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Paula B. Voos, Editor

PROCEEDINGS OF THE 52nd ANNUAL MEETING.

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PREFACE

In 1999, IRRA members met in regional and national meetings to build and continue a dialogue on how to build a new social contract at work. In six different regional settings—Atlanta, Boston, Chicago, Los Angeles, Iowa and Minneapolis—as well as at the association’s first National Policy Forum in Washington, D.C., IRRA members uncovered and reported on numerous creative ideas and innovations under way in America’s workplaces and discussed how best to capitalize on them.

In Boston, many of these ideas came together as members presented them in symposiums, participated in panels, met in section meetings, roundtables, indeed over coffee tables to continue this important dialogue. This volume contains some of those ideas, as well as other new research and discussions of interest to our field. In these pages, as in our membership, one will find many perspectives and voices, many thoughts and illustrations on the workplace, its condition and its future. Most compelling perhaps is the call to action of President Thomas A. Kochan to build a new social contract, a new set of expectations and obligations that workers, employers, communities, and societies have for work and employment relationships. Kochan’s presidential luncheon address and ongoing challenge are certainly the highlight of this volume.

Also in 1999, the IRRA national office moved from its long-time and cherished location at the University of Wisconsin-Madison to the University of Illinois at Urbana-Champaign. There were many transitions—databases, financials, inventories, equipment, as well as the relationship so many hundreds of members had with IRRA administrator and managing editor Kay Hutchison. Kay skillfully and lovingly guided this agency over much of the past decade, and her commitment to provide a smooth changeover included many extra hours training and counseling this new staff to oversee the administration of the association’s important business. We are both indebted to and inspired by her professionalism and the passion she brought to her work.

I would also like to thank copyeditors Karen Bojda and Erin Cler for their excellent work on this volume, and Lisa Narug of the national office for her help in organizing and preparing this manuscript.

You are all invited to New Orleans on January 4-7 for the 53rd Annual Meeting as we explore new research in the area of “Ensuring Human Rights

in Employment.” Topics on collective bargaining as a human right, workers’ rights in the global economy, child labor, prison labor, corporate codes of conduct, employment as a human right, living wage campaigns, the rights of public-sector workers and more will focus on core conference themes from academic, labor, and management perspectives. Many other interesting sessions are also planned on subjects ranging from human resources to labor law, and from labor economics to the sociology of work. The problems of low-wage workers, contingent workers, and others caught in the cross hairs of the “new economy” will receive considerable attention. All will help to usher in new discussions and directions of research as we explore what will be the New Economy in 2001.

Finally, my thanks to the hundreds of IRRA members I have met and worked with over the past year at IRRA. You have all been most gracious and inspiring with your insights, input, and suggestions as the year unfolded. Special gratitude to President Sheldon Friedman and Secretary-Treasurer Peter Feuille, who have borne the lion’s share of training this new staff and helping us to organize and execute what has been a very busy and eventful year for the IRRA. I thank them for being there throughout the year and for caring as deeply as they do, as you all do, for this unique and important collective.

Paula D. Wells
Executive Director

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I. PRESIDENTIAL ADDRESS

Building a New Social Contract at Work: A Call to Action¹

THOMAS A. KOCHAN
Massachusetts Institute of Technology

Who works and how we work have changed dramatically in recent years, yet the policies and institutions governing work and employment remain mired in the world of work of the 1930s. As a result, the social contract—what we expect from and are accountable for at work—has broken down. The central challenge of our generation of industrial relations professionals is to update these policies and institutions to create and support a new social contract capable of meeting the needs and expectations of the workforce, economy, and society of the twenty-first century.

The above statement captures why the IRRA dedicated this past year to a discussion of how to “Rebuild the Social Contract at Work.” There is a fundamental mismatch between today’s workforce and workplace and the institutions and policies that support and govern them. As a consequence, the workforce and economy are held back from reaching their full potential and there is a growing gap between the winners and losers in society. Our generation of industrial relations professionals will be judged by whether or not we are successful in updating these policies and institutions in ways that give workers and employers greater control over their destiny.

We have been talking and writing about these issues in many different forums over the past year, including the IRRA’s first National Policy Conference held in Washington last June; at regional, state-level, and local chapter meetings; and in a parallel set of sessions sponsored by our MIT

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Task Force on Labor Market Institutions. The features of the “old social contract,” the pressures that caused it to break down, and the challenges this poses to society have now been widely aired and so I will only summarize these points briefly here to set the stage for taking the next step in this debate. The main points emerging from these discussions can be summarized as follows:

1. The old social contract grew out of the images of work and employment relations that were prevalent during the New Deal era. Work and employment was envisioned as a long-term relationship between a large firm competing mostly in an expanding domestic market involving two types of employees, hourly wage earners and salaried managers, with a spouse at home attending to family and community matters.
2. The policies and institutions that were put in place and evolved out of the New Deal were generally successful in producing a broadly shared prosperity and improved quality of work for the majority of Americans. Wages and benefits improved in tandem with rising productivity and profits, and loyalty and good performance on the job were rewarded with increased security, dignity, opportunity, and savings for retirement. The combination of collective bargaining, professional personnel/human resource management, and government regulations created a dynamic that resulted in incremental expansion and diffusion of comprehensive benefits, employment standards and protections, and systems for fair administration and enforcement of workplace policies.
3. Over time, the New Deal images of work became outmoded by globalization of markets, emerging technologies that created new businesses and shifts in demand for labor and the organization of work; organizational restructuring that displaced senior and white collar workers; variation in employment types and uncertainty in employment duration; increased diversity in the workforce; and increased interdependence between family and work responsibilities.
4. As a result, the old social contract has given way to a long period of stagnant real wages, increased inequality of income and wealth, falling health and pension coverage, increased perceived and real job insecurity, decline in union coverage, increased litigation and conflict over government regulations and their enforcement, increased polarization between business and labor on core values and issues, and a sustained impasse over labor policy.

5. At the same time, there is considerable good news to report. Innovations in how work is organized are spreading gradually to more workers. Knowledge workers—those with high skills—are doing well in today’s labor markets, the sustained macroeconomic growth and tight labor markets are now producing modest improvements in real income and job opportunities for low-income workers, labor management partnerships are helping some unions and companies adapt to their changing circumstances, and flexible employment arrangements and practices are helping some families and employers integrate family and work responsibilities.

But this is ground we have already covered. I want to use this occasion to move the discussion forward in two ways. First, I want to outline what I have learned in exploring these issues with colleagues around the country and propose an institutional and policy framework for reconstructing a social contract that allows working families and employers to regain control over their destiny at work. Indeed, many of the elements of a new policy and institutional framework can already be seen in the large number of innovative efforts under way in different settings around the country. If past American traditions are true to form, it is out of these local experiments and innovations that the next generation of institutions and policies will emerge. But to date, these are still islands of innovation. To move them to a scale that benefits our overall society and economy will require leadership and support from national policy makers and professionals in all parts of our field. Second, I want to challenge our profession and our national leaders to move from passive analysis to active advocacy for putting the future of the social contract at work at the top of the nation’s agenda. To do so, we have to reframe our approach to these issues, bring new voices into the discussion, and offer new ideas capable of breaking the twenty-year stalemate America has endured over labor and employment policy issues.²

The Social Contract as a Metaphor

Throughout our discussions, I have used the social contract as a metaphor to help reframe this debate. By the social contract I mean “the expectations and obligations that workers, employers, and their communities and societies have for work and employment relationships.”³ I believe this concept serves as a useful metaphor for our efforts because its philosophical underpinnings capture the central concern of workers and employers today and reflect the best values of our profession.

The concept of a social contract has its roots in the philosophy of Hobbes, Locke, Rousseau, and Rawls.⁴ It was originally developed to address the relationship of the citizen to the state—long before the Industrial Revolution created the modern employment relationship. Hobbes saw citizens as ceding authority to the state in return for protection and security, but his was a dismal view of the state of nature. He saw man as surrounded by a hostile world, in need of state protection. Locke and Rousseau had more positive views of the world that were grounded in a more democratic perspective of the relationship between citizens and the state. Locke in particular argued that individuals need to create a government to extend these democratic rights into civil society. He further suggested a social contract required the consent of the governed—citizens could disavow or overthrow the government if it violated their rights or “broke” the social contract. Rawls emphasized the need for a social contract to contribute to the good of society—a just society. He also stressed the role institutions play in supporting a just and efficient social contract. To him, justice and efficiency (the latter term defined broadly to mean the efficacy of the norms, structures, and laws for achieving the common good) are the criteria for judging the quality of institutions.

Applying these political philosophies allows us to return to first principles by asking what meaning we attach to work and employment relationships today, what values should they be grounded in and seek to achieve, and what responsibilities the parties to employment relationships have to each other and to the larger society. This metaphor reminds us that work and employment should be a *voluntary relationship*, one *mutually agreed upon* and that over time has processes and procedures that ensure continued “*consent of the governed*.” Each party to the employment relationship has *responsibilities to each other and to society*. Therefore an employment relationship cannot be viewed as it has come to be in today’s “winner-take-all” economy as solely a two-party instrumental exchange focused on only narrow self-interest of the individual worker and his or her individual employer. Work and employment must contribute to a good society for all, however we define that term. For a social contract to be meaningful, it must also be *enforceable* in some sense so that each party can be held accountable for keeping its part of the understanding.

By the term “contract” we imply not just the legally enforceable terms of an employment agreement but also the broad norms and expectations that we hold for work. Some of these may be codified in laws and regulations, but many more are subjective principles and expectations that we bring to work as professionals, family members, and community citizens. Finally, a uniquely American approach to the social contract reflects our

highly decentralized traditions—we *must focus on providing the parties closest to the workplace the rights, power, and capabilities needed to control their own destiny at work*. This was the genius of the New Deal legislation providing for collective bargaining, what one of our distinguished predecessor presidents, Milton Derber, described as the American model of industrial democracy (Derber 1970). Basic labor legislation would establish the floor that should apply to all workers, and then collective bargaining was envisioned as a tool for workers and employers to build on and gradually raise this floor in ways that fit each particular employment setting.

We have allowed our unique American institutional approach to workplace relations to erode and atrophy. Indeed, collective bargaining is only a shadow of its original vision and stature, now covering less than one in seven workers in America. And the workplace is awash in specific workplace regulations, most of which are sensible and important in their own right, but some are not well suited to the variety of employment settings found in the economy; some conflict with each other; and some are out of the reach of enforcement to the average worker, let alone those most in need of protection.

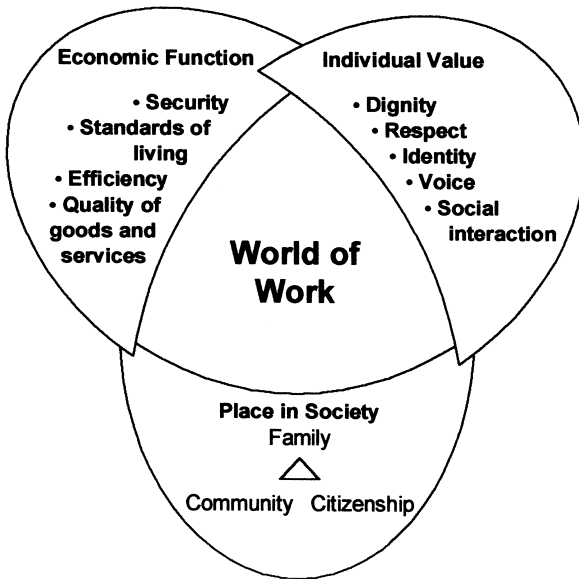
We also have ceded responsibility for improving working conditions and living standards to the macroeconomy. Thank God for the near decade long sustained prosperity the American economy has enjoyed, for it is only the tight labor markets of the past several years that have been successful in helping improve the lives of those near the bottom of the income and occupational ladder and those moving from welfare to work. In some respects, the macroeconomic policy makers have bailed out our profession. But we cannot assume the macroeconomic boom will do the job for us forever. At some point, we need to give parties at the workplace the tools to regain control over their destinies. Let us turn now to this task.

Starting Points: A Holistic View of Work and Its Role in Society

A new social contract must be grounded in a clear vision of what members of society expect from work. What must we achieve at work to contribute to a good society, and where does work fit into the larger set of institutions that constitute a modern information-based, global economy? Figure 1 lays out a multidimensional, holistic view of work that I would propose as a framework to evaluate the quality of the policies and institutions supporting and governing work. The first dimension focuses on work as a source of personal dignity, respect, identity, and social interaction. The traditions of our profession and, indeed, the deep value we place on democracy in our society lead us to add voice to this dimension. For

employment relations to meet our expectation of “consent of the governed,” the parties to the relationship must be able to participate in and influence, individually or collectively, the conditions of their work. The second dimension recognizes that work has an important economic function: it must provide workers and their families security and the ability to improve their standards of living, and it must serve the economy by producing quality goods and services efficiently. And finally, the third dimension recognizes that work is embedded in a larger society and shares scarce time and institutional space with family, community, and citizenship responsibilities. Indeed, a key part of the change in the nature of work and the workforce lies in the increased interdependence among family, community, and work roles and responsibilities, a fact that must feature prominently in the design of new institutions and policies.

FIGURE 1
A Holistic View of Work



If work has these multiple dimensions, then the institutions and policies that govern and support it must be held accountable for addressing each of them and their interrelationships. Too often our old institutions drew lines between these different aspects of work. Unions focused on improving the

economic dimensions of work; employers took primary responsibility for shaping the workplace culture and designing and coordinating work to achieve maximum productivity and quality. And workers were expected to separate their family, community, and citizenship responsibilities from their jobs through a division of labor within the family unit. But if these dimensions are becoming more interdependent today, all institutions at work must attend to these interdependencies.

Abstract philosophies and models such as those outlined previously are fine. But to be true to the problem-centered and problem-solving traditions of our field, we must be able to translate these ideas into concrete policies and institutions. This will be a long and difficult process. I don't pretend to have all the answers for what the new policies and institutions should be. Indeed, we should be working these ideas out for ourselves. So, what follows is perhaps best viewed as my own work in progress, a sketchy blueprint that will undoubtedly change through the course of the debates that occur at meetings like this and many more to come in the years ahead.

The New Employment Institutions

Historically, our field has organized its analysis of the institutions governing employment relations around three key "actors"—employers, government, and labor, broadly defined to encompass workers and unions that may represent them. Typically, these actors are seen as operating in an environmental context defined primarily by exogenous market and technological forces.⁵ This convention still serves us well. Indeed, I have used this general model, or modifications of it, for most of my professional work. However, we need to make two additional modifications to shape the employment institutions of the future. We need to add a fourth set of actors—the growing number of labor market intermediaries, community groups, and organizations that help structure labor markets and work, and address the interdependencies of work and family life today. And we need to envision markets (labor, product, and financial) and technology not as totally external exogenous entities but as socially constructed parts of the institutional structure itself. To be sure, markets and technologies are influenced by many factors outside of work and employment. But it is precisely because we have allowed these forces to remain outside of our intellectual thinking and institutional design that we have lost control over our destinies at work. We need to address how changes in markets and technologies can be harnessed to help achieve the full range of objectives the different parties bring to work and employment relationships.

Finally, we need to see these as *complementary*, not *competing*, institutions. To be sure, we continue to accept the normative premise that parties

can and do have some enduring conflicting interests and that there needs to be effective means for making trade-offs when different interests are at stake. But we also need to recognize that all the actors or parties and institutions are interdependent. None alone can achieve the full range of outcomes required from work. Markets alone do not produce equity and leave many goals unachievable. Employers, acting unilaterally or singly, cannot produce the personal dignity, community, or economic security and improved living standards expected from work. Government policy is too rigid to address the varied circumstances of modern employment settings. Unions and other labor market institutions by definition must engage the other actors to represent their members and to add value in society. Labor market intermediaries and community groups lack the presence inside the employment relationship to give voice and power to workers or the contextual knowledge needed to effectively manage workplace relations. So in what follows, I want to present the outlines of a theory of complementary employment institutions, each with distinctive functions but engaged constructively with each other to together meet the needs of the contemporary workforce and economy. But, as we will see, each of these institutions will need to recast its role and image and its relationships with the others.

A Multiple Stakeholder View of Firms

Since the New Deal, American firms have been assigned two competing responsibilities: to serve as agents for shareholders by maximizing shareholder wealth and to meet a series of (growing) responsibilities as the key unit around which employment policies are built. These dual responsibilities have always been difficult to balance, and emphasis on each has risen and declined at different times. Unions and collective bargaining grew out of the New Deal to give a powerful voice to workers' interests. From the 1960s onward, society expanded the range of employment standards and human rights for which firms would be held accountable. Then over the past two decades as unions declined and government receded, the shareholder maximizing role of the firm has risen in influence, dominated analytical discourse, and focused managerial behavior (Useem 1996). Paradoxically, just as pressures from shareholders have intensified, so too have human capital, knowledge, and learning come to be recognized as more critical strategic assets and organizational processes. And, to complicate matters further, these dual pressures come at a time when the boundary of the firm appears to be coming increasingly uncertain and blurred, as organizations restructure to find their "core competencies" and contract with other organizations in their value chain or networks for other necessary services and resources. If the number of firms characterized by unstable organizational boundaries

and uncertain tenure continue to grow, the locus of responsibility for employment policies may need to shift from the individual firm to the network of labor market institutions across which employees are likely to move over the course of their careers. Individual firms will then need to be more open to participating in a network of institutions that support and govern employment practices and opportunities, just as these same firms are now more open to participation with their networks of suppliers and vendors.

The range of interdependencies outlined among shareholders, employees and their union representatives, government agencies responsible for enforcing workplace regulations, and labor market institutions suggest that if we are serious about creating a new social contract in today's environment we have to shift political discourse and organizational analysis to conceive of firms as having multiple stakeholders to which they owe a fiduciary and social responsibility. This means accepting the view that employees who share residual risks by investing their individual and collective human capital should have a right to participate in the governance of the firm (Blair 1994; Blair and Kochan forthcoming 2000). It also means accepting the reality that firms as employers will be held accountable for meeting the goals society sets for employment standards and human rights at work and for working cooperatively with external labor market institutions. The task then is to design institutional forums and processes for allowing these multiple stakeholders (in this case managers, employees, government agencies, and external labor market institutions) to work effectively together to achieve these multiple objectives. Given the uncertainties facing firms and their legitimate needs for flexibility and adaptability, these arrangements need to be decentralized and well informed of the needs of the different stakeholders that share an interest in these outcomes.

How might this be done? The labor policies of the New Deal envisioned collective bargaining as the central (essentially the sole) instrument for engaging and resolving worker and shareholder interests. This view was based on a theory of countervailing power—management's strategic decisions regarding how to allocate the firm's resources would be held in check by unions empowered to negotiate over the impacts of these decisions on wages, hours, and working conditions. While collective bargaining (and the threat of unions and collective bargaining on nonunion employers) performed well in structuring and adjusting a social contract that achieved a broadly shared prosperity from the 1940s through the 1960s, as a sole instrument, it has not been able to cope with the changes encountered in markets, technologies, workforce demographics, and employer structures and practices since then. As a result, these past two decades have been a period of tumultuous decline in collective bargaining coverage and significant

innovation in firms and unions that are struggling to adapt to these changes. The innovations largely take the form of more flexibility in work organization and employee participation in problem solving at the workplace and greater information sharing, consultation, or in some instances formal representation in strategic management decisions and corporate governance. In their most developed forms we have tended to call these "labor-management partnerships." They certainly aren't perfect, nor are they a panacea, but they are the best ideas we have going at the moment. As our former President Lynn Williams put it, "the problem with labor-management partnerships is we just don't have enough of them." Therefore we need to continue to study and practice how to make these work and to understand their limitations while supporting and encouraging them in public policy, public discourse, and in our varying roles as professionals in this field.

These partnerships have proved most difficult to sustain in settings where the boundary of the firm is unstable, as it is in an increasing number of settings where technological changes and uncertain markets and emergence of new narrowly focused competitors make it difficult to ensure employment security.⁶ Because there are so few partnerships and the basis for them is limited, we need to look for other institutional structures as well. The biggest problem lies in how to substitute for the partnership model in nonunion or weakly unionized firms. Management culture (which abhors power sharing unless necessary), labor law (which limits such arrangements), and lack of employee power to influence strategic levels of decision making all rule out this option at the present time. There are no easy answers to this problem, and it may be the biggest institutional design challenge we will face in the upcoming years. In keeping with American tradition, we will need to experiment with new options that bring the full range of voices into the process.

Experimentation is especially needed and possible to envision at the interface between government and firm responsibilities for achieving the goals embodied in workplace regulations. On one hand, the increased variety of employment settings make standard, uniform regulations inefficient and, from the standpoint of the individual firm, inflexible instruments for achieving the goals society has set for these policies. At the same time, many leading firms are implementing practices that go beyond minimum government standards. One option would be to encourage firms, working together with their employees (and unions), to develop workplace institutions capable of internalizing responsibility for adapting and enforcing employment policies to fit their particular circumstances in return for gaining greater flexibility from government agencies over how they meet these

policy objectives. Indeed, a number of government agencies are already trying to experiment with this approach. The Occupational Safety and Health Administration (OSHA) is perhaps the lead example. I will return to this idea in more detail later when discussing the role of government in this new institutional structure.

In settings where the boundary of the firm is unstable and firms can no longer make a reasonable promise (tacit or real) of long-term employment security, the locus for employment policy and institution building needs to move from the work site and the individual firm to the labor market and the network of institutions that facilitate mobility. This implies that the individual firm becomes but one participant in a network of organizations and institutions capable of facilitating mobility, matching people to jobs efficiently, and sharing responsibility for investing in human capital and monitoring and improving employment standards.

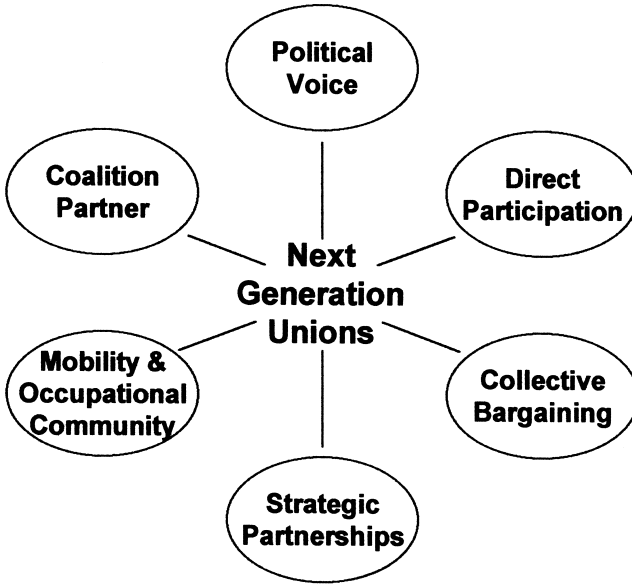
This too will require significant institution building, but again the process is already under way. The variety of labor market intermediaries, in other words, groups and organizations that operate outside the boundaries of individual firms, is expanding rapidly. I will discuss their roles in more detail later. The challenge is to build stronger alliances and collaborative relationships among these institutions and among firms participating in these labor markets.

Next Generation Unions⁷ and Professional Associations

Before discussing the role of unions in this new institutional framework, let's deal with some basic issues. Unions are just as necessary and valuable today and in the future as they have been in the past. This is a deep value shared not only by members of this association but by the majority of the American public and by many leaders in the business community as well.⁸ Unions provide a critical service to a democratic society as well as to their individual members. America is now paying the price for allowing union representation to fall to such low levels. No task is more important to our profession, and indeed to American society, than building the next generation labor organizations. The good news is there is an enormous amount of innovation and internal debate taking place within the labor movement today over how to achieve this objective. This bodes well, not just for the future of the labor movement, but for American society.

Unfortunately unions have an image problem and a strategic challenge. Workers, employers, and the public in general, and indeed many union leaders, see unions as primarily defensive organizations to be called on for help only when a majority of workers in a specific bargaining unit distrust

FIGURE 2
Multiple Purposes of the Next Generation Unions



the employer sufficiently to engage in the high-risk, high-conflict battle needed to achieve union recognition and a collective bargaining contract. To be sure, unions need to continue to provide protection against arbitrary treatment at work. But the next generation unions must address the full range of dimensions included in Figure 1. They must focus on enhancing dignity, voice, social interaction, economic security, productivity, and family and community responsibilities. Serving this broader set of objectives requires that unions have a positive vision of their roles. And this positive vision must become the central reason why employees join, participate in, and retain their membership in the next generation unions, not whether they distrust their present employer.

Figure 2 illustrates the multiple purposes I believe the next generation unions need to carry out for American workers and society. Space and time allow only a brief listing here.

1. Collective bargaining will remain a bedrock role for unions. But, it may be only one of an increasing array of services provided, and it may be that not all union members will want, need, or have access to collective bargaining as we know it today. To remain focused on defining unionism

synonymous with gaining collective bargaining status as it is structured today is neither consistent with the historical traditions of American unions (Cobble forthcoming 2000) nor responsive to the stated preferences of a majority of the unorganized workforce.⁹ To do so will only lead to further union decline.

