ready		Weighted Sample Size	6,457

one-half of all recipients were assigned to public employment. When the cutoff unemployment rate was set at the national average unemployment rate in 1975 (8.5 percent), 24 percent were assigned to referral and placement while 40 percent were assigned to public employment. This resulted from the concentration of FSB recipients in jobs with higher-than-average unemployment rates.

Women had a greater need than men for both testing and counseling. A larger fraction of women were also assigned to education and training, a result which stems in part from the lower pay that women received and in part from the fact that they were more likely than men to need further education and training following testing and counseling. The incidence of women needing referral and placement was lower in part because fewer women remained unassigned at the point in the hierarchy where it was determined if suitable jobs were available.

Table II presents the training and employment needs of the FSB population, as defined by job-readiness criteria. It does not take into account the fact that some individuals would not, in fact, use a service. Table II shows the percentages of unemployed FSB recipients assigned to specific services who indicated they would not use those services. Individuals who were not in the labor force, as well as those who were employed at the date of the interview, were excluded from the calculation of the percentages since their motivations would not be the same as those who are unemployed. The results are presented by continuous spells out of work. Two sets of results are presented for public employment. The first set consists of those who would refuse a public employment job at $4.00 per hour. The second consists of those who would refuse the job if it paid $2.30 per hour.

Approximately one-fifth of those assigned to testing and counseling indicated they would not use the service. More than 20 percent of the recipients assigned to education and training indicated they would not take it. At the 5 percent unemployment rate cutoff, 27 percent of those assigned as needing public employment indicated they would not take such a job at $4.00 per hour, while 75 percent said they would not want a public employment job at the minimum wage. The numbers were somewhat lower for the 8.5 percent criterion.

The purpose of the underlying report was not to formulate policy but to supply important background information for the Department of Labor and Congress. My own conclusion is that there is a need for an expanded public-service-jobs program and for more testing, counseling, training, and education services to long-term recipients of unemployment insurance. Clearly the effectiveness of the complementary services would be enhanced in any economy with expanding aggregate demand and there is no guarantee that more of such services would substantially increase employment. Public service jobs, on the other hand, can be effective in a recession economy. The results indicate that, at a wage level which would replace or exceed their UI benefits, many FSB recipients would take such jobs.

Appendix

A major problem in defining an individual's skill level is the diversity of the variables which can be included in the definition. The most useful summary measure of skill level for the purposes of this study is the individual's potential wage rate in a job which fully utilizes his or her

skills. While it does not measure such aspects as the satisfaction which a person gets from performing a task or what effort must be made to complete a job, the wage rate indicates what value society places on a wide range of skills. It is, in this sense, a labor-market skill index. The inflation–adjusted wage rate on the pre-UI job is the single best available indicator of the individual's position in the labor market during the period of analysis.

An important labor market variable used in the needs assessment is the unemployment rate facing individuals in their occupation and labor-market area (their area/occupation unemployment rate). These rates are not directly available. For this study, they are assumed to be equal to the national unemployment rate for an occupation, multiplied by the *ratio* of the overall rate in the appropriate major labor-market area to the national average unemployment rate. Average rates in 1975 formed the basis for these calculations. National occupation unemployment rates ranged from 3.0 percent for managers and administrators to 15.6 percent for nonfarm laborers. The major labor-market area rates ranged from a low of 5.6 percent in Dallas-Ft. Worth, Texas, to a high of 15.3 percent in Flint, Michigan. The range for the constructed area/occupation unemployment rate went from 2.0 percent for managers and administrators in Dallas-Ft. Worth, to 28.1 percent for nonfarm laborers in Flint. **[The End]**

Prospects for Integrating Unemployment Insurance and Employment Policy

By DANIEL S. HAMERMESH

Michigan State University

SUPERFICIALLY, there appears to be a tremendous opportunity for a substantial increase in the meshing of unemployment insurance and the delivery of manpower services (training, counseling, and job creation). Both programs come under the aegis of the U. S. Department of Labor; the unemployment insurance program has always relied on the Employment Service, manpower programs have also often used the ES to perform some of the tasks essential to them; and, finally, each entails a substantial fraction of total government spending on employment and welfare programs. Given these existing interactions, one might well ask: Why, except for historical accident and inertia, is the unemployment insurance program not tied more closely to our manpower training efforts (currently under CETA)?

In discussing the several issues implied by this question, we should keep in mind what have been the various goals of the two sets of programs. Unemployment insurance has had two goals, each partially in conflict with the other. On the one hand it has been an insurance program, designed to provide workers closely attached to the labor force with income sup-

port during temporary layoffs. On the other hand, and increasingly in the past seven years with the extensions of potential duration, it has taken on characteristics of a welfare program, not means-tested, for people with some limited past labor force attachment. The panoply of activities known collectively as manpower programs have had numerous goals adduced, but these can be categorized either as altering the income distribution or improving efficiency.[1]

The former category requires only that we view the program as a politically acceptable way of transferring resources to low-income families; the latter requires that the training be a worthwhile investment or that the jobs created result in net additional productive employment. It appears that the greater the similarity of goals between the two programs, the greater the value of increasing the interactions between them.

Should UI Recipients Be Trained?

The answer to this question should hinge on the need of UI recipients for training and the ease of providing that training for them. Some efforts have been made in the past to provide training for them, but any such efforts are limited by the demographic differences between the population of UI recipients and those individuals who comprise the group of enrollees in U. S. manpower programs.[2]

Table I presents for fiscal years 1974 and 1975 various statistics on the demographic characteristics of UI claimants and enrollees under Titles I and II of CETA. There are relatively small differences by sex, but the differences by race are great: UI claimants closely reflect the racial mix of the entire labor force, while CETA participants, especially under Title I (mostly sponsored work experience in the private sector), are

TABLE I

Characteristics of Manpower Enrollees and UI Claimants (in percentages)

	FY 1975			*FY 1974*	
		CETA			Categorical
	UI Claimants	Title I	Title II	UI Claimants	Programs
Sex:					
Male	59.7	54	66	60.1	58
Female	40.3	46	34	39.9	42
Race:					
White	86.4	55	65	86.7	55
Nonwhite	13.6	45	35	13.3	45
Age:					
<22		62	24		63
22-44		32	63		31
45+		6	13		6
<25	21.9			19.9	
25-54	65.2			60.5	
55+	12.9			19.6	

Source: *Employment and Training Report of the President*, 1976; calculations from *Unemployment Insurance Statistics*, selected issues 1973-1975.

[1] See Eli Ginzberg, *Manpower Agenda for America* (New York: McGraw-Hill, 1968), for a discussion of a number of goals that fall under these two general headings.

[2] Robert C. Goshay, "Pay Benefits During Retraining Under Unemployment Insurance?" *Journal of Risk and Insurance*. Vol. 37 (March 1970) p. 49, reports on the experience in California under provisions allowing benefits for claimants during retraining under MDTA.

much more likely to be nonwhites.[3] The only similarity is in the composition by age of UI claimants and enrollees under CETA Title II (public service employment).

While the figures are not quite comparable, they do imply that in both groups most individuals are between 25 and 44 years old, though it appears that UI claimants are on average somewhat older than Title II enrollees. (The reason for those differences in the demographic make-up is clear: receipt of unemployment insurance requires prior work experience, which the typical young trainee lacks.) Except for public service employment (PSE), the data show clearly that training UI recipients would shift training resources sharply away from the kinds of individuals who have received them in the past. Even for PSE, offering UI claimants public service jobs (or requiring them to take such jobs) would drastically change the racial mix of PSE jobholders and require a different sort of PSE program from that now in operation.

Who Benefits?

The substantial differences in the demographic composition of the participants in the two programs should not itself deter us from using the UI claims office to identify those claimants who could benefit from manpower services. Given the work-test requirements of UI, the Employment Service office is an existing institution that could be redirected and expanded to aid in a full-employment policy. It could help find training opportunities for those claimants (presumably younger workers barely qualifying for the minimum benefit, or older workers about to exhaust benefits) who would benefit from them.

There are, though, historical, political, and economic considerations that weigh against even this partial use of the UI program as a recruiting ground for trainees. UI has historically been viewed as a right of the working person on temporary layoff, a view that has already been somewhat eroded by increases in maximum potential duration. Public confidence in UI as a program that enables the unemployed to survive until their jobs are again available would likely be further weakened were the UI program linked more closely to manpower training.

A better approach, both in terms of enhancing public acceptance of UI and enabling an easier identification of individuals likely to benefit from subsidized training, is to eliminate the welfare aspects of UI by tightening eligibility requirements. Those rendered ineligible for benefits are most likely to gain from an expanded program of subsidized training and job creation. Their removal from the UI rolls would decrease the time they spend receiving income transfers rather than receiving the training or work experiences that would improve their employability. In sum, both the demographic differences between current UI claimants and the individuals who in the past have received manpower services, and the increase in these differences implied by reforms that would return UI to its original goals, suggest that training opportunities ordinarily should be kept separate from the UI programs.[4]

[3] A specific example of the mismatch is provided in a sample of trainees in Michigan between 1968 and 1972. (See Michael Borus, "Testing for Indicators of Long-Run Success of CETA Programs," unpublished paper, Michigan State University, 1977.) While 53 percent of trainees were unemployed when they applied for the program, only 6 percent were receiving UI benefits.

[4] Daniel S. Hamermesh, *Jobless Pay and the Economy* (Baltimore: Johns Hopkins Press, 1977), Chapter 6.

Training in the Current UI Program

As we saw, the greatest similarity is between UI claimants and participants in the PSE component of CETA. The similarity is even greater between exhaustees of regular UI benefits and PSE enrollees. Numerous studies of exhaustees in recessions since 1958 have shown them more likely to be nonwhites, females, and either very young or quite old, as compared to all regular UI claimants. This suggests that, if integration between the two programs is to take place, a worthy focus of effort is the set of extended programs: federal-state Extended Benefits and Federal Supplemental Benefits. Recipients of benefits under them are unlikely to be on temporary layoff, unlikely to be engaging in productive job-search, and most likely to benefit from either job creation or training.

Recognizing the difficulty of abolishing extended programs with no replacement, I propose that extended programs be replaced by opportunities for enrollment either in a *federalized* public service-jobs program or in skills training. The duration of enrollment in the jobs program for a particular exhaustee of regular benefits should be unlimited, and the stipend should equal his weekly benefit amount, with hours worked limited per week to the ratio of the weekly benefit amount to the minimum wage. This proposal ensures that labor standards are maintained and minimizes fiscal substitution by relying on a federalized rather than shared jobs program. The training opportunities, especially appropriate for the middle-aged UI exhaustee, should resemble skills-training opportunities today. The ES should be responsible for placing the trainee, and the trainee's weekly benefit should be continued after training for some limited time (1-3 months).

Potential participants are precisely those people who both need and can best benefit from public service jobs or skills training in their later labor-market experience. The program maintains incomes of people who in the past received benefits under extended programs, while providing them with jobs that at least partly represent an investment in human capital. Further, the enrollment requirement eliminates whatever abuse now exists in extended programs. Finally, the output of the public-service-jobs program or the skills learned in the training program represent a net gain to taxpayers, unless capital costs and wages of other workers (instructors, for example) exceed the value of the output of the public jobs or the benefits induced by the training.

The only major potential resource cost of the program results if it delays acceptance of nonsubsidized jobs by participants. Maintaining the hourly stipend at the minimum wage renders this unlikely, for if such jobs (in the increasingly inclusive sector of the economy covered by the minimum wage) become available, they must by definition be at least as attractive as participation in the program. The only additional budgetary cost occurs when participants remain in the jobs program longer than they would have been receiving benefits under extended UI programs. This increase must be weighed against the decreased budgetary costs resulting from individuals whose time at home is more valuable than the minimum wage and who choose not to participate even though eligible. This program, simultaneously compassionate and an investment in training, meshes job creation, training, and those aspects of the current unemployment insurance program that most resemble a pure welfare program.

Miscellaneous Problems

Remission of payroll taxes, including the FUTA tax that finances Federal Supplemental Benefits and the administration of the state employment security agencies, has been proposed by a number of authors as a way of providing a wage subsidy to induce firms to expand employment. While it is unlikely that private sector employment incentives of this sort are the panacea that many of their proponents claim, they appear to be worthwhile even under very pessimistic assumptions, and they cetrainly have not been widely used in the United States.[5] The issue here is not their desirability, but rather how they should be financed if they are instituted.

Given the current insolvency of the UI trust funds, cutting the FUTA tax would only further postpone, perhaps forever, the time when the funds are again solvent. Implicitly, then, this method of financing means that the administrative costs of the UI system will be borne out of general revenues rather than the flat-rate (now .7 percent of the tax base) FUTA tax. This change alters the nature of the UI system by making the regular system dependent on revenues generated by means other than the payroll tax for the first time. This is a serious change in concept and should not be attempted if other equally satisfactory means of financing wage subsidies are available.

Economically, using general revenues has a certain appeal. The flat-rate tax on a low wage base (only $6,000 in most states even after January 1978) is very likely borne disproportionately heavily by low-wage workers. Replacing it by financing out of general revenues (presumably with the same budget deficit as otherwise, and thus with personal and corporate income taxation at a higher level) would slightly equalize the income distribution: The personal income tax is certainly not regressive, and this is likely also true for corporate income taxes. Thus more of the total tax burden would be shifted away from a very regressive tax.

Whether this small equalization in personal incomes is worth the disruption in financing UI cannot be answered. One should note, though, that a wage subsidy could just as easily be financed by allowing credits on the corporate income tax, thus obviating any worry about financing the UI system (but missing a chance to decrease the overall regressivity of taxation).

Most proposals to lower the unemployment rate permanently place great reliance on the Employment Service.[6] Any expansion of its duties will necessarily decrease the extent to which it functions as a placement service for UI recipients and as the locus for applying the work test for UI. Given the current fairly easy rules on initial eligibility for UI benefits, it is essential, if abuse is to be prevented, that any expansion of the Employment Service's role not be allowed to detract from its efforts to administer the work test to UI recip-

[5] The proposal for reducing payroll taxes as a wage subsidy has been made by spokespersons for the AFL-CIO (see Bureau of National Affairs, *Daily Labor Report*, January 16, 1975, p. A-4); it was also suggested by Gary Fethke and Samuel Williamson, "Employment Tax Credits as a Fiscal Policy Tool," U. S. Congress, Joint Economic Committee, July 1976.

[6] Charles C. Holt, et al., *Manpower Programs to Reduce Inflation and Unemployment* (Washington: Urban Institute, 1971), is a well-known example of this view. It is also embodied in Section 5 of the 1975 version of the Humphrey-Hawkins Bill, 94th Congress, S. 50, proposing expanding the Employment Service and renaming it the Full Employment Service.

ients. If the expansion is substantial, it is hard to imagine that the shift in the primary mission of the ES will not affect its ability to aid in the policing of the UI system. This is one more argument for relying on tightened initial eligibility requirements to prevent abuse rather than on administrative decisions about what constitutes suitable work.

Effects of a Full-Employment Policy

It appears likely even without substantial intervention that the aggregate unemployment rate will decrease over the next few years. With an active full-employment policy, the drop will be more rapid, and such a policy and the lower unemployment rates it implies have implications for a broad range of policy issues in UI. Some of these are produced by the change in demographic characteristics of the typical UI recipient when unemployment is low. At such times there have historically been relatively more female recipients, and more recipients below age 25 or above age 54.[7] This suggests the typical UI recipient will be less closely attached to the labor force if a full-employment policy is successful. It is thus likely, and some empirical work appears to support this, that UI on average will have a greater disincentive effect on job-seeking at low unemployment.[8]

Several routes should be followed: First, if we believe that a full-employment policy is to usher in an age of permanently lower unemployment, we should tighten eligibility requirements (base them on weeks worked, hopefully at least 20, rather than high-quarter or base-period earnings). Similarly, in enforcing the work test the definition of suitable work could be broadened to encourage the UI recipient to take a job for which his background has not prepared him completely but which does promise appropriate remuneration. Indeed, even if the period of low unemployment is only temporary, these changes could be imposed by legislation on a basis that links them to the aggregate unemployment rate.

At times of low unemployment, quit rates are far higher than in recessions. States that pay benefits for quitters, roughly one-third of the jurisdictions, will have a far higher proportion of eligible claimants who are quitters. Again, to prevent UI benefits from inhibiting workers from taking available jobs, disqualification periods should be lengthened when unemployment is lower. Because work is available, any quitter still out of work after the usual period of disqualification has signalled a weak attachment to the labor force that suggests he is not very interested in employment and ought to be disqualified. While such disqualifications could be made administratively through the work test, this presupposes a more efficient and even-handed administration of it than is likely to be the case. With a variable disqualification period for voluntary leaving, longer when unemployment is lower, the problem is solved through rules that are easily enforceable and that ensure UI does not contribute unnecessarily to labor market bottlenecks during times of high aggregate demand.

A serious and successful full-employment policy would soon result in substantial surpluses in the federal trust funds (if these were not reduced by using them for employment subsidies). Pressures would build up either to reduce the FUTA tax or

[7] See Hamermesh, cited at note 4, p. 22.

[8] There are good reasons to expect even the same individual to experience a greater disincentive from a given weekly benefit amount when unemployment is low. See *ibid.*, p. 34.

lower the tax base (or at least not raise it proportionately to the rise in money wages in covered employment). As in the discussion of wage subsidies, the choice is clear: Lowering the tax rate would shift more of the burden of this tax to the higher-paid worker, while holding the base down and retaining the high FUTA tax rate would maintain the especially heavy burden on the low-wage employee. High-wage employers, believing that the initial burden of the tax is on profits, would prefer to hold this base down. However, due to the relative inelasticity of supply of labor to the market, the ultimate burden of this tax falls mostly on labor, especially low-wage labor, and on equity grounds this burden should be spread by an increase in the base.

There is no question but that an active employment policy will have important effects on the UI system, especially in the areas of financing and eligibility criteria. This interrelation should be recognized in any future reforms of the federal-state unemployment insurance system. Unfortunately, the demographic characteristics of UI recipients and their reasons for unemployment make them a relatively low priority target group for training, counseling, and other labor–market services. Consideration of the stated initial goal of the regular UI program suggests that most recipients are unlikely to need such services.

Only insofar as we repeat the experience of recent recessions and establish, on an emergency or a permanent basis, programs that extend potential duration of benefits, does the need for integration between UI and employment policy become greater. I submit that we would be better off avoiding this need, restoring the integrity of the UI program, and offering exhaustees of regular benefits a guaranteed job or training opportunities at the minimum wage for as long as they wish to retain that job or until their training course is completed. **[The End]**

Evaluating Contributions of the Employment Service to Applicant Earnings*

By ARNOLD KATZ

University of Pittsburgh

THE EMPLOYMENT SERVICE (ES) is one of the oldest and most visible of the federal-state labor–market institutions, yet surprisingly little is known of its effectiveness. This limited information fosters sharp controversies about the ES. To some it is a classically inept government bureaucracy whose activities ought to be replaced by private agencies. To others it provides needed labor-market information to persons who lack the connections or influence to find suitable jobs in other ways.[1]

* This research has been supported by a grant from the Office of Research and Development, Employment and Training Administration, U. S. Department of Labor.

[1] See Leonard P. Adams, *The Public Employment Service in Transition* (Ithaca: New York State School of Industrial and Labor Relations, Cornell University, 1969) for a review of this issue.

Studies to resolve these controversies have been unsuccessful for largely technical reasons. The services offered by the ES are unique in many ways and thus ES applicants differ in important respects from other job seekers. These differences make it exceedingly difficult to identify suitable comparison groups. Without suitable comparison groups, it is impossible to determine the ES's contributions, if any.

This paper discusses a strategy for trying to break through this Gordian knot. In it, I outline a technique for evaluating the ES from administrative reporting systems presently operative in many states. An alternative to my proposal might be to run a series of policy experiments, but the experience with the negative income tax experiments has shown how costly these can be. In the case of a long-standing program such as the ES, there are the additional legal and political problems of having to deny traditional services to otherwise qualified applicants in order to conduct the experiments. The approach suggested here avoids these complications. It also points the way toward monitoring ES programs on a regular schedule at a very moderate cost.

Data

The data which I think could be effectively utilized are available from two separate sources. One, the so-called Employment Services Automated Reporting System (ESARS) has been instituted in all states and describes the population of ES applicants in a given fiscal year. The other, the Continuous Wage and Benefit History (CWBH) is a by-product of the unemployment insurance program. CWBH includes, among other features, a longitudinal sample (of typically 5 percent or more) of the payroll records of workers employed in firms paying unemployment insurance taxes. These earnings records are not available in every state, but the number in which they are maintained has been increasing.[2]

A reasonably extensive body of information about ES applicants can be developed by matching and merging the ESARS-CWBH reports. The matched–merged file permits the comparison of the change in earnings associated with various services provided to ES applicants. The resulting information bears many resemblances to the Social Security records which have been used to measure the contributions of training programs to trainee earnings.[3]

As a pilot demonstration, I have constructed a matched–merged ESARS-CWBH file from data made available by the Pennsylvania Labor Department. The reference year for ES services (from ESARS) for this file is fiscal 1972. The matching CWBH reports of earnings run from 1967 through the end of calendar 1974. There are gaps, however, because of labor force mobility and applicants not working in Pennsylvania or firms covered by the UI tax.

In my use of these data I compare applicants receiving different levels of services. As it turns out, there is a very substantial number of appli-

[2] See U. S. Department of Labor, *Guide for a Continuous Wage and Benefit History Program in Unemployment Insurance,* BEX U-251, January 1966, for a description of the CWBH. The ESARS reporting system is described in the *ESARS Handbook* available from the Labor Department for various years.

[3] See, for example, *Final Report on Manpower Training Evaluation: The Use of Social Security Earnings Data for Assessing the Impact of Manpower Training Programs* (Washington: National Academy of Sciences, 1974).

cants in any year with only pro forma contacts with the ES. Many of these are persons who are interested only in claiming unemployment benefits. Others apply but have no specific dealings with the ES because of a lack of suitable vacancies. I call this group who received no specific services the nominal applicants. They serve as a benchmark, or null class, against which to measure the contribution of specific ES services to applicant earnings. In the work to date, I have compared their earnings experiences with those of applicants who were placed or referred by the ES. The same methodology can be applied to evaluate the contribution of other services (counseling, testing, etc.).

Characteristics of the Groups

Table I shows pre- to post-applicant earnings changes for the comparison groups. Pre-applicant earnings are based on the two years preceding and post-applicant earnings on the year following individual application periods. Observations in which reports of earnings were unavailable for one or more of these years are not included. Thus far my work has been restricted to 25 to 64-year-old male applicants who had not applied to the Pennsylvania ES before the reference year. There are a total of 523 such cases, 196 applicants who were placed or referred by the ES and 327 nominal applicants.

The findings summarized in Table I give the impression that the ES contributes very favorably to applicant earnings. It is clear, however, that a highly complex interaction of employment opportunities, personal preferences, and ES policies determine the makeup of these two groups. Table II shows numerous ways in which they in fact differ from one another and warns against reading too much into comparisons, as in Table I, that do not somehow take such differences into account.

TABLE I

Observed Values

New White Male Applicants, 25 to 64

	Placements and Referrals	*Nominal Applicants*
Pre-applicant		
Annual earnings	5504	6495
High quarter earnings	2331	2661
Post-applicant		
Annual earnings	7024	6192
High quarter earnings	2513	2648
Rate of change (PCT)		
Annual earnings	+27.6	— 4.7
High quarter earnings	+ 7.8	— .5

TABLE II

Selected Characteristics: New White Male Applicants, 25 to 64

	Placements or Referrals	*Nominal Applicants*
Percent:		
Vietnam veterans	20.9	17.7
Under 30	35.7	30.3
40 and over	36.2	40.4
High school graduates	64.3	61.8
Living in cities	65.3	77.1**
Searching while employed	18.9	8.6**
Receiving unemployment benefits	41.8	56.6*
Disadvantaged workers[a]	22.5	21.7
On layoff; returned to same employer	—	28.9**
Average yearly earnings, pre-application period	$5505.00	$6496.00**
Peak quarterly earnings, pre-application period	$2331.00	$2661.00
Average yearly number of employers, 1967–71	1.76	1.73
Relative earnings loss in application period[b]	.38	.46*

[a] Handicapped, on welfare, family income below poverty, or in need of "Employability Development".

[b] Equals 1 minus ratio of earnings in application period to earnings in same period of the preceding year.

** Differences significant at .05 or less; * Significant at .10.

Adjusted Estimates

I propose dealing with the issue by applying a fairly simple method developed recently for comparing dissimilar groups.[4] The essence of the technique, for the case at hand, is to effectively reweight each observation *inversely* to its likelihood of belonging to its applicant group. After reweighting, one can calculate earnings values that give greater importance to the *atypical* members of each set. It is easy to see that this technique reduces the differences between the two groups. The reweighted estimates then become a measure of what might be expected if members of *both groups combined* were placed or referred by the ES or, alternatively, if both groups combined found jobs, as did the nominal applicants, outside of the ES. The differences between such reweighted estimates are a much improved measure of the contribution of the ES.

While the technique is not a perfect substitute for a policy experiment, it may come reasonably close. Restrict-

[4] See G. S. Maddala, "Self-Selectivity Problems in Econometric Models," Working Papers in Economics 76-77-06, University of Florida, 1976; and James R. Heckman, "The Common Structure of Statistical Models of Truncation, Sample Selection, and Limited Dependent Variables and a Simple Estimator for Such Models," *Annals of Economic and Social Measurement* (Fall 1976).

ing the comparisons to ES applicants holds many factors constant that would need to be controlled in any event. The reweighting makes efficient use of observed differences between the two groups. Our application is only a first approximation which could be much refined by building additional information about the nominal applicants into the ESARS reports.