2. Given that more than 70 percent of American workers want a direct voice at work,¹⁰ the next generation unions need to champion and support direct employee involvement and participation on the job to enhance worker learning; contribute to improved productivity, quality, and customer satisfaction; and to build a workplace culture that satisfies employees' expectations for voice, respect, and social interaction at work.
3. Unions will need to engage corporate decision makers at the strategic level where the real power resides and the critical choices are made that shape employment outcomes and long-term prospects. In some cases, this means forming partnerships with individual employers as previously discussed and as we have seen in the household names such as Xerox, Levi Strauss, AT&T and its numerous offspring, Corning, Saturn, Kaiser Permanente, and others. But note, as this list suggests, these do not always last forever. In cases where the boundaries of the firm are uncertain (for example Levi Strauss, AT&T and its offspring), unions will need to rely on other devices such as sharing information on working conditions in the full supply chain or building networks that cut across firm boundaries to coordinate efforts at a community or industry level. In still other cases, this will require amassing the knowledge and resources needed to engage the investor community or international financial agencies with capital investment and development strategies that work for the workforce as well as the investors. Given that the level at which capital allocations and other strategic choices are made is where the power lies, we cannot expect unions to do well in representing workers unless they too are active at this level. To do so requires new skills and knowledge as well as new strategies.
4. If the firm is declining in centrality, the local community and political affairs will grow in importance. The Webbs were right (Webb and Webb 1897). As they predicted more than one hundred years ago, government enactment and community participation are growing in importance for unions. If macroeconomic policies and, increasingly, international macrofinancial and trade policies are growing in importance, then unions will need to strengthen their ability to influence decisions and events at these levels. But equally important, if local community and labor market mobility are important, unions will need to become more

important actors at this level as well. This is what the living-wage campaigns are all about. Unions will need to continue working in coalition with community groups to make this role successful.

5. If job security is more uncertain, workers' ability to move at low cost across employers becomes a more critical source of bargaining power and career security. For some workers, exit will be as important a source of bargaining power as voice inside the firm is for others. Unions of the future will need to provide the full array of labor market mobility services—networks of contacts and job opportunities, portable pensions and benefits, education and skill accumulation and lifelong learning, and perhaps other personal legal and financial assistance as well. If the locus of social interaction and identity from work is shifting from the workplace to the occupation, unions need to once again become occupational community-building entities, much like the garment unions did in helping immigrants assimilate and make their way in a foreign environment during the early years of the twentieth century.

These different functions may not necessarily be performed by the same organizations. There might be specialization, core competencies if you will. Some unions may choose to organize in traditional ways, relying on traditional employee motivations, while new organizations, professional associations, and networks grow up that recruit, represent, and service members in new ways. I believe this would be a second-best solution. But if this is the case, then there must be active strategies for linking and cooperating across these different boundaries and mutual respect and support among the different organizations in the network—unions, professional organizations, others yet to be named or invented. Or we might see the labor movement as the hub of a wheel that coordinates the work of different groups. For this vision of the next generation unions to become a reality, at least three things need to change. First, unions need to expand the ways they recruit and retain members. They need to recruit individuals and stay with them over the course of their careers rather than limit their organizing to the high-stakes, all-or-nothing, 50 percent majority it now takes to get one new member. The union-member relationship should be like that of a university student-alumni—once a member, a member for life. The fact is that there are nearly twice as many *former* union members in the labor force as there are *current* members.¹¹ Second, substantial change in labor law will be needed to make it possible for unions to play these different roles effectively, a point I will return to later. Third, American management culture will need to change significantly to accept the simple idea that workers should have the same freedom of association at work as they have in civil society.

If unions adopt this more positive vision and these varied approaches and are accepted as legitimate participants in labor market, workplace, and community affairs, America would be well on its way to ensuring the next generation unions find their rightful place in the economy and society of the future.

Labor Market Intermediaries and Community Organizations

By the term “labor market intermediaries,” we mean the full range of groups and organizations that operate outside the boundaries of individual firms to support the mobility of workers across jobs and the matching of workers to job opportunities, who coordinate employers and or labor–management joint efforts, provide training and educational services, or advocate worker and/or family and community concerns. This is an illustrative, not exhaustive, list designed to make two simple points. The variety of intermediaries is expanding and their importance as labor market institutions is growing, ranging from temporary help firms to recruiters in Silicon Valley and other tight labor markets, various family and work advisory services, cross-firm consortia, public and private training programs, and a host of new web-based information services.

Equally impressive is the growth in the number and range of community groups and organizations engaged in promoting worker interests in community politics and worker advocacy activities. Here the boundary between “unions” and other groups gets increasingly blurred. The more than forty living-wage ordinances achieved through coalitions of labor organizations and community activists are a prime example (National Interfaith Committee for Worker Justice 1999; Uchitelle 1999). So too are the new roles played by central labor councils like the one in Silicon Valley, which run the gamut from being a temporary help service to a training and education center to a political mobilizing force. Indeed, a key challenge for unions and community organizations lies in developing sustained coalitions that last beyond any single political campaign and that transition to ongoing sources of power and support inside employment relationships.

It may seem ironic to be arguing, as I am here, that in today’s “global” world the local community and labor market will become a more important arena and institutional environment for shaping work in the future. But this is exactly the locus in which family and work responsibilities are joined, where most dual-career couples search for opportunities in tandem with their partners, where opportunities for lifelong learning can be created and utilized most fully, and where the all-important social and professional networks are formed and sustained. Our history of policy and institutional innovation has strong local- and state-level roots. We would do well to

learn from this history and invest heavily in building and supporting the local community level infrastructures needed to give the future workers and employers greater control over their destinies.

Government as a Labor Market Institution

Government is sometimes viewed as a constraint on or an alternative to the market or private institutions. American political culture has always emphasized a limited role for government in private affairs and especially in private employment relationships. Therefore, the vision for government that grew out of the New Deal was for it to set minimum standards on a limited set of basic employment rights and then set the rules of the game for the parties' efforts to improve on these minimums and expand into new areas as their interests and circumstances warranted.

This is a necessary but not sufficient image or role for government as an actor in the labor market of the future. Instead, government and, most important, government leaders, also need to have a clear vision and active strategy for building and supporting the innovative capacities of the complementary, private institutions discussed here.

The consensus starting point for government policy in working with market forces and local institutions is to support education and training—lifelong learning opportunities for all workers.¹² Education, skills, and human capital are essential foundations for getting ahead in the labor market today.¹³ Knowledge is both a critical asset for individual firms and for the overall economy and a source of power in the labor market. Government's unique responsibility is to provide the resources to support early childhood and basic education and to work in tandem with other business and labor to encourage and support investment in lifelong learning for adult workers throughout their careers. If government leaders share the vision for the new institutional framework proposed here, they need to provide incentives and resources to workplace and labor market education and training programs that worker, employer, and relevant community representatives govern jointly. Nothing else would better ensure that scarce public resources are put to use in building *general human capital* grounded in the skills needed in the local markets, while at the same time creating an incentive for these different stakeholders to work together on a collaborative basis.

A second role for government is also rather traditional: setting the floor on employment standards and enforcing the basic human rights Americans expect at work. What rights to include in this list and at what level these standards should be set will continue to be key political issues, in the best sense of that term. But whatever standards are included and wherever the

minimum floor is set, government must take a number of additional steps if it is to serve as a catalyst for innovation and a complement to what private actors are already doing to promote these objectives.

Government policy must be informed by what the best of private firms, unions, and other institutions are doing to address these objectives. This requires both an active research and analysis capability and active involvement of professionals advising and consulting to provide input to policy making and especially to its administration. This was the legacy of John R. Commons and his approach to employment policy administration (Commons 1923). It was the right approach then, and it is the right approach today.

As suggested earlier, government should look for opportunities to provide more flexibility in how the parties achieve labor policy objectives to those employers and workplaces that have the institutional capacity in place to do so and a record of responsible behavior that justifies entrusting them with self governance/enforcement responsibilities. Now comes the tough problem. Just what institutional capacity is necessary? Does it have to be limited to where a traditional union is present? If so we limit the potential of this approach to a fraction of the labor force and reinforce the lines of demarcation across work groups that today's organization of work has rendered anachronistic. Moreover, it would freeze the institutional relations of the past along with the embedded adversarial culture associated with formal union-management relations. But to simply extend it to any workplace that claims to have any form of employee participation would not be responsible and would lack the legitimacy and independence workers expect and indeed require. So America needs a new institutional form that has sufficient independence and expertise and power to carry out these functions, is representative of the full range of employees covered by the regulations, and is accepted by both employees and managers as a normal part of the workplace culture and process.¹⁴

Workplace safety and health provide the clearest opportunity for taking this approach since there are established performance metrics against which workplaces can be judged, and the elements of a comprehensive system for managing and monitoring safety and health are widely known and generally accepted. And a technically competent employee participation process is widely accepted to be a critical element in this system. Finally, in unionized settings the grievance procedure provides a channel for resolving disputes and claimed violations of worker rights, and OSHA provides an appeal system for all workers, unionized or not. But these same criteria could be used to extend "self-governance systems" to other employment standards areas wherever there are accepted verifiable performance metrics, knowledge of cause and effect practices that contribute

to high performance, an effective established system for employee participation, and a system for resolving disputes or claims involving individual rights. Without meaning to limit the possible areas for experimentation, I would suggest family and medical leave, wage and hour issues (particularly overtime and compensatory time), and equal employment opportunity are especially well suited to different types of experimentation with this approach.

To make this approach work, significant expansions of the use of high-quality alternative dispute resolution systems will be needed. There is already significant experimentation under way in the use of ADR (essentially mediation and arbitration) in resolving equal employment opportunity cases. Our field pioneered in the development of these techniques in labor-management relations. But the stature enjoyed by mediation and arbitration in this domain did not occur overnight. Instead, they earned the respect of the parties and the courts the hard way—they learned how to make these processes work in different settings. We need to now do the same with respect to the use of ADR techniques in the broader area of employment rights disputes. This might best proceed slowly and carefully because there is tremendous potential for poorly designed systems or poorly trained neutrals to discredit ADR, to wit, the totally inadequate and unacceptable arbitration “system” used in the securities industry that gave rise to the Gilmer decision. In that model, neutrals are not mutually selected or chosen, and employees do not voluntarily choose to use arbitration. Instead they must accept this proviso as a condition of employment. In short, the system is designed and controlled by the industry. We can do better and have, in the best traditions of our field, articulated a set of “due process protocols” that set minimum standards for these systems (Zack 1996). At least one state agency, the Massachusetts Commission Against Discrimination, has now gained nearly three years’ experience using the principles embedded in the protocol, and the EEOC has likewise nearly a year of experience with a mediation program.¹⁵ We need further experimentation with different approaches, and most importantly we need to monitor and evaluate these programs rigorously.

Finally, no updating of national labor and employment policies will be complete, and the new institutional structure and strategy outlined here will not be possible, unless we restore the right for workers to choose whether or not to be represented by a union or some other organization. American labor law, and our inability to update it, are nothing short of a national disgrace. Study after study has documented the failure of labor law to provide workers with the means to implement what the international community has (correctly) described as a fundamental human right, the right to join a

union (U.S. Departments of Commerce and Labor 1994). And, the issues that need to be addressed to fix the documented flaws are likewise clear. Delays in processing elections must be reduced; strong measures are needed to eliminate discharges for union organizing, and those that occur should be dealt with expeditiously and severely; and the ability to get a first contract when a majority votes for union representation must be ensured by arbitration if necessary. While I, along with many others, have specific views on how to address these and other problems with the law (Kochan 1998), the specifics are clearly legitimate topics of debate. What should be unsailable is the need to address them.

But fixing the recognition process is only the beginning of comprehensive updating of our national labor relations policy. If we are to encourage and build on the new forms of employee voice and next generation unions suggested here, American labor law needs to support these alternative forms of participation and representation. If this is done on a contingent basis, in other words, limited to those settings in which the employer fully respects workers' freedom of association rights (to be specific, where the firm does not have a past record of or is not guilty of unfair labor practices when workers attempt to organize), we would create further incentives for employers to comply with this principle (Kochan 1998). While these are new, and I recognize, controversial ideas, I believe they can work and fit into the American traditions of decentralized, flexible, and ultimately pragmatic workplace cultures and institutions. Like the changes in the representation process called for previously, the specifics should be open to debate, but there should be no serious debate about the need to update this part of national labor policy. Workers want to participate in decisions affecting their work; employers depend on significant worker input to improve quality, productivity, and customer satisfaction. These issues cannot be separated from working conditions or other issues the law reserves for collective bargaining, and changes in the law are needed for public agencies to implement self-governance systems.

The final plank in a new role for government would be to promote building institutional capacity. The full arsenal of approaches needs to be employed that includes grants to local committees and organizations to develop their infrastructures and professional skills (similar to the "New Directions" program used during the Carter Administration), support training of a cadre of industrial hygienists, tax incentives for joint training funds, and presidential leadership aimed at building a new culture of legitimacy and collaboration among employer, labor, and community group leaders.

This last point—the need for presidential leadership—is especially important. If Franklin Roosevelt could provide the leadership needed to enact the New Deal labor policies and Ronald Reagan could usher in an era of aggressive managerial actions against unions by firing air-traffic controllers, the next president can surely energize the country around an effort to support policies and institutions needed to build a new social contract based on the full range of human, economic, and social expectations and obligations we have for work today.

The New Institutions in Action

Just to show that this is not all “pie in the sky” abstract or utopian musing, let me illustrate how this new institutional framework might work with a concrete issue at the center of attention today: family and work policy and practice.

Family and work concerns provide the consummate example of why we need a new framework that links in a complementary fashion workplace, community, and public policy initiatives and engages in the full array of voices of employers, frontline workers, union leaders, family advocates, community representatives, and government policy makers. To illustrate this point, let me draw on an initiative started here in Boston’s IRRA local chapter last spring. In conjunction with the Labor Guild of the Boston Archdiocese and business, labor, and university cosponsors, we held a conference to discuss how to “Build a Family-Centered Labor Market Policy” for Massachusetts. The background research and case examples presented at that meeting demonstrated that a tremendous amount is already being done to help high-income, knowledge workers balance work and family responsibilities. But few of these firm-specific policies are being extended to lower-income workers and families or to employees of small businesses. It was also noted that the formal policies on the “books” of firms are often underutilized because frontline employees don’t “feel free” to use them for fear of the consequences for their future careers.¹⁶ The research also showed that unionized workers are more likely to be covered by comprehensive family policies but less likely than nonunion workers to actually use them. At the same time, firms with advanced policies complain that formal government regulations conflict with or limit their ability to adapt policies to fit the specific needs of their workers. What is needed are workplace-based participatory processes that change the workplace culture and build consensus on what arrangements best fit the varied needs of employees with different family responsibilities and the specific needs of the work, exactly the type of new institution called for.

From the discussion at that initial meeting came a commitment to carry on an ongoing dialogue and analysis that would build on what firms are doing and look at what other workplace and community-based arrangements might best complement and fill the gaps in what the “market” and individual large firms are doing. A broadly representative working group—composed of women and men from large and small businesses, labor, education, local and state government, the religious and university communities—is now meeting to see if a single text statement of principles can be produced and used for policy making and institution building within the state. While there is no guarantee this will be successful, it is one example of how we might proceed and what can be done, even in the current environment and legal setting.

Imagine, however, what might be possible if the ideological, legal, and institutional barriers that limit this approach were to be torn down and the new institutional arrangements called for here were in place. Workplace participation groups or committees could work to ensure the workplace culture supported use of the organization’s formal or stated policies without fear of the consequences for one’s career. These committees might be part of a larger council responsible for ensuring the objectives of public policies embodied in the Family and Medical Leave Act and other statutes are being met, albeit through specific practices or means adapted to fit the situation of that establishment and workforce. Individual firms, especially small firms, might be pooling their resources and working together with community groups and union leaders to ensure family and child-care services are available to lower-income workers and families. Union leaders would be promoting these issues both at the collective bargaining table where they are the authorized bargaining representative and in alliances with community leaders and family advocates. Armed with a knowledge of what these private institutions and market forces are doing in this area, state legislatures could then take up the question of how to best support and complement what these private actors are doing. Specifically, policy makers would have a more informed basis for debating proposals such as whether or not to use the unemployment insurance system or some other instrument to provide paid leave for family-related reasons.

The Need to Lead

As the philosophers who developed the concept of a social contract would point out, a new social contract does not arise out of some natural law of nature or invisible hand of the market. It comes out of political discourse regarding the values that define a good and just society and the creation of the institutions needed to achieve and support it. Then it takes a

good deal of pragmatic, trial-and-error experimentation and learning to hone the institutions to perform effectively—in Rawls’s terms, to achieve justice efficiently. In short if we are to build a new set of social contracts suited to the economy and workforce of the twenty-first century, we must lead in generating the necessary political discourse involving the full range of voices with a stake in the issues and produce the ideas and pragmatic experimental evidence that demonstrates a new social contract is achievable and worth pursuing for the good of society. The IRRA’s historical legacy was passed on to us from Commons and his student–architects of the New Deal labor policies, to the generation of postwar scholar–activists and founding members of the IRRA who nurtured this system to maturity, to the lifelong and emerging leaders in our profession whom we are celebrating here today. They all inspire us to take up this “mantle of responsibility,” to use a term from George Taylor, one of these postwar leaders.

We can’t do this alone. We need to continue taking our ideas and message to the American public. Unless we engage a broad cross section of the public—young and old, women and men, entry-level and professional–managerial workers—our message will fall on deaf ears. And we must reach out to and include in these discussions the same wide web of groups and leaders from business, labor, community groups, family advocates, and others who share an interest in these issues. If we do our job well, then we can hold elected leaders’ feet to the fire and insist they carry out their responsibility by putting these issues front and center on the national agenda. As I said at the outset, the next generation of professionals in our field will judge us by how well we discharge this responsibility.

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Endnotes

¹ Draft text of the presidential address to the 52nd Annual Meeting of the Industrial Relations Research Association on January 8, 2000.

² For a more complete discussion, see Burton Jr., Cass, and Kochan 1999.

³ Thanks are due to the Task Force on Labor Market Institutions Working Group on the Social Contract and the Corporation for crafting this definition of the social contract.

⁴ I am indebted to Arnold Weber for reviewing the intellectual development of this concept at the Chicago Regional IRRA Forum on October 22, 1999. For specific selections of these philosophers' writings on the social contract, see S. Freeman 1999 and Somerville and Santoni 1963.

⁵ For a classic exposition of this model, see Dunlop 1958.

⁶ I am indebted to Richard Locke for emphasizing this point. See also Rubinstein and Heckscher 1999.

⁷ Credit is due to Amy Dean for first coining this term.

⁸ Gallup poll surveys and many other surveys continue to report that a majority of Americans agree that unions are valuable institutions in society. For a statement on the importance of unions to a democratic society jointly written by a group of leading business and labor leaders, see the most recent report of the Collective Bargaining Forum 1999.

⁹ Worker surveys and opinion polls have been consistent on this point for many years. For the most complete recent documentation and analysis of worker preferences for participation and representation on the job, see Freeman and Rogers 1999. See also the various polls conducted for the AFL-CIO by Peter Hart Associates.

¹⁰ See the data reported in Freeman and Rogers 1999 and the Peter Hart polls cited above.

¹¹ Peter Hart and Associates 1998 poll reports 28 percent of the nonunion workforce were union members at some prior point in their careers.

¹² See the emphasis placed on education and training in the Secretary of Labor's 1999 Labor Day report (Herman 1999).

¹³ For a recent review of the evidence showing increased returns to human capital, see Levy 1998.

¹⁴ For various proposals for how to implement this approach to monitoring and enforcing workplace regulations, see Levine 1997, Marshall 1997, and Schneider 1997. For my own suggestions on how to do this see Kochan 1998.

¹⁵ For an evaluation of the Massachusetts experiment, see Kochan, Lautsch, and Bendersky 1999.

¹⁶ For empirical evidence on this point, see Eaton forthcoming 2000.

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II. WAGE INEQUALITY AND LABOR MARKET INSTITUTIONS

Unions and Wage Inequality in the Grocery Industry

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Abstract

In contrast to many sectors of the U.S. economy, real wage inequality has not increased in the grocery stores industry over the last two decades. However, real wage levels across the entire wage distribution have fallen. This paper uses CPS data and a semiparametric estimation strategy to analyze the extent to which unionization and other factors are related to these real wage changes. The decline of unionization, especially an erosion in the union wage premium, in the grocery stores industry has actually decreased wage inequality but is also associated with a decline in real wage levels.

On an aggregate level, it has been well documented that wage inequality in the United States has significantly increased since 1980 (Gottschalk and Smeeding 1997). This period coincides with a steady decline in union density and strength, so it is natural to question whether the observed wage trends can be explained by these changes in unionization (see Card 1996 and DiNardo and Lemieux 1997 and the references therein). We extend the semiparametric technique of DiNardo, Fortin, and Lemieux (1996) to analyze the extent to which changing union density and union wage differentials can account for changes in wage inequality and real wage outcomes in the U.S. grocery stores industry between 1983 and 1998.

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Wage Trends in the Grocery Stores Industry, 1983–1998

Using the Current Population Survey (CPS) Annual Earnings Files (the outgoing rotation groups) for individuals employed in SIC 601 (Grocery Stores), table 1 presents annual real wage outcomes for this industry between 1983 and 1998. Column 1 contains the average hourly real wage, which declines from \$10.12 in 1983 to \$8.82 in 1990–91 before rebounding to \$9.26 in 1998. Moreover, each of the percentiles (columns 4–6) follows the same downward trend as the mean real wage, with a slight rebound in 1998. Thus, note that the values of two summary measures of wage inequality—the standard deviation (column 2) and the Gini coefficient (column 3)—do not reveal a clear trend in wage inequality in this time period. For comparison, wage inequality has increased in manufacturing because the 10th percentile has declined while the 90th percentile has increased.

Columns 7–11 of table 1 present the trends in several other important aspects of wage outcomes in the grocery stores industry. In sharp contrast to the amount of media attention on part-time work, the fraction of employees working part-time has declined in the grocery stores industry since 1983. Educational attainment has increased, but the economic returns to education have remained the same (and low). These changes are modest compared with increases in other industries (for example, in manufacturing, returns to education increased from 0.070 to 0.094). Finally, union density has declined significantly, from 33% to 24%, and the union wage premium has similarly declined quite significantly, from 31.1% to 13.8%. In manufacturing, while union density has declined from 30% to 17%, the union wage premium has remained relatively stable at around 7%.

The question of interest is to what extent these labor market changes appear responsible for the observed changes in wage outcomes and inequality. In Budd and McCall (1999b), we focus on the role of changes in retailing such as the increased use of scanning technology. In Budd and McCall (1999a), we concentrate on the importance of competition between various sectors of the retail food industry. In the analysis that follows, the dimension of particular interest is unionization.

Semiparametric Analyses

The empirical strategy is to analyze changes in the entire wage distribution, so we need estimates of the probability density function of the wage distribution. To this end, consider estimating the density for a specific value of the wage distribution by taking a weighted average of the CPS observations around that specific value:

$$f(w) = \frac{1}{h} \sum_{i=1}^n \psi(z_i) K \left(\frac{w - W_i}{h} \right)$$

TABLE 1
Annual Wage Trends in the Grocery Stores Industry, 1983–1998

Year	Real wages (1998 dollars)										
	Mean (1)	Standard deviation (2)	Gini coeff. (3)	Percentiles			Fraction part-time (7)	Education		Unionization	
				10th (4)	50th (5)	90th (6)		Years (8)	Return (9)	Rate (10)	Return (11)
1983	10.12	5.27	0.27	5.48	8.18	17.96	0.43	12.02	0.032	0.33	0.311
1984	9.69	5.14	0.28	5.26	7.60	17.44	0.45	12.03	0.036	0.30	0.331
1985	9.44	5.11	0.28	5.08	7.58	16.84	0.43	11.96	0.029	0.29	0.310
1986	9.46	5.09	0.28	5.00	7.44	17.10	0.42	12.03	0.031	0.27	0.318
1987	9.25	5.52	0.29	4.83	7.17	17.22	0.44	12.00	0.033	0.27	0.281
1988	9.12	5.87	0.29	4.76	6.89	16.54	0.42	11.98	0.032	0.27	0.254
1989	9.04	5.17	0.28	4.65	7.17	15.78	0.42	12.00	0.036	0.25	0.244
1990	8.82	4.96	0.27	4.80	6.99	15.60	0.41	11.98	0.041	0.25	0.264
1991	8.82	4.82	0.26	5.09	7.18	15.56	0.44	12.02	0.037	0.27	0.224
1992	8.93	4.75	0.27	4.99	6.97	15.83	0.43	12.34	0.027	0.27	0.228
1993	9.04	5.07	0.27	4.89	7.05	15.83	0.43	12.38	0.035	0.25	0.248
1994	8.95	5.52	0.29	4.70	6.87	15.84	0.40	12.33	0.037	0.26	0.256
1995	9.04	5.68	0.29	4.65	6.98	16.05	0.38	12.28	0.030	0.26	0.217
1996	9.00	5.82	0.29	4.68	7.12	15.74	0.38	12.36	0.042	0.24	0.188
1997	8.78	4.80	0.27	5.08	7.11	15.23	0.37	12.29	0.034	0.24	0.165
1998	9.26	5.76	0.28	5.15	7.25	15.75	0.37	12.25	0.035	0.24	0.138

Source: Current Population Survey.

Note: Columns 9 and 11 are OLS coefficients from log wage regressions controlling for union, education, age and its square, female, married, nonwhite, part-time, occupation, and region. All of the columns use CPS earnings weights.

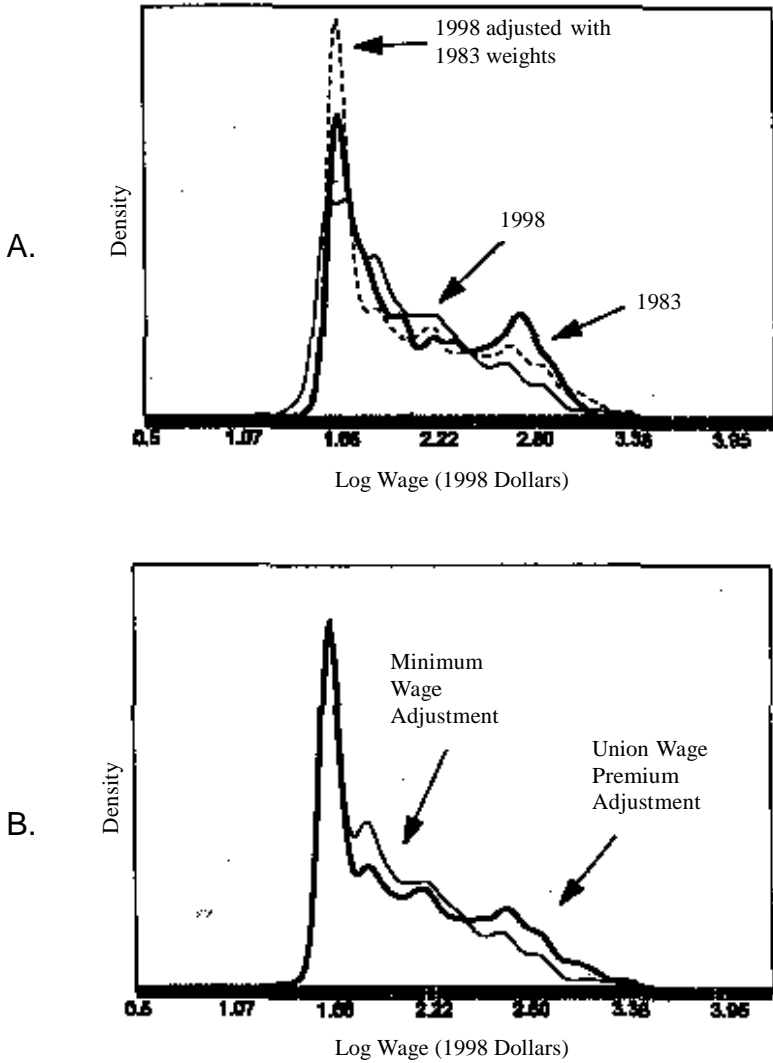
where w is the specific value of wage distribution, $f(w)$ is the density at that point, h is the bandwidth, and W_1, \dots, W_n are CPS wage observations. The kernel function $K(\bullet)$ is a weighting function so that, for example, observations closer to the point of interest w are weighted more heavily than observations farther away from w . Finally, $\Psi(\bullet)$ is a reweighting function based on individual attributes z_i . If $\Psi(\bullet) = 1$ (or, for example, equal to CPS earnings weights, as in our analyses), then $f(w)$ is the standard nonparametric kernel density estimate.

In the following analyses, the observations of interest are individuals' log real wages, and we use a Gaussian kernel function with a bandwidth of 0.05. By calculating $f(w)$ for 200 equally spaced values of w , the wage density can be plotted as in figure 1. Panel A of figure 1 presents the nonparametric density estimates of the log real wage distribution for the grocery stores industry for 1983 (the thick solid line) and 1998 (the thin solid line). As was shown in table 1, the entire wage distribution has shifted to the left.

The question of interest is to what extent changes in unionization and other factors between 1983 and 1998 can explain this observed change in wage distributions. This question can be addressed by manipulation of the reweighting function $\Psi(\bullet)$ in the density estimation. As an example, consider the change in union density. The 1983 distribution in figure 1 is essentially a weighted average of the underlying union and nonunion distributions, where the relative weights are 0.33 for the union distribution (recall the 1983 union density from table 1) and $1 - 0.33$ for the nonunion distribution. With the decline in union density in 1998 to 0.24, the relative weights have changed to 0.24 and 0.76. If the only thing that has changed between 1983 and 1998 is the union density, then we should be able to recreate the 1983 density by reweighting the 1998 observations to reflect the 1983 union density weights. In other words, we can construct the counterfactual estimate of what the 1998 wage distribution would have looked like if union density had remained at its 1983 level by using $\Psi = 0.33/0.24$ for the 1998 union observations and $\Psi = 0.67/0.76$ for the 1998 nonunion observations. If this counterfactual density is close to the actual 1983 density, then the decline in union density is an important component of the wage distribution change.

While this simple example illustrates the intuitive understanding of the reweighting, in practice it is more complex. In the case of union density, union density in 1998 may differ from that in 1983 because of an across-the-board decline in union density, because of demographic changes (groups less likely to be unionized, such as supervisors, becoming a greater fraction of industry employment), or both. Thus, we calculate $\Psi(\bullet)$ as a function of individual attributes (z_i): for union workers, $\Psi_i = P(\text{union in$

FIGURE 1
The Grocery Stores Industry Log Real Wage Distribution:
Actual and Counterfactual Densities, 1983-98



Notes: Kernel density estimates using the Gaussian kernel with 200 evaluation points and bandwidth = 0.05. The samples are from the CPS Outgoing Rotation Groups.

1983 $| z_i$)/ $P(\text{union in 1998} | z_i)$ and for nonunion workers, $\Psi_i = P(\text{nonunion in 1983} | z_i)/P(\text{nonunion in 1998} | z_i)$. These conditional probabilities are estimated by 1983 and 1998 logit models for union status using standard demographic variables as independent variables: age and its square, educational attainment, and indicator variables for female, married, nonwhite, part-time status, four major occupations, and major region.

Moreover, by constructing different reweighting functions, we can generate a variety of counterfactual distributions. In addition to the union density counterfactual, we construct separate counterfactuals for the minimum wage, the union wage premium, and a group of other attributes. Each counterfactual involves the calculation of a weighting function $\Psi(\bullet)$. Except for the union wage premium, each of these is constructed similarly to the process previously outlined for the union density counterfactual, and interested readers are referred to DiNardo, Fortin, and Lemieux (1996) and Budd and McCall (1999a, 1999b) for additional details.

The union wage premium counterfactual is an extension that merits explicit description. The union density counterfactual reweights observations to replicate the 1983 union density but implicitly uses the 1998 union wage premium. As illustrated in table 1, the union wage premium is declining over time, so a simple reweighting may underestimate the true importance of unionization in explaining wage changes. Thus, we also construct a counterfactual in which the actual 1998 log real wage ($\ln\text{wage}_i$) for each unionized individual is replaced by $\ln\text{wage}_i + (\text{u}\text{wage}_{83_i} - \text{u}\text{wage}_{98_i})$, where $\text{u}\text{wage}_{83_i}$ is the predicted value from the regression of log real wages on the demographic variables using unionized 1983 observations and $\text{u}\text{wage}_{98_i}$ is predicted from the analogous regression using 1998 unionized observations. Note that each predicted value is being constructed for the 1998 observations and therefore uses the 1998 characteristics. In short, this procedure generates the wage for each 1998 unionized individual if the union wage premium had remained at its 1983 level.

Decomposition Results

Recall that the thick and thin solid lines in panel A of figure 1 present the actual wage distributions for the grocery stores industry for 1983 and 1998. The dashed line in panel A is the final counterfactual density for 1998: the 1998 wage distribution if the minimum wage, union density, union wage premium, and other characteristics (including age, education, gender, occupation, and part-time work) were at their 1983 levels. This counterfactual is created using nonparametric kernel density estimation with the cumulative reweighting functions for each category as described in the previous section.

Visually, it is apparent that this reweighting is partially successful in explaining the observed wage changes. More specifically, note that the downward shift in the lowest part of the distribution is replicated by the counterfactual and that the hump in the upper part of the distribution is partially replicated by the counterfactual. Using the Kullback-Leibler measure of the distance between two distributions (see DiNardo, Fortin, and Lemieux 1996), about 55% of the total difference between the two distributions can be accounted for by the reweighting. In contrast, the same counterfactual procedure only explains 10% of the difference in manufacturing.

The greatest value of this methodology, however, lies in being able to parcel out different factors by analyzing specific steps in the sequential decomposition. The first step is the minimum wage counterfactual, which is shown as the thin solid line in panel B of figure 1. In this counterfactual, the portion of the 1998 wage distribution that is below the 1983 minimum wage level is essentially replaced with the analogous portion from the actual 1983 distribution (rescaled so that the sum of the total density is 1). This counterfactual is the estimate of the 1998 wage distribution if the minimum wage had remained at the 1983 level with all else constant.

The results are presented numerically in table 2. Columns 1 and 2 present summary statistics for the actual 1983 and 1998 values of log real wages in the grocery stores industry. Column 3 presents the statistics for the minimum wage counterfactual distribution, that is, the distribution if the real minimum wage had stayed at the 1983 level. The important result from column 3 is explanatory power of the minimum wage counterfactual for the 10th percentile. In fact, these results imply that all of the decline in the 10th percentile can be accounted for by a deterioration in the real value of the minimum wage. There is little explanatory power elsewhere in the distribution, but overall the minimum wage explains nearly one third of the total discrepancy between the actual 1983 and 1998 distributions (see the Kullback-Leibler statistic).

The second step is the union density counterfactual, in which we construct the 1998 wage distribution if union density had remained at its 1983 level (and the minimum wage were at its 1983 level since the decompositions are cumulative). The summary results are presented in column 4 of table 2. Overall and at the low end of the distribution, the change in union density is not very important. The change in union density does appear to account for 25% of the change in the mean wage, 28% of the change in the median, and 10% to 12% of the change in the upper end of the distribution. This step is not presented in panel B of figure 1 since the density is quite close to the minimum wage counterfactual in a small figure.

TABLE 2
Decomposing Changes in the Grocery Stores Industry Log Real Wage Distribution, 1983-1998

	Actual		Counterfactuals (1998 with 1983 weights)				Unexplained change (7)
	1983 (1)	1998 (2)	Minimum wage (3)	Union density (4)	Union wage gap (5)	Other attributes (6)	
Log real wage							
Mean	2.102	2.008	2.015 (7.45)	2.030 (15.96)	2.102 (76.60)	2.071 (-32.98)	-0.031 (32.98)
Standard deviation	0.470	0.462	0.455 (-87.50)	0.458 (37.50)	0.518 (750.00)	0.509 (-112.50)	0.039 (-487.50)
Gini coefficient	0.113	0.111	0.105 (-300.00)	0.106 (50.00)	0.121 (750.00)	0.119 (-100.00)	0.006 (-300.00)
10th percentile	1.607	1.544	1.607 (100.00)	1.607 (0.00)	1.607 (0.00)	1.607 (0.00)	0.000 (0.00)
25th percentile	1.679	1.671	1.650 (-262.50)	1.650 (0.00)	1.650 (0.00)	1.650 (0.00)	-0.029 (362.50)
50th percentile	2.007	1.886	1.886 (0.00)	1.920 (28.10)	1.984 (52.89)	1.920 (-52.89)	-0.087 (71.90)
75th percentile	2.514	2.284	2.284 (0.00)	2.307 (10.00)	2.484 (76.96)	2.431 (-23.04)	-0.083 (36.09)
90th percentile	2.793	2.662	2.662 (0.00)	2.678 (12.21)	2.840 (123.66)	2.819 (-16.03)	0.026 (-19.85)
Kullback-Leibler		0.226	0.153 (32.30)	0.139 (6.19)	0.094 (19.91)	0.099 (-2.21)	0.099 (43.81)

Notes: Other attributes include those listed in the note to table 1.

Each entry in columns 3–6 is the counterfactual log real wage measure replacing the 1998 distribution. The number in parentheses is the difference between the 1983 value and the previous counterfactual that is explained by the added counterfactual and expressed as a percentage. The unexplained difference is the difference between columns 1 and 6.

With respect to wage inequality, a comparison of columns 3 and 4 reveals that the marginal effect of changing the union density to its higher 1983 level is predicted to be positive. More specifically, the standard deviation and Gini coefficient for the log real wage are predicted to be larger if union density had remained at its 1983 level.

Recall from table 1 that in the grocery stores industry, the union wage premium declined from 31% in 1983 to 14% in 1998. The next step of the decomposition is to estimate the effect of this decline by constructing a counterfactual wage distribution for 1998 based on the 1983 union wage premium. The results are described in column 5 of table 2. As with the union density counterfactual, the union wage premium does not have any explanatory power for the 10th and 25th percentiles—the expected result since unionized individuals are in the upper part of the wage distribution. However, the change in the union wage premium can explain half of the change in the median wage and more than 75% of the wage change above the median. The results are reflected in panel B of figure 1.

In looking at the standard deviation and Gini coefficient results, both inequality measures are predicted to be larger (by around 14%) if the union wage premium had remained at its 1983 level. Overall, the change in the union wage premium can explain 20% of the total discrepancy between the 1983 and 1998 wage distributions.

Finally, the last step of the decomposition accounts for demographic, occupational, and part-time employment changes. First note that between 1983 and 1998, average education, age, fraction female, and fraction non-white increased, while the relative frequency of part-time employment, cashiers, butchers, and baggers decreased. Second, note that for wage levels in the middle and upper portions of the distribution, the counterfactual wage levels decrease between columns 5 and 6 in table 2. This implies that had the demographic characteristics remained at their 1983 levels, observed wage outcomes in 1998 would have been even lower than they were. In other words, the actual increase in age and education along with the reduction in part-time employment and other demographic changes prevented an even greater decline in real wages than actually occurred and partially offset the decline in real wages stemming from the decline in unionization.

Conclusion

Popular sentiment seems to be that the aggregate increase in wage inequality over the last two decades is a bad thing. In the grocery stores industry, wage inequality has not increased in this time period, but it is naive to then characterize this as good. In this industry, the entire wage distribution has shifted downward so that 1998 real wage levels are below

1983 real wage levels for those in the lower, middle, and upper portions of the wage distribution. Wages in the upper part of the distribution—primarily because of a decline in the union wage premium and, to a lesser extent, a decline in union density—have fallen faster than wages in the lower part of the distribution. In fact, between 1983 and 1998, the real value of the minimum wage, which anchors the lower portion of the grocery stores industry wage distribution, fell by 6.2%, while the average union wage (in real terms) fell by over 17%. The decline of unionization in the grocery stores industry has not caused an increase in wage inequality, but it is associated with a decline in real wage outcomes.

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III. EUROPEAN WORKS COUNCILS: IS THERE A EURO SOCIAL CONTRACT?

European Works Councils: The Early Belgian Experience

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The 1994 directive instituting European Works Councils (EWCs) “creates for the first time a transnational system of industrial relations based on European legislation” (Schulten 1996). In doing so, it fueled hopes that EWCs would be an important step toward a European industrial relations system (Marginson and Sisson 1994). By April 1999, the EC Commission estimated that over 500 multinationals had complied with the directive and instituted this new form of information and consultation. It has therefore become possible to move beyond a focus on how they were set up (Marginson et al. 1998) to actually see how they are functioning. This has been the object of a number of recent studies (Lecher, Nagel, and Platzer 1999; Rehfeldt 1998; Wills 1998). Our research, focusing on four multinationals with Belgian-based EWCs, makes a modest qualitative contribution to this area. The results discussed here report some of the results of extensive interviews with the Belgian employers, employee representatives, and national unions actively involved in the multinationals selected from the steel, engineering, and insurance sectors.

Two of the multinationals (MNCs) studied, companies A (Belgian) and B (American), belong to the metal and engineering industries and are located in Walloon French-speaking industrial regions that were traditional bastions of the more combative parts of the working class. The other two,

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companies, C (Swiss) and D (British), belong to the insurance sector and are based in mainly French-speaking Brussels. Three of them concluded EWC agreements in the month preceding the September 22, 1996, deadline; company B's agreement came later only because of the long and difficult negotiations it involved. So, in all of these companies, the EWC is still a very young institution.

The Practice and Evolution of EWCs

In the four MNCs, management favored concluding agreements before the September 22, 1996, deadline for "voluntary" agreements. They explained this with two logics: an intent to demonstrate their openness to dialogue with their employees (A and C) and a wish to take advantage of the possibility of having their own agreements.

The Belgian national unions played an important or major role in the negotiations, establishing the EWCs while staying in close touch with their respective European industry federations, the EMF and Euro-FIET. In line with European Trade Union Congress (ETUC) position, these both had guidelines stipulating that the national unions of the country where the headquarters are situated (or the agreement would be signed) should lead the negotiations. The Belgian unions also had the responsibility of allocating the seats on the EWCs between the Belgian delegates so as to loosely represent the strength of representation in each company. This process did not always go smoothly.

Experiencing the EWC

The actual EWC meetings with management are, of course, the formal purpose of the institution. These were commonly agreed by worker representatives to last too short a time to be as effective as desired: half a day, except in company C where it is a full day. A number of the union delegates complained of senior managers dictating the duration and pace of the meeting by their flight schedules. Most agreed that the preparatory meeting for employee representatives was a key element, though too brief, permitting in the best of these meetings some genuine exchange of information between delegates from different countries. These preparatory meetings last for half a day at best. In companies A and B, a formal follow-up meeting of employee representatives takes place and is also highly valued. Social occasions, such as the evening meal, often attended by management representatives, provide further opportunities for contacts and informal questioning. The first important result of the existence of EWCs thus simply appears to be that it brings together and fosters contact between employees coming from different national establishments of the same MNC.

Outside the yearly meeting, the day-to-day functioning of the EWC does not involve very much additional work. More dedicated time is involved for the employee-side EWC secretary who is also responsible for the smaller EWC select committee. These secretaries must prepare the annual meeting (and any extraordinary meetings), report on them, and exchange information and maintain loose contacts during the rest of the year. In all four MNCs they usually contact their select committee colleagues before meetings for their views and then ask the other delegates for ideas to go on the agenda. Often they include suggestions they consider important, but only after having raised them first with management. The EWC secretaries reported little response at this stage either from other countries or from other Belgian unions, suggesting a lack of engagement by many delegates. Although the agenda is formally set up jointly, the reality is that the time taken up is overwhelmingly for the presentation of management views, and there is little time left fully open to genuine exchanges of opinion.

Information Rather than Consultation

Much of the substance of the regular EWC meetings consists of a presentation of the company's general strategy and results (often via its annual returns), of its market share in different sectors and countries, and of its employment situation. Delegates usually expressed the need to have some expertise in corporate accounting to take advantage of the meetings; others mentioned the difficulty of fully understanding the information received in the time constraints imposed.

Since an important rationale behind the EWC directive was to persuade MNCs to adjust their information and consultation procedures to the Europeanization of the firm, we inquired whether the EWC really added anything to these MNCs in a context where experienced trade unionists and preexisting legal obligations or negotiating traditions had generally led to a great deal of information being available. The union interviewees were far from unanimous. Most felt they had developed a better knowledge of their MNC's non-Belgian sites or a better understanding of their firm's international policy.

The most potentially sensitive issues in the four MNCs since the institution of the EWC concerned mergers and acquisitions. Company B was expanding through a series of acquisitions, while companies A and C were actually undergoing mergers at the time of our interviews, and company D had just been through one. Clearly, the issues raised by these transformations are exactly those over which "consultation" rather than just "information after the fact" might be provided to the EWC. Yet, as shown in table 1,

this was not exactly the way things happened. The management in company A provided the most information in a context where the prospective merger partner insisted on total secrecy. Company C just gave lip service to the expectation of employee representatives about prior information. In company D, there was no prior information at all. The absence of proper consultation led all three EWCs to protest vigorously.

TABLE 1
EWC-Based Information and Consultation about Major MNC Structural Change

Company	A	C	D
Nature of change	Take over of a majority of shares of another MNC	Merger	Merger
Involvement <i>before</i> the change	Detailed information given on the general strategy and the potential partners; none about the actual negotiations	EWC secretary informed personally 12 hours before the public announcement	None
Involvement <i>after</i> the change	1. Telephone-call conference with EWC select committee the day after signature 2. Extraordinary EWC meeting	Information during the following regular meeting	Extraordinary meeting requested and obtained by EWC members

Resource Mobilization Rather than Negotiation

Information and consultation may be viewed as part of a continuum of employee participation in decision making in which the next step could be negotiation. We therefore inquired whether there were any signs of the EWCs' facilitating moves in this direction.

It appeared that the information provided the EWC, and still more important, the possibility of directly exchanging information with colleagues from other countries, had the indirect result of allowing the unions in A and B to cross-check information given by national management. This has occasionally led directly to local negotiations in company A. We also found that the very existence of the EWC and its possibility of access to top management led in company C to the formulation of a demand, subsequently realized, concerning redundancies in Belgium. In these examples the EWC was effectively used to achieve local bargaining objectives.

In none of the 14 EWC meetings that had taken place in our four MNCs was there anything remotely approaching group-level negotiations. However, within even the short time that they have existed, two *preconditions* for

such negotiations are beginning to emerge. The first, appearing among only a small handful of union activists, is a deeper sense of common interests. This is largely the consequence of the informal comparisons of national working conditions and rights of workers' representatives. This process may encourage a gradual escalation of national demands toward greater parity, at least on broad principles in HR management. The second precondition is the emergence of some friendships and, perhaps, a small degree of trust between some delegates from different countries, mainly the members of the EWC select committees who have more reasons to keep in touch more frequently. The trust that can emerge from contact is, of course, a necessary condition for the development of common positions. In our cases, they appeared rare and difficult to achieve even in situations such as mergers when common interests would appear to be clear. Still, they marked a significant advance on national particularities.

Perhaps sensing these possibilities, practically all our union respondents believed that the EWCs would lead to collective bargaining over the next 5 to 10 years or more. Despite an honest recognition of the present limits of the EWC, they appear to sense a slow development of a community of interests.

In this context it would be wrong to draw too sharp a line between the processes of information, consultation, and negotiation. The MNC that summons an EWC prior to a merger and one that makes a minor announcement to an EWC and then orders a review of the decision in the light of the reaction it produces are both imperceptibly sliding somewhere between information and negotiation. Over time perhaps a better way of understanding the insertion of a new tier of European trade union coordination is to view it as an additional resource, rather than as a system which operates as an information or consultation or negotiating body. Currently the EWCs operate largely at the level of information, where resources are mobilized more or less effectively in the same way as are national union information resources, to help legitimate negotiable demands. Because EWCs already contribute a little across the whole employee-representation spectrum, it is probable but by no means certain that our respondents are right when they suggest that the EWC may very slowly evolve toward a greater role in coordination.

EWCs: A Forum for Management?

Management strongly resisted the sheer existence of this directive, which, as Streeck (1997) demonstrated, actually imposes very few obligations as far as information and consultation are concerned. But now that they must face the reality, individual managements are learning how to

take advantage of it. Some have seen their early compliance as a way to improve their image. Some have also learned that the EWC meeting can be a platform through which to legitimate their views and corporate identity with their employees. Asked about the potential advantages to them of EWCs, our management interviewees identify three: getting across management's vision to employee representatives, exchanging information with employee representatives, and building new relationships with the unions. These results confirm the findings of a recent British survey (Wills 1998), and management views on this point were also reflected by the union representatives. These results explain why management in all four MNCs responded to the new institution by investing considerable resources: ensuring the presence of top European management with very professional presentations; accommodating delegates in expensive hotels; paying for all travel, food, and drink; and providing the meeting place with often extensive and costly interpreting facilities, at least during the plenary meetings.

Yet potential disadvantages were also identified by Belgian management in our four MNCs, although with varying accents and with varying importance. These disadvantages were increased bureaucracy, introducing unnecessary duplication into employee relations, financial expense and expense in time, the tendency to compare employment conditions between different countries, the likelihood of European collective bargaining, delaying decision making, and raising employee expectations. Management in MNC B insisted that it was its responsibility to ensure that these potential difficulties did not develop. One way of circumventing unwanted developments is to be very strict about EWC competence, for instance, by rejecting any question pertaining to what happens in one country only, even when, as occurred in company D, a major takeover could be considered an important element of group strategy. Another way is to refuse any comparison of employment conditions.

Also, the question of resources is a double-edged area of tension between the two sides. While the day-to-day functioning of the EWC is not expensive, meetings are. And the MNCs often spend much more on these annual meetings than is required. At the same time, they regularly use the cost of meetings as an excuse to deny additional meetings between employee representatives. Perhaps not surprisingly, managements thus appear ready to spend on improving their image but not on helping create stronger employee representation.

Interactions on the Employee Side

Unlike other existing representative bodies in the firm, when EWCs have been set up, they have essentially been imposed from above (or outside).

Moreover, they also crosscut existing union and representative structures, often creating a “democratic deficit,” which is the source of a number of potential difficulties (Lecher and Rüb 1999: 77). In this section we address some of the difficulties on the employee side.

Intra-EWC delegate relations are perhaps the greatest challenge. We can distinguish two aspects. Negative *national* divisions occur where interunion rivalry under union pluralism can impede the process of establishing cohesion and can reduce the effectiveness of the EWC as a communication forum. Negative *transnational* divisions can result partly from the language barrier, but nearly as important (and not totally unrelated) was the distrust generated by a lack of understanding of one another’s industrial relations systems. And, although this was not raised directly in the Belgian interviews, a certain degree of competition between different sites for production can also add problems.

Enterprise union articulation is also a problem. Within the MNCs generally, there was very little interest in the EWCs, yet demonstrating their relevance is crucial if the EWCs are to achieve any legitimacy. In our Belgian case studies there were no direct elections for the EWC, and little was done by EWC delegates to communicate European union issues to their members and the employees.

EWC-national union articulation was also flawed. In all four case studies, senior national union officials were the main actors on the employee side in setting up the EWCs, usually without the full participation of all the potential actors in the MNC. But afterward the roles of unions diverged. While continuing in all cases to wish the EWCs well, some unions did not follow up the new structures or provide continuing training.

Conclusion

If the responses from Belgian management in these four companies tend to be positive about the costs and benefits of EWCs, the trade unions’ balance sheet is more mixed. We have found that the EWCs are the concerns of a paper-thin layer of lay union activists. These tend to be the most European-minded, often those with more than one language, who seem also to be fairly remote from their constituents’ views on EWCs and even sometimes from those of other lay activists who are not EWC delegates. Even so, and while helping management improve their corporate communications, the EWCs are also slightly subversive to this end through helping create an international network for employee counterculture.

Yet these new bodies clearly have a very long way to go to become significant vehicles of a European union consciousness. Indeed, as many delegates insisted, our EWCs are still very young. Given the issues, the time,

adequate support, a continuing dedication on the part of the most active delegates, and the opportunity to make good the “democratic deficit” separating them from their constituencies, it is possible that they will move from being an annual formal meeting to playing some form of coordinating role between different national groups of workers who increasingly trust each other and have converging interests. For this to happen, however, the EWCs will need further political support from both their national unions and from the European industry federations. At a time when the ETUC has a number of propositions for the revision of the directive (Buschak 1999), our findings suggest that this support is at least as important as legislative changes.