Table III shows the values of earnings recalculated in this way. Pre-applicant earnings were estimated for applicants of the same age and schooling as the averages for both groups combined. Post-applicant earnings were reestimated as described, using the characteristics in Table II to identify the typical and atypical applicants in each group. The interested reader may refer to the Appendix for more details on how the Table III values were obtained.

TABLE III

Adjusted Estimates

	Placements and Referrals	*Nominal Applicants*
Pre-applicant		
Annual earnings	6124	6124
High quarter	2537	2537
Post-applicant		
Annual earnings	5928	6209
High quarter	1921	2734
Rate of change (percent)		
Annual earnings	— 3.2	+ 1.0
High quarter	—24.3	+ 7.7

These estimates reduce the apparent contributions of the ES very sharply. It bears repeating that the adjusted estimates give heavier weight to the atypical applicants in each group. The primary reason for the change in the results is that, as far as placements or referrals are concerned, atypical applicants fared very badly with the ES; in fact, they did not do as well as atypical nominal applicants outside the ES. In other words, the ES was extremely ineffective for persons like the atypical applicants in the nominal group.

Our pilot evaluation therefore indicates that the benefits of ES placement and referral services are limited to a select group. By comparing the *typical* applicant placed or referred with the *atypical* nominal applicant, it can be shown that the ES contributed to a roughly $800 increase in post-applicant annual earnings. But extending these services, at least as presently organized in Pennsylvania, to a wider group would appear to be an inadvisable policy.

Further Comments

The overall estimates in Table III have two corollaries worth mentioning. One is that the ES seems to make a stronger contribution to employment than to wage rates. In Table IV the reader may see that the difference between the adjusted rates of change in annual and peak

quarterly earnings clearly imply that the ES significantly increases the imputed months of employment at peak quarterly earnings. This is rather striking since it may be shown that there are no significant differences between the comparison groups in months of employment imputed on the same basis for the pre-application period.

A second point is that it can be shown that the ES contributed significantly (adjusted or unadjusted basis) to increasing the earnings of applicants who were placed or referred after being unemployed for long periods. This result supports other findings which show that the ES is especially responsive to the needs of the long-term unemployed.[5] The added findings suggest that the ES has a very distinctive labor–market impact that we hope to learn more about through continued research with these data.

I am reasonably encouraged by the results thus far, although they are exploratory and tentative. In the course of this research I met several compilers of ESARS-CWBH reports who urged that greater use could be made of their data. They appear to be right.

TABLE IV

Employment Changes
—Estimated—

Rates of Change	*Placements or Referrals*	*Nominal Applicants*
Annual earnings ($\hat{Y}$):	− 3.2	+1.0
High quarter ($\hat{Q}$):	−24.3	−7.7
Imputed employment ($\hat{M}$):	+21.1	−6.7

$\hat{M} = \hat{Y} - \hat{Q}$, from: $Y = M \cdot Q$

Appendix

The adjustment technique described in this paper is based on the principle that the methods used by applicants to find work are not randomly selected. To show how this principle is built into the technique, assume that the potential earnings opportunities available to *all* applicants through the ES may be described by:

$$Y_p^e = \beta_{eo} + \beta_{e1} Y_b + \beta_{e2} (Y_b)^2 + \sum_{k=3}^{6} \beta_{ek} X_k + \mu_e \quad (1)$$

where Y_p^e = postapplicant earnings; Y_b = preapplicant earnings; $X_3 = 1$ if applicant is under 30; $X_4 = 1$ if applicant is 40 or more; $X_5 = 1$ if applicant is high-school graduate; and X_6 = relative earnings loss in application period = 1 minus ratio of earnings in application period to earnings in the same period of the prior year.

The dependent variable in (1) is equivalent to the pre- to post-applicant change in earnings subtracting Y_b from each side. The age, schooling, and previous earnings variables in (1) are prompted by human–capital theories. The relative earnings-loss variable is prompted by the hypothesis, from job–search theories, that workers accept lower-paying jobs the longer they remain unemployed.

[5] See Arnold Katz, "Length of Unemployment and the Employment Service," paper presented to the Society of Government Economists, ASSA Meetings, September 1976.

Now assume that an anologous relationship:

$$Y_p^o = \beta_{oo} + \beta_{o1}Y_b + \beta_{o2}(Y_b)^2 + \sum_{k=3}^{6} \beta_{ok}X_k + u_o \quad (2)$$

describes the earnings opportunities for *all* applicants outside of the ES. The problem is to estimate the β differences in opportunities from only partial observations; i. e., the data show only opportunities realized. We cannot observe Y_p^o for applicants placed or referred by the ES or Y_p^e for the nominal applicants.

Let $\Delta^e = Y_p^e - Y_b$ be the potential earnings change if an applicant accepts a job through the ES and $\Delta^o = Y_p^o - Y_b$ if he finds work another way. We assume that

$\Delta^e - \Delta^o = \alpha Z' + u$ where Z is a vector of variables that determine the relative attractiveness of opportunities from either source and u is $N(o, \sigma^2)$. The Z variables include personal characteristics that affect the likelihood of applicants receiving job offers of different types in the application period. They account for the observed differences in the characteristics of the comparison groups and are expected to overlap with Y_b and the X variables.

The Δ refer to *prospective* changes in earnings and are negative if there are no jobs available. We assume that $\Delta^e - \Delta^o > 0$ for those placed or referred by the ES, and conversely for the nominal applicants.

Letting $\psi = 1/\sigma(\alpha Z')$ and $F(\cdot)$ be the standard normal distribution function, one may apply probit analysis to obtain consistent estimates of the probability (given Z) that applicants accept jobs available through the ES, i. e., $Pr(u > -\psi) = 1 - F(\psi)$.

If $\hat{\psi}$ is the consistent estimator, one can construct indexes of "atypicality":

$$\delta_e = \frac{f(\hat{\psi})}{F(\hat{\psi})} \quad (4)$$

and

$$\delta_o = \frac{f(\hat{\psi})}{1-F(\hat{\psi})} \quad (5)$$

such that δ_e takes on higher values the less likely it is for an applicant to have been hired through the ES and, similarly, δ_o takes on higher values the less likely it is for an applicant to find jobs by other means.

A contribution of the recent work on selectivity biases (see references in footnote 4) is to show that if $-\delta_e$ is added to (1) and δ_o is added to (2), one may obtain consistent estimates of the β, with standard regression analysis, based on the observed Y_p, i. e., estimating (1) separately for applicants actually placed or referred and (2) separately for the bona fide nominal applicants.

Our estimates were obtained by following this procedure. Separate estimates of the β were made for Y_p equal to annual and then peak quarterly earnings. Alternative functional forms were evaluated before settling on (1) and (2) for the usual reasons. Supplementary tables showing our estimates of the β, including and excluding the δ indexes, are available upon request.

[The End]

A Discussion

By RONALD L. OAXACA

University of Arizona

DAVID HORNER'S PAPER is drawn from a much larger study of the employment and training needs of the long-term unemployed. Such a study is a necessary step in evolving a strategy to ameliorate the effects of long-term unemployment. However, I would like to raise certain questions pertaining to generalizations on the basis of this single study.

Since the study is based on the characteristics of a random sample of Federal Supplemental Benefits (FSB) recipients, we do not know how much their charactertistics may differ from those ineligible for benefits. The latter are presumed to be among the greatest need cases because of instability of labor force attachment. By looking separately at those FSB recipients who were out of work 27 weeks or more at the time of their first FSB payment, Horner and his associates are likely to reduce the heterogeneity between FSB recipients and unemployed nonrecipients.

While space limitations preclude reporting many aspects of the study, more information on those unemployed 27 weeks or longer should have been included in the paper. After all, the long-term unemployed present the greatest challenge to manpower policies. It is this group whose economic fortunes are most resistant to the stimuli of fiscal and monetary policy. Thus it would have been more interesting if Horner had provided us with the FSB recipients' demographic characteristics and employment and training needs broken down by duration of spell out of work. The only breakdown provided by duration of spell out of work is the proportion of individuals who would reject various services offered to them.

Another observation I wish to make is that the average characteristics of the unemployed are likely to vary over the business cycle. This suggests that the mix and scale of manpower service activities should also vary in order to better serve the needs of the unemployed and to bring about more efficiency in allocating resources to manpower programs. Thus, depending on the overall unemployment rate, the proportions of individuals requiring testing/counseling, education/training, and public-service employment are going to differ. Thus increasing or decreasing funding of various manpower services should not necessarily be proportional across categories of services. Horner's study for 1975 is an important contribution to our knowledge of the needs of the unemployed, but other studies should be commissioned at different periods in the business cycle.

Finally, I would like to note that I am not as sanguine as Horner about the prospects of the unemployed accepting public-service jobs that would pay the equivalent of their unemployment insurance (UI) benefits. Table III shows that nearly 75 percent of those FSB recipients offered public-service jobs at the minimum wage

would refuse such employment. It obviously makes a big difference if the choice is between the public–service job and continued benefits, or between the public–service job and no benefits. The latter choice is assumed in Hamermesh's proposal.

Dan Hamermesh has provided an informal cost-benefit analysis of developing a closer association between the UI system and manpower programs. Because of some thorny issues that can arise from tampering with certain features of the UI system, I endorse Hamermesh's recommendation that extreme caution be exercised in moving the UI system in this direction. Hamermesh does suggest ways in which the UI system can be involved in manpower training and full–employment policies without compromising its traditional functions. Thus for example, Hamermesh suggests that the UI claims office could serve an important screening function for potential manpower–training candidates. The office would serve as a referral service for these programs but would have nothing to do with the training per se.

Less Like Insurance

In my opinion, the strains imposed by our most recent recession has caused the UI system increasingly to be viewed as yet another public-assistance program, one which is more like a conventional welfare program and less like an insurance program. Any financing of the UI system through general revenues rather than by employment taxes would completely dispose of any remaining distinction in the minds of the public between the UI system and welfare. Of course, as Hamermesh points out, the demographic composition of UI system's clientele differs significantly from those who are commonly identified as economically disadvantaged. This is not surprising, since there is the presumption that UI recipients have met some minimal standards regarding employment stability and labor force attachment. I agree with Hamermesh's recommendation that the integrity of the UI system be protected by tightening up the eligibility requirements. That is, the UI system should continue to function as an automatic stabilizer to cushion the dislocations brought on by temporary reductions in aggregate demand or by equilibrating changes in response to changed demands in various subsectors of the economy.

Hamermesh's proposal to replace the Extended Benefit (EB) program by federal public–service employment deserves serious consideration. While no policy prescription for full employment is without its drawbacks, this proposal at least has the advantage of generating some contribution to output in return for benefit payments. The extra costs associated with allowing individuals to remain in the program indefinitely may not be as burdensome as they first appear. Cessation of benefit payments does not necessarily herald the end of income-redistributing transfer payments and associated real resource costs. Although difficult to measure precisely, there are the well-known externalities inflicted on the rest of the population by unemployed individuals with little hope or prospects for gainful employment. And as Hamermesh points out, economic recovery would find many individuals leaving public–service jobs for more productive pursuits in the private sector.

The evaluation of the effects of public programs is a tricky business at best. Arnold Katz's paper is yet another example of the usual difficulties encountered in program evaluation. In this case, it is the Employ-

ment Service (ES) that is being evaluated with respect to the impact of its placement and referral services on the subsequent earnings of its clients. As some may observe, the main contribution of the paper may be more of what it has to say about the methodology of evaluation than any definitive pronouncement regarding the efficacy of the ES.

As I am sure everyone knows, the central issue in the evaluation of program effects is the selection of a suitable control group. This is an exceedingly difficult task that is crucial to the outcome of an evaluation study. The question that is posed is whether or not program participants' subsequent earnings streams are altered from what they would have been in the absence of the program. Typically, we attempt to answer this question by taking a group of nonparticipants and assuming that their earnings streams (with some adjustments) reflect the paths that participants would have followed had there been no program. A comparison of participant and nonparticipant earnings streams before and after the treatment (i. e., program) is then expected to reveal the effects attributable to the program.

It is generally conceded that participants and nonparticipants are going to be different in some unobservable ways. However, we do not always know which way these differences will bias our evaluation. For example, many participants in public programs may be there as a last resort and are least likely to find stable employment on their own. The nonparticipant control group, on the other hand, may consist of more fortunate individuals whose earnings experiences may not be representative of what the participants would have faced in the absence of the program. In this case, the estimated beneficial effects of the program would be biased downward.

On the other hand, it is easy to imagine programs administered in such a way that those most likely to succeed on their own are selected to be participants. This process is known as "creaming" and is motivated by the desire of administrators to show that the program is successful. Under these circumstances, the estimated beneficial effects of the program are biased upward because the participants are on the average more able than the control group of nonparticipants. While great care may be taken in attempting to match up superficial characteristics of participants and nonparticipants, it probably is the unobserved traits omitted by the available data that make the difference.

Katz's paper reveals another source of difficulty which is related to the control-group problem, namely, the different outcomes when alternative evaluation techniques are applied to the same sample. Katz's first method employs the standard technique of measuring program impacts on earnings by the differences in the estimated coefficients between the two sample groups. The differences are weighted by the average characteristics of the two combined samples. This method reveals that the ES raises the annual earnings of its clients.

Katz's second method uses probit analysis to take into account the chances that individuals would be observed falling into the category to which they have been assigned. A measure of this likelihood is obtained and entered into the standard regression framework. The second method suggests that the ES has a negative impact on its clients' future earnings. The one conclusion that emerges from the study is that the applicants placed

by the ES obtain fuller employment that helps offset their lower-wage jobs.

One approach that could avoid the difficulties encountered in Katz's study is to conduct a controlled experiment to measure the effect of a social program. The treatment and control group would then be randomly selected. Until recent years, economists have not had much experience with designing and conducting such experiments. Also, these are typically very costly enterprises. I would conclude by observing that, given the constraints within which most empirical economists operate, Katz has been very resourceful and has produced a fine paper. **[The End]**

SESSION II

Issues in Full-Employment Policy

Wage Determination

By DANIEL J. B. MITCHELL

University of California, Los Angeles.

AS A FORMER PRESIDENTIAL ECONOMIC ADVISER has noted, there is a monetary theory of inflation in the very long run ("infinity," he called it) and a theory of inflation for next month (related to current inflation at early stages of processing). But there is not much theory for the middle range.[1] Given the state of the art, prudence suggests a continuation of the type of "monitoring" activities conducted by the Council on Wage and Price Stability as the economy expands. However, once the data have been gathered, the way in which they are interpreted is most important. Undoubtedly, there will be calls in the future for direct controls or "jawboning." If such moves are made, a question of the method of implementation inevitably arises. Specifically, can broad and simple guidelines be used, or is detailed case-by-case intervention the only proper approach? Recent literature on wage determination presents somewhat of a dilemma in this regard.

Economists have long been concerned with the issue of whether collective bargaining is inherently an inflationary process, especially as the economy approaches full employment. In the late 1950s and early 1960s, this issue was debated in terms of whether inflation was "demand-pull" or "cost-push," or whether it was wages that were pushing up prices or prices that were pushing up wages. Discussions of the "wage-price" spiral were common, reflecting a view that wages pushed prices *and* prices pushed wages. The implication was that once inflation started, the mutual pushing would tend to continue it. On the other hand, if direct intervention along the lines of the Kennedy/Johnson wage-price guideposts could just grab hold of both wages and prices, the spiral could be checked.

[1] Herbert Stein, "Fiscal Policy: Reflections on the Past Decade," in *Studies on Contemporary Economic Problems*, ed. William Fellner (Washington: American Enterprise Institute, 1976), p. 1.

Wage-Wage Inflation

An alternative view has surfaced recently emphasizing the direct interrelations between one wage settlement and another, so-called "wage-wage" inflation. In many respects, this view is reminiscent of the "pattern bargaining" literature of the 1940s and 1950s. Proponents of the wage-wage view see inflation as creating an initial disruption in the "normal" wage structure. The distortion sets off a leapfrogging process in which one wage settlement influences others. The heart of this theory, therefore, is a network of direct equity comparisons from one wage unit to another. Wage-structure distortions soon become an engine of inflation rather than a by-product. Wage-wage analysis has been used to justify the approach applied to the construction wage controls of 1971-74 and, to some extent, to the economy-wide controls beginning in 1973 with Phase III.[2]

It may not be fully appreciated exactly how pessimistic a theory of inflation the wage-wage approach is. The older wage-price spiral view at least suggests that institutional arrangements will not speed up inflation; they will just continue it once it arises. The wage-wage view, however, suggests that the labor market is poised on the verge of an explosion which slight disturbances may easily set loose. To see this implication, consider the following two-sector wage-wage model:

Let w_a represent wage *changes* in sector A and w_b represent wage *changes* in sector B. A simple linear representation of the two sectors would be that $w_a = cw_b + Z_a$ and $w_b + kw_a + Z_b$, where Z_a and Z_b are linear combinations of exogenous variables such as unemployment, price inflation, profits, etc. which affect wage developments in sectors A and B, respectively. In general, this system of equations could be solved to produce expressions directly relating w_a and w_b to Z_a and Z_b. If that were done, the system would at first glance appear to be nothing more than a rearrangement of conventional wage equations that have been used in econometric work.

It is easy to show, however, that if the coefficients c and k are each close to unity, the wage-determination system would be highly unstable.[3] Under such circumstances, a slight perturbation from Z_a or Z_b (say, a burst of price inflation) would end up producing very large wage adjustments in both sectors.[4] This conclusion is not just an algebraic curiosity. A value of $c = 1$ and $k = 1$ simply means that sector A will match wage changes in sector B and B will match wage changes in A. And that type of behavior is precisely what would occur in a situation of direct interactive wage determination across the two sectors with the wage structure initially in equilibrium. So instability and wage-wage inflation are closely linked.

Wage Instability

This conclusion of instability may be found jarring by industrial relations specialisits who often view pattern bar-

[2] For examples of the wage-wage approach see the remarks of John T. Dunlop at this conference two years ago in "Wage and Price Controls as Seen by a Controller," LABOR LAW JOURNAL, vol. 26 (August 1975), pp. 457-63; and Daniel Quinn Mills, *Government, Labor and Inflation: Wage Stabilization in the United States* (Chicago: University of Chicago Press, 1975).

[3] If c and k are precisely equal to unity, the system cannot be solved at all. Taken literally, the leapfrogging continues indefinitely so that any perturbation produces an infinite change in wages.

[4] To make the model more realistic, some sort of wage rigidity constraint should be added. Otherwise wages might explode downward as well as upward.

gaining as a stabilizing force.[5] The discrepancy is caused by the usual association of pattern bargaining *within* an industry and leader-follower behavior. Within an industry, there may well be a key settlement which is followed relatively passively by other units. This can be represented by setting $c = 0$, $k = 1$, and $Z_b = 0$ so that settlement B passively follows A. The existence of such behavior is stabilizing in the sense that once the key settlement is reached, settling the others is comparatively easy. In the model described above, industry lines are crossed and the settlements involved in each industry may well be leaders within their respective industrial boundaries. However, *among* the key settlements across industries, a clear hierarchy of leader-follower agreements seems unlikely. There are, of course, differences in timing so that the key settlement in one industry may precede the key settlement in another. But this does not preclude mutual interaction over time. A key settlement could, in principle, be affected by developments in the second and third year of other key contracts which have yet to expire.

In fact, some of the early writers on pattern bargaining did regard it as potentially unstable and inflationary. And, of course, the wage-wage model fits the construction wage explosion of the late 1960s and early 1970s very well. The key question is the degree to which wage-wage inflation is important outside construction, especially *across* industry lines. Should policy-makers, for example, be concerned about the relative wage status of truck drivers versus auto workers versus coal miners versus packinghouse workers? Is there enough *cross-industry* wage-wage inflation so that it is useful to regard much of the labor market as part of a direct equity comparison network? The implications for full-employment policy are significant if such a network exists, since the economic pressures such a policy could entail might well spark a wage explosion.

Unfortunately, the statistical evidence that is readily available from either casual observation (as was done by the early pattern-bargaining authors) or more formal regression techniques can easily be misleading. As an example, Table I shows the results of annual regressions for 20 industries covering most of the private sector, with union-wage change in each industry as the dependent variable. In each case, the dependent variable is "explained" by an index of wage changes in the *other* 19 industries %W, the inverse of the unemployment rate U^{-1} (representing economic activity), and the rate of change of the consumer price index %P. The period covered is 1956 through 1974.[6]

[5] The material in this paragraph was added as the result of comments received from Prof. Bruce Herrick, Dr. Paul Prasow, and others who attended a seminar at the UCLA Institute of Industrial Relations.

[6] The union-wage-change dependent was constructed by taking cents-per-hour median union wage adjustments from the Bureau of National Affairs survey and dividing them by average hourly earnings. The index of wage change for other industries is a simple average of these variables. More complex weighting schemes were also tried. The equations were also run using percent change in average hourly earnings to construct the wage variables. A variety of other activity variables were tried, and wage rounds, rather than years, were tried as points of observation. For more details, see Daniel J. B. Mitchell, "Re-Thinking Pattern Bargaining," *UCLA Institute of Industrial Relations Working Paper No. 1,* September 1976. The exact results vary, depending on which method is used. Table I is simply illustrative of the type of results that are obtained.

TABLE I

Industry Wage Regression Results

Industry	*Constant*	*%W*	U^{-1}	*%P*	R^2	R^2 with *%W* alone
Apparel	2.6**	1.1***	— 2.9	.4**	.72	.58
Chemicals	.7	.8***	— 2.5	.1*	.94	.92
Electrical equipment	— .1	1.4***	— 7.4*	—.1	.91	.88
Metals	—1.2	1.4***	— 3.1	—.3**	.92	.87
Food	1.7	1.1***	— 8.4**	0	.93	.89
Furniture	1.5	.7***	— 1.6	.1	.82	.81
Leather	—1.8*	.6***	15.0***	.1	.85	.70
Lumber	.1	.8**	3.9	0	.60	.60
Nonelectric machinery	— .9**	.8***	3.6*	.1**	.97	.96
Misc. mfg.	— .1	.6***	6.5**	.2***	.92	.85
Paper	— .2	.5***	4.4	.3***	.92	.82
Petroleum refining	1.8	.7***	— 2.6	.1	.65	.64
Printing	1.6*	1.1***	—12.1***	.2**	.94	.86
Instruments	.1	1.0***	— .8	—.2*	.89	.86
Rubber	.3	.7***	— .1	.3*	.83	.79
Stone, clay, glass	—1.3	1.1***	4.0	—.1	.89	.87
Textile	.6	.6***	3.3	.2**	.87	.81
Transport equipment	0	1.1***	— 4.2	—.1	.90	.89
Nonmfg. except construction	1.6	1.6***	—10.5***	—.2*	.94	.90
Construction	—5.9*	2.0***	18.3	—.3	.67	.61

* Significant at 90% level.
** Significant at 95% level.
*** Significant at 99% level.

External Wage Effect

The most striking feature of the equations is the strength and significance of the external wage index. By contrast, the activity variable and the price inflation variable often appear with negative signs and are often insignificant. In fact, the table suggests that a forecaster could make a fairly good prediction about wage changes in any one industry armed only with knowledge of wage changes elsewhere. The right-hand column of Table I shows that the R^2 obtained using all three explanatory variables is often only slightly higher than the R^2 obtained by using only *W*. The mean value of the coefficient of the wage index is often close to one, as the pattern-bargaining hypothesis suggests.[7] And

[7] The coefficient for construction reflects the wage explosion in that industry. The coefficient in nonmanufacturing except construction is biased up (and for other industries, therefore, biased down) by the technique of dividing cents-per-hour union wage change by average hourly earnings of all workers in that sector.

the other variables appear as perturbances which speed up or slow down the industry's wage change relative to the index—if they have much effect at all—a situation also in line with the pattern-bargaining theory.

However, there are econometric reasons for not regarding the equations as estimates of structural relations like those of the two-sector model.[8] The equations are more plausibly regarded as descriptive equations of relations between the variables over the period covered. The coefficients of the wage indexes cluster around unity simply because on average wages increase at the average rate, and because the other explanatory variables are not very good explainers. If wage changes in each industry are affected by other unspecified common causal variables, including lagged values of the variables already tried, equations of the type shown on Table I will occur even in the absence of pattern bargaining.

When observations are put in the form of regressions, it is easy to see that what appears superficially to be wage-wage inflation may be nothing of the sort. But the same sort of evidence, when viewed casually, may appear to be confirmation of the wage-wage approach. After all, wages in different industries seem to move together. Price inflation and economic-activity fluctuations do seem to act as perturbations which change wage structure. But what is true for the computer must be true for the casual observer. In short, there may be less to wage-wage inflation at the economy-wide level than meets the eye. Policy makers must be wary of attributing direct wage interactions to behavior which may have alternative explanations.