The existence of EWCs may thus be considered a start toward creating some union response to the internationalization of capital and a step toward a European labor movement. Turner (1996) rightly argues that what is still more important than the growth of institutions is that they encourage a thickening web of cross-national union contacts. Beside the dramatic cross-national mobilization over Renault’s closure of the Belgian Vilvorde plant, the active and conscious cross-national networking being undertaken by our EWC respondents may appear very small and insignificant, but if reproduced widely across Europe’s 500 EWCs, it makes a case for cautious optimism about the EWC institutional innovation.

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Similarities and Differences in a Sample of European Works Council Agreements

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Abstract

The European Works Council Directive was adopted on September 20, 1994. It has been phased in slowly and allowed first for voluntary agreements and later for mandatory agreements. Approximately 860 multinational corporations are estimated to be covered by the directive. Comparisons were made between a sample of 53 mandatory agreements and 50 voluntary agreements to see if there were differences among five structural provisions of the agreements. Few differences were found. A large number of firms and their workers, over 500, negotiated voluntary agreements, with a much smaller number slowly complying with the mandatory requirements. This was true both for firms from countries that could be categorized as having adversarial industrial relations and human resource practices and for firms from countries with a more cooperative relationship.

The European Works Council (EWC) Directive was adopted on September 22, 1994. The directive had been on the European Union (EU) agenda for 25 years (Streeck 1997). It established a legal right for workers and their representatives to be consulted and informed about multinational corporations (MNCs) operating in more than one country in the EU. Any MNC employing more than 1,000 workers in the European Economic Area (EEA, which is the EU plus Norway, Iceland, and Liechtenstein) and with 150 workers in at least two member-states had to have a EWC or a procedure for informing and consulting employees when the workers asked for it.

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Estimates of the number of MNCs covered by the directive range from 860 to 1,500 (Hall et al. 1995). EEA countries were given until September 1996 to voluntarily place the directive into their national laws. Great Britain opted into the requirements of the directive in December 1999. By the time the deadline expired, it was estimated that close to 500 MNCs had negotiated voluntary agreements under Article 13 with their workers. Between September 1996 and September 1999, agreements that followed mandatory guidelines based on Article 6 were required. After that date, a standard EWC is to come into force. Since the September 1996 deadline, negotiations between the MNCs and their workers over Works Councils (WCs) have slowed.

Works Councils exist in Europe and Asia, and there is an extensive literature on the subject (Rogers and Streeck 1995; Addison, Kraft, and Wagner 1993). Much of the discussion to date has been institutional and descriptive. However, there is a growing body of quantitative studies (e.g., Bain forthcoming). The literature may be placed in two categories. In one category are those studies that examine the implications of WCs for worker representation and industrial democracy. Included in this group are those studies that question whether WCs act as a substitute for or complement to unions (Addison 1999). In the second category are those studies that examine the effects of WCs on the economic performance of firms and labor markets.

Some of these same questions can now be raised with regard to EWCs. However, since EWCs are transnational, the issues raised are much broader, and a comparative industrial relations and human resource (IR/HR) approach is more appropriate. The purpose of our research is to attempt to determine whether MNCs from countries usually characterized in the literature as having cooperative IR/HR practices are more likely to have implemented voluntary EWCs than MNCs from countries characterized as having adversarial IR/HR practices (Bain 1992) and whether there are differences in the terms of the agreements that can be related to industry and market characteristics, company characteristics, and IR/HR practices.

This is an ambitious menu, and the research reported here is much more modest. It is a preliminary comparison of 53 Article 6 agreements with 50 Article 13 agreements. The database used in this effort was an original inventory of companies covered by the EU directives developed by the European Trade Union Institution (ETUI) in cooperation with seven research institutes in EU countries.¹

Our primary research questions involve a comparison of several of what may be termed as structural provisions found within the 103 agreements, as contrasted with questions to be asked later related to the levels of information and consultation in the agreements. The primary questions include

(1) the number of EWC members, (2) the length of EWC member terms, (3) the number of regularly scheduled meetings between the parties per year, (4) the average length of the agreements, and (5) whether any language training would be provided to EWC members to enhance the communication process between the parties, and if so, in what language.

TABLE 1
Article 6 and 13 Agreements by Country

Country of ownership	Article type	Number of agree-ments	Number of members	Term in office	Number of meetings	Agree-ment length	Language training
Austria	Art. 6	2	30	4 yr	1	2 or 3 yr	No
	Art. 13	1	12	—	1	—	No
Belgium	Art. 6	8	11–27	4 yr	1	4 yr	No
	Art. 13	2	—	4 yr	1; 2	3–6 mo	No
Canada	Art. 6	1	20	—	1	3 yr	No
	Art. 13	1	—	4 yr	—	1 yr	No
Denmark	Art. 6	1	12	3 yr	1	3 yr	No
Finland	Art. 6	3	19	3 yr	1	6 mo	Yes
	Art. 13	1	—	—	1	6 mo	No
France	Art. 6	3	9–30	2/4 yr	1	6 mo/ 2 or 4 yr	No
	Art. 13	6	18–54	2 yr	1; 2	6 mo/ 2 or 3 yr	No
Germany	Art. 6	4	30	4 yr	2	1–5 yr	Yes/No
	Art. 13	10	13–46	4 yr	1	4 yr	No
Ireland	Art. 6	2	15–17	3; 4 yr	1; 2	4–6 yr	No
	Art. 13	1	—	1 yr	2	—	Yes
Italy	Art. 6	4	10–25	3; 4 yr	1	4 yr	No
	Art. 13	1	7	—	1	6 mo	No
Luxembourg	Art. 13	1	19	4 yr	1	4 yr	No
Netherlands	Art. 6	7	12–30	4 yr	1	4 yr	No
Norway	Art. 6	1	—	3 yr	1	3 yr	No
Spain	Art. 6	1	22	2 yr	1	2 yr	No
Sweden	Art. 6	5	10–17	3; 4 yr	2	6 mo	Yes
	Art. 13	6	21–30	3; 4 yr	1	3–4 yr	Yes
UK	Art. 6	8	11–23	4 yr	1	4 yr	No
	Art. 13	12	16–40	3 yr	1	5 yr	No
USA	Art. 6	3	22–26	4 yr	1	4 yr	No

Analyses of Article 6 Database

An examination of the ETUI database indicates that the 53 Article 6 agreements were completed and signed within the period from February 12, 1996, to September 4, 1998. Sorting the agreements by country of ownership, we found that 15 individual countries were represented by Article 6

agreements. The countries with the largest number of agreements were Belgium and the United Kingdom (8 each) and the Netherlands (7). Other countries represented by companies with Article 6 agreements were Sweden (5); Germany and Italy (4 each); Finland, France, and the United States (3 each); Austria and Ireland (2 each); and Canada, Denmark, Norway, and Spain (1 each).

The numbers of employee representatives in the EWCs range from a minimum of 9 members to a maximum of 30. The most common number of EWC members was set at 30, but that number was used in only 8% of the agreements. An analysis of EWC members' tenure shows a range between two and five years, with four years being the most common term length, found in 49% of the Article 6 agreements.

Further examination of the Article 6 agreements indicates that the durations of the agreements span from six months to six years, with the most common duration set at four years (47%). Included in almost every agreement was a clause specifying that either side could terminate the agreement by giving the other party required notice, usually after an initial six-month period commencing with the official ratification of the agreement by the two parties.

In 39 of the 53 agreements (74%), only one scheduled meeting per year was to be held. In almost every agreement, the officially designated meeting venue was set for the corporate headquarters in the ownership country. However, most agreements included a provision for other non-scheduled meetings to be held between the parties if "unusual circumstances" warranted. Surprisingly, few if any agreements included any definition of "unusual circumstances."

In most Article 6 agreements, provisions specifying the language adopted between the parties for the communication or consultation process were included. In 64% of the agreements, the language chosen was English. In 21 of the 53 agreements (40%), central management agreed to provide and bear the total cost of payment for language training for EWC members who needed or desired such training. In the remainder of the 32 agreements, language was included regarding both provision and payment for language interpretation to assist EWC representatives in conducting their official duties and responsibilities.

We were also interested in determining if any prerequisites such as union membership were included in the agreements regarding election or appointment to the EWC. In only 13 agreements were more stringent requirements placed on potential EWC members than simply being considered an employee of the company in the specific qualifying EU country. Of these 13 agreements, the most common requirement, found in 6 agreements, was

that an employee must have a minimum of two years' tenure with the company in order to be eligible for membership.

Analyses of Article 13 Database

An examination of the 50 Article 13 agreements indicates that all were signed within the period from January 24, 1992, to May 30, 1997 (Marginson et al. 1998). Again sorting by country of ownership, 13 individual countries were represented with Article 13 agreements. The countries with the largest number of agreements were the United Kingdom (12) and Germany (10), followed by France, Sweden, and the United States (6 each). Other countries represented were Belgium and Switzerland (2 each) and Austria, Canada, Finland, Ireland, Italy, and Luxembourg (1 each).

The numbers of employee representatives in the Article 13 EWCs range from a minimum of 7 members to a maximum of 54. The most common number of EWC members in this group was either 16 or 18, but each was found in only 6% of the agreements. An analysis of EWC members' tenure shows that it ranges between one and four years, with four years again being the most common term length, in 28% of the agreements.

Examination of the Article 13 EWC agreements indicates that the durations of the agreements span from three months to 10 years, but in 28% of the agreements the length was set at six months. Also included in Article 13 agreements were clauses specifying the termination of the agreement by notice of intent to do so by either of the parties.

In 32 of the 50 agreements (64%), one scheduled meeting per year would be held. Again, as found in Article 6 agreements, official meeting venues were normally at corporate headquarters. Most agreements also included the provision for other nonscheduled meetings to be held between the parties if "unusual circumstances" warranted.

In Article 13 agreements, provisions also specified the language to be used between the parties for the communication or consultation process. Again, English was the stipulated language in 56% of the agreements. However, in these agreements only 24% of central management agreed to provide language training for EWC members. In the other 76%, provisions were also included for translation services for EWC members.

Another difference between the two types of agreements was found in the EWC member prerequisites. Similar to the Article 6 agreements, 12 agreements required employee tenure ranging between six months and three years for EWC eligibility. In three of the agreements, potential EWC members had to demonstrate proficiency in the English language. In two other agreements, an individual could not serve on the EWC if near his or

her scheduled retirement date. One agreement specified a minimum eligibility age of 18. Perhaps the most interesting requirement, found in three agreements, stipulated trade union status for eligibility.

Conclusions

Grouped by article, the structural terms of the agreements indicate few differences. A few more countries are represented in the Article 6 sample under the mandatory requirements, while the number of council representatives is slightly larger under Article 13 voluntary requirements. There are no differences in average tenure of council members. Slightly more meetings are to be held each year and there is less English training under voluntary agreements. Both groups recognize the importance of providing interpreters for meetings. English is the preferred language of the MNCs under both articles, and the presence of more English language training under the mandatory article, 64% versus 56%, may reflect a greater understanding over time of the need for a common language if council members are to fully participate.

Conclusions cannot be drawn from the data when the agreements are grouped by cooperative and adversarial systems since the sample size is small. The number of agreements by home country and article may reflect the greater or lesser presence of multinationals in the home country. However, MNCs based in the United Kingdom and the United States, which are often categorized as having adversarial IR/HR practices, surprisingly negotiated more voluntary than mandatory agreements to date. The same is also true for MNCs based in Germany and Sweden, often categorized as having more cooperative practices. At this point in the research, it appears that a considerable number of the eligible MNCs, at least a third or more, saw an advantage to concluding voluntary agreements. Other MNCs are negotiating more slowly. Whether or not there is a difference among MNCs' IR/HR strategies based on country or characteristics is part of our future research agenda.

Endnote

¹ The ETUI database was originally issued in hard copy format in 1997 but was released in 1999 as a CD-ROM containing 470 full-text agreements (translated into English) and 53 Article 6 agreements. The ETUI also issued a 1998 database supplied on diskette, which contains profile information on many of the companies affected by the EU directives. This database was also used in this research project to help clarify information not found in the ETUI CD-ROM database.

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IV. INSIDE THE BLACK BOX: WORK ORGANIZATION, WAGES, AND OTHER LABOR MARKET OUTCOMES

Outcomes for Contingent Workers in High-Performance Work Systems

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Two trends in American workplaces signal that a shift is occurring away from the traditional Fordist model of work. Narrowly defined jobs are being eclipsed by a “high performance work system (HPWS)” of high-skill teamwork (Kochan and Osterman 1994). At the same time, other workers find themselves increasingly in contingent jobs (Barker and Christensen 1998). An important link exists between these two trends, as levels of contingent work are higher in firms that have HPWS practices (Drago 1998).

This raises immediate questions about how these two seemingly contradictory systems of work can be managed together in firms. Are changes in contingent jobs necessary to support the desire to achieve “high performance”? Will regular and contingent jobs be managed and rewarded in consistent ways? This study uses a nationally representative sample of firms to examine one critical piece of these issues. It explores what determines whether firms provide benefits to their contingent workers and whether the presence of HPWS practices for the core workforce influences this. In particular, I examine two key types of benefits: the standard benefits of health care and pensions and newer work–family benefits. Access to standard health and pension benefits has been the focus of concern for contingent workers (see Carré 1994). Less is known about work–family benefits, despite increasing interest in them due to greater workforce diversity.

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Explaining the Variation in Firm Benefit Provision

The link between HPWS and contingent work exists mainly because the presence of contingent workers can serve, paradoxically, as a signal of HPWS employers' commitment to the continued employment of their regular workforce. The HPWS model requires a high level of investment in worker training (Osterman 1995a), along with a high level of employee motivation and commitment to the firm. These requirements create incentives for employers to attempt to create long-term employment relationships for regular workers. In volatile markets, employers will have greater success in retaining workers and in eliciting commitment, if they support their efforts to create secure regular jobs by creating a "buffer" of contingent workers to absorb demand shocks.

Research offers little insight into how these contingent and regular work systems may interact where they exist within the same firm. Compensation and benefit rules are important components of work systems, and these could be positively or negatively affected by a link with an HPWS for regular workers. The fact that contingent work is often brought into HPWS firms as a buffer for regular workers implies that gains to the core may come at the expense of a contingent periphery. However, there may also be other unifying forces that would lead instead to contingent and regular workers being compensated in more equal ways. For example, worker commitment is particularly critical in HPWS firms, and benefits are often provided to enhance worker attitudes about their jobs. Managers may want to instill commitment in even their contingent workforce in order to achieve performance objectives. Overall, I expect that the presence of a high-performance work system will influence the treatment of contingent workers—particularly eligibility for fringe benefits—although the direction of this impact is ambiguous.

H1: The presence of HPWS practices for core workers will influence benefit provision for contingent workers.

Whether or not the firm has HPWS practices, providing benefits to regular workers could have a "spillover" effect on contingent workers. Extending eligibility to a larger group may allow the firm to take advantage of lower group plan rates. For some benefits, such as on-site daycare or exercise facilities, there are likely low marginal costs to extending access to additional workers. Finally, public policy may require that a benefit program, once adopted for regular workers, be extended to other groups of workers. Currently in the United States, the Employee Retirement Income Security Act (ERISA) requires that all employees be eligible for participation in a firm's pension plan (Lautsch 1998).¹

H2a: Benefits offered to regular workers that have low marginal cost, or that offer lower group rates, are likely to be extended to contingent workers.

H2b: Regulatory requirements increase the likelihood that pension benefits will be extended from regular workers to contingent workers.

Other features of the regular work system could also influence contingent work in the firm. The presence of an internal labor market (ILM) for regular work could generate mixed effects for contingent workers. Formal programs tend to proliferate in such a bureaucratized environment, making fringe benefit policies more likely to be found. Although the presence of ILMs generally could be expected to enhance benefit program eligibility, compensation rules in ILMs are often based on seniority, and this would have a detrimental effect for contingent workers who tend to be newer entrants to the firm.

H3a: The presence of well-developed ILMs for regular workers will increase the likelihood of benefit provision for contingent workers.

H3b: Seniority-based allocation rules will reduce the likelihood of benefit provision for contingent workers.

Managerial paternalism could also exert a unifying force across work systems. Prior research has documented the positive impact of managerial concern for workers on the development of the kind of work structures employees desire (Osterman 1994). It has yet to be tested whether these values would extend to contingent workers as well.

H4: Managerial values will influence benefit provision for contingent workers.

Research shows two other main influences on benefit provision. Firms may offer benefits in order to achieve critical human resource objectives in recruitment, performance, and retention. Firms may also offer fringe benefits less for these practical reasons than out of a desire to achieve legitimacy. Institutional theory predicts that benefits could be adopted in firms due to coercive or mimetic pressures across organizations (DiMaggio and Powell 1983). Firms establish legitimacy by imitating large firms and by adopting practices that professionals such as HR managers deem appropriate.

H5: In firms where absenteeism, turnover, or recruitment is an important concern, benefit provision to contingent workers is more likely.

H6: Institutional pressures will increase the likelihood of benefit provision to contingent workers.

Data and Measures

The data source used to examine the determinants of benefit provision developed earlier is a representative 1992 survey of 875 American establishments.² This survey is ideally suited to examining the questions of this study because it contains information on both regular and contingent workers in the establishment. One final point of note about the survey is that it asked about a particular kind of contingent work: internal-pool workers who lack job security but are on the payroll of the establishment.³

The measures I used in the study are described in detail in table 1. In brief, the three alternate dependent variables are 0–1 indicators for the presence of each of the three benefits that I focused on: daycare, health, and pensions. Because of the dichotomous nature of these variables, I conducted probit estimation of models that test the hypotheses outlined earlier. I followed past practice (Osterman 1994) and tested my model using three alternative specifications of HPWS work organization. Each measure combines in different ways the key HPWS practices: teams, job rotation, total quality management (TQM), and quality circles. Results were robust across these three specifications of HPWS, and so I report here results for only one HPWS variable. It ranges from 0 to 4, indicating the number of the practices in which firms involve 50% of their core workers. Spillover effects are measured with indicator variables that show whether the firm's *regular* workers have access to each of the types of benefits. Two variables measuring the presence of job ladders and seniority-based work rules are included as indicators of ILMs. Institutional pressures are measured in this study by variables capturing the presence of an HR department, whether the establishment is part of a larger organization, and the age of the establishment. Control variables included are organizational size, the size of the contingent work group, unionization, and the ability of the firm to pay high wages.

Results

The results show first that internal-pool workers are more likely to have access to daycare benefits in HPWS establishments, consistent with hypothesis 1 (see table 2). The index of HPWS has a significant positive relationship to daycare for contingent workers. To assess the magnitude of these effects with more precision, I used the parameter estimates to calculate the relative probabilities of receiving daycare benefits for workers in establishments at each level of high performance.⁴ This calculation shows that the probability of contingent workers receiving daycare benefits increases from .07 to .68 in moving from firms with zero HPWS practices to four HPWS practices.⁵ Thus, contingent work may be compensated in

TABLE 1
Variable Definitions and Descriptive Statistics

Variable	Definition	Mean	St. Dev.
Contingent Benefits			
Daycare	1 = daycare provided to contingent workers	0.146	0.354
Health	1 = healthcare provided to contingent workers	0.152	0.3598
Pension	1 = pensions provided to contingent workers	0.203	0.403
Hpwsl	0-4 Number of HPWS Practices (Job rotation, TQM, quality circles, teams)	1.234	1.322
Regular Benefits			
Daycare	1 = daycare provided to regular staff	0.259	0.439
Health	1 = healthcare provided to regular workers	0.969	0.175
Pension	1 = pensions provided to regular workers	0.78	0.415
Ladder	1 = job ladders not important 5 = ladders extremely important	3.784	1.067
Seniority	1 = seniority rules not important 5 = seniority extremely important	2.642	1.194
Values	1 = very or extremely important to consider worker needs	0.623	0.485
Absent	1 = absenteeism is not serious 5 = extremely serious	2.221	1.168
Turnover	1 = turnover is not serious 5 = extremely serious	2.031	1.049
Recruit	1 = recruitment is not serious issue 5 = extremely serious	2.206	1.165
Hrdept	1 = HR department exists	0.646	0.479
Larger	1 = establishment is part of larger firm	0.726	0.447
Age	Years since founded	24.63	27.04
%pool	# pool workers/# regular workers	0.073	0.161
Logsize	Log of number of regular employees	5.059	1.001
Union	1 = union; 0 = not	0.201	0.402
Hiwage	1 = above-market wages paid	0.49	0.501

different ways across firms, and one of the influences on this is the type of work system for core workers. Table 2 also supports hypotheses 2a and 2b that benefits may spill over from regular to contingent workers. Contingent workers are significantly more likely to get daycare benefits where regular workers in the firm have access to this benefit. In contrast to the strong results for HPWS and spillover effects, support for links with regular ILMs, practical concerns, and institutional pressures are less evident in this sample.

TABLE 2
Daycare for Internal Pool Contingent Workers
(Standard Errors in Parentheses)

	I. Coefficient	II. Change in Probability ^a
Hpws1	0.484*** (0.123)	0.053*** (0.015)
Regular Benefit Daycare ^b	1.586*** (0.354)	0.320*** (0.095)
Ladder	0.068 (0.157)	0.007 (0.017)
Seniority	-0.111 (0.139)	-0.012 (0.015)
Values ^b	-0.042 (0.293)	-0.005 (0.032)
Absent	0.389** (0.165)	0.042** (0.017)
Turnover	-0.098 (0.167)	-0.011 (0.018)
Recruit	-0.058 (0.129)	-0.006 (0.014)
Hrdept ^b	0.565 (0.378)	0.055 (0.037)
Larger ^b	0.715** (0.346)	0.060** (0.026)
Age	0.009** (0.004)	0.001** (0.001)
%pool	-4.147 (2.579)	-0.451 (0.275)
Logsize	-0.432*** (0.156)	-0.047*** (0.020)
Union ^b	-0.592 (0.449)	-0.050 (0.029)
Hiwage ^b	0.177 (0.294)	0.019 (0.033)
Constant	-1.765 (1.136)	

* p < .10

** p < .05

*** p < .01

N = 276

Log Likelihood = -64.079333

Pseudo R² = 0.4014

^a The estimate reported is $\partial\Phi(\beta'x)/\partial x_i$ except ^b where it is $\Delta\Phi(\beta'x)/\Delta x_i = \partial\Phi(\beta'x)$ since these are (0, 1) dummy variables. $\Phi(\beta'x)$ is the standard normal distribution function.

The patterns of results for provision of health care and pension benefits are very different from those for daycare, with strong support for only hypotheses 3, 4, and 6 for these standard benefits (see table 3). In contrast to

daycare, HPWS does not have a significant impact on provision of either of these standard benefits. Practical reasons to provide benefits are also less important. Mixed support is evident for hypothesis 2. Whether or not regular workers have access to health care has no effect on provision of this benefit for contingent workers. Pension coverage, however, is more likely for contingent workers where regular staff have it—a fact likely driven by ERISA rules.

TABLE 3
Standard Benefits: Health and Pensions for Contingent Workers

	Healthcare Coefficient	Healthcare Change in Probability ^a	Pensions Coefficient	Pensions Change in Probability ^a
Hpws1	0.0339 (0.102)	0.007 (0.020)	-0.018 (0.111)	-0.003 (0.020)
Regular Benefits ^b				
Health	1.269 (1.316)	0.112 (0.034)		
Pension			2.224*** (0.582)	0.213*** (0.037)
Ladder	0.374*** (0.139)	0.073*** (0.027)	0.294** (0.139)	0.054** (0.026)
Seniority	-0.355*** (0.120)	-0.070*** (0.024)	-0.399*** (0.127)	-0.073*** (0.025)
Values ^b	-0.424* (0.232)	-0.088* (0.050)	-0.964*** (0.259)	-0.203*** (0.061)
Absent	0.06 (0.128)	0.012 (0.025)	-0.046 (0.132)	-0.008 (0.024)
Turnover	-0.015 (0.153)	-0.003 (0.030)	0.049 (0.150)	0.009 (0.028)
Recruit	-0.176 (0.113)	-0.034 (0.022)	-0.322** (0.13)	-0.059** (0.024)
Hrdept ^b	1.298*** (0.331)	0.213*** (0.048)	0.601* (0.346)	0.100* (0.054)
Larger ^b	0.519* (0.227)	0.088* (0.041)	0.669** (0.303)	0.102** (0.044)
Age	0.01*** (0.004)	0.002*** (0.001)	0.011*** (0.004)	0.002*** (0.001)
%pool	0.504 (1.637)	0.099 (0.320)	7.846*** (1.897)	1.441*** (0.410)
Logsize	-0.532*** (0.143)	-0.104*** (0.029)	-0.238* (0.135)	-0.044* (0.025)
Union ^b	0.530 (0.336)	0.123 (0.089)	0.429 (0.328)	0.091 (0.080)
Hiwage ^b	0.412* (0.234)	0.083* (0.048)	0.676*** (0.254)	0.29*** (0.051)
Constant	-1.548 (1.64)		-2.564 (1.097)	

* p < .10

N = 266

N = 269

** p < .05

Log Likelihood = -90.790819

Log Likelihood = -85.279176

*** p < .01

Pseudo R² = 0.2275

Pseudo R² = 0.3908

^a The estimate reported is $\partial\Phi(\beta'x)/\partial x_j$ except ^b where it is $\Delta\Phi(\beta'x)/\Delta x_i = \Delta\Phi(\beta'x)$ since these are (0, 1) dummy variables. $\Phi(\beta'x)$ is the standard normal distribution function.

What are most striking in this set of equations are the strong links between benefit provision and regular ILMs and institutional forces. For both health care and pensions, the presence of job ladders has a significant positive effect on benefit receipt, and seniority rules have a negative effect. The presence of an HR department, firm age, and being part of a larger firm all increase the likelihood of getting these standard benefits for internal-pool contingent workers. It is also notable that managerial values that favor protection of worker interests have a significant negative impact on standard benefits for contingent workers.

Discussion and Conclusions

Overall, these findings show that the outcomes of contingent work are influenced by the nature of other work systems in the firm. In particular, contingent workers in HPWS firms appear to be better off in terms of receiving daycare benefits. Different forces determine access to more traditional benefits of health care and pensions. Contingent workers have greater access to these basic protections in firms with long-standing internal labor markets for their regular workers and in firms in which institutional pressures support better outcomes for workers.

Both of these sets of findings reveal that employment systems for contingent and regular workers are interconnected in important ways. The results here suggest that there may be a hierarchy among work systems within firms. The features of the core work system appear to be established first, and these then shape the features of systems for various noncore workers in a secondary way—to reinforce, support, or exploit features of the dominant system. For example, where daycare programs are already set up for the core, they offer a lower-cost way for employers to increase performance of contingent workers. Fully testing this relationship is an important area for future research.

This paper is one of very few studies to examine benefit provision for contingent workers. It adds to a growing recognition that contingent jobs are themselves varied and that they intersect in important ways with regular work systems. It also contributes both hopeful and cautionary notes to discussions of the implications of HPWS for workers. While contingent workers gain in daycare access, they do not gain more standard (and often costly) health care and pensions. This paper contributes to an understanding of such trade-offs for workers in HPWS firms.

Endnotes

¹ Eligibility requires working at least 1,000 hours per year of service.

² The survey was commissioned by Paul Osterman, who has generously provided access to his rich data set. Establishments, rather than firms, were targeted as the focal

unit in order to improve data quality. The interviews were conducted by telephone, leading to a response rate of 60%. The models I estimate include only establishments in the sample that employ contingent workers. Sample size is also reduced where data were not complete and by eliminating from the sample an outlier and small firms that got into the sample by mistake.

³ It is appropriate to focus on this type of contingent work for this study because respondents are more likely to have accurate information on the employment circumstances of internal-pool contingent workers than on other types of contingent workers hired through a staffing agency.

⁴ The formulas for this calculation for the probit equations are

$$\text{Probability } (y \neq 0 | x) = \Phi(\beta'x)$$

$$\text{Probability } (y = 0 | x) = 1 - \Phi(\beta'x)$$

These expressions were evaluated at the means in the sample for all variables, except the independent variable of interest (in this case, the HPWS index).

⁵ It is more common to simply transform probit coefficient estimates into the change in probability due to an infinitesimal change in the relevant explanatory variable, and I have included this transformation along with the coefficient estimates in my tables. However, this approach can generate misleading estimates of probability changes where explanatory variables change by amounts that are not infinitesimal.

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V. REFEREED PAPERS— LABOR— MANAGEMENT RELATIONS AND DISPUTE RESOLUTION

The British Experiment with Labor Law Reform: An Alternative to Wagnerism?

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Abstract

The British labor law reforms, enacted in July 1999, provide for a statutory union recognition system with a number of parallels to those of the United States and Canada. However, the stated intention is to establish an alternative “partnership” model, in the belief that “efficiency and fairness are wholly compatible.” To facilitate this model, they contain a number of unique features. We discuss the British reforms and whether this model is likely to be realized, identifying reasons why they may and may not be effective and establishing four alternative scenarios. While we are pessimistic as to the success of the British reforms, much depends on the extent to which “efficiency” and “fairness” are indeed largely compatible or can be made so within a statutory recognition system, depending on its design. The British experiment may be considered an important test of this, with potentially important lessons for North America.

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Britain has a long history of voluntarism in its labor relations system. With the exception of a short and aborted experiment with recognition laws in the late 1970s (Wood and Godard 1999: 206–13), there have been no formal laws requiring employers to recognize unions for purposes of collective bargaining. Prior to the 1980s, this was matched by a lack of restrictions on the activities of unions (e.g., there were few restrictions on the right to strike and picket). But beginning in the early 1980s, consecutive Conservative governments enacted a series of such restrictions (e.g., requiring strike votes). It is widely believed (see Marsh 1992) that this tilted the balance of the British system in favor of employers and is a major reason for ongoing decline in union density, from over 50% in the late 1970s to slightly under 30% today.

A key promise of the Labour Party leading into the 1997 British election was that it would attempt to restore balance to the system, not by repealing the legislation of its predecessors, but rather by implementing a statutory union recognition and representation system. In March 1998, it released a white paper, *Fairness at Work* (DTI 1998), which included a philosophy and proposals for such a system. In February 1999 it introduced legislation to establish this system, and in July 1999 this legislation was passed into law (with few changes) under the Employment Relations Act (ERA).

The new system resembles the U.S. and Canadian models in a number of respects. It is administered by a neutral body (the Central Arbitration Committee, or CAC), the criteria for defining bargaining units are similar, and recognition is granted only if there is demonstrated majority support for collective bargaining. Yet the British government has sought to establish a system that avoids the adversarialism and juridification that has come to be associated with statutory recognition systems in North America. According to the white paper, the objective is “nothing less than to change the culture of relations at work” (p. 3), as part of “the Government’s programme to replace the notion of conflict between employers and employees with the promotion of partnership” (p. 3), thereby fostering a “high quality, high performance, high skills, high productivity, high value” economy (p. 7). The act attempts to go beyond the adversarial model associated with North American labor law in favor of an alternative “partnership” model, in the belief that “efficiency and fairness are wholly compatible” (p. 8).

The British reforms may be viewed as an important experiment in industrial relations, one that tests the long-held assumption that there are important trade-offs between “equity” and “efficiency.” To the extent that it succeeds, it will lend credence to arguments in the United States and Canada that there is an alternative to the “adversarial, job control” model characteristic of the postwar era and that it is possible to design a statutory

recognition system more consistent with the need for cooperation and flexibility many associate with modern economies. To the extent that it does not, it may lend support to more conflict-oriented models, which assume a substantial degree of adversariness as given, at least in the absence of broader institutional reforms (e.g., Delaney and Godard forthcoming). Either way, it should hold important lessons not just for industrial relations theorists but also for policy makers. In this paper, we first outline the key components of the reforms and then discuss the prospects for their success as an alternative to the Wagner model.

The Employee Relations Act: An Alternative Model?

An important component of the legislation is that it allows for automatic certification when card support exceeds 50%, potentially reducing the opportunity for employer interference associated with the holding of a ballot in the United States. The act is also written so as to sharply restrict the opportunity for employer appeals, also a problem in the United States. However, coverage under the act is restricted to workplaces with over 20 employees, thus excluding roughly a quarter of the British labor force. In addition, in order to maximize the opportunity for employers to voluntarily recognize a union and facilitate partnership, the procedure for gaining recognition can entail up to nine stages, even where a union initially has a majority.

A union must first seek recognition from the employer. The employer has 28 days to agree voluntarily or 10 days to signal a willingness to negotiate over recognition (e.g., because the employer disagrees with the definition of the bargaining unit). These negotiations may continue for as long as both sides are willing. If the employer rejects the claim outright or 28 days have elapsed since the employer indicated an intention to negotiate, the union can apply to the CAC for recognition, thus invoking the statutory procedure. Once it has been called in, the CAC has 10 days to decide whether the case should proceed on the basis of a judgment about whether the union enjoys a reasonable level of support. It then has 28 days to broker an agreement over the bargaining unit, followed by another 10 days to define the unit if the parties are not able to do so on their own. If, at this stage, the union can demonstrate majority support (e.g., through membership signatures), then the CAC may grant recognition, subject to the conditions that it believes doing so is consistent with "good industrial relations" and that this support continues to reflect the wishes of members. Otherwise, the CAC will appoint a balloting agent, which has another 20 days in which to hold the ballot. Throughout this process, employers may not dismiss workers for union activities, and they must grant the union access

once the CAC has called for a ballot. But there are few other restrictions, thereby allowing them considerable latitude with which to attempt to influence employees (e.g., propaganda, threats).

Where recognition is gained, the parties have six weeks in which to come to a procedural agreement addressing the issues to be covered in negotiations, and if they are unable to do so, the CAC is to attempt to broker one. After 28 days, if the CAC is unsuccessful or if one party fails to adhere to such an agreement, the CAC may impose a default procedure specifying only wages, hours, and holidays as mandatory issues. The employer who does not adhere to this agreement may be subject to a court order to meet "specific performance" and, if this is not followed, will be in contempt of court, with a fine or imprisonment as the ultimate sanction. There is, however, no provision in the law—such as Canadian-style first contract arbitration—to ensure that a first contract is actually achieved. In addition, a ban on both union and closed shops and a right to negotiate individual contracts that take priority over collective agreements, both of which predate the ERA, will remain. Finally, the legislation introduces protections against dismissal for striking, but these apply only for the first eight weeks of a strike unless the employer is judged to have been making no attempt to settle the dispute.

In addition, the act includes (1) a legal right to be accompanied by a trade union representative during grievance and disciplinary procedures, regardless of whether a trade union is recognized; (2) a requirement that employers engage in meaningful consultation with a union over training issues no less than once every six months; and (3) an obligation for employers to inform and consult recognized trade unions or, in their absence, other independent employee representatives when redundancies are planned or a business is to be transferred, a policy that is a ratification of European legislation.

Viewed from the experience of North America, the British system has potentially serious weaknesses (also see Wood and Godard 1999). In spite of the provision for an automatic route, the union access requirement, and the limited opportunity for appeal, the number of steps and the time periods allowed provide considerable opportunity for a recalcitrant employer to undermine support for a union and, given the conditions for automatic recognition, to force a ballot even where a union initially has majority card support. This opportunity is enhanced by the relative lack of restrictions on employer behavior during this time. In addition, the lack of provision for a first agreement—coupled with the limited bargaining mandate implied by the CAC default procedure, ban on union shops, allowance for individual contracts, and right to hire permanent replacements after eight weeks—

could undermine a union's bargaining power and enable employers to effectively marginalize it once recognized. Yet a number of these potential weaknesses may also be instrumental to achieving the government's objective of creating an alternative system.

First, low union bargaining power and the narrow bargaining mandate limit the ability of unions to raise wage and benefit costs or to place restrictions on the exercise of managerial authority that interferes with flexibility and efficiency, both of which are seen as major reasons for employer antipathy toward unions in North America (e.g., Freeman 1986). Thus, union recognition may generate less resistance than otherwise.

Second, the number of steps and the time periods associated with them will enable employers to participate in the process by which a union is recognized. Not only may the very fact of this involvement encourage them to accept the union voluntarily, it may also give them considerable opportunity to shape the terms under which a union is recognized, thus providing an incentive for them to do so. In contrast to North America, the process may be seen as less a contest and more a negotiation, under which both sides have an interest in seeking an amicable arrangement rather than having one imposed externally. This may be reinforced by the existence of the automatic route, which may reduce the incentive for an employer to fight recognition where the union already has demonstrated a clear majority.

Third, the limited rights and power afforded unions once they are recognized appear designed to place union leaders in a position where they have to convince employers (as well as employees) of their "value," defined as "how much help they can bring to the success of an enterprise for employers" (DTI, 1998: 23), thus ensuring that they develop a more "constructive" joint problem-solving approach to addressing membership problems or concerns. This could help to foster the "mutual gains" approach, which many view as necessary for the establishment and success of a "high-commitment" approach to industrial relations (e.g., Kochan and Osterman 1994), thus serving employer as well as employee interests.

Fourth, it is conceivable that the requirement that employers consult unions on training issues and redundancies will foster such a role by providing a starting point from which unions can grow into more participative, consultative, and problem-solving activities once they have become established. Ostensibly, employers will gradually come to find that unions can contribute in important ways to their success.

In short, it appears that the new system really does hold the potential for an alternative model, one in which the importance of collective bargaining may be reduced but replaced by a more consultative, problem-solving relationship between a union and management. If so, many of its

apparent weaknesses can be viewed as reflecting a deliberate strategy, one that is intended not to marginalize unions, but rather to facilitate an alternative model based on voluntarism and partnership.

Why the Partnership Strategy Might Work

There is reason to believe that the government's strategy is particularly suited to the British context. The "institutionalized adversarialism" associated with the Wagner model (Block et al. 1996: 27) is less widespread in the United Kingdom, in part reflecting the long tradition of employer voluntarism in industrial relations and of informality in the workplace. This tradition appears to have been eroded somewhat by government legislation and policies over the past few decades, which have both reflected and reinforced a more hostile attitude toward labor unions. But conceivably, the election of the Labour government in 1997, with its emphasis on partnership and cooperation, has helped to create a normative environment in which employers are more willing to voluntarily recognize and work with unions, so that partnerships are established.

It is also plausible that a partnership role for unions will be facilitated by European legislation requiring consultation (see Metcalfe 1999). While employers are still allowed to continue with nonunion forms of representation, even where a union is recognized, attempting to do so is likely to prove cumbersome. It is intended¹ that employers will prefer to deal with employees through a single "channel," providing for greater coherence and consistency than otherwise. In addition, unions may play an important role assisting in the implementation of various policies and programs mandated by the EU, drawing on resources and expertise, which many employers may lack, and ensuring consistency across employers.

There may also be a number of factors shaping the industrial relations context that are germane. For example, according to one author (Beaumont 1995: 145), the following conditions now obtain: (1) the existence of competitiveness difficulties that require joint problem solving; (2) changing personalities on both sides, with newcomers more disposed to such an approach; (3) the availability, primarily through government programs, of successful programs of attitude change; and (4) management willingness to take the initiative in this direction because it recognizes the inevitability of having to deal with a union or is seeking to change its competitive strategy to a more "value-added" one, which requires a more trustful and cooperative relationship. The extent to which these factors are in place can be debated. But if they are, they should enhance the likelihood that the government's strategy will succeed.

Why the Partnership Strategy Might *Not* Work

On the other hand, there are a number of reasons why the partnership strategy might not work. First, there is little in the legislation to alter the underlying nature of the employment relationship or to provide workers with the co-decision rights that are associated with an equal partnership. To the extent that unions are able to achieve a partnership relationship, it will be an asymmetrical one, in which they are at best junior partners, often providing input only at the employer's behest and on the employer's terms. Though this may not preclude relationships of trust and cooperation from developing, it may mean that they will be far more difficult to achieve and sustain than the government appears to assume.

Second, there is little evidence that joint problem solving is in fact any more conducive to employer interests than it ever was, particularly where this involves union representation. Indeed, recent U.K. research indicates that British employers do not readily associate partnership with unions (Guest and Peccei 1998: 21), and the decline in union density over the past two decades tends to confirm this. An attitude change among employers may not be readily achievable. Employers are now under much greater pressure to worry about competitiveness and flexibility issues, which can bring conflicts between "efficiency" and "fairness" to the fore. Such pressure tends to be associated with problems of "short-termism" (e.g., Soskice 1990; Porter 1992), which militate against the long-term commitments believed necessary to establish relationships of trust and reciprocity.

Third, there is the paradox that if employers could be expected to work cooperatively in partnership with unions, they would already be doing so, and there would be little need for the legislation to begin with. As suggested earlier, there appears to be little in the legislation to specifically ensure that union representatives are not simply marginalized. The assumption seems to be that partnership and cooperation serve employer as well as employee interests and that all that is needed is to set up a framework that encourages employers to realize this. This assumption is a core assumption of much of the literature on new forms of work organization and employee involvement, but these forms have continued to diffuse only slowly and unevenly in the United Kingdom (Cully et al. 1999: 295) as well as elsewhere (e.g., Gittleman et al. 1998; EPOC Research Group 1997). What has been missing is the possibility that, for a variety of reasons, these sorts of arrangements are simply not always conducive to employer interests (Godard and Delaney 2000; Godard forthcoming).

Finally, the importance of fairness at work has served as a major rationale for the legislation. But by allowing unions little bargaining power, it

may substantially lessen their ability to ensure that fairness is obtained—especially if efficiency and fairness are not always compatible, thereby necessitating a more adversarial role. If so, union representatives may still succeed at achieving a “partnership” role but be seen as doing little to address the immediate problems and concerns of their members. Indeed, in view of their dependence on employer approval, union leaders may come to be viewed as co-opted by employers, serving more as “managers of discontent” than as true representatives of their members (Mills 1948). If so, genuine employee grievances and discontents are likely to go unattended, and employees may come to reject partnership initiatives. This could mean that the partnership strategy of the British government is eventually undermined not by employers or union representatives but by the very employees that, ostensibly, the legislation is intended to serve.

Four Scenarios

Four scenarios follow from our analysis. The first is that the legislation will simply fail. Employers, possessing little sympathy toward unions and little desire to embark on a partnership, will simply frustrate the recognition process and do everything to undermine a union if it becomes recognized. To the extent that this occurs, the effect could be the creation of an environment in which employer opposition to unions intensifies, employees become increasingly hesitant to seek recognition—owing to fear of employer retribution and limited union effectiveness—and antagonistic relations where unions are recognized are the norm. If so, the legislation could have the opposite-from-intended effect, reducing the chances of voluntary recognition and partnership and increasing the rate of union decline.

The second scenario is that the unique design of the recognition procedures will serve as an invitation for employers to play a positive role in the recognition process and that recognition will be seen as posing little threat to employer costs or flexibility. Thus, there will be little overt resistance to the recognition of a union per se. But once a union is recognized, the very features that have lowered employer resistance may place union leaders in a position where they are largely dependent on employer goodwill, lessening their ability to provide effective, independent representation. Unions at best become junior partners with employers, with any consultative or problem-solving role existing only at management’s behest. There is even some risk that workers will become frustrated with their union’s inability to “deliver the goods” on pay and hours or to ensure fair and equitable treatment in the workplace. The result could be disillusionment and ultimately a resumption and even acceleration of the decline that has been taking place since the early 1980s. Thus, the effects would be the same as for the first scenario, though possibly delayed somewhat.

The third scenario is that the new laws will be sufficient to induce more employers than at present to recognize unions and engage in meaningful collective bargaining. These employers would likely be those who have not been strongly opposed to doing so but have previously felt little pressure or need for union recognition. The new laws may push these more “marginal” employers toward recognition, especially if these laws also enhance demand among their employees for collective bargaining. Under this scenario, there would likely be little change in managerial philosophy, and so resulting relationships may differ little from those typical of union-management relations prior to the reforms. But union density would increase.

The fourth scenario is that a true alternative to Wagnerism will develop. The legislation would succeed in reducing employer resistance to unionism while at the same time providing unions with the opportunity to prove their value. Rather than viewing unions as a threat, employers will come to see them as a genuine asset in the workplace, contributing to problem solving and helping to address sources of discontent and conflict. Employees in turn will come to view unions as giving them a real voice in the workplace. Ultimately a “high-performance” dynamic emerges, giving rise to a high skill-high wage economy.

It is too early to determine which of these scenarios is most likely to be borne out. Employers’ current attitudes have been manifest in principled opposition to the statutory route, and three quarters of those participating in the 1998 Work and Employment Relations Survey indicated a preference to consult directly with employees rather than with unions (Cully et al. 1999: 89). Much will depend, however, on the extent to which efficiency and fairness are indeed compatible or can become so within a statutory recognition system, depending on its design. If they are (or can become) compatible, this initial resistance may be overcome, and the British experiment could meet with success. But if conflict is more deeply engrained than the Blair government seems to assume, the experiment could prove a costly failure, especially for the labor movement. The British experiment can in this respect be viewed as the ultimate test of industrial relations theory, with important implications for assumptions about the inevitability of conflict and ultimately for both policy and practice.

Endnote

¹ Based on a conversation between the first author and one of the framers of the reforms.

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DISCUSSION

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Despite the range of topics covered, the papers in this session all focus on some aspect of improving the quality of employee–management relations. Given that this has been an enduring theme in industrial relations research, each paper has the potential to advance IR scholarship and inform practice. Below I offer several comments on each of the papers.

The paper by Roberts and Markel examines an interesting topic. It is easy to understand why a workers' compensation claim might become contentious and, consequently, why employers may wish to implement disability policies that provide fair treatment to injured workers. Likewise, I agree that it is useful to examine how these policies affect organizational outcomes. That said, I have several concerns with this research.

In contrast to the causal relationships hypothesized by the authors, I would expect general attitudes to affect specific behaviors. Accordingly, employees' perceptions of organizational justice would be hypothesized to affect the propensity of injured workers to file compensation claims. Perceptions of employer favorableness might then be expected to mediate or moderate the relationship between organizational justice and claim filing. This alternative model is supported by studies that identify management disability policies as determinants of compensation claims rates.

I was also troubled by potential common method variance problems associated with employer favorableness and the time 2 justice variables (i.e., the dependent variables). There also appear to be conceptual similarities between employer favorableness and the procedural and interactional justice measures. These potential measurement problems may explain the significant relationship between employer favorableness and the justice constructs, as well as the significant mediating and moderating effects presented in the paper.

Finally, I was uncomfortable with the authors' policy recommendation that companies implement disability management policies to overcome the negative effects of filing a claim on organizational justice perceptions.

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None of the analyses provide direct evidence of the effects of actual disability management policies on perceptions of organizational justice. In fact, the companies in which respondents worked may have had some, perhaps even many, of the favorable disability management practices discussed by the authors.

The paper by Godard and Wood shifts the focus of improving employee-management relations to the level of government policy by examining recent developments in Great Britain, namely, passage of the Employment Relations Act. The new British legislation has numerous features that set it apart from Wagnerism. Yet none of the four scenarios presented by the authors to describe the potential effects of the legislation predict that it will significantly increase union power. And, only one, the development of a truly cooperative form of labor-management partnerships, appears to provide significant benefits to organized labor.

The lack of optimism for unions appears warranted, given that positive outcomes from the legislation seem largely dependent on employers' goodwill. Prior research suggests that since the 1980s, British employers have shown a preference for operating union free by trying to limit or push back union recognition. Survey results reported by the authors, which indicate that British employers do not view unions as a necessary part of employment partnerships, are consistent with this anti-union view. It seems unlikely that the reform legislation can overcome employers' attitudes toward unions without first altering the balance of power between management and unions.

Having said that, the ultimate impact of the legislative changes cannot be judged in isolation from other environmental developments that have affected British employers and employees. Accordingly, the authors may want to examine relationships between British labor law reforms and changes in employment and economic developments, as well as employers' policies toward unions and recent developments in union policy.

Keeping with the international theme, Hoffman examines changes at a UK coal mine following its conversion from a government-operated mine to a worker cooperative. The author suggests that the change should have eliminated significant power imbalances at the mine because they are inconsistent with the basic ideology of a worker cooperative. The author's research intended to provide evidence of a new dispute resolution environment that is consistent with this perspective. I believe the findings may support a different conclusion.

As explained by the author, professional managers are legally required to be in charge of specific activities within the mine. Consequently, they possess power other workers do not have. Moreover, the union grievance

procedure was retained after conversion to the worker cooperative because workers wanted another form of protection. Neither of these provides compelling support for the idyllic assumptions made about life in a worker cooperative. Even the finding that workers willingly maintained production over issues that before might have led to a work stoppage is not unassailable evidence of a lack of power imbalances. It may instead mean that workers were suppressing conflicts because their economic interests are more directly linked to the organization's under the worker cooperative. If so, the worker cooperative could have opposite effects from those hypothesized by the author.

More generally, I had a difficult time accepting this work as evidence of changes in dispute resolution. What the author refers to as grievances appear instead to be potentially controversial issues that required action by management. Consequently, the study seems to focus more on changes in the decision-making culture than on changes in grievance resolution. A major lesson from this research is that, if workers are allowed to participate in decision making in meaningful ways and have a direct stake in organizational outcomes, their interests can be effectively linked to the organization's, and a higher level of cooperation can be achieved.

Should the author wish to more directly examine changes in dispute resolution, it seems necessary to demonstrate that grievance handling has changed. So, for instance, how do grievance rates before the worker cooperative compare with those after? At what steps of the grievance procedure are disputes now settled compared with before? What changes have occurred in the types of grievances filed? in the incidents of work stoppages? etc.

DISCUSSION

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These are three interesting papers that all deal with the issues of fairness in the employment relationship. The first paper by Karen Roberts and Karen Markel concerns the impact of making a worker's compensation claim and employer supportiveness toward disability on employee perceptions of fairness. The key findings from the paper are (1) filing a claim at time 2 is associated with lower perceptions of justice by employees, (2) perceptions of employer supportiveness at time 2 are associated with increased perceptions of justice at time 2, and (3) positive perceptions of justice by employees mitigates the negative impact of filing a claim (i.e., it has mediating and moderating effects on different forms of perceived justice).

A limitation of the paper is that it only deals with a part of the workforce that is reporting an injury. Before making any conclusions about the effect of employer policies with regard to disability on employee justice perceptions, one would like to know how noninjured as well as injured employees respond. From a methodological standpoint, I have some concern about the problem of "common method" variance. The results are based on relationships found between perceived supportiveness time 2 and perceived fairness time 2 (as well as filing a claim time 2). All of these variables were collected from the same individual at the same time and thus the results may simply reflect shared variance based on using a common method. In addition from a practical standpoint, it is not clear from the results which activities or programs employers need to use to improve in order to affect the "perceived employer supportiveness of disability" variable.

The second paper by John Godard and Stephen Wood, "The British Experiment with Labor Law Reform: An Alternative to Wagnerism," provides a timely and cogent discussion on the recently passed Employment Relations Act in Britain. The paper describes the key features of the legislation, presents arguments for and against the position that the legislation will achieve its intended purpose of leading British IR toward a "partnership model," and speculates on four possible scenarios or impacts of the

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law, ranging from failure (or an increase in adversarialism) to success (partnership model).

The proposed changes are well described in the paper and have important policy implications for the situation in North America. A research question raised by the paper is How much impact can a legislative change (such as the one passed in Britain) have on the behavior of labor and management? I would tend to be very pessimistic about the ability of this legislation to achieve its intended goal of transforming employment relationships in Britain to one based on a "partnership model." My observations of these transformed relationships in the United States are that they require labor and management to fundamentally alter their roles and interactions at work. Nothing in the proposed legislation appears powerful enough to motivate the parties to accomplish this. Rather, it seems more likely that economic factors and business choices will continue to be the primary driver of labor-management change. Future empirical research should be concerned with finding ways to appropriately measure the impact of changes in national laws on employee and employer behaviors.