Limitations

There are four reasons for suspecting that wage-wage inflation is less important today—under normal circumstances—for the economy as a whole than was the case when the early literature on pattern bargaining developed. First, the kind of explosive wage behavior the hypothesis implies seems to have been mainly confined to construction. It does not appear to a general characteristic of the labor market. Second, collective bargaining has matured since the 1940s. Major union bargainers have established relations with their management counterparts and presumably have a better understanding of their own industry's conditions. They ordinarily should have less need to follow what some other industry is doing. Third, during the 1940s and the early 1950s, there were two episodes of wartime wage controls, far more comprehensive than anything since tried. In both cases, the wage authorities sought out and employed pattern relationships in setting wages and therefore reinforced (and perhaps even created) such relations. In contrast, the Kennedy/Johnson guideposts and the general controls of 1971-72

[8] First, ordinary least squares will produce biased results when applied to a simultaneous equation system. Second, it is not clear that a set of equations representing pattern bargaining can be identified at all, since the nonwage exogenous variables are seen as minor perturbances and the system is mainly endogenous. Third, the weights are arbitrary and there are not enough observations to permit the regressions to select them. A different econometric approach may be found in Y. P. Mehra, "Spillovers in Wage Determination in U. S. Manufacturing Industries," *Review of Economics and Statistics*, vol. 58 (August 1976), pp. 300-12. Mehra estimates industry wage equations (for the absolute level of wages) and then examines the possibility of intercorrelations of the residuals. He views such intercorrelations as symptoms of wage patterns across industries, but does not find strong evidence for such patterns. While sympathetic to Mehra's conclusions, I believe he may have stripped too much out of his data by the residual technique and biased the results against a finding of wage spillover.

relied on across-the-board rules. (The wage controls of 1973-74 were much less comprehensive and were quickly overrun by problems on the price side.)

Finally, the making of interindustry wage comparisons has become progressively more complicated. Labor compensation is now paid in significant part in the form of fringe benefits which are very difficult to compare across industries.[9] Industries differ also in workrules, progression plans, and other considerations which make pay comparisons difficult. Similarities in wage-rate settlements may in fact mask such differences. Thus, even where there is pressure for uniformity in wages, adjustments may be made in other aspects of the agreement to account for differences in ability to pay, bargaining strength, etc.

There are two implications of the supposition that cross-industry wage interactions are not normally a major factor in contemporary cross-industry wage determination, even if they were in the past. First, *if* general wage controls are imposed in the future, they need not involve the detailed case-by-case analyses of the early wartime programs or the recent construction program. They can rely on general rules which do not pay a great deal of attention to interindustry wage structure. Controls can in fact be of the informal and voluntary guideline variety. This conclusion does not preclude more detailed controls *within* particular industries. And, of course, the readers should bear in mind that the paper has not discussed whether controls should in fact be used. Nor should it be interpreted as suggesting that *within* industries or bargaining units—as opposed to *across* industries—patterns and wage structure are not very important.

Second, it would be advantageous to avoid developments which encourage pattern-following across industries. One such development is a sudden burst of inflation which unites all bargainers by presenting them with a common problem and encourages them to follow each other's examples in dealing with it. This suggests gradualism in the degree to which demand pressure is applied to the private sector, emphasis on selective employment remedies, and the avoidance of sharp devaluations of the dollar in foreign exchange markets. **[The End]**

[9] Note that craft wages in construction are an exception. Hourly rates are widely known, occupations are standardized, and fringes consist of easily identified payments into trust funds. Thus, wage comparisons are easy and help to explain why wage-wage inflation characterizes that industry. But such conditions of comparability are less likely to be features of manufacturing, transportation, mining, and other major sectors.

The Role of Public Service Employment

By CHARLES C. KILLINGSWORTH

Michigan State University

MARCH 1977 has two kinds of significance for this session on full-employment policy. This month we complete the second full year of recovery from the most recent recession. And this is the twenty-sixth consecutive month in which the national unemployment rate has been reported to be above 7 percent. Except for the Great Depression, we have never had such a prolonged period of very high unemployment rates. Some of you may believe that it is utopian to talk about full employment when the goal is so distant. Others—and I am among them—will believe that the great shortfall of employment policy dictates a reexamination of the policy instruments on which we have relied. This reexamination is especially timely in view of the apparent differences between the new Administration and Congress concerning the proper mix of policy instruments to reduce our chronically excessive unemployment rates.

Such a reexamination is most appropriate for public-service employment. It was seven years ago this month that Congress began serious consideration of this employment policy instrument. At that time, PSE probably accounted for fewer dollars and fewer enrollments than any other manpower program. By next year, PSE is likely to account for more dollars and more enrollments than any other manpower program. PSE has probably received more attention from economists and other social-policy analysts in the past seven years than any other major manpower program. Today, it seems fair to say that Congress and the general public look upon PSE with considerably more enthusiasm as a remedy for unemployment than do most economists. At one end of the spectrum of opinion, we have congressional proposals to achieve full employment by providing public jobs for all job-seekers who cannot find work in the regular labor market; at the other end, we have some economists who contend that public jobs programs result in no net increase at all in employment. As this is written, sharply different judgments are being expresed in Washington and elsewhere regarding the relative emphasis that should be given to tax cuts and rebates versus public jobs and public works.

What are the leading arguments pro and con regarding public-service employment? Obviously a brief review like the present one cannot do full justice to the prolific outpouring of studies during the past seven years. But brevity may serve to focus the issues somewhat more sharply than would a more comprehensive treatment. I begin with two basic assumptions. The first is that a policy instrument like public jobs should not be judged against some abstract standard of perfection, but rather against the available alternative policy instruments; and in the case of public jobs, it seems clear that it competes primarily with tax cuts in one form or another. My second assumption is that the electorate last fall rejected one other pos-

sible policy alternative, namely, nonintervention in the labor market.

The "Substitution" Controversy

When federal dollars for hiring new workers are handed over to state and local governments, how many of the new hires simply substitute for workers that the state and local units would otherwise have hired? That is the heart of the "substitution" question. Many articles have been published, or at least circulated in processed form, on this question during the past five years. Early last year, a member of the Ford Council of Economic Advisers asserted in congressional hearings that PSE is "an ineffective instrument of employment policy . . ." for the reason that "We have found . . . after three years only one or two net new jobs remain out of ten supposedly created originally."[1] I wrote a letter to the *New York Times,* asserting (among other things) that the studies on which this statement relied were based on speculation to such an extent that they could not properly be given any weight as evidence.[2] Paul W. MacAvoy replied in a letter which cited the studies of five named authors.[3] Three of the five authors then themselves wrote a letter in which, in essence, they agreed with my position. They remarked, ". . . a set of estimates ranging from 40 to 90 percent is hardly a 'smoking gun.' "[4]

Since then, Michael Wiseman has published an article which carefully analyzes three of the most frequently-cited estimates of substitution. His article concludes that they are "seriously flawed." He does not offer any numerical estimates of his own, although he does assert that some degree of substitution seems to be inevitable over the long run.[5]

Some of the early discussions of substitution seemed to assume, or at least to imply, that the federal money used to pay "substitute" workers is somehow lost from the system.[6] There is now increasing recognition of the fairly obvious point that any money which the state and local units "save" by substitution is almost certain either to be spent for other goods and services, or to avoid a tax increase that would otherwise have been necessary, or (perhaps least likely) to reduce their taxes. In other words, to the extent that there is substitution, the money that is "saved" becomes comparable to revenue-sharing funds. In still other words, the federal PSE dollars are not likely to have any less stimulative effect on the economy than a general federal tax cut.

There is also increasing recognition, at least at the administrative level, that substitution is not an inherent and unavoidable characteristic of PSE programs. Granting funds on a "project" basis makes federal monitoring more effective. In addition, some projects may be administered directly by federal authorities, either those in the Department of Labor or by other federal departments on the basis of interdepartmental agreements with Labor. Interior, Agriculture, HEW, and perhaps others seem to be logical partners in such arrangements, and it seems likely that as much as one-third of the total appropriation for PSE might usefully be administered in this way.

[1] *New York Times,* January 29, 1976.
[2] *Ibid.,* February 16, 1976.
[3] *Ibid.,* March 10, 1976.
[4] *Ibid.,* March 26, 1976. This letter was signed by George E. Johnson, Orley Ashenfelter, and Ronald Ehrenberg.
[5] Michael Wiseman, "Public Employment as Fiscal Policy," *Brookings Papers on Economic Activity,* 1:1976, pp. 67-104.
[6] Such seemed to be the implication of the MacAvoy letter cited in footnote 3 above.

Admittedly, such arrangements conflict with the dogma of "decentralization." But the principal purpose of decentralization was to improve the effectiveness of employment and training programs. If the evidence suggests that this purpose is not being served with regard to a particular program, dogma should not stand in the way of appropriate exceptions. My personal conclusion is that far too much has been made of the "substitution" argument. We have no solid evidence concerning its extent; in fact, no one has even thought of a reliable way to measure it. To the extent that it is a reality, it somewhat reduces, but certainly does not eliminate, the stimulative impact of the federal dollars. And new administrative arrangements can significantly reduce the magnitude of the problem.

Speed of Implementation

In the current discussion of the Carter Administration economic proposals, we frequently hear the assertion from the advocates of greater emphasis on tax-cutting that a social program like PSE needs a long time to get started. Tax-cutting, it is said or implied, affects employment much more rapidly. I have not seen any detailed justification for either generalization. In fact, it is quite difficult to measure with precision the effects of a tax cut or rebate; employment may increase following the enactment of such a measure, but showing a clear cause-and-effect relationship between some part or all of such an increase and the tax change may be impossible. We do know that there is usually a substantial lag, especially in the case of a one-shot rebate, because there is apparently a tendency for the public to save most of it at least for several months.[7]

We can measure with reasonable precision the number of slots filled in a PSE program. In 1971-72, after the enactment of the appropriation for the Emergency Employment Act, the maximum enrollment of about 175,000 was achieved in about ten months. In this case, the program started from scratch, so to speak, although the Department of Labor did a great deal of preparatory work between the enactment of the basic law and the approval of the appropriation. In 1974-75, about 300,000 slots under the various applicable titles of the Comprehensive Employment and Training Act were filled in roughly ten months.[8] In my judgment, ten months is not really "a long time." I think that the burden of proof clearly rests on those who assert that some type of tax cut (involving a comparable number of dollars) can affect total employment much more rapidly than a PSE program.

In the light of this past experience, the Carter Administration proposal to expand PSE by a little less than 300,000 slots during the current fiscal year appears reasonable. There are those who argue that the expansion could be more rapid. This argument seems to overlook some significant current impediments. New leadership is just taking over in the Department of Labor. New amendments to the CETA legislation, targeting the PSE program more specifically on the disadvantaged, will require more careful screening of applicants. Planning for closer monitoring to prevent "substitution" takes time. Excessively hasty expansion could create some opportunities for stealing money.

[7] The Ford Council of Economic Advisers estimated that about 80 percent of the tax rebate of 1975 was saved in the quarter it was paid; eventually, of course, it was spent, but it is eztremely difficult to determine the time involved. *Economic Report*, 1976, p. 64.

[8] These figures are summarized in Wiseman, Figure 1, p. 72.

After all, we are talking about roughly doubling the present size of the program in less than six months.

However, in all frankness, I must say that the foregoing considerations do not seem to support the Administration proposal to add only another 125,000 slots to the PSE program during fiscal 1978. I recognize that the full-year expenditure on PSE in fiscal year 1978 will be much larger than during the current year. Still, my personal judgment is that more PSE slots than the Administration proposes for fiscal 1978 could be justified—and there appears to be a reasonably good chance that Congress will provide considerably more than 125,000 additional PSE slots during fiscal 1978.

Targeting

One important potential advantage of a PSE program over most other instruments of employment policy is that its direct benefits can be fairly precisely targeted. Those most in need of help can be given priority in filling the available slots. This potential has not been fully exploited in the recent past. Under the Emergency Employment Act, males and better-educated workers were overrepresented (compared with their shares of unemployment), and apparently many who were hired as "disadvantaged" did not really qualify for that category.[9] Apparently somewhat similar patterns were originally followed under the CETA authorizations (especially Title VI), except that men were not so heavily overrepresented.[10] In response to these emerging patterns, Congress amended the legislation last year to provide more specific standards of eligibility, primarily in terms of family income and duration of unemployment. A much sharper focusing of the program on the truly disadvantaged members of the labor force may now be expected.

One price for the sharper focusing, as already suggested, may be some slowing down in the rate at which vacancies are filled. Some prime sponsors under CETA are less than enthusiastic about the new requirements, because closer screening of applicants is required and there may be greater difficulty in finding jobs in regular government activities for the really disadvantaged applicants. By calling attention to this price, I certainly do not intend to suggest that it is excessive.

One basic purpose of employment policy should be to redress the inequities and inequalities resulting from the "normal" operations of the labor market. There is persuasive evidence that tax cuts do little or nothing to achieve such redress; they probably have a tendency to reinforce existing geographical and demographic characteristics of employment. In the current debate concerning the allocations between the components of the Administration's economic package, especially as between tax cuts and PSE jobs, too little attention has been paid to the great difference between the two measures with regard to their potential for targeting. For tax cuts, the potential is negligible; for PSE, it is greater than for most other employment-policy measures.

Cost Effectiveness

If our purpose is to create the largest number of jobs at the lowest possible cost, the PSE program obviously wins

[9] Sar A. Levitan and Robert Taggart, eds., *Emergency Employment Act: The PEP Generation* (Salt Lake City: Olympus Publishing Company, 1974), esp. chapter 1.

[10] William Mirengoff and Lester Rindler, *The Comprehensive Employment and Training Act: Impact on People, Places, Programs—An Interim Report* (Washington: National Academy of Science, 1976).

hands down over all other instruments of employment policy. Early estimates by the Congressional Budget Office implied a net cost of $2,600 to $3,500 per PSE job after 24 months, compared with a net cost of about $17,000 to $21,000 per job created by tax cuts (also after 24 months).[11] More recent estimates by this Office rest upon more unfavorable assumptions regarding substitution; but they still imply that the PSE program yields 2 to 2½ times as many jobs as tax cuts for equal numbers of dollars.[12] The later estimates, in my judgment, do not take into sufficient account the current efforts to reduce the substitution effect. Even so, even taking the least favorable cost comparison, there appears to be a solid basis for concluding that PSE is at least twice as cost-effective as tax cuts.

Inflationary Impact

It follows from what has already been said that total employment can be increased substantially more with substantially less inflationary effect by a PSE program than by tax cuts. Part of the reason for this is the difference in cost per job created. The PSE program is simply a much more efficient way to increase employment; fewer dollars accomplish more. Of at least equal importance, however, is the targeting potential of the PSE program. The money involved can be directed to those labor force groups that are least in demand (relative to their supply) in the regular labor market. The PSE money also can be concentrated in those geographical areas with the largest numbers of unemployed workers and the largest amounts of unused productive capacity.

Perhaps it is sufficient simply to assert that tax cuts cannot be targeted in that way. As already suggested, it seems plausible to assume that for the most part tax cuts simply reinforce existing expenditure patterns—which is only another way of saying that existing supply bottlenecks will be tightened without much relief for the supply surpluses. In present circumstances, of course, most economists agree that substantially higher levels of employment and capacity utilization can be achieved without necessarily increasing the risk of higher inflation rates.

Last year, the Humphrey-Hawkins bill was strongly attacked on the ground that it would certainly cause disastrous inflation. The "job guarantee" provisions of the bill were the alleged source of the inflation.[13] In my judgment, the inflationary dangers of the bill were considerably overstated.[14] The point is probably moot now, because the bill was substantially revised to eliminate most or all of the provisions that were most vigorously criticized. By the time that had happened, however, a large number of congressmen had been sufficiently frightened by the inflation charges so that the bill had no chance of passage. Although the revised Humphrey-Hawkins bill has been reintroduced in the current session of Congress, it has received little attention —probably because the Carter pro-

[11] Congressional Budget Office, *Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives* (Washington: U. S. Government Printing Office, 1975), Summary Table 1, p. v.

[12] Based on interviews with staff members of the Congressional Budget Office.

[13] The most influential testimony against the bill was by Charles L. Schultze before the U. S. Senate Subcommittee on Unemployment, Poverty and Migratory Labor on May 14, 1976.

[14] I analyzed some aspects of the Schultze testimony in my own testimony prepared for the U. S. House Committee on the Budget, Task Force on Economic Projections, July 27, 1976.

posals have preempted the center of the employment-policy stage.

The Private-Sector Bias

Over the past eight years, public statements made it clear that many members of the Nixon and Ford Administrations opposed the PSE program because of the greater "legitimacy" of private-sector jobs. Thus, spokesmen often made an invidious distinction between "real" jobs (meaning those in the private sector) and "makework" jobs (meaning those in the public sector). Some of the attitudes of professional economists, regardless of political affiliation, seem to suggest a similar private-sector bias. The rationale may perhaps be summed up, however inadequately, by the statement that the free market creates jobs in the industries and occupations most likely to maximize the social welfare. This proposition has not gone unchallenged. Nevertheless, I do not propose to analyze it at this point. Even if the proposition is accepted, it does not provide a rational basis for opposition to PSE programs. The fact is that a PSE program produces *more* jobs in the private sector than does a tax cut involving an equal number of dollars.

Let us consider a numerical example. Take a PSE program with a gross cost of $8,000 per job. An $8 billion PSE program would create 1,000,000 jobs initially (making no allowance for substitution). The multiplier for this kind of program should be at least two, meaning that the jobs created as a result of the PSE enrollees spending their pay checks would come to approximately another million—and virtually all would be in the private sector.

Now compare the job-creation process by means of a tax cut. The gross cost per job is approximately $25,000, with the multiplier taken into account. A tax cut of $8 billion might be expected to create 320,000 jobs, all in the private sector. In other words, with equal expenditures on the two types of programs, you end up with about three times as many jobs *in the private sector* with the PSE program. Adding in a significant substitution factor in the PSE program reduces the disparity but does not eliminate it. The money that state and local governments and taxpayers save from substitution is spent mainly for goods and services in the private sector, so that as the number of *net* new jobs created in the public sector is diminished by substitution, the number of new jobs in the private sector is *increased.*

Conclusion

Those members of the general public and the Congress who support direct job creation through a public-service employment program rather than through tax cutting have a better understanding of reality than do the economists who prefer tax cutting. The "substitution" argument rests largely on speculation; and, as usually stated, the argument ignores the job-creating (or job-preserving) effects of the state and local government or taxpayer spending induced by the substitution. The substitution argument also implicitly assumes that substitution cannot be prevented, and that is simply not so.

The solid information that we have concerning the feasible rate of expansion of a PSE program suggests that the present program could be enlarged to provide more than a million jobs by sometime in calendar 1978. The assertion that tax cuts will have a faster effect on the economy cannot be supported by any solid evi-

dence. The PSE program can be as precisely focused on the most disadvantaged groups and geographical areas as Congress wishes; the job-creating effects of tax cuts cannot be focused on the disadvantaged.

Conservative estimates suggest that if equal amounts of money are devoted to PSE and to tax cutting, the PSE dollars will yield from two to five times as many jobs as the tax-cut dollars. PSE expenditures, because of their focused nature, will be less inflationary than tax cuts, which cannot be focused. And finally, it is arithmetically demonstrable, on the basis of generally accepted cost figures and multipliers, that the PSE program will actually increase employment *in the private sector* more than a tax cut involving the same number of dollars.

When unemployment has been highly excessive for a prolonged period of time, the case for reliance on public-service employment as a primary instrument of employment policy is strong indeed. The case for reliance on tax cuts instead of public-service employment is so weak that it is almost nonexistent. I do not mean to suggest that no case can be made for cutting taxes. I would certainly be willing to pay less taxes. My point simply is that tax cuts should not be sold on the ground that tax cuts are the best way to create jobs. **[The End]**

Immigration

By VERNON M. BRIGGS, JR.

University of Texas at Austin

IMMIGRATION POLICY has long been one of the most important components of public policy of the United States. It has been instrumentally involved in such diverse areas as human resource policy, foreign policy, labor policy, agricultural policy, and race policy. In each instance, it has been of consequence with respect to both its quantitative dimensions and its qualitative aspects. Yet despite its long-run significance, it has in recent decades been among the most neglected areas of public policy.

The lack of attention to this vital topic is indeed unfortunate, for since the mid-1960s, immigration to the United States has sustained quantum changes in both its size and its character from its long-run patterns. Many cynics are quick to say that it is only because of the high unemployment of the mid-1970s in the United States that this issue is now surfacing. This singular charge, as this paper will attempt to demonstrate, is untrue, for regardless of the short-term unemployment rate, the issue of the compatibility of immigration policy with the national goal of full employment is multifaceted and has been emerging for some time. A review is long overdue.

Components of Immigration Policy

Immigration policy consists of an evolving and complex set of statutory laws, administrative rulings, and court decisions. Although it embraces numerous considerations, immigration policy has a direct effect on the labor market in three ways. First, there is the annual flow of legal immigrants who

are eligible to become naturalized citizens. More than half of these persons are already or quickly become members of the labor force. Second, there is among the immigrant group a component of resident aliens who have little, if any, intention of ever becoming citizens. These persons flout the residency requirements of the statutes by commuting to jobs in the United States while maintaining a permanent home abroad. And third, there are the illegal aliens who either enter the country without documents or who violate the terms of their visas by overstaying or working.

Legal Immigrants

For 148 years of the nation's history, voluntary immigration was possible for almost all white persons. Sharp restrictions were imposed during this period on both Asians and blacks. Beginning in 1921 and formalized in 1924 with the passage of the National Origins Act, ethnic background was added to race as an entry criterion. The Act of 1924 also imposed a numerical quota by separate nationality as well as a ceiling of 150,000 immigrants from all Eastern Hemisphere nations. From 1924 to 1965 the annual average number of legal immigrants from all nations was 190,447 persons per year.[1]

In 1965, however, substantial amendments were made to existing immigration laws. The Immigration Act of 1965 was designed primarily to end the ethnocentric policies of the earlier legislation.[2] Virtually no consideration was given to any possible labor-market ramifications.[3] The new immigration system was designed to accentuate family reunification with only ancillary attention given to its other stated objectives to be a means to fill demonstrable skill shortages and to accommodate "certain refugees." A ceiling of 120,000 was imposed on immigration of people from the Western Hemisphere for the first time. No ceiling was set at the time on individual countries. For the Eastern Hemisphere, however. the ceiling was set at 170,000, with a 20,000 person maximum allowed from any one country.

By 1976, it was possible to assess some of the results of the Act of 1965. Between 1965 and 1975, the average annual number of legal immigrants has increased to 390,329 persons.[4] This represents an increase of over 100 percent above the earlier annual average for the 1924–1965 period. The total hemisphere ceilings (290,000 persons) were greatly exceeded due to exemptions for parents, spouses, and children. Mexico became the source of more legal immigrants than any other single nation. It averaged about 54,000 immigrants a year between 1966 and 1976, with the average increasing to about 66,000 immigrants a year between 1972 and 1976.[5]

With respect to the labor market, an average of 65 percent of the legal immigrants each year since 1965 have directly joined the labor force. Thus, about 260,000 of the average 1,700,000 persons who have entered the labor

[1] Office of the President, Domestic Council Committee on Illegal Aliens, *Preliminary Report* (December 1967), pp. 17-19.

[2] William Bernard, "American Immigration Policy: Its Evolution and Sociology," *International Migration*, Volume III, No. 4 (1965), pp. 234-242.

[3] Elliot Abrams and Franklin S. Abrams, "Immigration Policy—Who Get In and Why?", *Public Interest* (Winter 1975), pp. 3-29.

[4] Cited at ftn. 1.

[5] *Annual Report: Immigration and Naturalization Service: 1975* (Washington: U S. Government Printing Office, 1976, Table 14), p. 65.

force each year since 1965 are legal immigrants (or about 15 percent of the annual increase).[6] Obviously, legal immigration has become a major contributing factor to the growth of the labor force.

The existing immigration statutes do attempt in theory to relate immigration to employment effects for non-family-related immigrants. That is to say, the Immigration and Nationality Act of 1952 states that these legal immigrants shall not adversely affect the domestic labor market.[7] The Secretary of Labor was empowered to block the entry of legal immigrants if their presence would in any way threaten prevailing wage standards and employment opportunities. The Act of 1965 bolstered the permissive language of the earlier legislation by making it a mandatory requirement that immigrants who are job-seekers must receive a labor certification.

Due to numerous exemptions, only one of every 13 legal immigrants is subject to the labor certification process.[8] Moreover, since 1972 about 40 percent of all of the certifications have occurred after the applicant had already illegally secured a job in the United States.[9]

As a result, the immigration system has become a highly mechanistic, case-by-case, process in which family reunification has become the overriding goal. Literally no concern is manifested by the system as it now functions as to the labor-market impact of the number of immigrants or of their individual ability to adapt to its local requirements (i. e., language capability, job skills, or locational preference).[10]

The limited available research on immigration characteristics since 1965 shows that the legal immigrants tend to concentrate in a very few states (i. e., three states—New York, California, and Texas receive over 51 percent of all legal immigrants).[11] Moreover, legal immigrants settle overwhelmingly in cities as opposed to suburbs or rural areas. Hence, the actual impact of legal immigration on labor market operations is more specific than general.

Border Commuters

In 1975, there were 4.2 million resident aliens who registered with the U. S. Immigration and Naturalization Service (INS).[12] Over 75 percent of them reside in eight states with California, New York, and Texas accounting for 49 percent of the total. Persons from Mexico are by far the most numerous of this group—numbering 868,198 (or 21 percent) of the total in 1975. Over 75 percent of the resident aliens from Mexico reside in California and Texas.

Aside from the obvious regional impact, there is no particular policy issue involved with resident aliens per se. There is, however, a serious problem that occurs with resident aliens who commute (mostly from Mexico) to work in the United States on a daily or seasonal basis. Due to the extreme differences in economic development, commuters are more of an issue along the Mexican border than the Canadian border. The Mexi-

[6] Cited at ftn. 1.

[7] Section 212(a)(14) of P. L. 414 of the 82nd Congress; 66 Stat. 163.

[8] David North, "Alien Workers: A Study of the Labor Certification Program," (Washington: Trans Century Corporation, August 1971), pp. 95-96.

[9] Cited at ftn. 1, pp. 20-21.

[10] *Ibid.*, pp. 27-28 and 32.