Finally the paper by Elizabeth Hoffman, "Confrontations and Compromise: Dispute Resolution at a Worker Cooperative Coal Mine," describes the case of a Welsh coal mine (or colliery) closed by British Coal in 1992 and bought out by approximately 200 former employees. The author looks at workers attitudes toward dispute resolution before and after the buyout. The data come from 40 open-ended interviews with employees and author's observations at the mine. The key finding from the study is that after worker buyout, employees report that grievances were handled more flexibly and informally by managers and employees.

The strengths of the paper include the rich ethnographic data and observations by the author describing employee perceptions in their own words. The issue of how attitudes and behaviors change as employees gain ownership rights is also an important one. Many employers today are providing employees with an additional ownership stake in the business through stock options and other ownership sharing arrangements. The impact of these programs on employee behaviors represents an important and underdeveloped area of research.

Because the data were gathered only after the change in ownership took place, any conclusions based on employee perceptions must remain highly speculative. It is also interesting to consider how generalizable this case is. At one level the case is unique. It's the only deep pit mine in the UK and the only mine that is worker-owned. At another level, the results found in this study are consistent with findings in more traditionally owned workplaces, in which labor and management develop a more participation

relationship. One of the hallmarks of these participative arrangements is that dispute resolution procedures become more informal and flexible. These findings would tend to undermine the argument that employee ownership is the cause of the changes observed in this paper.

VI. REFEREED PAPERS— LABOR MARKETS AND LABOR ECONOMICS

Pensions and Employee Voice: Survey Evidence from Canada

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Introduction

The most common type of occupational pension, the final-earnings plan, pays an annual benefit based on earnings and years of service at the time of retirement. The pension under this formula is both attractive and risky to employees in that it can help limit many of the risks they face in retirement saving (Bodie 1990) but can lead to lower benefit entitlements among those unable to make long-term commitments to the organization. Generally, expected pension losses will escalate over employees' careers until they become eligible for full (undiscounted) pensions.

There are essentially two broad critiques on the role and functions of final-earnings pension plans. The first, an optimistic critique, argues that the riskiness of the pension promise can satisfy many important interests of both employers and employees. For example, such plans have the potential to promote the productivity interests of employers by regulating employee work effort, and turnover and retirement flows, while employees gain a measure of retirement income and employment security (for recent reviews see Ippolito 1994; Gustman, Mitchell, and Steinmeier 1994; Dorsey 1995). The second critique provides a more pessimistic view, arguing that the riskiness of the pension promise serves as an employer control device that can help cut labor costs, discipline labor radicalism, and redistribute wealth from disadvantaged to advantaged workers (see Ghilarducci 1990; Cornwall, Dorsey, and Mehrzad 1991).

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This paper contributes another piece to the puzzle on the role and functions of occupational pensions by examining the relationship between expected losses under a final-earnings pension plan and employees' willingness to use voice in the form of grievance-filing behavior. A negative relationship lends support to the pessimistic critique in that if pensions are simply management control devices, then greater expected losses should increasingly tame employees, dampening their expectations and willingness to speak out against organizational policy and abuses, especially where they fear retribution or termination for voicing their concerns. Conversely, a positive relationship lends greater support to the optimistic critique, suggesting that pensions have the potential to play a productivity-enhancing role by encouraging the use of voice mechanisms such as the grievance procedure to identify and ameliorate problems at work.

The remainder of the paper is organized as follows. In the next section, the nature of pension loss is more fully developed. Following this, the model, data, and methodology are described, and findings are analyzed. Finally, a discussion and conclusion completes the paper.

The Nature of Pension Loss

As mentioned, the pension promised under the final-earnings formula is risky because it imposes losses in the form of forgone opportunities to accrue pension wealth by employees who terminate too early. Early leavers are penalized because the final-earnings benefit formula fixes the pension in nominal terms at the point of departure, so that quitters or those who are dismissed for just cause receive a pension that is not indexed to their salary just prior to retirement. Also, such plans routinely make eligibility for more generous early retirement subsidies conditional on higher years of "continuous" service or membership in the pension plan. Thus, quitting creates discontinuities that prevent employees from taking advantage of the cumulative value of their pensionable service over their career.

Empirical Model

Grievance filing is viewed as a form of voice in which employees may engage in response to a workplace problem. Voice is viewed as a product of three general factors (Withey and Cooper 1989):

$$\text{Voice} = f(\text{Cost, Instrumentality, Attractiveness})$$

where *cost* refers to the cost of using the voice mechanism, *instrumentality* refers to the effectiveness of alternative dispute resolution methods available to the employee, and *attractiveness* refers to the desirability of remaining in the current job and expending the necessary time and effort to reduce

the sources of problems causing dissatisfaction at work. The lower the costs of voice, the less instrumental the alternative dispute resolution mechanisms; and the more attractive the current setting, the more employees are expected to voice their concerns through grievance-filing behavior.

Data and Methodology

The data for this study were gathered through a survey administered in the late spring and early summer of 1997 to a random sample of approximately 1,250 regular full-time employees in a large, unionized, public utility company in the province of Ontario. Surveys were distributed through the company's interoffice mail system to union members at their places of work. Data collection continued throughout the summer with two follow-up letters reminding individuals to complete and return the survey. In the end, 429 surveys were returned for a response rate of approximately 35%. This response rate is somewhat low and is most likely due to the long length of the questionnaire (12 pages), sensitive nature of some of the questions, and its distribution during summer months. Notwithstanding these concerns, however, characteristics of the achieved sample compare very favorably with actual characteristics of the bargaining unit made available to this researcher (gender, age, service, and earnings), suggesting that the 429 responses are fairly reflective of the union's membership as of the summer 1997.

The dependent variable (VOICE), is a dichotomous variable equal to 1 if respondents reported filing a formal grievance in response to a significant grievance or complaint in the past three years, 0 otherwise.

Following the work of Lazear and Moore (1988) and Stock and Wise (1990), the reduced value of pension benefits from early departure is modeled as the loss of an option value (PENSION). A worker who quits or is discharged loses the option of working and accruing additional pension benefits. The option value is defined as the present value of the difference in maximum pension payments if one were to terminate immediately versus one year later. This difference measure is expressed as a ratio of the employee's current annual salary. Option values in this study are calculated in the context of a plan that provides a pension payable as early as age 55. The benefit received is based on a varying percentage of employees' highest three consecutive years of salary multiplied by their years of contributory service under the plan. Annual benefits in pay get a guaranteed annual increase equal to three quarters of the previous year's increase in the consumer price index. In constructing the option value measure, certain assumptions were made: inflation and nominal interest rates were assumed to grow at annual rates of 3% and 8%, respectively, and date of death varied by current age. A positive relationship between one's option value and

grievance filing supports the optimistic critique, whereas a negative relationship supports the pessimistic critique. On average, working the current year meant gaining entitlement to wealth representing approximately 11% of current annual salary.

The instrumentality of four alternative dispute resolution mechanisms is included in the empirical model: exit (I-EXIT), voice (I-VOICE), loyalty (I-LOYALTY), and neglect (I-NEGLECT). Each of these variables was measured by two questions asking respondents to indicate how effective certain courses of action were believed to be in responding to an important problem in their workplace. The two items used for each variable were as follows:

- I-EXIT: quit and go work for another employer; threaten to quit if the situation does not improve
- I-VOICE: directly voice your concerns to a person in authority; directly voice your concerns through the union
- I-LOYALTY: wait patiently, quietly for situation to improve; do a little extra, whatever it takes to help solve the problem
- I-NEGLECT: quietly lower your inputs if situation doesn't change; do something extreme (e.g., strike) if situation doesn't change

All items were measured on a 7-point scale ranging from 1 = highly ineffective to 7 = highly effective. Each item pair was summed and divided by two. Following a "safety valve" argument (Hebdon and Stern 1998), employees who view voice mechanisms as more effective or exit, loyalty, and neglect mechanisms as less effective are expected to be more inclined to file grievances.

Employees who are more satisfied with their jobs (SATIS) may view their workplaces as more attractive places to work. As a result, they may have less sense of grievance, leading to fewer expressions of voice through the grievance procedure. General job satisfaction was measured by a five-item scale of the major facets of job satisfaction: pay, promotions, co-workers, supervision, and the work itself. Items were measured on a 7-point scale ranging from 1 = very dissatisfied to 7 = very satisfied. Coefficient alpha reliability for this scale was .63.

Following the work of Boroff and Lewin (1997), various other determinants of grievance filing were used to control for potential sources of omitted variable bias. These included age (AGE), gender (FEMALE), marital status (MARRIED), having dependents (DEPEND), perceptions of the firm's commitment to training (TRGCOMM), years of service (TENURE), annual salary (SALARY), being a union steward (STEWARD), and two occupational (CLERTECH, OPERATOR) and two work location (REGIONAL, HEADOFF) variables.

Findings

Table 1 gives the empirical results of a logistic regression (appropriate for dichotomous dependent variables) of VOICE on PENSION, controlling for other factors affecting grievance-filing behavior. Higher expected losses under the pension plan (PENSION) are found to increase the probability of grievance-filing behavior, supporting the optimistic critique of occupational pension plans and their potential role in enhancing organizational productivity through the voice mechanism. As expected, SATIS was negatively related to grievance filing, as was the perceived effectiveness of using exit and loyalty to respond to workplace problems. Unexpectedly, I-NEGLECT was positively associated with grievance filing, suggesting that actions such as lowering inputs or other forms of job action can work in complement to grievance filing as a response to workplace problems. The insignificant I-VOICE effect may reflect countervailing tendencies among the two items used in constructing this variable.

TABLE 1
Logistic Regression of Grievance-Filing Behavior ($N = 400$)

	Mean	Logit coefficient	Wald statistic	$p <$
VOICE	.19			
PENSION	.11	.857**	3.997	.046
AGE	41.54	-.019	.376	.540
FEMALE	.19	-1.022	2.514	.113
MARRIED	.86	.907	2.408	.121
DEPEND	.77	1.073**	5.458	.020
SATIS	4.59	-.479***	9.158	.003
TRGCOMM	3.35	-.314***	8.340	.004
TENURE	14.49	-.007	.054	.816
SALARY	53.22	-.010	.115	.734
STEWARD	.17	.979**	6.561	.010
I-EXIT	1.68	-.375**	4.293	.038
I-VOICE	4.80	.129	1.362	.243
I-NEGLECT	3.14	.704***	25.770	.000
I-LOYAL	3.85	-.339**	4.809	.028
CLERTECH	.41	.272	.503	.478
OPERATOR	.16	-.542	.985	.321
REGION	.37	.256	.496	.481
HEADOFF	.14	.600	1.453	.228
Constant		-.308	.024	.877
Model Chi square			110.571***	

* $p < .10$

** $p < .05$

*** $p < .01$

Discussion and Conclusions

Based on logistic regression analyses of 400 full-time, unionized, public utility employees in Canada, expected pension losses are found to increase the probability of grievance-filing behavior among employees. These results lend support to the optimistic critique of occupational pensions, suggesting that rather than acting as management control devices that induce complacency and acquiescence, final-earnings pensions can play a more positive role, with the potential to increase firm performance by creating incentives for the expression of employee voice. Future research needs to examine patterns between pension characteristics and other HR practices to more fully understand the pension–voice relationship.

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OSHA Enforcement and Regulatory Compliance in the U.S. Construction Industry

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OSHA Enforcement and Regulatory Compliance in the U.S. Construction Industry

Improving workplace safety by government intervention has historically proven to be a difficult task. The number of establishments covered by the Occupational Safety and Health Act (OSHA) surpasses six million, yet the total number of federal inspectors devoted to enforcement has seldom been above 2,000. OSHA personnel have limited time to conduct inspections and face competing claims for attention from workers, employers, and unions during inspections. Administrative procedures allow penalty payment and abatement orders to be delayed and often diminished.

Yet the preceding difficulties describe only the most general nature of the regulatory problem (Burton and Chelius 1997). Efforts to improve workplace safety face additional challenges when applied to the construction industry. The construction work site is inherently dynamic by nature. In contrast to a fixed manufacturing location, a construction contractor's work site does not remain in place, making recourse to traditional regulatory mechanisms more problematic. This further reduces the effectiveness of the model of regulatory enforcement embodied in U.S. labor policy.

This study examines OSHA's ability to improve compliance with health and safety standards by means of enforcement at construction work sites. It examines the relation of enforcement and compliance in two segments of the industry: very large-scale companies operating at a national level and midsized contractors operating at a regional level. Using longitudinal samples for both segments, the paper examines how contractor compliance with safety and health standards changes as a result of OSHA enforcement pressure and provides insight into the ability of the government to influence

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workplace practices among large-scale enterprises in industries with dynamic workplaces.

Data

The study draws on data from OSHA's Integrated Management Information System (IMIS), which contains the complete records of all workplace inspections conducted by OSHA. Each inspection record provides extensive information on OSHA enforcement activity and on characteristics and compliance practices of inspected firms. The time period selected for study is 1987–1993.

Two additional sources of data are drawn upon in order to create longitudinal panel data for national and regional contractors. For national contractors, a list of the top 2,060 contractors was compiled by using the *Engineering News Record's* annual publication of the top U.S. contractors for various segments of the construction industry. This list provides data on names, addresses and locations, and annual revenues. The regional contractor data set is composed of 3,899 mid-sized contractors operating in a large regional market of the United States. The regional market consists of mid-sized union and nonunion contractors based out of and principally operating in a four-contiguous-state region composed of Indiana, Illinois, Kentucky, and West Virginia, based on information compiled by the Greater Louisville Building and Construction Trades Council, AFL-CIO.

For both data sets, a matching process between the contractor data set and OSHA IMIS data was conducted using the comprehensive list of major contractors as the sampling universe. Data on inspections were matched against the contractor listings in order to create unique longitudinal records of each contractor's inspection history from 1987 to 1993. This process also allows identification of contractors that received no inspections during the study period. Characteristics of enforcement and contractors for the national and regional samples are provided in table 1.

In order to measure compliance, a subset of 100 health and safety standards was identified using a study conducted by OSHA's Office of Construction and Engineering. These standards represent the 100 top physical hazards covered by OSHA (OSHA 1993). For each inspection, the number of times these specific standards were cited (if at all) were tallied. The number of violations of the 100 standards were then tabulated for each inspection record.

Modeling the Enforcement–Compliance Relationship

Economic analyses of regulatory compliance generally build on the model of crime set out by Becker (1968). Criminal activity, or regulatory

TABLE 1
Contractor Characteristics: National and Regional Construction Contractors, 1987–1993

Contractor-level characteristics	National contractors			Regional contractors		
	All companies in sample	Inspected companies	Companies not inspected	All companies in sample	Inspected companies	Companies not inspected
Total # contractors	2,060	1,574	486	3,899	1,851	2,048
Size (revenues, million 1995 \$s)	\$130.6 (646.9)	\$132.1 (698.3)	\$124.6 (371.8)	\$8.76 (36.1)	\$11.03 (42.8)	\$3.66 (8.71)
Union status of contractor						
Nonunion	1,030 (50%)	752 (48%)	278 (57%)	2,154 (55%)	871 (47%)	1,283 (63%)
Union	927 (45%)	768 (49%)	159 (33%)	1,697 (44%)	948 (51%)	749 (37%)
Mixed or not identified	103 (5%)	54 (3%)	49 (10%)	48 (1%)	32 (2%)	16 (1%)
Inspections per contractor (#)						
Mean	19.4			11.5		
Median	11.0			4.0		
Inspection probability for contractor at <i>any</i> construction site	.76	—	—	.48	—	—

noncompliance, is a decreasing function of penalty levels and the probability of being caught, and an increasing function of the return to crime or the avoidance of costs arising from regulatory compliance. Compliance can therefore be increased either through more aggressive enforcement policies or by reducing the costs of complying with regulatory standards.

For OSHA to be effective, enforcement activity must elicit changes in employer compliance behavior. Observed compliance with OSHA standards is a function of a number of factors other than inspection pressure. Compliance with standards by a contractor on a given site is determined by the cost of compliance given production and work organization, the impact of enforcement activity, and other correlated factors that raise the costs of noncompliance such as company size and unionization. In addition, measures of compliance may be affected by the intensity of inspection activity itself, where more-intensive inspections detect higher rates of violations.

These problems can be addressed by modeling the determinants of compliance explicitly and then predicting construction site-level compliance given different levels of OSHA inspection activity, site- and contractor-level characteristics, inspection intensity, and OSHA administrative policies. In order to accomplish this, a logit regression is estimated for the determinants of compliance for contractor j on construction site i at time t . Contractor compliance is measured as a dichotomous variable equal to 1 if the contractor is in compliance and 0 if one or more violations of the 100 designated OSHA standards are found at the time of inspection.

Because the vast majority of OSHA inspections are done on a surprise basis, an inspection conducted at time t measures contractor j 's compliance at $t - 1$ (that is, just *prior* to inspection). The impact of the first OSHA inspection, then, measures the base level of compliance promoted by OSHA absent *any* inspection-level activity as well as the private incentives for compliance. That is, contractors choose their individual level of compliance depending on their internal gains from compliance (direct savings in lost time, decreased turnover, worker compensation costs) and their response to external pressures. Second and subsequent inspections undertaken during the 1987–1993 period directly measure the impact of OSHA, since contractors have already chosen their optimal allocation of resources toward safety and health.

For this reason, in order to evaluate the impact of OSHA on compliance behavior, I examine the *change* in compliance between the first inspection and subsequent inspections for a given contractor and for a given contractor at a specific site. Dummy variables are employed to measure this initial enforcement–compliance effect, and continuous variables (once again at the contractor and the site level) are used to measure subsequent effects. The

model also includes variables that influence current compliance behavior, including the past experience of the contractor with OSHA in regard to penalties and enforcement intensity, the contractor's union status, firm and establishment size variables, and a series of dummy variables that control for other unmeasured correlates with compliance.

Empirical Results

Table 2 presents compliance determinant estimates. The positive and significant coefficient for the dummy variable for second inspection (INSP2) of a contractor in the national sample implies that the probability of contractor compliance with key standards increases following the first inspection for contractors on *any* site controlled by that contractor. This spillover effect of OSHA enforcement on contractor behavior, however, drops off following the second inspection, as shown by the coefficient for third or greater inspection of the contractor (INSP3). In contrast, the estimate for the second inspection dummy in the regional sample is not statistically significant, implying that OSHA enforcement on one construction site does not have spillover effects on compliance on other sites controlled by the contractor at the regional level.

Table 2 also provides evidence of the *site-level* OSHA enforcement effect on compliance. In both national and regional panels, the site-level inspection variable, SITE2, indicates that the probability of compliance increases between the first and the second inspection conducted at the same work site during the study period. Subsequent site inspections (SITE3) beyond the second have a more modest effect on predicted compliance in the national sample and an anomalous effect on compliance in the regional sample.

How big are the implied effects of enforcement activity on compliance? I use the results from the model estimates in table 2 to extrapolate the predicted compliance of contractors given different numbers of inspections (figure 1, upper portion for national contractors, lower for regional). The figure plots the predicted level of compliance at the first, second, and subsequent inspections received by a contractor (lower solid line) and first, second, and subsequent inspections at a *given* construction site (upper dotted line), holding other enforcement and contractor characteristics constant at their means.

Figure 1 reveals that the probability of complying with key OSHA standards was high, even at the first inspection received during the study period for both national and regional contractors (a probability of about .70 in both cases). For the national sample, the next inspection received by the contractor at *any* site raised that probability to .75. Beyond that, the marginal impact of subsequent inspections at any site is very small. In contrast to

TABLE 2
 Determinants of Compliance with Key Construction Health and Safety Standards:
 National and Regional Contractors, 1987–1993

	National sample		Regional sample	
	Variable means	Compliance (< 1 violation of standards)	Variable means	Compliance (< 1 violation of standards)
Intercept		0.3629 (.2427)		0.933 (0.123)
Second or greater inspection of contractor (INSP2 = 1 if yes)	0.933	0.2419** (.0955)	0.836	0.030 (.083)
Third or more inspection of contractor (INSP3, continuous)	22.9	-0.0001 (.0011)	31.6	0.0002 (.0005)
Second or greater inspection of contractor at a specific site (SITE2 = 1 if yes)	0.271	0.334** (.0356)	0.20	0.453** (.042)
Third or more inspection of contractor at specific site (SITE3, continuous)	0.4196	0.0156* (.0095)	0.196	-0.087** (.015)
Union status (UNION = 1 if union)	0.554	0.1415** (.0287)	0.64	-0.159** (.034)
Size of contractor (1n revenues)	15.066	0.0229 (.0125)	— ^a	— ^a
Total inspections received by contractor, 1987–1993	50.77	0.0048** (.0006)	65.85	0.0014** (.0003)
Complaint inspection (= 1 if yes)	0.071	0.2939** (.0594)	0.041	0.282** (.077)
Accumulated penalties (1n)	6.732	-0.0878 (.0074)	7.98	-0.026 (.009)
Accumulated inspection hours (1n)	5.464	-0.00614 (.0188)	5.547	0.023 (.020)

Accident/fatality inspection (= 1 if yes)	0.026	0.3674** (.0967)	0.018	0.142 (.111)
SIC dummies	—	Yes	—	Yes
Year dummies	—	Yes	—	Yes
Log likelihood	—	30,824	—	26,168
Number of observations	27,693	27,693	21,715	21,715

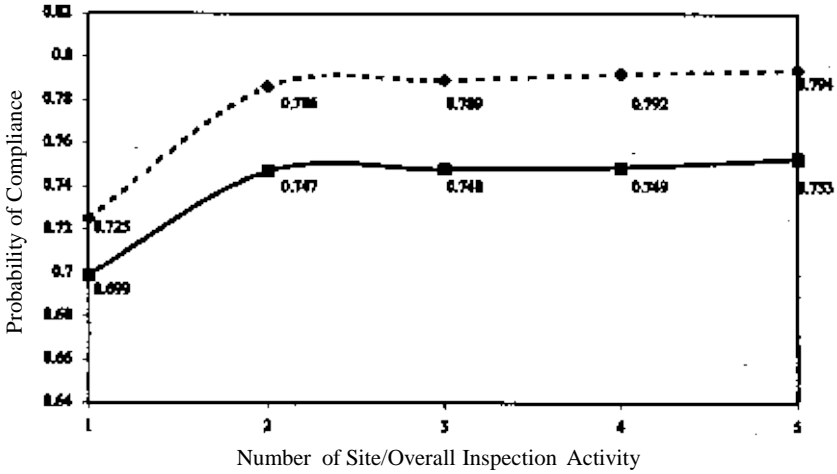
Standard errors are in parentheses.

^a Because of missing revenue data, it is not possible to use a size variable for the regional panel.

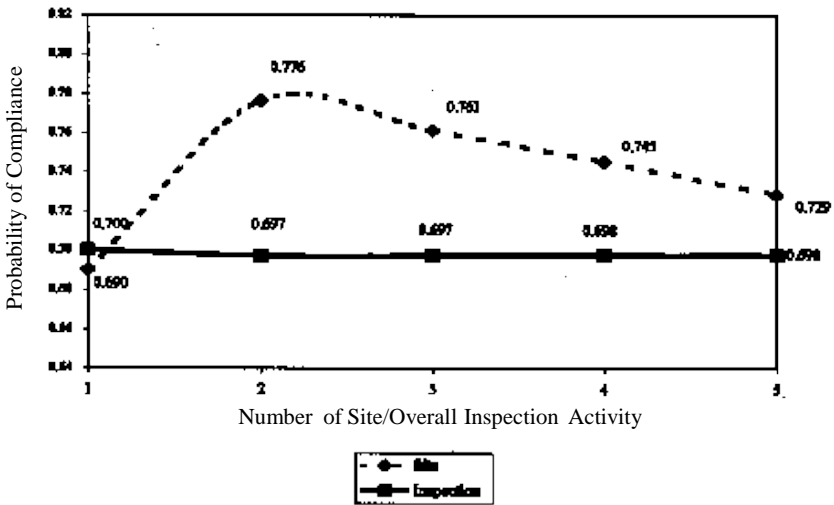
* Statistically significant at the 5% level.

** Statistically significant at the 1% level.

FIGURE 1
 Estimated Impacts of Inspection Activity on Compliance,
 National and Regional, 1987-1993
 National Contractor Sample



Regional Contractor Sample



Note: Compliance based on change in the number of inspections received by the contractor (Inspection) or at a specific construction site (Site).

national contractors, OSHA's efforts seem not to "ripple" from one construction site operated by a regional contractor to another. This is surprising, given that these firms operate in smaller geographic regions than the national contractors but may face less public scrutiny because of their far smaller scale. On the other hand, OSHA inspections raise the probability of compliance at a given construction site in both the national and regional panels. For national contractors, the probability of compliance increases from .73 to .79 between the first and second site inspections and from .70 up to .78 among regional contractors. Beyond that, however, the impact of subsequent inspections on site-level compliance is small.

These estimated effects of inspections on compliance are smaller than those found in studies of OSHA in traditional manufacturing settings (Bartel and Thomas 1985; Jones and Gray 1991a, 1991b; Scholz and Gray 1990; Weil 1996). Most directly, in a study of custom woodworking manufacturers, Weil (1996) found large effects from moving from a first to a second inspection, with predicted compliance going from .19 at the time of the first inspection up to .67 at the second inspection. In addition, subsequent inspections continue to raise compliance probabilities (albeit at a decreasing rate), in contrast to the fleeting effects of inspections beyond the second inspection found here.

The findings, however, must be interpreted with some caution. The high level of initial compliance and the relatively small change in compliance behavior reflects contractor behavior *for the period 1987–1993*. Though the study period begins in 1987, OSHA has been actively involved in enforcing safety and health standards since 1972. As a result, we cannot deduce from this evidence how responsive these contractors were the very first time they were cited by OSHA. In fact, the high rates of compliance observed at the beginning of the study period reflect, in part, responses to OSHA enforcement activity in the prior 15 years. Seen in this light, the contractor-level results can be interpreted as a lower-bound estimate of the impact of OSHA on compliance behavior. At the same time, given that work on a given construction work site is relatively short-lived, the results provide a reasonably accurate picture of contractor responsiveness to OSHA pressure *on a given construction project* (that is, the responsiveness to inspection shown by the dotted lines in both panels of figure 1). This explains why site-level enforcement effects are larger than contractor-level effects in both the national and regional samples.

Conclusion

OSHA enforcement has a modest effect on compliance with 100 key health and safety standards for the two groups of contractors studied here. On one hand, this reflects the high level of compliance in the sample even

at the time of initial inspections. It also may reflect OSHA's inability to improve compliance beyond these levels by using traditional enforcement devices among this set of very large construction employers. This evidence is consistent with previous findings of positive but small OSHA effects reported elsewhere (e.g., Viscusi 1979, 1986; Smith 1992).

The results raise questions about the efficacy of current targeting policies. OSHA enforcement policy seems to be heavily weighted toward monitoring the safety and health activities of large contractors. As shown in table 1, OSHA devotes substantial resources toward monitoring these large contractors (particularly in the national sample, where some contractors received more than 200 inspections on their sites between 1987 and 1993). It is not clear that this is appropriate from the point of view of reducing safety and health problems in the industry. The managerial and technological decisions affecting compliance among these large firms arguably have less and less to do with the direct benefits and costs of regulatory compliance (having long been incorporated into internal allocation decisions).

This does not imply that OSHA should cease to address safety and health in large-scale enterprises—only that it draw on different tools and approaches better suited to these firms. On the other hand, OSHA might still have a significant impact on workplace safety and health by redirecting its scarce resources toward more dangerous segments of the construction industry characterized by far smaller contractors, where traditional regulatory instruments may actually change firms' compliance behavior.

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Skills Shifts and Changes in Racial Labor Market Allocation over the 1980s

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“Skills Mismatch” and Labor Market Allocation

Perhaps no demographic group has experienced a more substantial erosion in its labor market position since the mid-1970s than black males (Bound and Freeman 1992; Welch 1990). How industrial restructuring has contributed to the deterioration of the economic status of black males has become an increasingly popular subject among social scientists. More narrowly, empirical studies have repeatedly confirmed that deindustrialization factored into the relative decline of black male employment levels and the widening racial wage gap among males (Acs and Danziger 1993; Bound and Freeman 1992; Bound and Holzer 1993; Bound and Johnson 1992; Juhn 1992). Researchers have interpreted this body of data to conform with the “skills mismatch” thesis first elaborated by sociologists Wilson (1987) and Kasarda (1989). These two researchers argued that black males’ employment and wage levels have deteriorated in comparison with white males as a result of deindustrialization. For black males, the effects of contracting demand in goods-producing industries were not offset by expanding demand in service and related industries. Educational disadvantage—lower average levels of educational attainment—ill prepared black males to meet the higher-level occupational skill requirements that characterized the expanding sector.¹ Additional data confirmed that black males did lag behind their white counterparts in terms of educational attainment at the end of the 1980s (Bound and Freeman 1992) and in terms of achievement on standardized tests (Jencks 1991). Other researchers have also recently charted the deterioration in the quality of education in many black communities (Boozer, Krueger, and Wolkon 1992; Maxwell 1994). Further, poor-quality educational institutions have been shown to have a direct bearing on labor market inequities by race (Card and Krueger 1992a, 1992b).

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While researchers have repeatedly studied wage and employment levels in the skills mismatch literature, they have yet to consider occupational labor market allocation. I would argue that the skills mismatch thesis has the most direct relevance to occupational allocation patterns by race where considerable within-occupation skills upgrading occurred over the 1980s. Anecdotal evidence has repeatedly suggested that the introduction of new technologies and work process transformations substantially modifies the within-occupation content of work (e.g., Wallace and Kalleberg 1982). Moreover, the pace of technological change and reconfiguration of the production process rapidly accelerated over the 1980s (Rifkin 1995). More recent quantitative evidence has demonstrated that skills upgrading has occurred within the U.S. economy because of both compositional and within-occupation changes (Osterman 1995). Simpson (1998) has recently demonstrated that economy-wide levels of authority and substantive complexity requirements increased across occupations over the 1980s. In a wider context of educational inequities, employment likelihoods for black males arguably declined in comparison to white males in many occupations because of skills upgrading. Both authority and substantive complexity requirements have been shown to be highly correlated with education (Howell and Wolff 1991).

Such changes in occupational allocation would hold great potential for damaging the relative economic position of black males. Moss and Tilly (1996) have confirmed that social skills upgrading in entry-level jobs was associated with unfavorable employer views of black male job candidates.² Further, there exists abundant evidence from existing labor market segmentation literature of an interconnection between allocation patterns and wage outcomes (e.g., Marini 1989). More specifically, cognitive and social interactional requirements have been confirmed as positive determinants of occupational wage levels (England 1992; Simpson 1998). Thus, black males would be losing ground to white males within occupations precisely as the upgrading process was presumably leading to increases in the rewards associated with these occupations. For present purposes, however, the point of emphasis is purely on establishing a relationship between skills upgrading and comparative declines in employment likelihoods.

Specifically, I hypothesize the following:

Hypothesis 1: Upgrading in occupational authority requirements is associated with a relative decrease in black male employment probabilities compared with white male employment probabilities over the 1980s.

Hypothesis 2: Upgrading in occupational substantive complexity requirements is associated with a relative decrease in black male employment probabilities compared with white male employment probabilities over the 1980s.

Unit of Analysis and Independent Variables in Regression Series

A basic premise of this research is that skills shifts have led to a relative decline in employment likelihoods for black males within occupations over the 1980s. My comparison group is white males. The dependent variable is the conditional probability of black male labor force participants being in an individual occupation divided by the conditional probability for white males.³

Odds ratios take only positive values, have no upper limit, and would be equal to 1 when no relationship by race is indicated. Odds ratios are thus appropriate for OLS regression analysis without further transformations. In an ideal world, unity would be the preferred relationship, implying equal allocation of males by race. Where the odds ratio is greater than 1, black males are more likely to be in an occupation than whites; where less than 1, black males are less likely to be in an occupation. Using these values as the dependent variable can be thought of as a means of decomposing the parameter estimate for race in a log-linear or other generalized linear model based on a sample population of males. More literally, what is being decomposed is the likelihood of black males being in an occupation rather than any other occupation or being unemployed, compared with the same likelihood for white males (Knoke and Burke 1980).

Occupation is the unit of analysis in this study. My final sample consisted of 429 occupations.⁴ I weighted all regressions by total employment in the occupation in each respective year.⁵ Skills dimension measures were logged so that all independent variables are formulated in percentage terms.

Skills Measures in the Regression Series

Extant estimates of skills were not available, so I developed original measures through a multifaceted estimation procedure. My initial data sources were the 1977 edition and the revised 1991 edition of the Dictionary of Occupational Titles (DOT). Each respective edition of the DOT contains information on over 12,000 occupations within the U.S. economy. The Department of Labor did not update the full range of occupations in the 1991 edition, unlike previous editions. Administrators decided to reduce costs by focusing reanalysis on select industries. The outcome was a sample of approximately 1,200 updated occupations that could be matched to the earlier DOT edition. I increased this sample by 82 by assuming that nonupdated occupations had the same observed change values as the updated occupation if the nonupdated occupation (1) had the same DOT occupational classification as an updated occupation and (2) had the same original values across all occupational skills dimensions as the updated occupation.⁶

Considerable differences between the DOT and census occupational classification systems also necessitated the use of information available from the National Crosswalk Service Center. Teams of experts commissioned by this organization matched narrower 1977 DOT occupational categories to broader 1980 census occupational categories and occupations from the 1991 edition to 1990 census occupational categories. Separate skills level estimates were calculated based on averaging values associated with all DOT occupations within a broader census-derived category for each respective period.⁷ The final skill-shift estimates were based on subtracting the logged estimates from one another.⁸

The DOT provided information on 18 different job skill variables in the 1977 and 1991 editions. In line with the skills mismatch thesis, I focused on dimensions pertaining to cognitive and analytical skills. I conducted a factor analytic exercise and derived a composite measure from nine of the original variables found in the DOT, which I hereafter identify as the substantive complexity measure. The factor analytic exercise also distinguished an authority measure, which was based on a single variable included in the DOT.⁹

Controls

I also included first-difference estimates for the following control variables: percentage women, percentage immigrants, region (Northeast = 1, other = 0), sector (goods = 1, service = 0), and union density.^{10, 11} Data was derived from the PUMS 1% samples of the 1980 and 1990 census and from extrapolations based on Curme, Hirsch, and Macpherson's (1990) union density estimates.

Results

Table 1 provides coefficient and related data from both the cross-sectional and the change variables regression models. The strictest test of the relationship between skills shifts and racial allocation derives from the change variables model. The cross-sectional models differ in only one particular from the change variables model.¹⁰ The results from the cross-sectional analysis were included for comparative purposes.

Individual coefficient and *t*-test data confirm that shifts in substantive complexity corresponded with decreases in the racial odds ratio over the 1980s. Specifically, a percentage change in occupational substantive complexity requirements decreased the odds ratio by 1.98%. Substantive complexity levels also had significant negative effects on the odds ratio in both the 1980 and 1990 cross-sectional regressions.

TABLE 1
Regression Results

Dependent variable	BPROB		WPROB		WBGAP	
	1980	1990	1980	1990	1980	1990
LNAUT	.6461*	.4565*	.8314*	.7104*	.1852	.2538*
	(.1634)	(.1675)	(.1996)	(.2381)	(.1421)	(.1502)
LNSUB	-3.7217*	-2.9473*	-1.8386*	-1.5992*	1.8831*	1.3481*
	(.3997)	(.3903)	(.4882)	(.5548)	(.3477)	(.3500)
UNION	-.0510	-.0274	-1.0807*	-.9125	-1.0297*	-.8851*
	(.4209)	(.4372)	(.5141)	(.6214)	(.3661)	(.3920)
REGION	2.1184*	2.4424*	1.9408*	2.5119*	-.1776	.0696
	(.8855)	(1.0045)	(1.0815)	(1.4279)	(.7702)	(.9007)
SECTOR	.3527	-.0381	.6192*	.4767	.2665	.5149*
	(.2737)	(.2578)	(.3343)	(.3664)	(.2381)	(.2311)
IMMIGR	.5985	1.7293	-.6363	1.0637	-1.2348	-.6656
	(1.7219)	(1.2417)	(2.1030)	(1.7650)	(1.4977)	(1.1133)
WOMEN	-1.0956*	-1.3724*	-.7238*	-1.3921*	.3718*	-.0197
	(.2425)	(.2444)	(.2962)	(.3474)	(.2109)	(.2192)
FARMFORF	-2.1745*	-2.3399*	-3.2031*	-3.6249*	1.0286*	-1.2849*
	(.4108)	(.4053)	(.5017)	(.5761)	(.3573)	(.3634)
OPERHAND	-2.3688	-2.6285	-3.5502	-3.7869	-1.1814	-1.1584
	(.4006)	(.3828)	(.4892)	(.5442)	(.3484)	(.3432)
PREPROD	-1.7272	-2.1264	-2.9114	-3.4211	-1.1842	-1.2948
	(.2795)	(.2731)	(.3413)	(.3882)	(.2431)	(.2449)
PROFSPEC	-.4681	-.8050	-2.5607	-2.4819	-2.0926	-1.6769
	(.2336)	(.2071)	(.2853)	(.2944)	(.2032)	(.1857)
SALES	.1040	.3910	.9385	1.2844	.8345	.8934
	(.2306)	(.2116)	(.2816)	(.3008)	(.2006)	(.1897)
SERVICE	-1.4147	-1.4908	-3.3791	-3.2757	-1.9644	-1.7849
	(.3192)	(.2930)	(.3899)	(.4164)	(.2777)	(.2627)
TECHSAAD	-1.3643	-1.5031	-3.3741	-3.1675	-2.0097	-1.6644
	(.2486)	(.2168)	(.3037)	(.3082)	(.2163)	(.1944)
TRANSMAT	-1.4198	-.1487	-3.1470	-2.3518	-1.7271	-2.2031
	(.4200)	(.3969)	(.5130)	(.5641)	(.3653)	(.3558)
CONSTANT	15.3652	12.7500	9.6737	8.7530	-5.6915	-3.9970
	(1.5925)	(1.5928)	(1.9450)	(.2381)	(1.3851)	(1.4282)
R-square	.3290	.3957	.3981	.3873	.5683	.5389
F value					36.2411	32.1748
LNAUT and LNSUB					22.9562	14.2650
UNION through WOMEN					4.6144	1.7544
FARMFORF through TRANSMAT					18.8965	18.2503

Standard errors in parentheses. * Significant at .10 or below. $N = 429$.

Variable key:

LNAUT	Natural log of authority requirements
LNSUB	Natural log of substantive complexity requirements
UNION	Percentage of occupational incumbents unionized
REGION	Coded 1 for New England, Middle Atlantic, and North Central states; 0 otherwise
SECTOR	Coded 1 for goods-producing industries; 0 otherwise
IMMIGR	Percentage of occupational incumbents who are immigrants
WOMEN	Percentage of occupational incumbents who are women
FARMFORF	Farming, forestry, and fishing
OPERHAND	Machine operators, assemblers, and inspectors
PREPROD	Precision production, craft, and repair
PROFSPEC	Professional specialty
SALES	Sales
SERVICE	Service occupations, except protective and household
TECHSAAD	Technicians and related support
TRANSMAT	Transportation and material moving

The regression coefficient for shifts in authority requirements was positive, but *t*-test results failed to confirm a significant relationship between authority shifts and the odds ratio. Further, cross-sectional results from 1980 and 1990 followed the same pattern. Both the 1980 and 1990 regression coefficients were positive, and both coefficients were associated with insignificant *t*-tests.

Several control variables also correlated with changes in the odds ratio over the 1980s. On the one hand, changes in female representation and union density shifts were both associated with significant positive coefficients. On the other hand, changes in the regional distribution of occupations and in the representation of immigrants were both associated with significant negative coefficients. The cross-sectional regression results for these controls generally paralleled the change variables regression results. However, in the cross-sectional results for both 1980 and 1990, the representation of immigrant variables corresponded with significant positive coefficients. Wald tests indicated that the coefficient for 1990 was significantly smaller than for 1980, and diminishing effects plausibly help to explain the sign change in the immigrant representation variable.

Anecdotal Evidence

A final exercise was undertaken to better contextualize the regression results. I selected specific occupations that (1) started the decade with an odds ratio less than 1 (black male occupational conditional probabilities were smaller than those for white males), (2) ended the decade with an even smaller odds ratio (black male occupational conditional probabilities decreased relative to those for white males), and (3) experienced upgrading in substantive complexity requirements. I then rank-ordered this occupational subset by the extent of substantive complexity upgrading and examined in greater detail the 20 top occupations on this roster. Technical (electrical and electronic technicians) and craft occupations (tool and die makers; pattern makers, layout workers, and cutters; pattern makers and metal makers; machinists) were included in this list. These occupations are notable not only because they are relatively high-paying occupations but also because they have been closely associated with the application of new computer technologies and work process transformations in recent years (e.g., Noble 1984). In combination with the change variables regression data, this exercise suggests that technologically conditioned skills upgrading has worked to erode relative employment likelihoods for black males in select, well-rewarded occupations. Further, recall that upgrading itself probably generated upward pressure on associated pay levels.

Discussion

The results of this study conform with the expectation that skills upgrading worked to erode relative employment likelihoods for black males over the 1980s. Hypotheses 1 and 2 separately specify that shifts in occupational authority and substantive complexity requirements had negative effects on relative employment likelihoods for black males over the 1980s. A negative relationship between upgrading in substantive complexity and changes in the racial odds ratio has been confirmed in this study. No such relationship has been confirmed for upgrading in authority requirements, however. Finally, anecdotal evidence provided very specific examples of well-paid occupations in which technological change, substantive complexity upgrading, and relative decreases in black male employment likelihoods all converged.

It is important to concede at this point that other causal models may explain the confirmed correlations between the occupational skills requirements examined here and racial allocation processes. Social researchers have recently argued that employers allocate authority to occupations in reaction to the racial and gender makeup of occupational incumbents (Boyd, Mulvihill, Myles 1991). In this model, authority and substantive complexity are not exogenous but endogenous variables. Certainly, an argument for reverse causation has its potential merits, as does the recognition that enduring within-market factors such as discrimination, stereotyping, and hiring through informal networks may affect occupational allocation patterns by race. Alternatively, it seems equally dubious to dismiss out of hand the proposition that technologically conditioned changes in work content are often exogenously generated and that they, in turn, directly affect racial allocation in a wider context of premarket educational inequities. The final roster of occupations presented in the results section should certainly give pause in this regard. Again, the allocation gap increased considerably, and upgrading in authority and substantive complexity occurred with this group. Finally, supplemental case-study data indicate that the motive force in the transformation of the skills content of several of these occupations was the introduction of new technologies in response to competitive pressures rather than to demographic attributes of present or potential labor supply (e.g., Noble 1984). A distinct possibility is that exogenously generated skills upgrading interacts with within-market factors such as stereotyping to redouble the employment problems of black males.

Endnotes

¹ Wilson and Kasarda would also argue that spatial mismatch has exaggerated the problem for black inner-city males. Those goods-producing enterprises that remain in metropolitan labor markets in the wake of deindustrialization have often relocated from

inner-city core neighborhoods to suburban outer-ring neighborhoods. Residential segregation and geographic immobilities conditioned by poverty and deteriorating public transportation systems make these jobs less accessible to black males. The spatial mismatch thesis is not explored in the present study, however.

² Moss and Tilly (1996) have used interview data to examine the relationship between what they call "soft skills" upgrading and changing employer perceptions with regard to the appropriateness of black male job applicants. Among their roster of skills was an interaction variable that overlaps somewhat with the authority variable used in this study. However, as they themselves indicated in this study, it is important to try to replicate their findings across wider occupational and geographic units. Additionally, their emphasis was on perceptions rather than on actual employment outcomes.

³ Calculations are based on the noninstitutional, nonenrolled employed civilian population, 16 years of age and above.

⁴ My sample size is smaller than the total number found in the 1980 and 1990 census occupational classification systems because comparability problems across these data sets and data sets used in deriving skills and union density measures led to aggregating some census occupations together.

⁵ My weighting approach was based on the weight estimation procedure available in SPSS Version 8.0. The weighting factor for total employment that maximized the log likelihood function was $-.75$.

⁶ A comparison of this expanded sample with a unique 1971 Current Population Survey (CPS) sample, in which an individual's occupation was coded with both a DOT code and a census occupational classification system code, indicated that the updated DOT occupations constituted approximately 76.4% of the CPS sample. Clearly, the level of specificity incorporated in the roster of over 12,000 DOT occupations guarantees that a substantial number of the identified occupations are statistically rare in the economy.

⁷ Shifts in occupational content measures were also generated where new occupations emerged and other occupations became moribund over the 1980s. My approach to analyzing shifts attempted to capture this dynamic process through separately cross-referencing all extant occupations in each consecutive edition of the DOT to a 1980 census classification system comprising much broader occupational categories. Thus, values from a discrete DOT occupation identified in the 1977 edition and missing from the 1991 edition were pooled into the earlier period's aggregated measure for a broader census occupational category but not into the aggregated measure for the latter period. For discrete DOT occupations that appeared in the 1991 edition only, the opposite was the case.

⁸ The log form was chosen because the authority and substantive complexity skills level variables were abnormally distributed in both 1980 and 1990.

⁹ The substantive complexity variable combines (1) clerical, (2) verbal, (3) numeric, (4) general intelligence, (5) GED language, (6) GED math, (7) GED reading, (8) specific vocational preparation, and (9) data. The first four are aptitude measures. The GED variables were scaled on a low-to-high continuum of 1 to 6. Scaled from 1 to 9, vocational preparation is a continuous variable pertaining to the amount of training required. Data is a worker function scaled thus: (0) synthesizing, (1) coordinating, (2) analyzing, (3) compiling, (4) computing, (5) copying, (6) comparing.

The authority variable was originally scaled thus: (0) mentoring, (1) negotiating, (2) instructing, (3) supervising, (4) diverting, (5) persuading, (6) speaking/signaling, (7) serving, (8) taking instructions.

All the original DOT variables were rescaled from 1 to 10, with 10 indicating the highest required skill. The composite substantive complexity variable had a reliability score exceeding .7 for both DOT editions.

¹⁰ Presuming heterogeneity of effects, separate regressions performed on the cross-sectional data for 1980 and 1990 also contained occupational dummy variables. However, because a shift-analysis framework “differences away” any unobserved time-invariant occupational characteristics that may be correlated with the regressors, the occupational dummies were not included in the final change variables regression.

¹¹ A word is in order about the variables that are not controlled for in this analysis. The individual-level variables most commonly included in any labor market analysis are the human capital attributes of education and experience. To easily include these variables in the present analysis, I would have had to calculate mean or similar aggregated descriptive measures for all occupations. But measures of this type were redundant in the present analysis because I have included direct measures of what might be called the “human capital productivity requirements of occupations.” In other words, by measuring occupational cognitive and analytical skills requirements directly, I undermined the need to measure what amounts to the proxy variables of average educational and experience levels of occupational incumbents. Indeed, when in a supplemental exercise, I did measure mean education and mean experience variables for occupations, they were highly correlated (.8 and above) with my skills dimensions variables.

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VII. EMERGING MODELS OF CORPORATE GOVERNANCE: BALANCING THE NEEDS OF MULTIPLE SHAREHOLDERS

Some Effects of Financial Systems and Corporate Governance on Labor Outcomes

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This paper explores links between capital structures, corporate governance, and labor outcomes. Although students of industrial relations and human resource management have long been aware of the impact of labor and product markets on work and employment, the role of financial markets and capital structures has been neglected. Similarly, while such scholars have had an interest in specific aspects of the relationships among owners, managers, and employees (such as foreign ownership, employee ownership), more general aspects of corporate governance have rarely been a primary focus of interest. By contrast, in popular, business, and political circles in the last 10 years, there has been considerable debate about financial markets and corporate governance.

Only recently has consideration started to be given to the possibility that financial structures and corporate governance may influence labor. Within financial economics, a new strand of inquiry has been concerned

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with the impact of capital structures on employment, wages, and unionization (Perotti and Spier 1993; Sharpe 1994; Bronars and Deere 1991; Hanka 1998). In turn, this is beginning to influence industrial relations analysis (Cappelli et al. 1997). More general discussions are found in Blair and Roe (1999). Much of the U.S. literature has naturally focused exclusively on domestic developments and on nationally specific characteristics. It is possible, however, that the effects of financial markets and governance arrangements on labor management may be better understood when viewed in comparative perspective.

In this paper, we attempt to develop an overview of possible linkages between financial structures, corporate governance, and labor outcomes, drawing on insights gained from comparative analysis of both finance and labor. Having identified key dimensions of capital structures and corporate governance, we develop a set of arguments about the impact on work, employment, and industrial relations. In the conclusion, we suggest how the framework can be used for further empirical work.

Definitions, Concepts, Frameworks

Financial markets are defined here to cover how firms raise financial resources and how they reward those who provide them. Corporate governance is defined broadly to cover the whole relationship among owners, top managers, and other “stakeholders” with an interest in the firm. This contrasts with a narrower focus on boards of directors and accountability, though clearly these are important aspects of governance. Here, therefore, corporate governance is concerned with who controls the firm and the various ways whereby control is exercised. Labor outcomes are defined broadly to cover a set of major decisions and resulting patterns. It is taken to cover three main areas: work relations, employment relations, and industrial relations (Gospel 1992). Work relations cover the way work is organized and the deployment of workers around technologies and production processes. Employment relations deal with the arrangements governing such aspects of employment as job tenure, training, and reward systems. Industrial relations are defined to cover the representational and collective aspirations of employees and resulting institutional arrangements, such as joint consultation, works councils, and collective bargaining.

The purpose of this paper is to outline how these finance and governance structures may influence labor patterns. The approach we adopt is one that views labor management patterns as being substantially shaped by business strategies and organizational structures. In turn, such strategies and structures are seen as a response to exogenous influences, in particular to product and labor markets. We also introduce financial markets as a key

influence on the firm and believe that this influence is exerted in part through corporate governance. Of course, this is a simplified model, and we do not assert that financial and governance structures are the sole or even the most important external influence. Nor do we see firms and their managers as passive victims of external forces. Top managers have some choice as to the capital and governance structures of the firms they manage, within the constraints of national capital markets and governance legislation.

Given the clustering of characteristics of national systems of finance and governance, in particular of the Anglo-American and the Continental European–Japanese systems, the literature identifies certain broad classifications of financial market and corporate governance arrangements. In particular, it distinguishes *market* from *relational* forms of financing and *outsider* from *insider* methods of governance. The market model is one where the firm raises a considerable proportion of its external capital from equity markets or short-term debt markets. This tends to be associated with an outsider system of governance, where control and monitoring of the firm are market based, with share price and dividends being key performance indicators (Porter 1997). Hence, there is an active market for corporate control, and the takeover threat is a key sanction on managerial underperformance. As a consequence, American corporations tend to be dominated by the finance conception of control that views the firm as a bundle of assets that are deployed in order to maximize short-term earnings (Fligstein and Brantley 1992). By contrast, under the relational model, more reliance is placed on long-term debt, and less resort is made to equity markets, which in turn are less developed. Equity ownership tends to be intertwined with lending, with banks typically having substantial ownership stakes. Intercorporate shareholdings are also an important feature. In this model, governance and monitoring take more of an insider or direct form and are achieved through board representation of major suppliers of capital. The market for corporate control is less significant, and relationships between firms and capital providers tend to be long term and built around mutual commitments. Short-term financial pressures from financial markets therefore tend to be less powerful.