[11] David S. North and William G. Weissert, *Immigrants and the American Labor Market,* Manpower Research Monograph No. 31 (Washington: U. S. Government Printing Office, 1974), pp. 66-67.

[12] Cited at ftn. 5, p. 21.

can commuters are often willing to work for wages and under employment conditions that are impossible for a person who must confront the daily cost of living in the United States on a full-time basis. Moreover, they are often involved in labor disputes as strikebreakers along the border. Hence, commuters exert influence on sectorial labor markets.

The legal authority for the existence of commuters stems not from any statute but, rather, has evolved through a long series of administrative decisions by the INS. In 1927, the status of commuters was changed from "nonimmigrant visitors" to "immigrant." In 1929, the U. S. Supreme Court upheld the INS decision, with the famous ruling that "employment equals residence" (thereby cleverly avoiding the permanent residency requirement of the immigration statutes).[13] It is estimated that 70,000 workers cross the Mexico-U. S. border daily. How many additional seasonal commuters there are is unknown.

It has been charged that the prevailing INS regulations actually forbid the practice of commuting since the re-entry rights of a resident alien is limited to a person who is "returning to an unrelinquished lawful permanent address."[14] Before 1965, the INS reasoned that any commuter who had been accorded the "privilege of residing permanently" was always entitled to enter the country. The Immigration Act of 1965, however, altered the statutory language. The amended language restricted informal entry to "an immigrant lawfully admitted for permanent residence who is returning from a temporary visit abroad."

Accordingly, one legal scholar has concluded: "No distortion of the English language could result in a finding that the commuter was entering the United States after a temporary visit abroad to return to his principal, actual dwelling place. Rather, the commuter was simply leaving this foreign home and entering the United States to work."[15] He argued that since 1965 the status border of commuters is "not merely lacking in statutory authority" but that the practice is "actually prohibited."

In November 1974, however, the U. S. Supreme Court rejected the aforementioned logic by upholding the INS position that daily and seasonal commuters are lawful permanent residents returning from temporary absences abroad.[16] Essentially, the Court said that it was not going to overthrow 50 years of administrative practices by judicial decree. If the U. S. Congress wishes to outlaw the practice of border commuting, it will have to act in a specific legislative manner.

Illegal Immigrants

Of all the immigrant flows into the population and labor force of the United States, none is of more quantitative significance in the 1970s than the illegal entrants. In 1975, there were 766,600 aliens apprehended in the United States. This represented a 700 percent increase over the figure of only a short decade earlier. Each year, citizens from Mexico account for about 90 percent of the total apprehensions. The high proportion of apprehended Mexicans is due to the

[13] *Karnuth v. Albro*, 279 U. S. 231 (1929).

[14] Sheldon L. Greene, "Public Agency Distortion of Congressional Will: Federal Policy toward Non-Resident Alien Labor," *George Washington Law Review* (March 1972), p. 442, citing 8 C. F. R. 211.1(b)(1) (1971).

[15] *Ibid.*, p. 443, citing 8 U. S. C. 1101(a) 27 (B) (1970).

[16] *Saxbe v. Bustos*, 419 U. S. 65 (1974).

fact that the preponderance of enforcement activities is marshalled along the U. S.-Mexico border. Over 80 percent of all apprehensions occur at or near the border.[17]

In fact, the flow of illegal aliens is coming from almost every nation.[18] The vast majority, however, are not apprehended. Thus, the Commissioner of INS stated in 1974 that "it is estimated that the number illegally in the United States totals 6 to 8 million persons and is possibly as great as 10 or 12 million."[19] Although it is possible to quibble about the exactness of the statistics, there is no doubt that the numbers involved are very large and that they are increasing rapidly.

Because of its illegal character, it is impossible to discuss with precision the impact that illegal aliens who are not apprehended exert on the labor market of the nation. All available research pertains to those apprehended. These studies, however, do indicate that the primary motivation of the illegal aliens is job-seeking.[20] They are a working population. A very conservative estimate that three million illegal aliens are actually employed would mean that they hold about 4 percent of all the jobs in the nation at the present time. It is logical, therefore, to believe that illegal aliens fill jobs that citizen-workers could have, or depress wages and working conditions in certain sectors to such a degree that citizen-workers cannot compete and must either become unemployed or withdraw from the labor force, or both.

The complex factors responsible for the growth of this shadow labor force are derived from a combination of strong outward "push factors" of poverty and unemployment in their native lands; of strong "pull factors" in the form of higher wages and incomes available in the United States; of employers who are willing to tap this source of scared and dependent workers; and of an extraordinarily tolerant immigration policy by the United States that places no penalties on employers of illegal aliens, that grants "voluntary departures" with no punishment to 95 percent of all apprehended persons; and which has an enforcement agency (i. e., the INS) whose size and budget is minuscule relative to its assigned duties.

Within the past year, the substantial devaluation of the Mexican peso as well as an amendment to the immigration statutes (which became effective January 1, 1977) that sets a uniform numerical ceiling of legal immigrants from nations of both Eastern and Western Hemispheres at 20,000 persons are likely to serve as additional prods to increased illegal entry from Mexico.

Illegal aliens have become an endemic factor to both the rural and urban labor markets of the Southwest. Outside this region, they are also becoming an influential factor in a number of urban labor markets (e. g., Chicago and New York). In the aggregate they are unquestionably a substantial factor in the growth of the labor force. As for their effect on employment opportunities, the available research clearly indicates that the majority of illegal aliens—especially those

[17] Cited at ftn. 1, p. 207.

[18] David S. North and Marion F. Houstoun, *The Characteristics and Role of Illegal Aliens in the U. S. Labor Market: An Exploratory Study* (Washington: Linton & Company Inc., 1976).

[19] U. S. Department of Justice, *1974 Annual Report: Immigration and Naturalization Service* (Washington: U. S. Government Printing Office, 1974), p. iii.

[20] Cited at ftn. 18, pp. 96-136; also see cite at ftn. 1, p. 165.

from Mexico—hold unskilled jobs. Hence, they are most likely to be found in the secondary labor market of the economy. In this sector, it is the substantial number of citizen-workers who are also confined to this sector who must bear the burden of direct competition with the illegal immigrants for jobs and income.

Concluding Observations

In selective but significantly large sectors of the economy, current immigration policy confounds efforts to achieve full employment and to secure adequate income for the citizen labor force of the nation. The relationship of immigration and employment policies needs to be completely reassessed. If humanitarian considerations that give priority to family reunification are to remain the mainstay of the legal immigration process, a categorical-assistance program should be created to cushion the economic hardships imposed on the receiving communities. The program should extend beyond simply job-training and language instruction. It should include funds to local public agencies to defer the financial burdens of education, housing, and health services that they are required to make as a result of national policy. If the seemingly futile system of labor certification is to be continued, consideration should be given to making it meaningful. To accomplish this, a probationary period should be a part of the admission procedure to assure that the legal immigrants go to the geographical areas and are actually employed in the occupations that are the conditions of their admission.

As for border commuters, it is only fair that citizens of this country who work in this country should be required to reside permanently in this country. The administrative loophole that allows this process to continue should be plugged by legislative action.

With respect to the illegal aliens, it is a problem that a free society can never completely resolve. There are no nice answers to this issue. If you do nothing, citizens are hurt; if you do something, aliens are hurt. There are no other alternatives. Believing that the only purpose of the nation state is to protect its own people if a choice must be made, there are steps that can be taken to bring the issue into manageable proportions. The most obvious steps include making the act of employing an illegal alien an illegal act, reducing sharply the use of the voluntary departure system; and increasing greatly the manpower and budget of the INS commensurate with its responsibilities.

For repeat offenders, the wages paid by employers to illegal aliens should be disallowed as business expenses and the opportunity for illegal aliens to ever become legal citizens should be denied. At the same time, a major commitment of loans and grants as well as technical assistance must be made available to the neighboring nations of Mexico and of the Caribbean areas to overcome some of the economic hardships which force so many of their citizens to abandon their homelands. Included in such a step should also be tariff revisions to encourage imports from our neighbors as well expanded adjustment assistance to the citizen-workers adversely affected by the liberalized trade policies. **[The End]**

A Discussion

By MYRON ROOMKIN

Northwestern University

ONE WOULD EXPECT from the title of this session that the papers were casually related. In fact, they share an important theme: the pursuit of full employment requires a careful integration of several competing national goals and an appropriate balancing of valued beliefs. Taken separately, each of the papers represents a provocative contribution to the public dialogue.

Professor Mitchell has provided some interesting analysis of the wage-wage theory of inflation. He also correctly indicates some of the reasons why it is difficult to test demonstratively the wage-wage theory using econometric methods. He concludes, based mostly on theory and a hefty dose of intuition, that wage-wage inflation is not normally an important source of inflation, in part because cross-industry wage comparisons and interdependencies are not important determinants of wages. I would prefer more evidence on both the existence (or nonexistence) of the wage-wage phenomenon and the contribution of this phenomenon to inflation.

It is very difficult to partition the rate of inflation among its constituent causes. It would seem that wage-wage inflation is only visible in the extreme, such as during periods of wage explosion. But an absence of wage explosions implies neither an absence of interindustry wage patterns nor that such patterns are to some extent responsible for the rate of inflation.

If pattern-bargaining contributes to wage-wage inflation, as it may, I cannot agree with Mitchell's contention that this contribution is likely to have lessened in recent years. It may in fact have stayed the same, or gotten stronger. Mitchell says that maturity of union bargainers makes them less sensitive to wage pressures from other industries. There is nothing in the notion of bargaining maturity that yields this conclusion unambiguously. The sad fact is that some 30 years after discovering the relevance of coercive comparisons,[1] we do not have direct empirical evidence on how wage expectations are formed in our modern economy by the rank and file and managed by the union leader. Additionally, the practice of making interindustry wage comparisons by unions may have been strengthened by the dramatic growth of multi-industrial unionism and by the spread of collective bargaining to the public sector, where wage parity with the private sector has been and continues to be an important issue.

Whether I am right or Mitchell is right on the strength of intersector wage relationships may not have anything to do with inflation, since wage increases, even those spilled across sectors, are disciplined by market forces. Therefore, I can endorse Mitchell's belief that broad and informal incomes

[1] A contribution first made in Arthur M. Ross, *Trade Union Wage Policies* (Berkeley and Los Angeles: University of California Press, 1948).

policies, if needed, would be preferable to case-by-case adjudication of wage claims, because the broad approach is more compatible with my view of the world.

Public Service Employment

Professor Killingsworth has long been a supporter of public service employment (PSE) as an instrument of human-resources policy. Therefore, I am not surprised that he supports PSE as a more effective, less inflationary, and more controllable instrument of economic stimulation as well. Despite the past success of PSE programs, I would prefer to withhold judgment on using PSE as a substitute for tax cuts until more convincing evidence is available on the following issues.

(1) How great is the private sector spin-off from outlays on PSE? Killingsworth claims that a given investment in PSE will produce more private-sector jobs than an equally large tax cut. I do not understand why the initial PSE expenditures are capable of generating an equal or even roughly equivalent number of private-sector jobs through the multiplier effect, as suggested by Killingsworth's example.[2] It also should be noted that many of the public-sector jobs created by PSE, unless there is a miraculous economic recovery, will require funding in subsequent periods. This may not be true of private-sector jobs induced through tax cuts.

(2) Should the substitution effect be treated as de facto revenue-sharing? It is not clear a priori whether all of the displaced local fiscal effort would be used on other services or to avoid tax increases. At best, the spending and taxing practices of localities are empirical matters. Additionally, to accept the displaced effort as revenue-sharing is to continue our practice of assigning too many objectives to one policy. This, in my opinion, has been a big problem with PSE in the past. Initially, PSE was intended to be both emergency aid to cities and a job-creation measure. Current proposals seek to use PSE as a means of redistributing unemployment by establishing stronger preferences for particular types of workers. Professor Killingsworth has proposed using PSE as a macroeconomic fiscal policy.

(3) What are the implications of a large-scale PSE program for the character of intergovernmental fiscal relations? Professor Killingsworth and others have not dealt with this issue. It seems clear, however, that a large-scale program will create a dependency by local officials on the federal treasury. We should recognize the long-term political consequences of short-term economic actions.

(4) Last, would a large-scale PSE program have dilatory impacts on the operation of local markets? In some localities, public employment pays more than comparable private employment. In these cities, public-private wage competition may result from considerable increases in demand by the public employer. Continued funding of a large-scale PSE program, as might be required to sustain a target level of unemployment, could result in altered mobility patterns and changes in other labor market processes and outcomes.

Professor Killingsworth overstates his case in assuming that the last presi-

[2] My initial reaction to Killingsworth's illustration was that he was able to get different amounts of job-creation from the two policies because he applied different multiplier coefficients. I was wrong on this point, as he so informed me. However, there remains a need to clarify the mechanisms used in his illustration through which private-sector job-creation is linked to job-creation in the public sector and to specify better the assumptions on which this illustration is based.

dential election was a referendum on employment policy, which rejected policies of nonintervention. The recommended program of the current administration disputes this interpretation. The administration has put together a cautious and moderate set of proposals for recovery.

On one point it is difficult to argue with Professor Killingsworth. We should avoid making an artificial distinction between productive private-sector jobs and nonproductive public-sector jobs. Were we truly serious about getting the most public utility possible out of PSE, we could try a system of bidding, under which public employers received PSE grants after they had shown and justified (perhaps through sealed bids) how they would use a given amount of PSE dollars. Such a system is, of course, unworkable in practice and would not necessarily further job creation. Instead, we should use a national income-accounts perspective in viewing contributions to total welfare from dollars spent on PSE jobs.

Immigration Policy

The one clear conclusion from Professor Briggs' paper is that immigration policy presents decision-makers with a Gordian knot. His recommendation that certain border communities and other localities receive additional impact assistance makes considerable sense. Aid to high-impact areas, it could be argued, should be given even if an amnesty is granted to all those who had managed to live and work here illegally, in the process building equity in their job and residence rights. In the event of an amnesty, high-impact aid would be a recognition of the past inequity suffered by area citizens who were displaced in the labor market by aliens.

Another of his recommendations, to require that employers verify the citizenship of workers, also seems logical, but is particularly difficult to implement, as we have been told. One issue not considered in this paper is the need to produce an enforcement strategy that will identify offending employers and to deter them. Some of our experience with enforcing the Fair Labor Standards Act shows us how difficult it is to compel many small employers to comply with the law, where they can take advantage of protracted litigation and due-process requirements.

[The End]

SESSION III

Collective Bargaining in Hospitals

Labor Agreements in the Hospital Industry: A Study of Collective Bargaining Outputs

By HERVEY A. JURIS

Northwestern University.

WHEN RESEARCHERS TALK OF THE OUTPUT of the collective bargaining process, they mean the web of rules, both formal and informal, that the parties have mutually agreed will govern their work relationship over a certain period of time. Many of these rules find their way into the labor agreement, and this then becomes a basis by which interested parties compare one relationship to another. While an imperfect measure of bargaining outcomes, in the sense that informal agreements between the parties are not part of the labor contract, contractual language is a step forward from sole reliance on wage data in making such comparisons. This is true because of the tradeoffs that are made in the bargaining process between wages and other terms and conditions of employment.

Because of a desire to create such a data base, as well as a desire to tap the rich vein of hospital bargaining experience which predated the passage of the 1974 amendments to the National Labor Relations Act, the author entered into an agreement with the American Hospital Association to collect and analyze as many contracts as we could obtain.[1] This paper reports the results of a summary analysis of the 817 contracts so collected, concentrating on those elements that distinguish hospital contracts from those in all industry generally.[2]

[1] This project was supported by Grant No. 5 R18HS 01577-02 from the National Center for Health Services Research, HRA, and by the American Hospital Association. The author is indebted to Charles Maxey, Joseph Rosmann, and Gail Bentivegna for their comments on an earlier draft of this paper.

[2] The data base is too rich to report in the space allotted to papers for the Spring meeting. For more information on union security, discipline, and due process, bargaining units, professional issues, and individual and job security, see the series of articles by Hervey Juris, Charles Maxey, Joseph Rosmann, and Gail Bentivegna scheduled to appear periodically in *Hospitals* (the journal of the American Hospital Association) beginning with the issue of March 16, 1977. Specific publication dates were not available at the time this paper was presented (March 1977).

The Population and the Sample

To set the study in perspective, the reader is referred to Table I, which reports the results of a special-topics survey sent to 7,165 hospitals by the American Hospital Association in September 1975. The 6,199 hospitals that responded to this survey were representative of the total universe by SMSA, bed-size category, ownership, and geographic location. Twenty-three percent (1,418) of the hospitals responding indicated that they had at least one union contract in force. These unionized hospitals, in contrast to all responding hospitals, are more likely to be in SMSAs of more than one million, to resent disproportionately larger bed-size categories, to be publicly owned, and to be more heavily concentrated in the West and North Central regions. Unionized hospitals, then, tend to have somewhat different characteristics from the total hospital population.

TABLE I

Extent and Nature of Unionization of U. S. Hospitals, 1975

Percentage of Hospitals Reporting

Hospital Characteristic	All U.S. Hospitals (N–7, 165)	Responding Hospitals (N–6, 199)	Unionized Hospitals (N–1, 418)	Contract Sample (N–576 hospitals)
SMSA Size				
Non-SMSA	46	46	26	27
Fewer than 250,000	9	9	10	8
250,000— 1 million	17	18	18	14
More than 1 million	28	28	46	51
Bed-size category				
0— 99	49	46	23	21
100—199	22	22	22	24
200—399	17	18	26	28
400+	13	14	29	28
Control				
Government, nonfederal	32	32	31	35
Government, federal	5	6	20	1
Church	11	12	7	11
Voluntary	39	39	36	49
Proprietary	13	11	6	4
Region				
West	13	12	22	28
Northeast	18	18	34	31
North Central	28	30	28	31
Other	41	40	16	10

Source: American Hospital Association.

Using an earlier 1973 AHA survey which identified 1,100 unionized hospitals, we requested each one to send us copies of all their contracts. In response, 576 hospitals sent a total of 817 contracts. These contracts were collected in the Winter of 1974-75 and represent contracts negotiated in 1973, 1974, and early 1975, and effective through the period ending in 1977. The profile of the 576 hospitals used as the data base showed them to be representative of the 1975 population of unionized hospitals with respect to SMSA size, bed-size category, and region. The only significant sample variation from the population is type of ownership. Our sample is slightly weighted toward not-for-profit hospitals. (Federal hospitals were dropped from the data base because many of the conditions of employment for federal hospital employes are the result of a legislative process rather than of the collective bargaining relationship.)

On the basis of this analysis, we feel safe in stating that our 817 contracts were negotiated by hospitals generally representative of the unionized hospitals identified in the special-topics survey, and we feel comfortable drawing inferences from the sample regarding practices in the unionized sector of the industry.

Some Findings from Our Study

In general, the scope of provisions found in hospital contracts is quite broad, containing language on most issues conventionally found in mature labor-management relationships in industry. This in itself is an interesting finding, given the relatively recent emergence of widespread hospital bargaining. Because of space limitations, the discussion that follows focuses only on those ways in which hospital contracts appear to differ substantially from all-industry patterns.[3]

The first variation in hospital contracts relative to all industry is in their duration (see Table II). Hospital contracts are of shorter duration. This may be related to the newness of many hospital bargaining relationships, the high proportion of government hospitals with annual or biannual budgets, the existence of wage-price controls, the high rates of inflation in effect when many of the hospital contracts were negotiated, and the relative absence of COLA (cost-of-living adjustment) clauses in hospital agreements. As would be expected, provisions for deferred increases were less common and reopeners significantly more common than in industry contracts. Over time, as bargaining matures, we would expect this to change, with longer contracts, less reliance on reopeners, and more frequent use of COLA. Subsample analysis of duration provisions shows professional contracts to be somewhat shorter, nonprofessional contracts somewhat longer, and ownership or control as not significant.[4]

[3] The all-industry figures come from the Bureau of National Affairs (BNA), *Basic Patterns in Union Contracts*, 8th ed. (Washington: May 1975); the BNA analysis is based on 400 labor contracts sampled from 5,000 in all industries in the United States. The frequency figures for all-industry contracts apply to the sample of 400 contracts. BNA cautions that this sample may not approximate patterns in the private unionized sector. For further information on the all-industry category, consult *Basic Patterns in Union Contracts*.

[4] *Control* is defined in Table I. *Professional* contracts are defined as contracts covering units that include some or all of the following: Registered Nurses, Physicians, Housestaff, Social Workers, Dieticians, and/or Allied Professionals. *Nonprofessional* contracts refer to units that include service, maintenance, and/or clerical occupations. Other definitions of units used in the study are: *Technical*, units that include X-ray and laboratory technicians, LPNs, and/or other similar occupations; and *Combined*, a unit with two

(Continued on next page.)

TABLE II
Duration of Contract, COLA, and Reopeners

	Hospital Contracts	*All Industry*
Length of contract		
1 year or less	23	5
2 years	50	21
3 years	25	70
Deferred increases	65	88
Wage reopeners	29	8
COLA	7	36

Union security was another area of significant difference. Union-shop provisions were found in 63 percent of the all-industry sample,[5] but in only 30 percent of the contracts in our hospital sample. However, there is significant intraindustry variance among hospitals disaggregated by control, city size, and bargaining unit. Forty-six percent of the private hospitals had union shops as opposed to 6 percent of the public hospitals; 57 percent of the public hospitals and only 19 percent of the private hospitals had open shops. Agency shops and maintenance-of-membership provisions showed a slightly higher incidence in the public sector, while the modified union shop was twice as prevalent in private hospitals as in public hospitals. Professional and technical units were more likely to have open-shop clauses; nonprofessional and combination units more likely to have union-shop clauses. Sixty-six percent of the union-security clauses in cities over one million population were union-shop clauses; there were significantly fewer in cities below the break point, 250,000 in population.

Other elements of union security were comparable. Dues checkoff appeared in 79 percent of the hospital contracts, as opposed to 86 percent of the contracts in the BNA sample; the significant deviation was in church-related hospitals where dues checkoff appeared in only 57 percent of the contracts. As might be expected in the absence of strong union-security provisions, clauses prohibiting employer discrimination for union membership appeared in 59 percent of the hospital contracts, as opposed to 43 percent of the all-industry sample contracts.

In the area of individual and job security, several provisions seemed noteworthy. Seniority appears to be used in promotion and in transfer roughly to the same extent that it is in all industry. Sixty-six percent of the hospital contracts and 69 percent of the all-industry sample use seniority for promotion; 44 percent of the hospitals and 48 percent of the all-industry sample use seniority in transfers.

A distinction emerges, however, when one looks at the use of seniority as the sole or deciding factor. Because of the nature of licensure and occupational restrictions in the hospital industry, one would expect to find that seniority would be less likely to be a sole or deciding factor in promotions in this industry. This is in fact the case. Seventeen percent of the hospital contracts list seniority as the sole or

(Footnote 4 continued.)
or more of the first three classifications—for example, a unit of LPNs and service employees. Note that these definitions do not match the definitions of the units determined by the NLRB. In the future we hope to be able to compare contracts in NLRB-determined units with contracts in units determined by the parties themselves to see if there are any significant differences.

[5] BNA figures, cited at note 3.

deciding factor in promotions, compared with 38 percent of the industry sample. Seniority is mentioned as a secondary factor in an additional 25 percent of the industry agreements and 40 percent of the hospital cases.

With respect to transfer, for which occupational and licensure limitations are less important, 65 percent of the hospital contracts call for seniority as the sole or determining factor as opposed to 31 percent of the industry sample (seniority is mentioned as a secondary factor in approximately 15 percent of the industry agreements in addition to the value reported above). Provisions for layoff occur in 75 percent of the hospital contracts, as opposed to 85 percent of the industry contracts, and for the use of seniority in recall in 66 percent of the hospital contracts as opposed to 75 percent of the industry contracts. Severance pay appears in only 9 percent of the hospital contracts, as opposed to 39 percent of the industry sample; limits on subcontracting in 9 percent of the hospital contracts, as opposed to 40 percent of the industry sample; and limitations on crew size in 5 percent of the hospital contracts (we have no comparable data for the all-industry sample).

Each of these last five items (layoff, recall, severance, subcontracting, and crew size) may reflect the fact that until very recently, with cost pass-through, significant economic constraints did not exist in the hospital industry. One would expect that as hospitals face economic difficulties because of prospective rate review and whatever restrictions the federal government intends to impose on rising costs, these types of protective provisions will increase in importance to a level comparable to the private sector where the demand for labor has been more price elastic over time.

In the area of discipline and due process, there seems to be very little difference between the two sectors—82 percent of the hospital contracts providing for discipline and discharge as opposed to 97 percent of the industry sample. Seventy-six percent of the hospital contracts specify cause or just cause, as opposed to 79 percent of the industry sample; 66 percent of the industry contracts provide discharge for specific offenses, while only 8 percent of the hospital contracts do so. Ninety-seven percent of the hospital contracts have a grievance procedure, as opposed to 98 percent of the industry sample; however, whereas 68 percent of the industry contracts put limitations on what constitutes a grievance, only 22 percent of the hospital contracts appear to. Arbitration is the final step in 96 percent of the industry sample and in 88 percent of the hospital sample.

Wage-Related Data

While we collected no data on wages per se, we did collect a great many data on wage-related provisions. With respect to hours and overtime, the frequency of sixth- and seventh-day premiums is reasonably the same in both samples. However, the number of hospital contracts providing premium pay for Saturday as a regularly scheduled day (11 percent) or permium pay for Sunday as a regularly scheduled day (14 percent) is significantly smaller than in the all-industry sample which reports that 52 percent of the contracts pay a premium for Saturday work per se and 68 percent of the contracts pay a premium for Sunday work per se. Shift differentials are found in 58 percent of the hospital contracts, as opposed to 82 percent of the BNA sample. There is a decreasing incidence of shift differentials with increases in SMSA size, but an increasing incidence in shift differentials with increases in bed size. It may well be that in larger SMSAs the shift differential is not necessary in order to attract an adequate

labor force, but that an increase in bed size reflects an increasing need for labor relative to the size of the labor market and therefore a need for premium pay for second and/or third shift.[6] Report pay and unscheduled call-back pay are significantly lower in the hospital sample than in the BNA sample, while scheduled stand-by pay for people on call is significantly higher in the hospital contracts, as one would expect (46 versus 3 percent).

In the benefit area, major differences appear with respect to holidays and paid sick-leave. Table III shows that the hospital industry is behind the all-industry sample in number of holidays *and* in the rate of pay attached to holiday hours worked. However, the most dramatic difference is in the area of paid sick-leave, which is included in 94 percent of the hospital contracts and only 3 percent of the all-industry sample. To investigate the possibility that the deficit in holidays was compensated for in the provision of paid sick-leave, we computed a frequency distribution of total paid days off (holidays plus personal days plus paid sick-leave, but exclusive of vacations). These data are presented in Table IV and then shown again disaggregated by bargaining unit, control (ownership), SMSA size, region, and single hospital versus multiple hospital system status.

While comparable data on the range of total paid days off are not available for the all-industry sample, it does appear that the hospital industry is generous in time off—the mean, median, and mode all fall in the 19-20 days off area. With vacations figured in, the industry may already be well on the way to a four-day week. Chi-square measures of association, run for each subsample, were very significant ($p. < .01$), as would be expected with such a large sample size ($N = 759$). Computation of Cramer's V, a measure of the strength of a chi-square association, showed that while our associations were significant, they were not strong. Cramer's V has a range from 0.0 to 1.0; our subsample Vs ran from 0.01 to 0.09. While in statistical terms these are not strong relationships, several

TABLE III
Holiday and Holiday Pay Provisions

	Hospital Contracts (%)	*All Industry (%)*
Provision for paid holidays	95	91
Number of paid holidays		
6 or less	10	6
7	23	10
8	23	12
9	11	29
10	23	42
Compensation for holiday work[a]		
Equal time off	53	NA
1½ times regular pay	0	2
2 times regular pay	8	16
2¼ or 2½ times regular pay	17	43
3 or more times regular pay	2	32

[a] Effective rate of pay; i. e. 8 hours holiday pay plus rate for hours worked. 2 times equals 8 hours for the holiday plus straight time for hours worked.

[6] The raw data suggest that a better breakdown might be to look at urban-surburban differences rather than SMSA size. We are in the process of doing this, but the data were not available for this paper.

TABLE IV
Total Paid Days Off (Exclusive of Vacation)

Number of Days Off (Holidays, personal days, and paid sick days)[a]	*Hospital Contracts (%)*
1– 9	7
10–18	14
19	16
20	17
21	10
22	10
23–25	16
26 or more	10

By Bargaining Unit	*<20 days*	*20 days*	*>20 days*
Professional	38%	21%	41%
Technical	35	22	43
Non Professional	41	19	40
Combination	35	11	54

By Control (Ownership)	*<20 days*	*20 days*	*>20 days*
Government	30%	17%	53%
Church-Related	52	29	18
Other Nonprofit	40	15	45
Proprietary	36	14	50

By SMSA Size	*<20 days*	*20 days*	*>20 days*
Less than 50,000 population	46%	27%	27%
50,000—250,000 population	44	23	33
250,000—1,000,000 population	38	16	46
Over 1,000,000 population	32	11	58

By Bed-Size	*<20 days*	*20 days*	*>20 days*
0– 99 beds	43%	24%	33%
100–199 beds	38	25	37
200–399 beds	36	17	47
400–plus beds	43	8	49

By Single v. Multiple Hospital System	*<20 days*	*20 days*	*>20 days*
Single	39%	19%	42%
Multiple	29	9	62

By Region	*<20 days*	*20 days*	*>20 days*
Northeast	24%	4%	72%
North Central	58	16	26
West	29	26	44

[a] 7 percent of the 817 contracts contained language on paid holidays, personal days or paid sick leave too vague for inclusion in the table. The frequencies presented here are for N–759.

of the subsamples do show interesting differences: SMSA size, region, and ownership.

Finally, we looked at professional contracts to see whether they differed in scope from other hospital contracts. Based on the literature on nonhealth professionals (teachers, engineers, professors, police), we expected that professional contracts in hospitals would contain the same full range of traditional clauses as all other contracts and, in addition, provision for some kind of decision-making apparatus on professional issues. In fact, this was true; 42 percent of the hospital contracts overall provided for joint study committees. Disaggregating the data by bargaining units, we found such clauses in 73 percent of the professional contracts, 52 percent of the technical unit contracts, 16 percent of the nonprofessional contracts, and 40 percent of the combination agreements.

In related areas, because of the nature of occupational licensing in the industry and because of legislative pressures for continuing education and professional upgrading, we expected to find language supporting continuing education. In fact, 47 percent of the contracts did provide for educational leave. The all-industry study does not report comparable data on either joint study committees or educational leave for the private sector.

Summary

The purpose of this paper has been to explore the relationship between hospital industry contracts and contracts from an all-industry sample. In general, the scope of bargaining in each set seems quite similar, with distinct differences in depth of coverage on certain issues. Because the hospital contracts were selected from a population of hospitals which identified themselves as being engaged in collective bargaining one year prior to the implementation of the hospital amendments to NLRA, we cannot draw inferences about first contracts (or even early contracts) in this emerging post-NLRA-amendment sector absent data on recognition dates. In subsequent rounds of analysis (which have already begun), we will be able to identify first contracts. At that point we will be better able to compare this sector with public and private contracts at a similar stage of development.

Still, the data we do have suggest that with the exception of some small accommodations to the peculiar occupational needs in this industry (seniority in promotion, seniority as a sole factor, paid sick-leave, joint study committees, educational leave), the contracts in this industry are developing in a way indistinguishable from steel, auto, meatpacking, police, or fire. To this observer, at least, this is additional evidence to support the thesis that it is the nature of the employment relationship which leads to unionization, that the grievances of workers with respect to that environment appear to be generic, and that they become manifest in similar contractual provisions and language.

Having created a data base, where might we go from here? A number of issues come to mind: the impact of NLRB unit-determination on contracts; the shifting economic environment and the implications for wage/nonwage tradeoffs, individual and job security issues, and work rules; the question of intraindustry differences. We have reported some intraindustry differences here, but we have yet to look at differences holding union constant or holding city-size constant. All of these will require the ability to create a useful output measure. These and select issues constitute our future research agenda.

[The End]

Union Effects on Hospital Administration: Preliminary Results from a Three-State Study*

By RICHARD U. MILLER, BRIAN B. BECKER, and EDWARD B. KRINSKY

Messrs. Miller and Becker are with the University of Wisconsin-Madison; Mr. Krinsky is with the Wisconsin Center for Public Policy

IN 1974, Congress amended Taft-Hartley, bringing nearly 4,000 nonprofit private hospitals employing over 1.6 million workers under the jurisdiction of the National Labor Relations Board. Although other sections of the health-care industry had been covered by federal labor law prior to that date, the private nonprofit hospital, which constituted by far the largest component, had been excluded since 1947.[1] Only 10 percent of private hospital employees were unionized; these were concentrated in a very small number of states.[2] In spite of the low level of unionization, a good deal of conflict existed, much of which was derived from recognition disputes.[3]

Hospital industry representatives prophesied that the 1974 amendments would unleash a wave of organizing drives, increase upward pressures on hospital costs, create impediments to administrative efficiency, and, with the right to strike, cause disastrous interruptions of patient care.

Now that nearly three years have passed since the amendments took effect, it is useful to examine this period, at least on a limited basis, to see whether in fact the forebodings of those opposed to bringing nonprofit hospitals under the law have actually come to pass. Specifically, what impact have the amendments had on such issues as extent of unionization, the nature and consequence of collective disputes, wage levels and labor costs, and finally the general utilization of hospital manpower?

Given the continuing concern over the cost of health care, even tentative answers to the above questions would contribute to a better understanding of the dynamics of hospital costs, and a step toward their con-

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[1] In a series of cases beginning in 1967, the National Labor Relations Board gradually asserted jurisdiction over other sections of the health care industry: proprietary hospitals (*Butte Medical Properties v. NLRB*, 168 NLRB 266, 1967); proprietary nursing homes (*University Nursing Home, Inc.* 168 NLRB 53, 1967); and non-profit nursing homes (*Drexel Homes*, 194 NLRB 63, 1970).

[2] "Profit and Nongovernmental-Non-profit Hospitals Reporting Collective Bargaining Agreements, 1973, ("Table 1, August 7, 1974"). Office of Technical Services, Federal Mediation and Conciliation Service.

[3] See *Hearings* before the Subcommittee on Labor of the Committee on Labor and Public Welfare, United States Senate, 93rd Congress, 1st Session, on S794 and S2292, July 31, August 1, 2 and October 4, 1973, p. 243.

trol.[4] This paper reports the preliminary results of an investigation of collective bargaining in private profit and nonprofit hospitals of Minnesota, Illinois, and Wisconsin.

A general objective of the research was to gather and analyze descriptive information about the incidence and growth of hospital unionism in the three states. Having done this, it would then be possible to specifically focus on three outcomes of bargaining: wages and labor costs, disputes, and manpower utilization.

The major source of data was a survey questionnaire mailed to all 563 short-term general-care hospitals in the three states. Although the rate of return is low by some standards (26 percent), it appears to be generally representative of the population of union and nonunion hospitals in the tristate area.[5] To provide a context within which to interpret our survey data, a large number of personal interviews were conducted, particularly in the urban areas of Milwaukee, Minneapolis, St. Paul, and Chicago.

Incidence and Framework

The three states present interesting contrasts in the pre-1974 legal framework for collective bargaining. In Illinois, one of 39 states which had no legal structure for regulating hospital bargaining, the parties were forced to develop their own procedures for handling recognition and bargaining disputes. Moreover, the eventual unionization of more than 30 hospitals in the Chicago area was the direct consequence of the combined efforts of Teamsters Local 743 and Service Employees Local 73 through an independent organization called Hospital Employees Labor Program (HELP!).

The impact of HELP! and the legal vacuum are clear. Within Chicago, 28 of 58 hospitals (48 percent) were unionized, in contrast to suburban Chicago with seven percent and the remainder of the state in which four percent were organized.

Minnesota is the other end of the continuum from Illinois. For example, from 1939 to 1947, hospitals were covered under Minnesota's little Wagner Act, the Minnesota Labor Relations Act. In addition, a state equivalent of the NLRB, the Bureau of Mediation Services, administered the law. In 1946, following a strike at nine Minneapolis hospitals, the Charitable Hospitals Act was passed as an amendment to the state labor law. The major change was to substitute compulsory interest arbitration for the right to strike. Until the CHA was supplanted in 1974 by federal law, virtually no strikes had occurred and 13 disputes over the terms of new contracts had gone to arbitration.

Hospital collective bargaining in Minnesota has flourished within this legal context. Approximately 30 percent of the hospital employees in the state are unionized in some 74 hospitals scattered around the state; only 25 of the 74 unionized hospitals are located in the Twin Cities area. Moreover, a significant characteristic of hospital bargaining activity in Minne-

[4] See Council on Wage and Price Stability, *The Rapid Rise of Hospital Costs,* Staff Report, January 1977, which indicates that, for example, while the general level of prices has risen 125 percent since 1950, the cost of a day of hospital care has gone up more than 1,000 percent (p. ii.)

[5] For example, 25 percent of the respondent hospitals were unionized in the sample compared to 24 percent in the population. In addition, while the sample hospital tended to be slightly larger than those in the population, the ratio of union/nonunion size was nearly identical (50.8 percent v. 50.4 percent).

apolis and St. Paul is its multihospital basis, whereas Illinois hospitals bargain separately. Bargaining units may cover as many as 22 hospitals and 5000 employees under a single contract.

Wisconsin stands midway between Illinois and Minnesota with regard to legal framework and incidence of hospital unionization. Although no special law existed, private profit and nonprofit hospitals were covered beginning in 1943 under the Wisconsin Employment Peace Act.[6] Rights to organize, bargain, and strike were protected with enforcement provided through the Wisconsin Employment Relations Commission. Of 129 private hospitals in Wisconsin, 30 percent are unionized.

One third of the unionized hospitals are concentrated in Milwaukee and its suburbs. It should also be noted that, unlike Minnesota, Wisconsin hospital bargaining units are limited to single employers. Although bargaining information may be exchanged or strategies coordinated, no formal multihospital units exist.

A number of similarities with regard to the incidence of unionization appear across the three states. As a general rule, the rate of unionization tends to be positively correlated with hospital size, community size, and nonreligious ownership. Unions most active among nonprofessional employees are the Service Employees, Operating Engineers, and to a much lesser extent State, County, and Municipal Employees. The major professional union active in each of the three states is the state unit of the American Nurses Association. In Minnesota, where small occupational bargaining units were certified under the Charitable Hospital Act, many small units of Pharmacists, X-Ray Technicians, and LPNs also occur.

The 1974 NLRA amendments have not markedly affected the level of unionization in any of the three states. This is reflected in the representation election statistics which show that between August 1974 and January 1977 there have been 47 elections in the whole tristate area; unions have been only moderately successful, winning seven of 13 elections in Wisconsin, and five of nine in Minnesota, and six of 25 in Illinois, for an overall rate of 38 percent. Only 1,402 workers have been brought under union contracts, and half of those were the result of two elections.

Conflict over New Contracts

There has been almost no strike activity among unions in the tristate area once they have become established in hospitals. As of February 1976, the BLS reported the following private hospital work stoppages for each of the three states since the amendments were passed: Illinois, 7; Minnesota, 1; and Wisconsin, 2. Furthermore, FMCS has exercised its right to establish a Board of Inquiry in a dispute only once through February 1977.[7]

In Minnesota, the pre-1974 legal framework which required arbitration of interest disputes has much to

[6] Although the Wisconsin Employment Peace Act became effective in 1939, the issue of its application to hospitals was not decided until 1943. (*WERB v. Evangelical Deacons Society*, 242 Wis. 78, 7 N. W. 2d 590).

[7] Section 213 was added to Taft-Hartley in 1974 to provide that if a dispute threatened to "substantially interrupt the delivery of health care in the locality concerned" the Director of FMCS could establish a Board of Inquiry to investigate and make a written report to the parties of recommendations to resolve the dispute. The BOIs have been a point of contention almost from the beginning with considerable doubt raised as to their usefulness and timing.

do with the lack of strike activity. Since 1947, hospitals and unions in the Twin Cities have arbitrated every contract, and in every case but one there was a voluntary agreement to arbitrate. Thus, while bargaining has been only partially successful, the parties have opted for arbitration and peaceful settlement rather than conflict. Even though the 1974 amendments provide the right to strike, the parties have continued to agree contractually to resolve their contract disputes through arbitration.

In Illinois and Wisconsin, there was neither statutory nor voluntary interest arbitration, and the parties over the years have usually succeeded in reaching agreement through collective bargaining without need to resort to arbitration. When this was not possible, and particularly in Illinois, occasional strikes have occurred.

What accounts for the low level of conflict in these states? In each there has been one dominant union in its field, SEIU in Minnesota and Wisconsin, and HELP! in Illinois, and thus an absence of any significant competition which might generate conflict. In each state, union and management officials alike indicate that there has been a mutual desire to avoid conflict, undoubtedly related to the fears of the public repercussions of hospital strikes. Another factor may be the difficulty of organizing and maintaining strong hospital unions, given the nature of the work force. In addition, in each of these states the unions have a reputation, among hospital administrators and neutral observers as well, as nonmilitant in their bargaining and once they have achieved recognition and negotiated an initial contract.

Conflict over Grievances

Contracts and questionnaire data indicate that binding arbitration for grievances is universal in the unionized hospitals of the three states.[8] Nonunion hospitals also generally provide grievance procedures but lacking arbitration as a final step.

The survey data suggest that despite their availability, use of the grievance machinery is infrequent even in the unionized hospitals and resort to arbitration is almost nonexistent. On the average, less than one case per year was taken to arbitration, reflecting perhaps either an absence of significant problems at the work place in all but the largest hospitals, or of vigorous contract enforcement by the unions involved, or both.

Another factor, however, may be strenuous efforts by hospital administrators to resolve employee problems quickly. In the interviews, employer representatives indicated a wish to avoid problems which will turn nonunionized employees toward unions, and to avoid actions that will make more militant unions attractive to employees discontented with the unions which now represent them. Among other activities, hospitals are hiring administrators with labor relations experience, creating grievance procedures, and sending personnel directors and superviors to labor relations seminars. Many also were conducting wage surveys and reviewing wage-payment systems and benefits.[9] Thus,

[8] Data provided by the American Hospital Association indicated that only 2.4 percent of 126 hospital contracts from the three states had no grievance procedures; in turn 98 percent of the contracts with grievance procedures terminated in binding arbitration.

[9] Phyllis Greenberg, "Influence of the Taft-Hartley Amendment on Health Care Facilities," unpublished paper, December 1975, p. 13.

it is ironic that the impact of unionization, at least in the short run, may be greatest on nonunion hospitals.

Labor Costs

Little evidence exists in the literature for the union effect on wages or other costs in the hospital industry. Given, however, (1) the phenomenal rise in hospital charges in recent years, (2) the fact that labor costs comprise more than 50 percent of total costs in the industry, and (3) the recent health-care amendments to the NLRA, the obvious concern to policymakers is: to what extent would a major expansion of unionism affect hospital costs?

To answer this question, we first examined the union effects on wages and fringe benefits.[10] Preliminary results indicate that on average unions raise relative occupational wages approximately five percent. This estimate stems from the direct union effect on unionized occupations as well as the "spillover effect" on nonunion occupations in union hospitals.

The estimate is below those reported for other unionized industries, especially manufacturing, but there are several reasons why this might be expected. First, given the labor intensity of the industry we would expect greater management resistance to union wage demands. Second, the institutional analysis indicates that hospital unions in the three states have not been particularly militant in bargaining.

The union effect on fringe benefits averaged 8.4 percent. Because few other studies have addressed the union effect on fringes, we have little evidence with which to compare these results. Here, too, there are several reasons why the union impact on fringe benefits would exceed the wage effects. First, in the face of strong management opposition to direct wage increases, leaders of relatively weak unions may have to settle for fringe benefits as the major ingredient of the economic part of a settlement package. Second, fringes may be appealing to management in a high-turnover industry such as hospitals since many employees may leave before collecting benefits. Finally, because payment when made is often delayed, the real cost to management of fringes may be much lower than direct wage or salary costs.

More information is required to understand how the direct union effect on compensation translates into hospital costs, and, in turn, what the "indirect" costs of unionism might be. To determine this, on the one hand we focused on the influence of unions on employee turnover, which would be a savings to the hospital, and on the other, the additional costs that might be incurred through the establishment of grievance and dispute settlement procedures, increased supervision, changes in staffing patterns, added demands on the personnel department, and other costs of institutionalizing the collective bargaining relationship.

To arrive at these estimates, we calculated the marginal effects of unionism, turnover, and compensation on average cost per patient day for the hospitals in our sample. First, unionized hospitals apparently experience approximately five percent higher costs from the union effect on grievance procedures, personnel practices, etc.

[10] The estimation procedure was multiple regression analysis where the respective dependent variables were the average hourly wage rate in a particular occupation and the percent of total occupational compensation that goes to fringe benefits. For a detailed discussion of the methodology and estimating procedures employed see Brian Becker, "The Impact of Unions on Labor Costs in Hospitals: A Three State Study" (Ph.D. dissertation, University of Wisconsin, 1977).

Second, the effect on compensation (wages and fringes) in turn led to 1.3 percent higher average costs in unionized hospitals.

Although these two influences tend to increase costs, unionized hospital occupations tend to experience up to 50 percent lower turnover than their nonunion counterparts. In light of the marginal cost of turnover, estimated from the hospital-cost model, we calculate that unionized hospitals will have from 2 to 4 percent lower average costs due to savings in turnover costs.

The net result of these three cost effects is a union impact on average costs on the order of 2 to 4 percent. While these results are preliminary and do not represent a national sample, they indicate that unions are probably not going to be a major source of hospital inflation in the near future.[11]

Contractual Restraints

A dominant fear of hospital administrators is that collective bargaining will severely curtail the hospital's ability to hire, promote, assign, and reward employees in the most efficient and rational manner. This issue, of course, is not restricted to the health-care industry but has existed historically in nearly all unionized sectors of the economy.

In the health-care industry, professional groups such as registered nurses have expressed dissatisfaction over levels of staffing, the nurse's right to reject assignments for which the individual feels inadequately trained or oriented, the right to oppose unsafe or irresponsible conditions, and generally to exert greater contol over the quality and quantity of patient care provided.[12]

While nonprofessional workers' unions have also commented publicly about improving patient care through bargaining, their bargaining ideals would seek to restructure the internal labor market of hospitals to eliminate deadend jobs and create upward mobility.

To assess whether such bargaining goals as enumerated above have been attained, three sources of data were: personal interviews with the parties, the pertinent information acquired from the questionnaire survey, and an analysis of 126 collective contracts for our three states supplied by Hervey Juris of Northwestern University and the American Hospital Association. Our findings can be summarized as follows:

The "traditional" controls over work rules and job security often present in industrial labor-management situations are absent from health-care contracts. Very little restriction, if any, is placed on management in the way it uses hospital manpower. Hospitals can subcontract, use supervisors for work in the bargaining unit, unilaterally determine job content, and assign whatever number of individuals it deems fit to a task or machine. Even in such areas as job-posting, more than half the unionized hospitals surveyed had no contractual obligations (see Table I).

[11] The authors of the CWPS January 1977 staff report, "The Rapid Rise of Hospital Costs," Amy Taylor and Martin Feldstein, conclude "The greater increase in the average earnings of hospital employees has frequently been cited as the primary cause of the unusually rapid rise in hospital costs. Such an interpretation is not supported by a more detailed examination of the evidence. . . . (A) substantial part of the increase in labor cost per patient day is due to the rising number of employees rather than higher wage rates." Moreover, as Taylor and Feldstein point out, labor costs are a declining fraction of total cost per patient day having fallen from 62 percent of hospital costs in 1955 to 53 percent in 1975 (p. 16). See also American Hospital Association, *Hospital Statistics*, 1976 edition, pp. xiii-xv.

[12] Cf. Kathy Jianino, "Staffing, Patient Care, and Collective Bargaining," paper presented at the FMCS-IRRA Southern California Conference on Collective Bargaining, November 17, 1976.

TABLE I

Manpower Subjects Covered by Hospital Contracts Illinois, Wisconsin, and Minnesota

N = 126

Issue	*Percent of Contracts Mentioning*
Sub-contracting restriction	1.0
Crew size control	7.0
Supervisor performing work in bargaining unit	0.0
Provisions for job-posting	45.0
Joint labor management safety committees	9.0
Joint determination by job evaluation of wages	7.0
Joint determination by job evaluation of job content	4.0

More than half the contracts analyzed had long probationary periods (three months or more); 77 percent provided no training for promotion; and the use of length of service for upgrading or lateral movements was often a secondary consideration. For example, one typical contract stated: "Promotions, transfers and reductions of work force shall be based on the abilities, aptitudes, and work records of empolyees as determined by the hospital. Where these qualifications are equal, seniority shall become the determining factor."

When one examines such professional employees as RN's, pharmacists, and X-ray technicians, the contractual relationship is much the same. Contracts are generally silent on such patient-care issues as staffing, job assignments, working conditions, and so forth. While a number of contracts contain joint study committees, the authority and scope of the committees, at least as far as patient care is concerned, is unclear.

Thus, hospital administrators' fear that unionization will significantly reduce their discretion appears unfounded. The reality is epitomized from the following clause of a current contract: "The union further agrees that it will not directly or indirectly oppose or interfere with the legitimate and reasonable efforts of the hospital to maintain and improve the skill, efficiency, and ability of the employer or employee, and the union further agrees that it will not in any manner oppose the installation of new and improved methods of hospital operation."

Summary and Conclusions

Several important conclusions emerge from the study concerning both the impact of the 1974 Amendments and the impact of unions on hospitals. First, most of the successful union organizing took place *before* 1974. In Wisconsin and Minnesota, perhaps because of more flexibility in unit determinations or speed of case handling, unions may have been better off under state law. For Illinois, on the other hand, the right of unions to strike for recognition is now curtailed. These factors, together with much greater hospital administration sophistication and resistance, seem to have provided at least a temporary obstacle to the predicted wave of unionization.

Even after unionization occurs, changes in wages, labor costs, or management discretion are quite limited. Moreover, changes which do occur are

often beneficial to the hospital through the reduction of employee turnover and associated labor costs.

Finally, generalizations to other geographic areas should be made quite cautiously. The nature of both the environment and the bargaining in the San Francisco Bay area, the Northeast, or other parts of the United States is sufficiently different that much more extensive research is clearly warranted.

[The End]

The Role of Hospital Cost-Regulating Agencies in Collective Bargaining

By CARL J. SCHRAMM

Johns Hopkins University

THE LAST DECADE has seen policy analysts, politicians, members of the insurance community, health-care planners, and consumers grow increasingly concerned with constraining costs in the nation's health-care sector. During this period the escalation of health-care costs has been remarkable—growing from $39 billion or 5.9 percent of GNP in 1965 to $120 billion or 8.3 percent of GNP in 1975. Concern over controlling health expenditures continues since current indications are that health-care costs are growing at an increasing rate. In 1977 it is estimated that 9.6 percent of GNP will be expended on health care; by 1980 the figure will have reached 10.3 percent.[1]

Several attempts to control health-care cost escalation have been made at the federal level in recent years. The major approach of the Congress has been to increase the supply and efficiency of health-care providers and to restructure the major health institutions operating in the medical-care market. An example of the former approach is the Comprehensive Health Manpower Training Act of 1971, while the establishment of Professional Standards Review Organizations (PSROs) and Health Maintenance Organizations (HMOs) in 1972 and 1973, respectively, serve as examples of the latter.[2] The executive branch has also attempted to control health-care costs, primarily through the imposition of more direct measures. Most notable are the price ceilings established under the authority of the Cost of Living Council and its successor, the Council on Wage and Price Stability, and the Medicare reimbursement ceilings established by the Commissioner of Social Security in 1976.[3]

State legislatures, however, have been responsible for the development of one of the most innovative attempts at controlling health-care expenditures. Presently, 11 states have established agencies to regulate the increase in prices charged by health providers within their jurisdictions.[4] While the details

[1] J. H. Knowles, "The Responsibility of the Individual," *Daedalus* (Winter 1977), p. 75, and projected health-care costs estimates provided the author by the Social Security Administration, Office of the Actuary.

[2] P. L. 92-157, P. L. 92-603, and P. L. 93-222.

[3] 39 F. R. 20168 (June 6, 1974).

[4] Arizona, California, Colorado, Connecticut, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island, and Washington. See "Summary of Rate Review Activity," *Hospitals* (September 7, 1975).

vary considerably, these agencies generally examine the proposed budgets of major institutions providing health care and prospectively approve the patient charges necessary to support the proposed levels of spending. While the record of these state agencies in actually controlling hospital price inflation is far from clear, there is some evidence that the most effective states are able to reduce expected inflation by one or two percent a year during the initial years.[5]

The significance of state action to control hospital inflation via the prospective budget review mechanism looms even larger with recent developments in Washington. On February 16, 1977, the Carter Administration proposed the establishment of a federal agency within the Department of Health, Education, and Welfare which would adopt the common features of most operating state review plans.[6] Under the terms of the proposal, individual hospital budgets would be reviewed before they take effect, and enforcement of the resulting permissible patient-charge structure would take place through the placement of ceilings on the reimbursement that third-party payers could make to each hospital. Federal activity would be limited only to those states which do not have extant cost agencies, thus securing the role presently played by state government in the 11 states which have established regulatory plans.

The effect of various state efforts to control health-care costs on the collective bargaining process in the hospital industry, although not immediately apparent, has proven to be significant. Indeed, as will be argued here, the mitigation of expected wage settlements is one of the most important means through which hospital managements conform to the budgetary constraints imposed by cost-control agencies.

This paper examines the impact of state cost-review agencies on the process of collective bargaining in hospitals. Specifically, recent bargaining in two states is examined in light of the role played by state agencies as third parties to the bargaining process. In this respect, the paper draws upon Kochan's work on multilateral bargaining.[7] The paper concludes with several policy recommendations.

New York Bargaining in 1976[8]

New York was the first state to act to contain health-care cost-inflation within its jurisdiction. Early in its 1969 session, the state legislature passed a law which froze Medicaid rates for a period of three years. Later in the session, the Cost Control Act of 1969 was passed which provided for prospective rate-setting by formula for all Medicaid patients and for all Blue Cross subscribers. The Act placed all cost-control activities within the office of the Commissioner of Health.

[5] C. R. Gaus and F. J. Hellinger, "Results of Hospital Prospective Reimbursement in the U. S.," paper presented to the International Conference on Policies for the Containment of Health Care Costs, Bethesda, Maryland, June 3, 1976. Also, R. E. Berry, "Prospective Rate Reimbursement and Cost Containment: Formula Reimbursement in New York," unpublished paper, Harvard School of Public Health, undated; Maryland Health Services Review Commission, *Report to the Governor for FY 1975* (Baltimore: 1976).

[6] "HEW Seeks Agency with Power to Limit Cost of Health Care," *New York Times*, February 16, 1977, p. 1.

[7] T. A. Kochan, "A Theory of Multilateral Bargaining in City Governments," *Industrial and Labor Relations Review*, vol. 27 (July 1974), p. 525.

[8] Data for New York were compiled from the *New York Times*, *1199 News*, and conversation with Robert Muehlenkamp, Director of Organizing, 1199.

By the close of 1970, approximately 50 to 60 percent of all patient revenues in New York hospitals were being derived under formulas establishing per diem maximum limits on charges.

Obviously, the existence of a state authority to control hospital rates could be expected to have an impact on hospital bargaining in the state. The existence of two separate reimbursement formulas, one for upstate hospitals and one for the New York metropolitan hospitals, reflects in part the importance of collective bargaining in New York City and the need to accommodate higher union wages. Historically, while concern for the impact of bargaining outcomes had periodically been voiced by the Commissioner of Health, state influence felt at the bargaining table was negligible. During the 1976 bargaining, however, the Commissioner, under his authority to set hospital rates, entered into the bargaining in earnest.

At least two considerations are important in explaining this major shift from a nonaggressive posture on the part of the Commissioner to one of major involvement with the bargaining process. First, of course, is the general financial crisis of both New York City and New York State. As a result of the pressure applied to the city and state by their creditors, as well as the federal government acting in its role as guarantor of various financial obligations made by the Mayor and the Governor, there was a great interest in ensuring that total levels of budget support committed to hospitals would be minimized. The second consideration has been the independent concern over the rapid rise in total hospital operating costs in the state, which increased at an even faster rate during 1975.

The first indication that the Commissioner would play a more active role in negotiating hospital agreements in New York came during a 12-week strike at four nursing homes in Rochester, which was settled on January 27, 1977. On December 28, 1976, the Commissioner announced that he would refuse to recognize an increase in the nursing homes' Medicaid per diem reimbursement rate, the key factor to which the wage settlement was implicitly linked. The strike, which continued for another month, was settled with modest increases in hourly wages which, by virtue of the Commissioner's order, were not to be passed on in per diem charges. Subsequent wage increases were agreed to take effect after four months, but only after review and approval by the Commissioner. Thus, the Rochester strike established precedent in New York for intervention by the Commissioner in the bargaining process, acting in the interest of minimizing increased Medicaid payments. Moreover, the Rochester settlement established a continuing highly visible role for the Commissioner by making contractually agreed-upon raises scheduled to take effect during the course of the contract contingent on his approval.

Power Increase

The power of the Governor and the Commissioner of Health to intervene in the collective bargaining process was increased on March 17, 1976, by legislation providing for cut-backs in Medicaid costs in an effort to balance the state budget. Under the Act, the Commissioner could reduce Medicaid reimbursement rates for hospitals which were experiencing extremely high inflation of per diem costs. Since labor inputs account for 70 percent of hospital operating costs, the implications for the bargaining process were evident.

The foregoing is a prelude to the most important episode of bargaining

in the state which occurred last summer when the contract between the New York City League of Voluntary Hospitals and The National Union of Hospital Workers (1199), covering 40,000 hospital workers in 52 institutions, expired. On July 7, the union struck for 11 days, seeking a one-year contract providing a ten percent wage increase. The strike ended after the Governor intervened and urged compulsory arbitration upon hospital managements. The union had hoped for arbitration since previous fact-finding in the dispute had suggested a wage increase equal to the change in the cost of living, somewhat in excess of eight percent. Further, compulsory arbitration of disputes had proven successful in 1972 and in 1974.

However, on September 16, the arbitrator made an award which provided a 4.5 percent increase in wages beginning six months after the expiration of the old contract. Thus, under the award, the union was forced to wait until January 1977 for an increase that was substantially less than had been anticipated. While speculation on the political influence brought to bear on the arbitrator has been widespread, it appears that arguments linking a higher settlement with bankruptcy of the city—made by both the Commissioner of Health and the Director of the Municipal Assistance Corporation during the hearing—were controlling. In any event, both the Rochester and New York City bargaining experience of 1976 demonstrate the importance of the Commissioner of Health in reaching agreements in the hospital industry.

Baltimore Bargaining in 1976[9]

The Maryland Health Services Cost Review Commission, established by the legislature in 1970, is empowered to establish a system of uniform accounts and monitor the budgets of all health-providers in the state. Under the law, the Commission, which takes the form of an independent regulatory body, began to approve hospital budgets in 1974. The carefully developed plan in Maryland, reflected in the three-year lead time the Commission had in establishing its rate-review methodology, has resulted in one of the most professional and even-handed regulatory efforts in any state.

In 1976, the two-year agreements existing between 1199E and most of the major hospitals in Baltimore were subject to negotiation in anticipation of their expiration on December 31, 1976. Because of the annual review of budgets by the Commission, often involving a formal process of public hearings, hospital managements were alert to the Commission's growing concern over poor management of labor costs. In fact, each of the major city hospitals had been cautioned about the extraordinary increases in labor costs permitted in 1975, which had averaged 13 percent.

The formula developed during the Johns Hopkins rate hearing early in 1976 was subsequently applied to all hospitals, and labor costs for 1977 were to be allowed to increase at an amount equal to the change in the Consumer Price Index for metropolitan Baltimore for the period October 1975 to October 1976, or 5.3 percent. While the Commission offered the 5.3 percent as a guideline, it would permit higher increases in hospitals where, through savings effected elsewhere, total budgets would be within the approved limit. Thus, a hospital that was able to effect savings in supplies at a rate

[9] Data for Baltimore were compiled from the *Baltimore Sun* and the *Johns Hopkins Gazette*.

below the approved formula rate could apply such savings to wage increases in excess of 5.3 percent should it so desire.

Needless to say, the imposition of the 5.3 percent ceiling was an abrupt interference with the expectations of the union as well as those of hospital managements. In recent years, sides have seen salaries increasing on the order of 10 to 14 percent annually. However, when bargaining opened on October 15, hospital managements unanimously pointed to the 5.3 percent ceiling announced by the Commission (with cost of living increases tied, under the Commission's formula, to the Baltimore CPI). Despite threats of strike, the union settled for a 5.3 percent total package in each hospital. At the Hopkins Hospital, for example, the package was divided—3.8 percent for wage increases and 1.5 percent for fringe-benefit increases.

Thus, it appears that the first attempt made by the Maryland Commission to influence the rate of inflation in hospital costs by controlling salary increases had an immensely important effect on the outcome of bargaining. Two factors can explain the ease with which the Commission's role was made so obviously important. First, the hospitals were pleased to plead that the Commission's influence was controlling their bargaining discretion. Actually, hospital managements were greatly concerned over rising labor costs and looked upon the Commission's independent assertion of interest in this area with relief. Second, the union, which had been shaken by internal political disputes shortly before bargaining, was apparently satisfied with the proposed outcome, or, was at least unable to mount a strike over the issue. In this particular situation, weakened union leadership was able to point to the interference of the Commission as the reason a strike might prove fruitless.

Discussion

In both New York and Maryland, the process of regulating hospital cost inflation is observed to intersect with the interests of the primary parties in the collective bargaining relationship, namely, hospital managements and unions. This phenomenon has its genesis partly in the highly visible magnitude of the labor-costs component of hospital operating expenses. Obviously, labor unrest signals decision-makers to ask the question of how much of new revenues must be devoted to labor inputs. Moreover, labor inputs account for roughly 70 percent of hospital operating costs.

But, a more significant part of the growing interference in the process of hospital bargaining attributed to cost-review commissions and other state agencies is the increasingly public nature of the hospital industry. Although still largely organized in a private charitable and proprietary fashion, both the large percent of hospital budgets which are publicly derived, principally from the Medicare and Medicaid programs, as well as the growing importance of issues such as equal access to health care, have helped to contribute to a developing notion of hospitals as public-sector institutions more directly subject to public influence than ever before.

Indeed, the implicit legal theory on which the process of cost review rests is that hospitals act in much the same fashion as utilities, i.e., under license in the public domain. Although the analogy may break down under close legal scrutiny, the operational effect of the public utility theory is essentially unchallenged.

As such, the contemporary setting for collective bargaining in hospitals

operating in states with active cost-review agencies can be analyzed as a unique example of the increasingly common phenomenon of multilateral bargaining. Multilateral bargaining, as defined by Kochan, is the process of negotiation in which more than two distinct parties are involved in such a way that a clear dichotomy between the employee and management organizations does not exist.[10] In the past, the concept of multilateral bargaining has been applied to situations where the link between one of the primary parties, always management, and the third party was clear because of the financial interests of the third party. For example, in the case of municipal police and fire managements, and in the case of school-district administrators, both city councils and school boards have had the respective statutory responsibility of financially supporting the commitments made by management.[11]

In the case of hospital rate-review agencies, there is no direct financial interest analogous to that of city councils or school boards since the agencies are not responsible for raising revenues to cover the costs of labor contracts. Thus, unlike past applications of the multilateral paradigm, the ostensible interest of third-party cost-control agencies in hospital bargaining is not, at least directly, the increased tax burden arising from the collective bargaining process. Rather, it is the control of hospital costs paid by consumers.

A second observation to emerge from the research is that formal regulatory attempts to control hospital cost inflation implicitly must affect labor costs more than any other category of hospital inputs. This conclusion obtains because, while such regulatory efforts attempt to influence the rate of inflation in all factor costs, labor inputs are clearly the most susceptible to control by individual hospitals. At least two factors can be identified which explain why rate regulation operationally rests on controlling labor costs.

First, that part of the work force which is likely to be unionized is one of the few inputs which hospitals purchase in local markets. As such, a hospital is able to influence prices to some degree and to determine the quality and mix of the input actually purchased. All of the other major inputs such as professional labor, supplies, technology, etc., are purchased in national markets which are indifferent to the strategies of any given hospital.[12]

Second, the ability of the hospital administrator to influence costs eventually rests on his ability to control the amount and quality of care that is delivered. In fact, decisions regarding the quality and amount of care actually delivered by the hospital rest with individual physicians who make them on a case-by-case basis. Hospital administrators can do little to change the arrangement existing between the physicians and the institution without risking the loss of medical staff, which would threaten the life of the hospital itself.

A final observation, which draws on findings presented elsewhere, is that concern over rising labor costs as a primary component of hospital cost inflation may be misdirected. At least two studies have indicated that the rate of inflation in the wages of hos-

[10] Kochan, cited at note 7, p. 526.

[11] See Kochan; also H. A. Juris and P. Feuille, *Police Unionism: Power and Impact in Public Sector Bargaining* (Lexington, Mass.: D. C. Heath, 1973), and M. H. Moskow et al., *Collective Bargaining in Public Employment* (New York: Random House, 1970).

[12] Utilities are an exception to this statement. Hospitals, however, are not generally able to change utility rates through their autonomous market strategies.

pital workers has had little impact on the rate at which overall hospital per diem costs have been rising.[13] If this is the case, then a system of cost controls which effectively is geared to controlling labor input costs can have only a slight impact on reducing the rate at which total hospital costs are rising over the long run, since pressure for higher wages will probably not be contained by regulatory bodies.

Conclusions

With the growing use of regulatory efforts to contain hospital costs, and the recently proposed federal plan to establish a system of hospital cost regulation, the character of hospital bargaining will undoubtedly continue its shift from a bilateral to a multilateral situation. In both Maryland and New York, state cost-regulating agencies have made their presence felt in recent bargaining.

However, the long-run impact for controlling hospital costs by influencing bargaining outcomes is limited for several reasons. Prime among them is that labor costs may not be the engine of hospital cost inflation in the first place. Until the genesis of hospital cost inflation is better understood, policymakers should hesitate to suggest that wage control, through the implicit mechanisms of hospital cost control, is a solution to the troublesome problem of rising health-care costs.

[The End]

[13] Berry, p. 8, and Council on Wage and Price Stability, *The Rapid Rise of Hospital Costs* (Washington: 1977), p. 13.

A Discussion

By JEROME T. BARRETT

Federal Mediation and Conciliation Service*

I WAS DELIGHTED to be asked to comment on three distinguished research efforts on the health-care industry and also to have the opportunity to discuss with you our own research at the Federal Mediation and Conciliation Service (FMCS). Before commenting further, I would like to point out that the Office of Technical Services within the Federal Mediation and Conciliation Service, has a unique role: that is, one of attempting to bridge the gap between the industrial relations research efforts and the practitioners. This is not an easy task and is one that, I understand, the IRRA is grappling with now. I would hope that during the December 1977 IRRA meeting in New York City, a special session could be devoted to this problem. And now to the topic at hand.

FMCS has a very special interest in the health-care industry. Under the 1974 health-care amendments to the NLRA, which became effective two and one-half years ago, FMCS was assigned certain responsibilities. As a refresher, let me outline the important points of the amendments.

* Special thanks go to Lucretia Dewey Tanner, Senior Labor Economist, Office of Technical Services, FMCS, for the input into this paper and for efforts in the health-care study.

First, the amendments extended the National Labor Relations Act and the National Labor Relations Board (NLRB) procedures to nonprofit hospitals and other health facilities. As viewed by the framers of the legislation, the entire health-care industry required unique procedures to promote early bargaining and to deter strikes. This was to be accomplished by providing a 90-day notification to the other party of intent to reopen the contract, a 60-day notice to FMCS, a ten-day strike notice, and a Board of Inquiry procedure.

Under the law, the Director of FMCS, at his discretion, may appoint an impartial Board of Inquiry (BOI) to investigate the issues involved and to issue a written report on the findings of fact and recommendations for settling the dispute. Boards are to be established when a threatened or actual strike or lockout will substantially interrupt the delivery of health-care services. Between August 25, 1974, and March 1, 1977, a total of 129 Boards and special fact-finders were appointed by the Director.[1]

The 10-day strike notice provision requires a labor organization to give written notice to the institution and FMCS ten days prior to any strike, picketing, or other concerted refusal to work.[2] During the two and one-half year period, the agency has been aware of 151 stoppages, which represent about 4 percent of the Service's total health-care caseload, compared to strikes in 15 percent of all FMCS cases. I will discuss this in greater detail later.

Quickly following the passage of the Amendments, FMCS established a Health Care Industry Labor-Management Advisory Committee, which continues to exist. Its function is to advise the Service on its policies and procedures relating to the health-care industry and to suggest methods for improving collective bargaining. The Committee, composed of seven leading representatives of labor and seven of management within the industry, also serves as a communication forum in a nonbargaining atmosphere.[3] This approach, I might add, has worked exceedingly well in nonhealth situations at the plant level and in area-wide committees established by FMCS.

The amendments require mediation for the first time in any industry. Under the amendments, the process is termed "mandatory mediation" as compared to the Taft-Hartley's language calling for "proferring mediation." This total involvement of FMCS in the industry has required additional

[1] I am careful in making a distinction between BOI and special fact-finding. This difference is one created by the Service to differentiate procedures and funding. A BOI is fact-finding appointed under the Section 213 provisions. A fact-finding appointment, on the other hand, is one that is outside Section 213 and was developed as a result of early experience with the boards. It was found that, in too many cases, a board was appointed before the parties had had sufficient negotiations for recommendations to be meaningful. As developed by FMCS, if it appears that bargaining will be enhanced at a later time with the assistance of a fact-finder, the parties sign a stipulation that one may be appointed at a specified date prior to the expiration date. This procedure has been used infrequently, as has the BOI process. In about one-third of the 129 situations, a fact-finding has been named.

[2] The NLRB, and recently the courts, have been further defining what Section 8(g) means, particularly in construction cases in which picketing occurs not against the institution, but against a subcontractor. A U. S. Court of Appeals has recently held that these 10-day notices apply only to unions representing the facility. *NLRB v. International Brotherhood of Electrical Workers Local 388*, CA7, No. 75-2152, January 28, 1977.

[3] Proceedings of the Health Care Labor-Management Advisory Committee meeting are available from FMCS.

time and effort on the part of mediators and regional and national management teams. As a result of this complete immersion, we have now an ever greater need for reflection and analysis; hence our interest in research.

FMCS Research

I'd like to turn to the FMCS research effort. First, the study was undertaken as a result of the agency's research function and its access to much of the data needed to undertake a study. Let me give you a capsule version of the project that has been under way since December 1976.[4] The purpose of the FMCS study is to review the impact of the 1974 amendments to the NLRA on collective bargaining in the health-care industry. The major components of the study include a review of the legislative history of the amendments, starting from 1935 and the industry's inclusion, its subsequent exclusion in 1947, the NLRB's assertion of jurisdiction over for-profit institutions, and an analysis of the 1972–74 legislative period.

A second phase of the project will entail an analysis of FMCS data and BOI reports, including notices of bargaining intent, mediation efforts, strike activity, and general characteristics of the parties in the industry. Another portion of the study will be the assembling of perceptions of the persons selected as Boards of Inquiry, mediators, and follow-up with the parties on various aspects of the process. Other sections will review implications of the NLRB decisions, the third-party payor issue, changes in bargaining structure of unions and the industry, and changes in wage patterns. It is an ambitious undertaking and, we hope, will be completed by December 1977.

After this lengthy introduction, I'd like to turn my attention to the mission at hand and discuss the three papers as they were submitted.

Basically, my remarks can be fitted into five categories: (1) how the papers differ from the impressions FMCS has from the feedback received from the mediators and preliminary study findings; (2) how the FMCS data concur; (3) significant facts uncovered by the papers; (4) applicability to the practitioners and, (5), some statement on methodology.

Review of Papers

Let me start by commenting on Juris's paper. Frankly, I'm happy to see competition with the Bureau of Labor Statistics. I think Professor Juris and the American Hospital Association are to be commended for establishing the most comprehensive data system on contract provisions in the industry. We are making no such attempt in our study.

I was particularly struck by the similarities between the hospital and other industry provisions provided by the BNA analysis. For some reason, people in this industry keep telling us that the health-care industry is entirely unique, yet the comparisons in contract provisions that Juris provides seem to indicate that the same basic employment conditions exist.

It is interesting to note that one of the findings corresponds with our early efforts, reported in the July 1976 issue of the LABOR LAW JOURNAL,[5] that is, hospital contracts are of a

[4] Funds for this study have been made available by the Labor-Management Services Administration, U. S. Department of Labor.

[5] A discussion of the first 12 months under the amendment. See James F. Scearce and Lucretia Dewey Tanner, "Health Care Bargaining: The FMCS Experience," LABOR LAW JOURNAL (July 1976), pp. 387–98.

shorter duration. Juris has found that only 25 percent of health-care contracts are for a three-year or longer period, exceedingly close to the 20 percent we have previously reported. FMCS data also include nonhospital institutions.

While we agree that this may be due to the absence of COLA provisions, we would caution that there may be regional variations. For example, on the East Coast, the League and District 1199 have a history of two-year contracts, while on the West Coast, three-year contracts are common. I'm sure this could be quickly verified by Professor Juris's computer.

I tend to disagree with the suggestion that longer contracts come as a maturing of the industry bargaining develops. With the uncertainty of federal cost controls or with local rate review commissions playing a greater role, it is possible that the parties may become less reluctant to enter into long-term agreements, especially without reopeners.

Clauses normally found providing for job security during economic downturns were not evident in hospital agreements, a major departure from the all-industry review. This may be explained by the fact that employment in this industry has been expanding and until now job security has not concerned employees. I would agree with Juris that this situation is bound to change as cost-cutting becomes necessary.

I might suggest that in addition to the comparison with all-industry contracts as reported by BNA, for which I understand there is no sampling method of any kind, I would also compare the hospital contracts with those surveyed by BLS. Although their sample includes only the major agreements, I would feel more comfortable with both comparisons shown. I would also suggest expanding the survey to include nursing homes and other health-care facilities. Comparisons between and among the various institutions would be a major contribution.

While I eagerly await the promised series of articles showing the provisions in detail, as scheduled to appear in the next several issues of *Hospitals,* I would also hope that complete information will be accessible to all levels of practitioners, including unions.

Turning to the second paper, "Union Effects on Hospital Administration: Preliminary Results from a Three-State Study," I'd like to concur with Professor Miller's observation that "very little research has been undertaken." In our own review, we have found that, for some reason, labor relations in the health-care industry has been overlooked by researchers. This is changing, and the 1974 amendments have provided an impetus to new and in-depth efforts.

Contrary Findings

One portion of the findings of Miller and his colleagues struck me as completely contrary to what the rest of the country has experienced. According to their findings, "In Wisconsin and Minnesota, the 1974 NLRA amendments have not markedly affected the level of unionization. . . . In Illinois, by contrast, there has been a good deal of union activity but very little union success." While we have not studied organizing activity in great detail, aggregate data from the NLRB's annual reports indicate that the number of elections and particularly the number of people involved in these elections jumped markedly from the pre-1974 level.

Joseph Rosmann, writing the AHA Journal *Hospitals*,[6] reported on the first year's organizing activity, and noted the increased number of elections. Martin W. Cooper, writing in UHA *Reporter*, Summer 1976,[7] showed that between September 1974 and August 1975, states with the greatest organizing activity included Illinois and Minnesota. FMCS information indicates that about 27 percent of our caseload in health care are negotiations for initial agreements, compared to 9 per cent of all cases. The comparatively high level of union organizing activity contrasted with the delays were confirmed and documented in the Oversight Hearings of the National Labor Relations Act held early last year.[8]

I'd like to move on and comment about the strike activity or lack of it. As noted in the Miller paper, "There has been almost a total lack of strike activity among unions in the three-state area once they have become established in hospitals." This lack of strike activity is not isolated to these three states; rather we have found this to be true throughout the country. We quote a 4 percent strike rate in the health-care industry versus about 15 per cent for all FMCS cases.

Miller suggests this may be due to the legal environment that had been created. I would offer other reasons as well. We at FMCS like to think it is due to diligent and effective mediation efforts, but in all honesty, as Leon Davis, president of District 1199, stated during the December 6 Health Care Labor-Management Advisory Committee meeting, his union has a no-strike policy. He also warned, however, that this policy is being reversed.

I think the unions in this industry are fully aware of the responsibility they and their members have and generally view the strike with great hesitancy. People choosing health-care occupations are frequently altruistic, and I'm sure the Florence Nightingale syndrome has not completely disappeared. Another reason may be that the strike in this industry is not an effective weapon. Health-care institutions have shown that accommodations are made to withstand work stoppages.

I find it extremely interesting that the grievance procedure and arbitration tend not to be used. Perhaps the parties have found a secret and would like to share it with us. Seriously, I would hope that the Miller study does go into the causes of this situation in greater depth. While a high rate of grievances and arbitration cases frequently triggers a warning signal that labor-management relations may be in trouble, the opposite may be just as true.

Recognizing that it is extremely difficult to summarize an extensive study into a few short pages, I feel the discussion of the union effects on wages and fringe benefits could be expanded. How, for instance, do we get to the 5 percent that unions raise relative wages? Additional questions might also be asked: Were there occupational differences? Geographic variations?

My comment about Juris's findings that job security has not been a factor in this industry applies to those provisions cited by Miller as well.

[6] December 1976 issue.

[7] *United Hospital Association Reporter*, vol. 14 (Summer 1976).

[8] *Oversight Hearings on the National Labor Relations Act*, Hearings before the Subcommittee on Labor-Management Relations of the Committee on Education and Labor, House of Representatives, 94th Cong., 2d Sess. Hearings were held between February and May 1976.

Both employees and their union representatives view health care as an expanding industry. While preliminary FMCS findings correspond with those presented by Miller indicating that patient care and related clauses are not specifically major issues, we have found that, in BOI hearings, these topics are frequently raised and discussed during bargaining, particularly among units of nurses.

Cost-Control Impact

Schramm's basic thesis is one that I can heartily agree with: that a cost-control mechanism geared to controlling labor input costs can have only a slight impact on reducing inflation in the health-care industry.

Collective bargaining increases can be closely scrutinized by state rate-review commissions and easily controlled. The real problem lies in the system of health-care delivery itself, including the overlapping services offered and the new sophisticated machinery each facility feels it needs. These are the costs that will be and are less controllable.

While labor costs in the industry remain substantial, they have actually declined, according to AHA figures. In 1972, payroll expenses for all hospitals represented 59.8 percnt of total expenses, compared to 55.7 percent in 1976.

According to a report issued recently by the Council on Wage and Price Stability, labor costs accounted for a declining fraction of total costs per patient day: 62 per cent in 1955 and 53 percent in 1975. The report attributes cost explosion to other factors.[9]

The experiences of New York and Maryland State Review Commissions, as well as the other nine states with such functions, should be studied in depth, with particular emphasis on policies and their impact on bargaining. Similarities or differences in the forms of union responses and patterns of development in these 11 states should be made part of this study or included in any subsequent undertaking. These findings would obviously have significance in any national plan, as pointed out by Dr. Schramm.

In our own study and review of the issues, the role of the third–party payor and the ability-to-pay question is raised repeatedly and is especially critical in New York State. We hope to focus on this subject in some detail.

Recently, I have been impressed by the number of experts in the labor relations field who have noted the increasing shift from a bilateral to multilateral bargaining model. At a recent IRRA Washington Chapter meeting, Sam Zagoria, Director of the Labor-Management Relations Service of the National League of Cities, noted this increasing consumer (meaning taxpayer) involvement in public-sector collective bargaining.

Speaking to the same Chapter a month earlier, Wayne Horvitz, who heads the Retail Food Labor-Management Committee, suggested that the public, at some near future date, may become involved in retail food negotiations. Other researchers have noted this as well, notably McLennan and Moskow and Kochan, as mentioned by Schramm, and have advanced the model of multilateral determinants. Based on just the two cases presented in New York City and Baltimore, all measures for multilateral bargaining seem to be met.

[9] "The Rapid Rise of Hosptial Costs," prepared by Martin Feldstein for the Council on Wage and Price Stability.

It is becoming more evident in the health-care sector that the public represented by government agencies are having greater inputs into bargaining. As an outgrowth of this development, new bargaining structures may emerge and the development of area-wide bargaining and greater cooperation, both among institutions and the various unions, may take place.

If Schramm continues his research, I would hope that the impact on the bargaining structure itself is developed in the traditional Dunlop model and is not limited to the outcome of bargaining terms.

Concluding Remarks

As has been so eloquently stated, the health-care industry has a tremendous impact on the national economy and the individual consumer. While it appears that bargaining in this industry results in contracts not unlike those found in other industries, except on job-security issues, it also appears that bargaining will be increasingly influenced by government.

It is important that policy-makers understand that, while it may be easier to control wage costs, an uneven application of controls could result in noncooperation and may lead to labor strife. We don't need that much more business. Hopefully, the researchers and practitioners can communicate this message to those formulating guidelines in order to avoid future problems. **[The End]**

SESSION IV

Trends in Collective Bargaining and Industrial Relations

Productivity Bargaining in Contract Construction

By WILLIAM F. MALONEY

Arizona State University.

A REVIEW OF THE LITERATURE revealed that little research had been performed into productivity bargaining in the construction industry. Given the importance of the industry and the uniqueness of its industrial relations system, it was believed that a study of productivity bargaining would aid labor and management in solving the problems confronting the industry.[1]

The study had two major objectives: (1) to examine the development and process of productivity bargaining in the selected areas, and (2) to assess the impact of productivity bargaining on productivity and the bargaining relationship. The study attempted to analyze the reasons for the initiation of productivity bargaining, the mechanics of the bargaining process, and other factors such as the issues subject to bargaining. Analysis of the productivity bargaining process was conducted using the Walton and McKersie model of integrative bargaining.[2]

Productivity bargaining, as defined for this study, has been observed in the construction industry in several cities.[3] The first instance was in St. Louis in 1969. Subsequent to St. Louis, productivity bargaining has been observed in Dallas-Forth Worth, Houston, Atlanta, Pittsburgh, Indianapolis, and San Francisco.

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[1] This project was supported by the Institute of Science and Technology—The University of Michigan and the Richard D. Irwin Foundation. The author is indebted to Dallas L. Jones for his guidance and comments during the study.

[2] Richard E. Walton and Robert B. McKersie, *A Behavioral Theory of Labor Negotiations* (New York: McGraw-Hill Book Co., 1965).

[3] Productivity bargaining: ". . . a method of negotiation in which changes in wages are tied to changes in work with the objective of reducing or stabilizing unit costs . . . ." E. J. Robertson, *Productivity Bargaining and the Engineering Industry* (London, England: Engineering Employers' Federation, 1968), p. i.

The Dallas-Fort Worth and Atlanta regions were selected as subject areas for this study with Memphis as a control area. All three regions are located in right-to-work states, have a significant construction industry in terms of employment, and are comparable in terms of industrial development. The Atlanta and Dallas-Fort Worth regions were selected because of the number of crafts participating in the negotiation of the productivity agreements and the elapsed time since the negotiation of the agreements. Memphis was selected as a control region because there was no evidence of productivity bargaining in the area.

Data collection consisted of an analysis of recent collective bargaining agreements to determine specific changes in contract provisions, and a series of structured interviews with the following individuals: (1) general manager, executive vice-president, or managing director of the employers' association; (2) contractors in each of the subject areas; (3) the president of the local building and construction trades council; and (4) the business agents of the following local unions: Carpenters, Electrical Workers, Operating Engineers, Laborers, Sheet Metal Workers, and Plumbers and Pipefitters.

Findings

Productivity bargaining was found to have occurred in Atlanta and Dallas-Fort Worth but not in Memphis. The process of productivity bargaining in the two areas was similar in many ways. In the spring of 1972, at the initiation of the Fort Worth Building and Construction Trades Council, unions and employers in the Dallas-Fort Worth metroplex area negotiated a memorandum of understanding to reduce work stoppages and increase productivity in an attempt to curb the amount of work going to nonunion and open-shop contractors. The Dallas and Fort Worth Building and Construction Trades Councils, AFL-CIO, and the North Texas Contractors Association, signatories to the memorandum, included provisions covering jurisdictional disputes, contract violations, increased productivity, management rights, and inefficient work rules and practices. The memorandum further provided that the unions and contractors would work together to demonstrate to construction consumers that "organized labor will strive to produce the best quality product for the money."

It should be mentioned at this point that the North Texas Contractors Association (NTCA) is a federation of contractors in the Dallas-Fort Worth metroplex area that includes all major jurisdictional areas with the exception of electrical contracting. The NTCA conducts all the labor relations functions for its members.

In May 1973, the Electrical Workers, Plumbers and Pipefitters, and Sheet Metal Workers in Atlanta negotiated a memorandum of agreement with their employer associations. The agreement covered work stoppages, dispute resolution, management rights, and increased productivity. Negotiations on this agreement were conducted at the behest of the trades subsequent to the completion of a survey of construction consumers jointly sponsored by the International Brotherhood of Electrical Workers and the Atlanta Chapter of the National Electrical Contractors Association.

The survey identified areas in which the unions and contractors could make improvements that would reduce the consumers' opposition to using unionized labor. These were: (1) lower cost/reduce price, (2) increase productivity, (3) eliminate/relax work rules, and

(4) eliminate union control/strikes. The three unions met to discuss the results of the survey and concluded that they must negotiate changes to reduce the criticism expressed in the survey; the 1973 memorandum was the outcome of the negotiations.

In May 1974, these unions were joined by the Asbestos Workers, Carpenters, Laborers, Painters, and Bricklayers in negotiating another memorandum of agreement with their respective employer associations. This agreement called for increasing productivity through the elimination of featherbedding, illegal strikes, and nonworking stewards and, in addition, dealt with employer hiring prerogatives, overtime, safety, jurisdictional disputes, and grievance procedures.

The memorandum of understanding negotiated in Dallas-Fort Worth and the memorandum of agreement negotiated in Atlanta are just that—memorandums. They neither eliminate nor modify the written provisions of existing labor agreements nor the unwritten work rules and practices that have evolved over time. Any changes in the written or unwritten agreements must be negotiated on an individual basis. All of the memorandums call for the elimination of practices that inhibit productivity. They are simply generalized statements by the parties admitting that there are practices that do inhibit productivity. As for specifying and eliminating specific practices, the parties could not agree. Consequently, the modification or elimination of restrictive practices was deferred to the negotiations between the individual union and respective employer association.

Negotiations to implement the provisions of the memorandums by effecting changes in the written and unwritten labor agreements have proven extremely difficult. The changes that have been made have, for the most part, been minor. They range from standardization of holidays and grievance procedures to changes in overtime pay provisions.

Integrative Bargaining Model

The process of productivity bargaining is well described by Walton and McKersie's model of integrative bargaining in which there are four major steps: problem recognition and definition, search for alternatives, search for consequences of alternatives, and evaluation of the alternatives against some criteria.[4] Examination of the productivity-bargaining process in each of the subject regions in terms of these four steps revealed differences in the process that influenced the impact of productivity bargaining.

The first step of the process, problem recognition and definition, was the primary area in which differences existed in the bargaining process in the subject regions. For productivity bargaining to occur, there must be a recognition by labor *and* management that a problem exists. There must be something acting upon both parties that compels them to enter into productivity bargaining.

In Atlanta and Dallas-Fort Worth, both labor and management perceived the loss of market share of the construction market to open-shop firms as a significant mutual problem, one that required joint action to resolve. This problem was seen as long term in nature and one that, if not acted upon, could have severe ramifications for organized labor in the industry. Thus, the parties recognized a problem and utilized the negotiations which

[4] Walton and McKersie, cited at note 2, p. 138.

culminated in the memorandums to define the problem.

In Memphis, however, the majority of union leaders surveyed did not perceive the loss of market share to open-shop firms as a significant problem. Rather, they perceived it as a manifestation of the economic recession and, therefore, they saw the solution to the problem as beyond their control. Consequently, there has not been any productivity or integrative bargaining in the Memphis region even though the contractor-employers in the region perceived the loss of market share in much the same way as contractors in Atlanta and Dallas-Fort Worth.

Once the parties had recognized and defined the problem, they began the second step of the bargaining process: a search for alternative solutions to the defined problem. There were two distinct processes employed in the search for alternatives. The first was during the negotiation of the memorandums where the negotiation was on a multiunion basis and, therefore, limited to a search for generalized alternatives because of the multitude of labor agreements involved. For the purpose of negotiating the memorandums, a general definition of the problem and its alternative solutions was satisfactory because of the nature of the memorandum, which simply outlines policies and philosophies to be followed in solving the problem. Consequently, leaders who did not perceive the open-shop problem to be as severe as other leaders could participate in the negotiations without any cost to themselves or their organizations because the memorandums do not specifically require them to do anything.

The second search process, the search for alternative solutions during individual craft negotiations, illustrated what appeared to be the labor leaders' lack of commitment and motivation to making the process of productivity bargaining succeed. Admittedly, the political environment within a union as well as the economic environment in which the union operates may preclude the union leader from engaging in the productivity-bargaining process in a meaningful manner. In general, though, the majority of the union leaders interviewed were politically secure, but were still unwilling to engage in negotiations that would result in significant changes in working rules and conditions.

The management representatives came to the negotiating table with proposed contract changes that would stabilize or reduce unit labor costs and, thereby, improve the contractors' competitive position. In many instances, the labor leaders totally rejected the proposals without discussion or submission of counterproposals. The attitude of many of the union leaders appeared to be, "We have these working rules and conditions and you're not going to take them away from us." As a result of this attitude, the search for alternative solutions to the problem was essentially terminated once the management representatives submitted proposals, which were rejected out of hand; the result was that the productivity-bargaining process was rendered ineffective.

With the productivity bargaining process truncated during the second step, it was found that the parties did not progress to the final two steps of the process. From this analysis, it can be concluded that the productivity or integrative bargaining process observed in Atlanta and Dallas-Fort Worth has not been effective because of the parties' failure to conduct an extensive search for alternative solutions to the problems, to conduct a

search for the consequences of the alternatives, and to evaluate the alternatives against established criteria for acceptance or rejection.

Hypothesis Testing

Hypothesis: the growth of the open-shop sector of the industry has been the primary force behind the initiation of productivity bargaining in the construction industry. From the interviews conducted in the three regions, it must be concluded that this hypothesis was correct and, therefore, must be accepted. All of the representatives cited the growth of the open-shop sector as their primary consideration in engaging in productivity bargaining. Management and labor representatives, though, perceived the problem in somewhat different ways.

Management representatives were concerned with the total amount of work in the industrial and commercial construction markets that was being performed by open-shop firms and by cost trends which, if continued, indicated severe future competitive pressures for union contractors. The union contractors believed that once the open-shop firms had established themselves in the industrial and commercial markets, it would be impossible to regain that share of the market. Thus, the contractors were motivated to engage in productivity bargaining by a fear of the permanent loss of a significant share of the industrial and commercial market to the open-shop firms.

The labor representatives were not so much concerned with the amount of work being performed by the open-shop firms, but rather with the consequences of the loss of that work—the unemployment of union workers. Labor leaders interviewed gave the impression that, if the level of economic activity were such as to allow full employment of unionized construction workers, the amount of work being performed by the open-shop firms would be of little concern to them. Despite this expressed lack of concern over the amount of work being performed by open-shop contractors, many of the labor representatives were concerned with the trend of work going to open shops and the factors influencing the trend. Labor leaders in Fort Worth and in the electromechanical trades in Atlanta were greatly concerned with the union contractors' ability to compete with the open-shop firms and with what the unions could do to increase that ability.

Hypothesis: productivity bargaining in the construction industry has had a positive impact on productivity. In general, it must be stated that the impact of productivity bargaining on productivity in the subject areas was indeterminate. The representatives interviewed were divided in their opinions of the impact of productivity bargaining on productivity. Some believe that it has had a positive impact (the electromechanical trades in Atlanta); others claim that it has had no impact whatsoever. The great majority of the representatives asserted that the decline in the level of economic activity and the resulting increase in unemployment among construction workers has had a much greater impact on the level of productivity than has productivity bargaining.

Both labor and management leaders claimed that workers are more productive during a recession to avoid being laid off and replaced by more productive workers who are jobless. The management officials claimed and the union leaders acknowledged that many practices ranging from functioning of the hiring hall and certain working conditions are not rigidly enforced as long as the contractors continue to hire only union labor. In both Dallas-

Fort Worth and Atlanta, total nonresidential construction began to decline soon after the memorandums of agreement were signed by the parties. The productivity agreements may have had an impact on productivity, but it was impossible to separate the impact of the agreements from the impact of the decline in economic activity.

Hypothesis: productivity bargaining has improved the labor-management relationship between construction employers and the building and construction trades unions. It was impossible to generalize from the results of the surveys in the regions. The impact of productivity bargaining on the bargaining relationships was different in each of the unions in the Dallas-Fort Worth and Atlanta regions. In the electromechanical trades in the Atlanta area, productivity bargaining has had a significant positive impact on the bargaining relationship by bringing labor and management together into a more cooperative relationship. Except for some of the unions in Fort Worth, productivity bargaining has had no impact or, according to some of the labor representatives, a negative impact on the bargaining relationship in the Dallas-Fort Worth region.

The North Texas Contractors Association (NTCA) may be considered as an intervening variable in analyzing the impact of productivity bargaining on the bargaining relationship in the Dallas-Fort Worth region. In contrast to contractors' associations in other regions, the NTCA is a unified, militant organization that presents its own demands to the unions during negotiations and proceeds to negotiate over them. As a consequence of this, the unions adopted a defensive philosophy, which has contributed to a deterioration in the bargaining relationship.

It must be pointed out, however, that the negotiations that culminated in the memorandum of understanding in 1972 had a positive impact on the bargaining relationship between many of the unions and the NTCA. It was only when the NTCA attempted to implement the provisions of the agreement by negotiating changes in the individual craft contracts that the bargaining relationship began to deteriorate.

In evaluating the impact of productivity bargaining on the bargaining relationship. it was possible to generalize within the two regions as discussed above. The hypothesis as stated should be accepted for the Atlanta region, but rejected for the Dallas-Fort Worth area.

Hypothesis: productivity bargaining in the construction industry has resulted in union contractors becoming more competitive with open-shop contractors and has slowed or reduced the rate of growth of open-shop contractors in terms of market share of open-bid construction. With the exception of the plumbing and pipefitting industry in Atlanta, productivity bargaining has had little or no impact on the rate of growth of the market share of open-shop contractors. The market share and its rate of growth for open-shop contractors in specific jurisdictional areas may have been reduced or slowed, but, in general, productivity bargaining has had no impact. Therefore, the hypothesis must be rejected.

Conclusions

Even though there were not many substantial changes in contract provisions, productivity bargaining has been effective in some degree. There was a significant variation in the effectiveness of productivity bargaining between crafts in each of the areas, although it was approximately equal between regions. A major determinant of the effectiveness of productivity

bargaining appears to be the union members' perception of the severity of the competitive problem posed by open-shop and nonunion contractors. If the members perceive the problem as severe, they allow the business agent to expand his range of alternative solutions to the problem. Conversely, if their perceptions are that the problem is not severe, the business agent does not participate in bargaining of this type.

It was evident from discussions with numerous labor leaders that they and their memberships did not perceive open-shop firms as a significant problem for unionized firms. They believed that the loss of market share to open-shop firms was a temporary phenomenon resulting from the economic recession and that the return to high levels of economic activity would negate the gains made by open-shop firms. The result was these labor leaders did not perceive a need to participate in productivity bargaining and, further, they believed such participation would result in making unnecessary concessions to management on work rules and conditions.

Some union officials, though, did perceive the growth of open-shop firms as a significant problem and attempted to negotiate solutions to the problem. They were constrained in the latitude of negotiable changes because of a lack of congruence between their perceptions of the severity of the problem and the perceptions of their memberships; typically, the union leaders have a more realistic view. Where the perceptions of the membership and leadership were congruent, and both indicated concern with the problem, changes resulted; for example, the bricklayers in Dallas-Fort Worth negotiated a 30 percent wage cut for designated jobs.

It may be concluded that the process of productivity bargaining in the Atlanta and Dallas-Fort Worth areas primarily resulted in a shift in attitude rather than substantial changes in labor relations practices. The majority of bargaining relationships prior to the initiation of productivity bargaining could be described as one of containment-aggression, and the relationships subsequent to the bargaining, with the exception of several in Dallas, can best be described as one of accommodation.[5]

Before any substantial changes could be negotiated, the parties had to overcome the distrust and antagonism that had previously been prevalent in the bargaining relationships. The three or four years that have elapsed since the initiation of productivity bargaining was not sufficient to allow the requisite changes in attitude to occur. The parties, nevertheless, have generally managed to establish a climate more conducive to change and the negotiation of change.

Union members during a recession appear to be more interested in protecting the employment opportunities they have than in expanding these opportunities by making changes in labor agreements that have the potential for increasing the number of employment opportunities. Unless the proposed changes result in guaranteed increases in employment opportunities, union workers apparently are reluctant to approve them during a recession. They may be less reluctant to make the changes during favorable economic times because employment opportunities are more plentiful.[6] **[The End]**

[5] Walton and McKersie, cited at note 2, p. 189.

[6] For a more detailed presentation of this topic, see William F. Maloney, *Productivity Bargaining: A Study in Contract Construction* (Ann Arbor: Institute of Science and Technology—University of Michigan, 1977).

Trends in Union Growth

By ALAN KISTLER

AFL-CIO

ONE OF THE BRIGHTEST hopes motivating the architects of the merger of the AFL-CIO was the expected boost to organizing the unorganized. At the time of merger, 17.4 million working men and women belonged to labor unions, according to the U. S. Bureau of Labor Statistics. As of the end of 1974, the latest year for which statistics are available, there were 20.2 million working men and women in union ranks. Roughly 42 percent of the organizable work force were union members in 1956; the corresponding figure for 1974 discloses that about 32 percent of the organizable work force now belongs to trade unions. (If associations that exist primarily for the purpose of collective bargaining are included, membership reaches 22.8 million, or 36 percent of the organizable work force.) While this percentage-drop has been considered by some as evidence of failure of unions to organize, the record shows that unions have been active, and successful, in organizing in the U. S. over the last 20 years.

National Labor Relations Board reports show that during that 20-year period unions participated in 97,680 NLRB elections, winning 51,700 (nearly 53 percent) and thereby obtaining bargaining rights for 3,577,000 employees. Over the same period of time, additional millions of workers have been brought under the collective bargaining umbrella through elections conducted by the National Mediation Board, state agencies, and, since issuance by President John F. Kennedy of Executive Order 10988, elections conducted by the federal government for federal employees. Additional members have obtained collective bargaining representation through voluntary recognition, strikes, and boycott activity.

In recent years, public-sector organizing has become a major growth element in trade union membership. As a result, there were more members in unions and collective bargaining associations among state and local government employees in 1974 than those jurisdictions *employed* in 1960. The same phenomenon holds true in the federal area; the number of union members in the federal sector in 1974 equals the total federal government work force in 1960. Total government employee membership more than tripled from 1956 to 1975, going from 915,000 to 2.9 million. If associations engaged primarily in collective bargaining are included, the figure jumps to 5.3 million in 1975, as compared with 915,000 in 1956. Moreover, the public-sector percentage of overall union membership has climbed from 12.6 to 20.6 percent, or 37.7 percent if associations are included.

While public-sector unionism has been posting steady growth, election activity and results recorded by the National Labor Relations Board show a private-sector decline in the number of employees organized through NLRB elections, from a peak of 348,000 employees in 1967 to a low of 136,000 in 1976; from a 60 percent election suc-

cess rate in 1965 to a low of 49 percent in 1976. The percentage fall-off appears to be stabilizing, however, if statistics of the last two years are any indication.

Intensive Opposition

Some "students of the labor movement" point to this decline in NLRB election activity and union performance as proof that unions have lessened their organizing emphasis or have suffered a general loss in their appeal. But one pertinent factor affecting both the level of activity and election victory rates frequently is ignored by these "students," namely, the increasingly intensive employer opposition to union organizing, and the increasing willingness of employers to violate the law in their antiorganizing efforts.

That is reflected in the rise of a new profession euphemistically called the labor-management consultant. Members of this new professional group pursue the art of union-busting by attempting to choke off union growth at the initial stage: the organizing campaign. Their programs have evolved to the point that they no longer are merely reactive to individual situations but, rather, have become an institutionalized resource to management.

Schools, seminars, books, magazines, and newsletters promoting their activities have mushroomed over the past several years. In a single three-month period, through the mail, I have been invited, or advised to attend, no less than 11 seminars and conferences whose theme is "keeping unions out." Also, courtesy of Uncle Sam's postal service, I have been urged to subscribe to a number of publications having the same motif.

Election statistics in no way give an understanding of what takes place before, during, and after collective bargaining elections. Originally a procedure by which workers demonstrated whether they wanted collective bargaining representation, as a result of Taft-Hartley changes, NLRB collective bargaining elections have become a battlefield to pursue the war against collective bargaining. One indication of this is the unfair labor practice.

NLRB figures for recent years show a steady and sharp increase in the number of employer unfair labor practices. Particularly notable is the frequency of Section 8(a)(3) violations, those involving discharge or other forms of discipline of employees for engaging in union activity, an activity almost always associated with an organizing campaign. Since 1961, the number of charges filed with the NLRB alleging 8(a)(3) violations has increased two and one-half times, rising from 6,240 in 1961 to 15,090 in fiscal 1976. The increase has been even more dramatic in the last two fiscal years during which union election performance, not surprisingly, has slumped to an all-time low.

Section 8(a)(5) charges—refusal to bargain—also have zoomed, with much of that increase related to first-contract situations. The marked increase in that specific form of 8(a)(5) violation suggests the influence of the labor-management consultants. Carrying the organizing battle into the negotiating room has become a common staple of their highly paid advice.

How effective this latter tactic has become is made apparent in a recent AFL-CIO Industrial Union Department study of the aftermath of NLRB elections in which AFL-CIO unions had engaged in the reporting year 1970. In more than one of every five of the units won, unions did not obtain a contract; of those that did, one of six no longer had a contract by 1975. In other words, five years after NLRB certification, one-third of the certified units had become nonunion.

Another indication that the impact of the labor-management consultant has been felt even beyond election day is the dramatic and persistent rise in NLRB union decertification elections. In the 13-year period, 1964-76 decertification elections involving AFL-CIO affiliates have increased five-fold from 124 to 611 in 1976. The increase has been steady over the years, even while initial organizing elections have been declining. Today, for every 12 elections held in an unorganized unit there is one decertification election in an organized unit.

New Groups

The picture in the private sector is not uniform, and, as indicated previously, the public-sector union growth has provided a striking contrast. By the end of 1974, more than 3.9 million employees of state and local governments and public agencies were members of unions and associations engaged in collective bargaining. Of this total, 1.5 million belonged to "unions," a five-fold increase since merger. In 1965, the number of state and local employees covered by collective bargaining agreements was statistically small. Today, over 34 percent of such employees are represented by collective bargaining organizations.

The gains are even more impressive in the federal sector where over 51 percent of the workers, or 1.4 million, are union members. Prior to Executive Order 10988, less than 20 percent (400,000) of federal employees could be counted as union members. (The percentages are not adjusted upward to take supervisors into account.)

As a result of the strong tide of union membership growth, public employment today ranks among the best organized sectors of the U. S. work force. To no one's surprise, this spectacular growth of public-employee unionism has generated a fierce attack by antiunion groups that formerly had felt it necessary to attack only private-sector union activity. Emergence of public employee unions has instilled new life in some opposition forces giving them substantial impact on the general public.

As one example, the National "Right-to-Work" Committee formed a new group entitled "American Against Union Control of Government." Using congressional stationery supplied by sympathetic senators and congressmen, an initial message is directed to citizens as taxpayers, intimating that their taxes are going to a government controlled by "labor bosses." It is only a small step from that insinuation to the main theme of the Right-to-Workers: an attack upon union security. The emergence of the campaign against public-employee unionism by the antiunion Right-to-Work network and its congressional allies suggests a deliberate decision to introduce into the public sector the same war they have waged for years in the private sector. That decision probably explains the sudden rash of editorials against public-employee unions in newspapers all over the nation, whose common wording betrays their common source.

Until recently, unionization of public employees had not met the structured, institutionalized opposition that has characterized the private sector. There has, of course, been opposition, bitter at times, but it has not resembled the orchestrated handiwork of the labor-management consultant. With increased involvement of the right-to-work crowd, however, institutionalized opposition is bound to come to the public sector. Feeding on a citizenry wary of anything that could result in another dip into its pocketbook, the advent of more organized opposition could prove formidable.

Ironically, then, the very success of unions in the public field is providing the opposition with a fertile field in which to sow its antiunionism.

Hospital Employees. In 1974, the National Labor Management Relations Act was amended to include nonprofit hospitals in the NLRB's jurisdiction, thereby bringing virtually all nonpublic health-care institutions under coverage of the National Labor Management Relations Act. In the first 12 months following that extension, unions and employees responded vigorously. Nearly 20 percent of all employees organized through the machinery of the NLRB during that period were employed in health-care facilities and that level of activity seems to be continuing.

Approximately 60 percent of all elections held among health-care employees have resulted in union victories, far exceeding the 49 percent success rate for all industries during a similar period.

Reports from unions involved in organizing health-care employees attribute some of this initial success to the late entry of the labor-management consultant and to less sophisticated opposition to union campaigning. To organizers, such statistics illustrate that workers will select collective bargaining as their vehicle for progress if they are uncoerced and unintimidated by employers or labor-management consultants. Organizing success in the new fields supports their belief that corrective action is needed through legislative, judicial, or administrative routes, or all three, to make sure that employees in every employment field have the opportunity to cast a free, intelligent, and informed vote. As any organizer will tell you, the present state of affairs falls far short of that assurance.

White-Collar. White-collar organizing, in recent years, has become quite successful. Victory percentages in white-collar elections have exceeded the norm reported in other NLRB elections, going as high as 57 percent in 1974 and 1975. Moreover, BLS statistics for white-collar union membership corroborate the picture portrayed by NLRB election data. White-collar members now represent 24.3 percent of total union membership as compared to 12.2 percent in 1958.

This is a remarkable development, considering the long history of fanatical employer opposition to white-collar organizing and the persistence of the myth of incompatability between professionalism and collective bargaining. Uncounted numbers of articles have been written about white-collar and professional employee reluctance to subordinate the chance of individual progress to the process of collective bargaining. These recent election results, however, offer evidence that the fear of loss of professional status no longer is a major or uniform obstacle to white-collar organizing.

One of the clearest demonstrations that the myth has been punctured was AFL-CIO's recent chartering of its newest national union affiliate, the American Federation of School Administrators, a highly professional group whose entry into the collective bargaining mainstream represents a development of substantial importance.

Another example is the recent surge in prounion sentiment displayed by physicians who have formed a number of associations and unions with varying degrees of success. Membership in these organizations lies somewhere between 10,000 and 40,000.

Agricultural Employees. Among the most dramatic developments in the last 10 years have been those related to the organizing efforts of farm workers in major agricultural areas of the na-

tion. The California Labor Relations Act which arose from this effort eliminates many of the shortcomings and built-in-delay features of the NLRA. If adopted in other states, farm workers will soon be solidly union.

Where We Go from Here

Some parts of the national work force are highly organized—contract construction, manufacturing, mining, to name a few. For a variety of reasons, we can expect that the going will be very tough for unions and workers attempting to introduce collective bargaining to the remaining nonorganized pockets.

A substantial portion of basic manufacturing has been organized for a number of years, for example. The unorganized segment represents, to some extent, bitterly antiunion employers and formerly organized shops that have moved to new locations in the hope of escaping collective bargaining. Employers so motivated will not lightly concede their employees' right to organize for collective bargaining.

The South. Among runaway shopowners must be included some supposedly enlightened employers in such highly organized industries as automobile, electric, furniture, glass, rubber, paint, and steel manufacturing. Companies in those industries have located or relocated their plants in low-wage, relatively unorganized areas. There, they bitterly resist organizing efforts by their workers.

This stiff resistance, both by employers indigenous to the region and by those who have fled from other parts of the country, has not entirely thwarted organized labor's progress in the South. Popular belief to the contrary, unions have won a substantial number of NLRB elections in that area of the country. Board statistics reveal that unions have won 47.1 percent of the elections held from calendar years 1968 through 1975 in the 12 southern states of Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Arkansas, Louisiana, Texas, and Oklahoma. This represents a total of 4,051 election victories covering over 360,000 people. (These figures contrast with a 54 percent success rate over the same period in the other 38 states.) The average election in the South involves almost twice as many employees as in other parts of the country. Since, in recent years, unions generally have had more difficulty organizing larger units, the relatively poor performance in such units in the South may actually be part of the national pattern.

White-Collar. As some guide to where the organizing potential lies, projections made recently by the U. S. Bureau of Labor Statistics may be instructive. They anticipate continuation of the trend toward increased white-collar employment, growth of part-time employment in all sections of the work force, and increases in the service sector.

In the not-too-distant future there will be as many employees in the banking, finance, real estate, and related industries as in construction. Construction is highly organized; the financial community, on the other hand, has only a minimal union presence from top to bottom. The organization of white-collar employees, including clerical, professional and technical employees constitutes a tremendous opportunity and challenge for labor. The interest is there (election results show it); we now need to develop more fully the ability to reach that interest.

Public Employment. Although it would appear that projected increases in population, particularly in the South

and Southwest, should lead to a related increase in public employment, recent events have shown that projections of increased public employment bear close scrutiny. State and local governments have shown a willingness to pare service to the bone in preference to raising taxes to even maintain current services. Should that short-sighted attitude prevail, public employment could stabilize or possibly decline. In the meantime, increasing numbers of public employees may come to realize that a union is the only answer to their problem. Recent U. S. Supreme Court decisions have declared that there is no property or constitutional right to public employment which leaves the collective bargaining agreement as their only protection.

While thus unintentionally suggesting an incentive for organizing, the Court, unfortunately, impeded a potentially significant avenue for increased public-employee organization when it declared, in another case, that the Fair Labor Standards Act does not apply to state and local government. That decision may preclude congressional enactment and judicial approval of public-employee bargaining legislation so long as present Supreme Court members remain on the bench.

Service Sector. With respect to the service sector, recent studies indicate that the lower paid, less skilled service jobs will become increasingly difficult to fill. This may alleviate some of the serious pressures organizers have encountered in this area, and a strong effort will yield significant increases in membership.

Geographical Shift

Much has been written about the shift in the geographic distribution of the work force. In addition to runaway plants, other businesses, for legitimate reasons, have left the Northeast and Midwest and have gone to the Southeast, South, and Southwest. Many new enterprises have established initial operations in the same areas.

A recent *Business Week* article pointed out that in the years 1960 to 1975 New England states experienced a 9 percent drop in manufacturing employment; New York, New Jersey, Pennsylvania, Maryland, and Delaware declined an even greater amount: 13.7 percent. The Great Lakes States of Ohio, Indiana, Michigan, Wisconsin, and Illinois grew only 3.2 percent over the period, while manufacturing employment grew 43 percent in the Southeast and jumped 67 percent in the Southwest (Texas, Oklahoma, New Mexico, and Arizona). So long as the tremendous gap in wages persists between Southeast and Southwest, on the one hand, and Northeast and the Great Lakes, on the other (between 15 and 40 percent, depending on the area), this trend will continue.

The main reason for this earnings gap is the relative scarcity of collective bargaining in the "Sunbelt" and the predominance of "Right-to-Work" laws. According to union-membership figures published by BLS, of the bottom 14 states, in terms of percentage of workers organized, 11 are in the Southeast or Southwest. Moreover, in recent years, the number of NLRB elections held in this region has been declining in relation to all elections—a trend which obviously is not going to improve organized labor's standing there. Antiunion attitudes that are deeply rooted and forcefully fed by employers in the South (although by no means absent elsewhere) must be overcome.

Cooperative Organizing

Cooperative organizing campaigns give promise of being an important response to that end. Contemporaneous-

ly with the geographical shift, several coordinated campaigns were instituted by the Department of Organization and Field Services, among them programs in Orlando, New Orleans, Los Angeles, and Puerto Rico. The AFL-CIO Industrial Union Department also responded to this expected shift by locating its two present centers of coordinated organizing in the southern or southwestern states: Greenville, S. C., and Texas.

As one illustration of the potential, the Los Angeles-Orange Counties Organizing Committee (and its participating unions) have brought 285,000 workers into the collective bargaining mainstream in 14 years. The smaller scaled Florida program has attained a 65 percent success rate in NLRB and state-conducted elections over the past five years and won bargaining rights for 38,000 workers.

Similar success patterns have been reported by IUD's southern-based cooperative organizing programs. Even against the unprincipled and unlawful tactics of J. P. Stevens, the IUD program has resulted in a hard-won election victory for that company's employees at Roanoke Rapids, N. C.

The benefits which flow from these programs include the virtual elimination of wasteful competition, shared learning experiences, and the pooling of knowledge and resources. The programs also provide a permanent organizing presence which, in turn, provides a measure of security to unorganized workers, whether currently engaged in an organizing campaign, contemplating one, or having suffered an earlier organizing disappointment.

Our efforts in organizing campaigns alone will not determine the degree of union growth. The level of employer opposition and the legislative, administrative, and judicial response to illegal opposition will have as large a role to play in union growth as will our best direct efforts. The success the labor movement has in strengthening Taft-Hartley, in rehabilitating the NLRB, and in developing state and local laws to eliminate obstructions to public-sector organizing will determine in large degree how far and how fast the labor movement grows.

[The End]

Critical Issues and Problems in Collective Bargaining: A Management Perspective

By JOHN H. JOHNSON, JR.

Newmont Services Limited

TO COVER ALL of the critical issues in collective bargaining facing management—or, for that matter, the unions, the employees, or the public—would be an impossible task because there are an increasing number of pressures on the collective bargaining process. Anticipating critical issues which will affect, alter, and shape the ultimate outcome of collective bargaining may best be done by examining the forces that determine what comes to the bargaining table for resolution.

Our form of collective bargaining is virtually unique. Most of our col-

lective bargaining is done between two parties—management and union—with little or no involvement of a government representative. Even where a government mediator enters the bargaining, he is without power to compel the parties to settle or even to meet. Other than the 60-day "cooling off" period for situations which "threaten the national interest" or the occasional White House arm-twisting as was used in the 1967-68 copper strike, our negotiations are remarkably free of third-party interference.

I believe this to be desirable. In order to maintain this desirable condition, all parties in the bargaining process must continue to demonstrate to an ever-eager-to-intervene public and government that intervention is not required. By making settlements that demonstrate a recognition of all of the interests—management, employees, unions, and public—we can delay, and hopefully avert, intervention. To do this, all of us must be cognizant of the needs of the various groups involved in the collective bargaining process. Allow me to focus briefly on four areas of needs which, in the aggregate, may be properly termed critical issues and potential crisis points in collective bargaining: (1) the needs of the employee, (2) the needs of the union, (3) the needs of the employer, and (4) the needs of the public.

The Needs of the Employee

At the risk of stating the obvious, the paramount issue in any collective bargaining is to satisfy significantly the needs of the employees. If this is done, the collective bargaining agreement will be ratified. Hopefully, during the term of the agreement, labor relations can be conducted in a harmonious and productive climate.

Assessing the needs of the employee is not easy for the employee or his collective bargaining representative. Certainly if it is difficult for the persons most involved—the employee and someone who should be closely involved as his collective bargaining representative—it may be even more difficult for the management representative. The employee's perception of his needs is shaped by many internal and external factors, both economic and noneconomic. His economic needs receive the focus of his attention during the period immediately prior to negotiations and through the first few days after ratification of a new agreement. Of course, these economic needs may receive the most attention if he is out on strike. On the other hand, the employee's noneconomic needs from the collective bargaining process are continuing.

In framing his economic needs, the employee is, of course, governed by what he thinks he should be paid, based upon his perception of what his co-workers are paid, what he thinks his neighbors are paid, and what his wife thinks he should be paid. His economic needs increasingly tend to be shaped by economic settlements being made as a result of public-sector bargaining. The continued enlargement of public-sector bargaining inevitably leads to more opportunity for comparisons. Public-employee negotiations—whether actual negotiations, meet-and-confer, or the ever-present legislative lobbying—receive greater public attention and press coverage than do typical employer-employee private-sector negotiations.

The more the employee reads of what others are paid, the more he increases his evaluation of what he should be paid. For example, when he reads that the new collective bargaining agreement between the union representing city sanitation workers and his city government provides for

an $18,000 a year minimum, it is difficult to overcome the employee's value judgment of "if a garbage collector is worth 18 grand, then I'm worth more than that."

In recent years we have been flooded with newspaper, radio, TV, and research accounts of worker discontent. A temporary peak may have been reached a couple of years ago with reports of the situation at the Lordstown, Ohio, GM Vega plant. Lordstown hopefully was an extreme example of a worker's alienation from his job. I think it may also be an extreme example of what results when an employee's needs for acceptable working conditions are not met by the collective bargaining process.

As I indicated earlier, the employee's noneconomic needs continue throughout the term of the collective bargaining agreement. To the extent that he is dissatisfied with the contractual method of filling vacancies, assignment of overtime, absenteeism procedures, or even the job he is performing, he reflects his dissatisfaction with grievances, lower productivity, absenteeism, and, when carried to the extreme, sabotage. A sensitivity to the employee's needs to, if not actually enjoy, at least be able to tolerate the workplace will increasingly be a major issue to be resolved. This need will have an impact not only on the collective bargaining process, but also on the ongoing employee-employer relations.

The development and refinement of race-oriented equal employment opportunity during the last few years appears to be crystallizing into a few remaining issues for the collective bargaining process, most specifically in the retroactive seniority question. The courts—as in so many other areas—are developing several guidelines. Unfortunately, the courts are not addressing the problem that we will have to resolve in the collective bargaining process: how to meet the needs of the nonminority employee who can't use his seniority through no fault of his own. The developing female equal employment opportunity question will exacerbate this problem and exert further pressure on the collective bargaining process.

A final area of employee needs which will affect the collective bargaining process is the heightened interest in occupational health and safety. There seems to be little doubt that we will find more and more areas in the workplace where there are real or perceived health and safety hazards. The problem of adequately dealing with these hazards will significantly challenge the collective bargaining process.

The Needs of the Union

Having laid out a number of problems as to the needs of the employee—and you will note that I have and will continue to present problems and not solutions—allow me to forecast how the needs of the union may present critical issues in the collective bargaining process. In my view, most of our unions went through their infancy in the 1920s and 1930s, went through puberty in the 1930s and 1940s, and emerged into adolescence in the 1950s and 1960s. Most have now reached maturity. Just as each of us went through various stages of the life-cycle and encountered "growing pains," the growth of each individual union has presented collective bargaining with its share of "growing pains."

I believe that our labor relations system has seen the slaying of most of the old dragons: the sweat shop, subsurvival-level wages, favoritism, nepotism, and all other familiar old rallying cries of the trade unionists. I also happen to believe that unions

did a worthwhile and commendable job in working to correct what were shortcomings of our economic system. I take comfort in the continuing reaffirmation by major responsible union leaders that they want to keep American unionism different from that common in other economic systems. Rather than working to overthrow the system, they believe they can best work within the system to gain a greater division of the rewards.

I hope they will keep reminding themselves of this; our system needs more supporters and fewer detractors. I do view with potential alarm the continuing strain placed on the collective bargaining process by those in union leadership roles who are unable to work within the process in a mature and professional manner. I hope they will not resort to methods more appropriate to an earlier age.

There is no doubt that unions are justified in seeking to improve the economic and noneconomic status of their members. There is also no doubt that management will continue to provide improved economic and noneconomic status for its employees. The formalization and attainment of these goals must be done with a maturity and responsibility which unions now have or must accept. To the extent the long-time mutually beneficial goals of economic growth and employment stability are sacrificed by immature union leadership, the collective bargaining process is jeopardized.

The Needs of the Employer

At this point my union friends are probably quick to tell me, "Don't tell us how to run our business. Worry about yours." I don't find it that easy to separate the roles, rights, and responsibilities of the respective parties. The needs of management in the collective bargaining process will also lead to some crises. The continuing third-party involvement of government regulations, threatened legislation, increased taxation, foreign competition, and environmental and consumer advocates and the growing demands for shrinking new capital will focus more and more of the attention of management on the collective bargaining process. Increasing numbers of industries will feel an inability to meet the economic demands of employees and will more and more expect increased productivity and lower labor costs.

The result of an inability to resolve these conflicts is demonstrated by the railroad industry. Railroad employees, unions, and managements have been conducting their affairs without regard to economics, and the result has been a rail system almost totally dependent upon federal subsidies. A contrasting attempt to balance these interests can be seen in the steel industry where the experimental negotiating agreement and productivity bargaining have been serious efforts to solve the problems of prenegotiation inventory buying, postsettlement layoffs, and the market erosion of lower-cost imported steel.

The Needs of the Public

The needs of the public may be the most illusory and difficult for the collective bargaining process to satisfy. Generally, the American public is a fickle lot. The steelworker who cries for protective tariffs for U.S.-produced steel listens to his Panasonic radio. The construction worker who proudly slaps a "Construction Feeds My Family" bumper sticker on his Toyota pickup is not concerned with losses of American automaking and steelmaking jobs through imports. The teamster on strike for higher wages grouses loudly as he reads of spreading "blue flu" among police seeking

higher wages. The manufacturer concerned about shrinking profit margins insists that his contractor "settle at any price" to keep work going on the new factory. The list of contrasts goes on and on.

The point is that each of us tends to view every facet of our economic life with tunnel vision. Control the prices of those who sell to me, but don't control my wages, says the worker, be he laborer or corporate president. Control the wages of my employees, but don't control my prices, says the manager. Reduce pollution. Increase the water supply. Don't increase costs. Don't reduce jobs. All of these conflicting goals cannot be met. There must be a balancing of what the public can expect to receive. If not, the public will increasingly insert itself into the collective bargaining process to curb wage increases, to hold down prices, and to increase employee and management discontent.

The pressures on the collective bargaining process created by the attempts to meet the needs of the employees, the needs of the union, the needs of the employer, and the needs of the public will continue to be critical issues. The ability of the collective bargaining process to meet these challenges satisfactorily will determine the viability of the process. It will demonstrate the ability of our economic system to balance the counter-pressures created by the various needs. I am optimistic about the ability of both the collective bargaining process and the economic system to meet the challenge. **[The End]**

A Discussion

By GUY M. PARENT

Federal Mediation and Conciliation Service

A common thread appears to have been woven, probably by design, throughout the three papers presented, joining them in a unit of very astute comments and conclusions regarding the collective bargaining scene. For instance, Maloney talks about problems in productivity bargaining. Low productivity, as claimed by some union employers, can certainly contribute to the organizing problems stated by Kistler. Both productivity and vigorous organizing are critical issues with respect to an employer's competitive position.

Kistler's reference to the geographical shift of the work force brings up an issue of such particular importance in the last few years as to warrant serious attention by the labor-management community because of the impact such a shift has, not only on the statistics of the work force, but also on the collective bargaining picture in those areas suddenly hit by either a deluge of skilled workers or a scarcity of same, depending on the direction of the shift. More on this later.

Maloney's findings in the area of productivity bargaining serve to confirm a long-standing suspicion harbored by third-party neutrals at the bargaining table, namely, that when faced with a problem of such sophistication as productivity, especially when wrapped in political dynamite, the parties will not hesitate to agree to

discuss it, philosophize and theorize about it, and sometimes go so far as to agree, as they did in the Dallas-Ft. Worth area, that productivity is *the* problem; they may even reach agreement on what should be done, in principle, to rectify the situation.

Unfortunately, the principle of increased productivity is very often the only specific important item even agreed to, and, as a mediator of many construction contract negotiations, I can assure you and this happens most often for the exact reasons Maloney cites. His conclusions on the process of productivity bargaining are so valid as to make one wonder just how much longer union employers and employees can maintain negative attitudes whenever they are involved in the process before union construction work becomes a thing of the past.

Johnson's perception of the problems and issues in collective bargaining as the various "needs" of labor, management, and the public is somewhat refreshing and reflects a mature, professional approach. The words "want" and "desire" are more often used, I believe, at the bargaining table and tend to precipitate the drawing of battle lines.

The common thread continues, if I am not mistaken, in Johnson's paper under the heading "needs of the employer." I don't remember any employer not listing good productivity as one of his needs. Although Johnson is quite right in stating that the significant satisfaction of employee needs is a paramount issue at the bargaining table, I suspect he will not disagree with me when I say that our economic situation in the past few years has produced some drastic changes in the familiar bargaining scene in which the union would present its shopping list of proposals to management, who would then proceed to bargain, as the script called for, from the union's list of demands.

Chain Reaction

Now, at least in this part of the country, we see more and more employers coming to the table with their own shopping list of desired changes, and when some of their so-called gut issues are not adequately resolved, they will hesitate less to take a strike or even to lock out over certain "must" issues. In this area, which is part of the sun-belt, the shift in the work force that Kistler referred to certainly appears to be having a major influence on union organizing and on employer-employee attitudes at the table. It seems to have created a chain reaction of changes.

For instance, the Federal Mediation and Conciliation Service in Arizona finds, as Maloney found in the Dallas-Ft. Worth area, that labor and management are more and more often assuming an attitude of accommodation at the bargaining tables. At the same time more and more small union employers have tried, with varying degrees of success, to change their operations to open shop; some have simply set up a second, nonunion shop. These double-breasted operations, as they are known, were the cause of some major strikes in this area during 1974 and 1975.

What has happened, in fact, is that the major employment centers of this state, Phoenix and Tucson, have experienced an influx of skilled workers who have migrated to this area for reasons of health, climate, or whatever, and who may be willing to work anywhere at anything so long as they are paid enough to keep them from having to return to their former home areas. An example of this situation is a case where an employer in this state with a 200-person work force

and a weighted average rate of around $9.00 an hour was struck, and within a few weeks more than 2000 employment applications were received by its personnel office.

I realize that this kind of story is not getting Kistler all choked up with joy, but it happens to be a fact. The important point is that while the sunbelt employers are going through this kind of experience, the former employers have to be feeling some productivity problems caused by a drought of talent. Without checking the statistics, I would guess that this migration of workers is not affecting the national employment figures significantly, but only shifting the unemployment figures at the points of origin and destination of the migrating workers.

What can we expect in 1977? I think we are going to see some changes in the collective bargaining process, but that's what keeps it alive and vigorous. The aggressive attitudes of employers at the table, reflecting the effect of the economy and tougher competition on their needs, will probably continue. The cooperative organizing efforts by the Industrial Union Department AFL-CIO, and the possibility of 14-B being repealed could certainly keep the kitchen hot. Whatever happens, I think we are in for a very active year, and as peacemakers and peacekeepers, we of the FMCS are going to continue our efforts to protect and enhance the process of free collective bargaining.

[The End]

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