Linkages with Labor Management

The suggestion of this paper is that the governance arrangements between capital providers and firms affect the relationships between managers and their employees. To explore this, we argue that important aspects of financing and governance are consistently associated with certain patterns of labor management. Two dimensions that we perceive to be especially important are (1) the directness of involvement of financiers in corporate

governance and (2) the intensity of the pressures emanating from providers of capital (which is closely associated with the level and time horizon of returns sought by them).

In the area of employment relations, both market and relational forms of financing may be consistent with the development of long job tenures and internal labor markets. Where there is a separation of ownership from control in market systems, managers may be able to pursue their own interests and those of their employees in careers and promotion without too much hindrance from equity owners. Where there is more direct involvement of financiers in corporate governance, as in relational systems, the long-term nature of returns and the deeper appreciation of the sources of corporate value are likely to support long-term employment relationships and the development of firm-specific human capital. Movements in either system may threaten the basis of long-term employment relationships and internal labor markets. If ownership in market systems becomes more concentrated, if shareholders become more active, and if the market for corporate control becomes stronger, this is likely to affect employment in two ways. First, there may be powerful pressure to cut labor costs to maximize returns to shareholders. Second, shorter-term horizons may discourage long-term "claims" against the firm by employees. The net effect is fewer and shorter jobs. In addition, movements in relational systems toward adoption of some features of market systems, such as greater exposure to equity markets and takeover possibilities, seem likely to shift the emphasis to shorter-term financial returns and may threaten the basis of long job tenure.

There are good reasons for anticipating that market-based systems will be less supportive of well-developed training regimes than relational systems. The discouragement of long job tenures in those market-based systems where managers have limited control of their corporations is likely to inhibit firm-specific training. This is partly because firms will rely instead on ostensibly cheaper external labor markets for their supply of employees with requisite skills and partly because employees themselves will be unwilling to invest in firm-specific skills when there is little payoff in long-term employment and career prospects (Blair 1995). Furthermore, the emphasis on securing short-term financial returns for shareholders is likely to be antithetical to expenditure on human resource development, where the payoff is both long term and difficult to quantify. The logic of our argument is that relational systems may be far more conducive to firm-based training. Long-term financing and more direct governance are likely to be supportive of longer-term employment and internal labor markets and hence conducive to skill formation. Moreover, interlocking patterns of

ownership between firms are likely to facilitate interfirm cooperation over training in the development of industry specific skills.

Employee reward systems are likely to vary among different financial regimes. A wider dispersion of pay and benefits may be expected in firms under market-based systems for several reasons. The market for corporate control and the intensity of pressures to maximize shareholder value are likely to affect the distribution of returns among financiers, managers, and employees. The greater these pressures, the greater the constraints on employee incomes, especially at lower levels of the firm. At the same time, at higher levels of the firm, the market for corporate control is likely to encourage well-developed external labor markets for top managers. Their remuneration is driven upward when there is a scarcity of managers who can satisfy the demands of capital providers. All things being equal, therefore, pay differentials are likely to be wider in market-based systems than in relational systems. The lower incidence and fragmentation of internal labor markets is an additional factor inhibiting the presence of integrated organization-wide grading systems that may compress pay differentials between workers and managers (for instance, by rewarding seniority).

A further impact of market-based systems of financing and governance is likely to be a higher incidence of contingent pay systems. There are several factors here. Profit-based payments, stock options, and other forms of incentive pay for managers are likely to be relatively widespread in market-based systems as a mechanism to minimize agency costs in monitoring managerial behavior. These provide the means to link management performance to the financial objectives of capital providers. From a stockholder's perspective, a further benefit is that provision of these contingent forms of remuneration minimizes unsupported, longer-term claims against the firm. Wider distribution of profit-sharing and share-ownership schemes may also be expected in firms in market-based systems, though the implications here are contradictory. These schemes may reduce or contain the agency costs of monitoring workers (given that the absence of internal labor markets reduces long-term bonding), but equally they may distribute control claims to workers at the expense of those of managers or other stockholders (Jensen and Meckling 1976). By contrast, these schemes may be less widespread in relational systems because smaller stock markets inhibit liquidity of employee shares and because worker attachment to the firm can be secured by other means (e.g., through internal labor markets or employee involvement in corporate governance).

In the area of work relations, it would at first seem rather more difficult to make connections with financial and governance arrangements. Work organization is powerfully determined by technological possibilities and product markets. Our suggestion, however, is that the deployment of technology

and the selection of product markets are likely to be influenced (at least in part) by financing and governance arrangements. Their impact on work relations will also be transmitted through the employment relationships outlined earlier. We have suggested that market-based systems tend to be associated with limited skill formation, and we suggest that it may be associated with limited worker voice in the execution of production. Production methods therefore tend to be based on “command and control” rather than on teamwork or “responsible autonomy.” By contrast, relational systems tend to be characterized by deeper levels and breadth of skills and by greater emphasis on worker discretion.

The effects on work relations transmitted through employment relationships are fairly clear. The discouragement of internal labor markets, long job tenure, and training in market-based systems tends to promote production methods requiring relatively less-advanced skills. By contrast, under relational-insider systems, firms may tend to look for more functional flexibility to capitalize on the greater investment in human capital and to compensate for any loss of numerical flexibility emanating from stronger internal labor markets.

These relationships will be reinforced by production systems and product markets. In market-based, outsider systems, capital investment is likely to be strongly influenced by short-term financial considerations exercised by those remote from production activities within the firm. The availability and cost of either loan or equity finance are likely to be a function of capital providers’ perceptions that good returns can be achieved in the short term. Pressures for short-term paybacks mean that new technology is used intensively and “efficiently” (i.e., with little “downtime”). This in turn means that firms are inclined toward mass production methods and standardized products and services. Such an approach is associated with a fragmentation of skills and little employee discretion. There will be powerful pressures toward the application of relatively standardized production systems (rather than firm- or product-specific technologies). By contrast, in relational systems, the closer and longer-term involvement of providers of capital in the governance of the firm seems likely to facilitate more innovative patterns of capital investment and product market orientation. Production systems can be used that both require and allow higher levels of skills and discretion.

Three other influences on work relations may be posited. First, in market systems, the expertise of capital providers monitoring company activities resides in assessment of financial performance rather than human capital or production systems. In assessing investment plans, therefore, there may be a tendency to support known production systems and long-standing

patterns of work organization, even where product market developments may favor more innovative technology and working arrangements. Second, in market systems, the dominance of financial pressures means that managers with the highest status and positions tend to be those with financial knowledge rather than production skills. In insider systems, by contrast, the long-term relationships between financiers and managers mean that capital providers can develop a deeper understanding of production and appreciate its contribution to long-term company performance. However, there is a counterargument that, although outsider systems may discourage process innovation, the well-developed capital and managerial labor markets found in them may be conducive to product innovation, often in new start-ups and spin-offs. Even then, the short-term orientation of capital markets is likely to encourage employment systems that are conducive to unskilled or semi-skilled labor and promote products that generate relatively unsophisticated demands on work organization. Third, financial and governance pressures may also affect workers' attitudes toward the ownership of skills and the protection of jobs. Under market-based, outsider systems, workers are likely to be highly protective of existing skills and jobs, since implicit contracts tend to preclude long-term job tenure and long-term benefits arising from cooperation. This may manifest itself in forms of worker activity that stress job control and restrictive practices. By contrast, under relational-insider financing, where in-house training is more extensive and jobs are more secure, such forms of worker activity will be less pronounced and worker cooperation in production will arguably be more forthcoming.

In the area of industrial relations, again it might seem difficult to make linkages with financial markets and corporate governance, as many other factors (e.g., union behavior, labor law) also have a strong influence on arrangements. Even so, causal relationships can be posited between finance and governance systems and patterns of industrial relations.

Under market-based, outsider systems, firms are reluctant to enter into voice arrangements that may counteract signals from capital markets and detract from the capacity to secure high short-term returns. Financiers may react adversely to union activities by selling stock, and share value may fall. In the financial economics literature, there is also the suggestion that stockholders may encourage firms to build up debt levels to limit the returns that might be captured by unions (Bronars and Deere 1991). The remoteness of financiers from direct governance and their lack of nonfinancial information disincline them to recognize any positive effects of union representation. At the same time, union job-control strategies may be highly visible. Hence, forms of employee participation that are perceived to affect shareholder value adversely will be abhorred. In these systems, where firms

are forced to recognize employee voice, this recognition may take either a manipulative or adversarial form. In the first place, firms will seek to establish management-sponsored committees or "company unions." Where they are forced to recognize autonomous unions, they are likely to enter into adversarial-type bargaining in order to recoup productivity increases after wage and benefit concessions. By contrast, in relational systems, the combination of closer involvement of financiers in governance and higher levels of information about employment matters seems likely to generate more favorable orientations toward employee voice. Furthermore, long job tenures and internal labor markets seem likely to encourage patterns of employee representation that focus primarily on the firm and its long-term health. In turn, this may mean that employee representation is viewed as less of a threat than in outsider systems. At the same time, cross-ownership of firms in relational systems may encourage external regulation of the labor market by employers' associations and multiemployer bargaining with unions.

Where unions are recognized in firms in outsider systems, there are likely to be strong pressures toward business-unit or plant-level bargaining. This is partly because powerful financial pressures in these firms favor the extensive use of financial controls to monitor performance of subcompany units. In these circumstances, it is sensible to align the level of pay determination with these considerations (Ulman 1974). This is not to say that managerial decisions about pay awards are made at this level. These may well be made at higher levels of the company, but decentralization of bargaining itself serves to exclude unions from the key sites where decisions are made that have an important bearing on shareholder returns. By contrast, in relational systems, there may be pressures favoring company-level bargaining and representation. For example, the greater likelihood of comprehensive internal labor markets provides strong grounds for regulation of wages across the company (Aoki 1994).

Finally, other forms of direct employee participation, such as quality circles, team briefings, and so on, may be unequally distributed between outsider and insider systems. They might be expected to be more common in outsider firms either as a way of forestalling or diluting union recognition or as a means to generate commitment and information sharing in circumstances where employees have a reduced incentive to identify with the firm. Those forms of participation in widespread use may tend to be mainly "downward communications" rather than "upward problem solving," though managerial rhetoric may attempt to disguise this. By contrast, in insider systems, there might be more likelihood of genuine involvement of employees in decisions. This will be a function of the various features of

employment relations and work relations outlined earlier. Long job tenures will provide some degree of identification with the firm. Employee involvement therefore might be less of a potential threat to managers and financiers than in outsider systems. The more advanced level of production systems and skills may also provide a basis for high involvement in task decisions.

Conclusions

The approach taken in this paper has been to posit plausible linkages among financial structures, corporate governance, and labor outcomes. A program of empirical research to investigate more systematically the propositions advanced in the paper is desirable, and we hope that our observations will provide a helpful starting point. We perceive the desirability of future research in a number of directions. The first might involve a broad comparative approach as suggested in this article but drawing on either more detailed historical or more contemporary statistical data. It would certainly be useful to include countries such as the United States and United Kingdom as representatives of market/outsider systems and Germany and Japan as examples of relational/insider systems. A second direction of research involves a more exclusively national approach, focusing on differences within a single country. Such work has begun in the United States but is so far rather limited and has not yet been replicated in other countries. A third direction of research involves a firm-level approach within a country, looking at matched firms within a sector in terms of differences in capital structure, corporate governance, and labor outcomes. Thus, there is a rich agenda for research, and we hope that industrial relations and human resource management scholars will explore these opportunities.

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VIII. REFEREED PAPERS— UNIONS AND EMPLOYEE VOICE

NLRB Rulings on Unfair Labor Practice and Economic Strikes: Empirical Evidence of Consistency

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Economic weapons are an essential part of private-sector collective bargaining. The National Labor Relations Act (NLRA) provides that “nothing herein shall be construed so as to diminish, interfere with, or impede the right to strike.” Yet, in apparent contradiction of this law, the Supreme Court’s *Mackay Radio* (1938) decision gave employers a strong countermeasure: the right to hire permanent striker replacements. A generation later, the Court set forth a policy that mitigates the striker-replacement doctrine. Its *Mastro Plastics* (1956) decision said that replaced strikers have a right to immediate reinstatement if their employer caused the strike.

Thus, the Supreme Court has provided two doctrines that are critical in determining replacement-strike outcomes. Employers are strongly favored when the NLRB rules that a replacement strike is “economic” in nature. In these cases, the *Mackay Radio* doctrine applies and the employer is under no duty to reinstate strikers until replacement workers quit their jobs. But when the NLRB rules that a strike falls under *Mastro Plastics* (i.e., the unfair labor practice, or ULP, strike doctrine), the tables are turned. Employers must dismiss replacement workers in favor of strikers.

To date, there has been no empirical research to show the extent to which replacement strikes are ruled by the NLRB to be economic or ULP strikes. This research question is important because it provides a better understanding of strike outcomes for unions. This research question also

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matters because these outcomes depend on changing court and NLRB interpretations concerning employer ULPs. In theory, if NLRB or court precedents narrow the scope of unlawful employer conduct during bargaining or the course of a strike, this would seem to decrease a union's prospects for having its work stoppage ruled a ULP strike.

Changes in ULP Strike Doctrine in the 1980s

Recent policy debate on striker replacements focused on *Mackay Radio*. While this focal point is understandable, it obscured important doctrinal changes that may alter the balance of economic weapons under the NLRA. In fact, the Workplace Fairness Act—a bill that would have prohibited any employer hiring of permanent striker replacements—had a second provision. This proposed to repeal *TWA v. Independent Federation of Flight Attendants* (1989), a Supreme Court ruling that narrowed the ULP strike doctrine by broadening employer strike-response rights.

After being struck, TWA hired 1,200 permanent replacements but had several thousand vacancies to fill. In desperation it offered available routes and domicile to strikers who crossed the picket line. To make its inducement effective, the airline promised that crossovers would retain these perks after the strike ended. Thus, the airline created a zero-sum exchange among bargaining unit employees. Crossovers gained at the expense of full-term strikers. The TWA majority ruled that this practice was lawful, even though their holding seemed to conflict with *NLRB v. Erie Resistor Corp.* (1963). There, the Supreme Court ruled that an employer unlawfully discriminated against strikers when it offered only crossovers 20 years of super-seniority.

Another legal development in the 1980s appeared to have the effect of narrowing the ULP strike doctrine. Several federal appeals courts rejected the NLRB's application of *NLRB v. Truitt* (1955). Under *Truitt*, an employer who claimed financial duress in meeting a union's bargaining proposals was lawfully obligated to provide financial records to substantiate its position. In *NLRB v. Harvstone Mfg. Corp.* (1986), an appellate court rejected a board order that imposed *Truitt* disclosure requirements in response to an employer's claim of competitive disadvantage. After other courts adopted this approach (*Facet Enterprises, Inc. v. NLRB* 1990; *Washington Materials, Inc. v. NLRB* 1986), the board followed suit.

This change appeared to increase a striker's exposure to permanent replacement. For example, in *United Steelworkers of America, Local Union 14534 v. NLRB* (1993), bargaining unit employees rejected their employer's demand for a 30% pay cut and a 50% cut in benefits. Before striking, the union made a *Truitt* request for financial documentation. The company denied this, declared impasse, and implemented its harsh proposals.

Workers went on strike and were immediately permanently replaced. The union maintained that this was a ULP strike because the employer unlawfully created impasse by failing to substantiate its need for draconian concessions. In light of *Harvstone*, however, the NLRB ruled that the strike was economic. Thus, strikers were not entitled to immediate reinstatement after they ended their strike. Some languished for years on a reinstatement list.

Empirical Research on Replacement Strikes

Empirical research on replacement strikes is limited. Some replacement strike studies do not address ULPs (Card and Olson 1995; Schnell and Gramm 1994). However, several empirical studies suggest research hypotheses for ULP replacement strikes. Cutcher-Gershenfeld, McHugh, and Power's (1996) analysis of 481 collective bargaining negotiations found evidence of aggressive employer responses to strikes. Dannin (1997) showed that employer implementation of final contract offers during impasse are associated with deunionization and hiring of permanent replacements.

I hypothesize that the percentage of replacement strikes ruled to be ULP strikes declined in the 1990s because of the adverse developments in the ULP strike doctrine during the 1980s.

Research Method

My sample consists of 535 adjudicated cases involving employer hiring of permanent striker replacements from 1938 to 1999. Most of these cases also involve an "economic" or "ULP" strike ruling. I manually researched NLRB volumes from 1938 (*Mackay Radio*) to 1977 for cases involving permanent replacement strikes. I used BNA's *Labor Relations Reporter*, which contains a detailed subject matter outline, to identify these cases. I then correlated the LRRM citation to the appropriate NLRB volume and read the full decision to extract data about each strike. For cases after 1977, I entered a variety of appropriate keyword searches in WESTLAW's electronic database (e.g., "MACKAY RADIO" & STRIKE!). I read complete cases to ensure that they involved employer hiring of permanent striker replacements and then extracted data.

Nine of my cases involved strikes arising under the Railway Labor Act. These were included in my database, even though the NLRB has no jurisdiction over airline and rail employers and workers, because federal courts have applied the same striker replacement doctrines arising under the NLRA.

There is good reason to believe that this sample is representative. The largest group of ULP strikes missed by my search are administrative law

judges' decisions that were not appealed to the NLRB and are therefore not reported. Another potential gap in my sample are appropriate NLRB cases that the BNA outline or my multiple keyword searches missed. Given the detail in BNA's outline and the multiple searches I used in WESTLAW, omitted cases are probably few. It is also important to note that this method involved no rater subjectivity. Since board rulings on this issue are clear, this potential source of bias is not present here.

Results and Conclusions

Table 1 summarizes my data analysis. I coded the year a strike began and the year the NLRB ruled on the type of strike. In almost every case, these were different years because litigation occurred well after a replacement strike began. Since my unit of analysis is the board's ruling, I sorted cases by the year of the decision. For example, the 1989 *TWA* decision narrowed ULP strike doctrine; but for a strike in my sample that began in 1988 and was adjudicated in 1990, what matters is when the ruling was made. This measurement accounts for the then-current state of the ULP strike doctrine.

TABLE 1
Economic and ULP Strikes by Year of Board Ruling: 1930s–1990s

	1930s	1940s	1950s	1960s	1970s	1980s	1990s	Total
Economic strikes	5	30	27	23	60	75	59	279
ULP strikes	5	19	24	20	41	48	42	199
ULP strike from inception	(5)	(11)	(15)	(12)	(19)	(25)	(29)	(116)
Economic strike converted to ULP strike	(0)	(8)	(9)	(8)	(22)	(23)	(13)	(83)
Total economic and ULP strikes	10	49	51	43	101	123	101	478
Percentage ULP strikes	50%	39%	47%	47%	41%	39%	42%	42%

Source: NLRB decisions

In general, ULP strikes have been declining over the past 60 years, but the rate of decline has only been slight. In the 1930s, 50% of replacement strikes were found to be ULP strikes. The small number of cases (10) for this period must be noted, however. The economic–ULP distinction was not even possible until *Mackay Radio* was decided in 1938. Thus, my data do not provide a true decade comparison for the 1930s.

The most remarkable feature of these results is the narrow fluctuation in the percentage of ULP strike rulings. The 1940s and 1980s had identical ULP strike rates (39%), as did the 1950s and 1960s (47%). Contrary to my hypothesis, the pattern for the 1980s was reversed. With the 1990s almost over, the board has ruled that 42% of replacement strikes are ULP strikes.

What Explains This Surprising Result?

My empirical finding for the 1990s is surprising in light of *TWA* and the reinterpretation of *Truitt* disclosure requirements. In the course of reading and coding recent NLRB cases, I was struck by the Gould board's tilt toward unions. In a rare public criticism of the Supreme Court, Chairman Gould said the Court's rulings have resulted in an "erosion of the core Section 7 right to engage in concerted activities which, coupled with the employer's right to permanently replace economic strikers upheld in *NLRB v. Mackay Radio & Telegraph Co.* has in many circumstances made exercise of the right to strike protected by Section 13 difficult if not well nigh impossible" (*Monson Trucking* 1997, at slip op. 10).

In another case, *O.E. Butterfield* (1995), the Gould board blunted the effect of the *Mackay Radio* doctrine—and in an ironic way. In *Belknap v. Hale* (1983), the Court ruled that when a strike settlement results in reinstatement of strikers, replacement workers who were offered permanent employment have a right to sue for breach of this promise. Fearing these lawsuits, many employers have been more vague about the permanency of employment for strikers replacements (e.g., *Foreman v. AS Mid-America*, 1998). Seizing on this ambiguity, the Gould board said in *O.E. Butterfield* that it will presume that an employer hired a striker replacement on a *temporary* basis, unless the employer explicitly promised permanent employment. In effect, this ruling negates *Mackay Radio* for the many employers who provide vague assurances of permanent employment to replacements.

These cases led me to examine the ULP strike rulings of the Gould board and its predecessor for the balance of the 1990s, the Stephens board. Table 2 shows that the Gould board was more likely to rule that a replacement strike was a ULP strike.

TABLE 2
NLRB Rulings in the 1990s on Economic and ULP Strikes

	Stephens board	Gould board
Economic strikes	37	22
ULP strikes	22	20
Percentage ULP strikes	37%	48%

Conclusions

The data presented here provide the first empirical picture of the extent to which the NLRB rules that replacement strikes fall under the economic or ULP doctrines. The historical evidence suggests that the ULP strike doctrine plays a major—and as yet unheralded—role in mitigating the disastrous consequences of lost replacement strikes for unions.

Also, this empirical study underscores the importance of politics to formation and administration of federal labor law. Without question, *TWA* and changes in the *Truitt* doctrine harmed unions in the 1980s. The judges and NLRB members who were responsible for these doctrinal shifts were appointed by President Ronald Reagan. Justice William Brennan, who vigorously dissented in *TWA*, underscored this dimension when he bitterly criticized Justice Sandra Day O'Connor's majority decision:

More fundamental, I fear, is the legal mistake inherent in the Court's objection to "penalizing those who decided not to strike in order to benefit those who did." The Court, of course, does precisely the opposite: it allows *TWA* to single out for penalty precisely those employees who were faithful to the strike until the end, in order to benefit those who abandoned it. What is unarticulated is the Court's basis for choosing one position over the other. If indeed one group or the other is to be "penalized," what basis does the Court have for determining that it should be those who remained on strike rather than those who returned to work? I see none, unless it is perhaps an unarticulated hostility toward strikes.

Thus, the Gould board—perhaps the most tangible reward to unions for supporting President Bill Clinton in 1992 and 1996—appears to have mitigated the damaging effects of these doctrinal changes.

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Organizing Against “Free Trade”: The Teamsters NAFTA Trucking Campaign

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As predicted by some of its foes, the North American Free Trade Agreement (NAFTA) has focused the attention of those organizing against free trade around a very concrete agenda. A coalition of labor, environmental, farmer, and consumer groups emerged in opposition to NAFTA. These groups subsequently blocked President Clinton’s request for “fast-track” authority for negotiating NAFTA’s extension to Chile and have led the fight against a number of other free-trade bills.

The organizing, networking, and media work that has been conducted around these campaigns has forced activists, including trade unionists, to confront the tensions between their national and international identities as citizens, workers, unionists, and activists. The anti-free-trade campaigns can, in this sense, be seen as laboratories in which contemporary internationalist identities are explored, developed, and tested within the political-economic realities of the day. The central challenges to forging an internationalist identity for U.S. labor are (1) the creation of broad, sustainable alliances with both domestic and international labor and nonlabor organizations and (2) the creation of a rhetoric or discourse that addresses the (sometimes narrow) needs or demands of domestic union members while simultaneously giving space to the (usually broader) needs or demands of its coalition allies.

These issues are addressed by examining the Teamsters’ campaign to mobilize against ratification of NAFTA and its trucking provisions. The Teamsters have mounted an aggressive and, to date, successful campaign seeking to halt implementation of the trucking provisions. This paper examines the dynamics of the Teamster campaign and provides a preliminary analysis of the rhetoric used in order to explore its impact on domestic and international alliance building.

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Cross-Border Trucking and the NAFTA Trucking Provisions

In the early 1990s, U.S. truckers and their primary union representative, the International Brotherhood of Teamsters, were confronted with President Clinton's 1993 acceptance and aggressive promotion of the North American Free Trade Agreement (NAFTA), which included trucking provisions that aimed to deregulate United States–Mexico trucking markets (Borgers 1999). The Teamsters feared that the trucking provisions would allow Mexican-based operators to flood the U.S. market with low-wage, low-standard trucking competition, thus exacerbating the devastating impacts of national deregulation and deunionization (Belzer 1994).

While motor carriers from Mexico may operate in limited commercial zones in the United States, reciprocal access between U.S. and Mexican markets is limited (Huffbauer and Schott 1992; U.S. General Accounting Office 1991, 1996). Given the size and centrality of the cross-border trucking market (U.S. Department of Transportation n.d.; U.S. General Accounting Office 1996, 1997), the creation of transnational corporate access and reciprocal treatment became a key issue in the NAFTA negotiations (Borgers 1999).

The NAFTA trucking provisions concern the deregulation of cross-national operation and ownership of commercial trucking and the application of the free-trade principles of “harmonization,” “non-discrimination,” and “transparency” to cross-border trucking. More specifically, beginning December 18, 1995, the containment of cross-border trucking to the commercial border zones was to be deregulated and expanded to allow Mexican-based operators to apply for authority to deliver and back-haul cargo within the respective border states: four in the United States (Arizona, California, New Mexico, and Texas) and six in Mexico. By January 1, 2000, all limits on operating access for international traffic were to be phased out. By January 1, 2004, all limits on cross-national ownership of trucking concerns in the NAFTA countries were to be eliminated. NAFTA effectively provided that beginning in the year 2000, cross-border trucking would be provided full access within the three North American countries. It should be noted that NAFTA does not reciprocate deregulation of national ownership and operation restrictions in Canada and Mexico. The trucking provisions also established the trinational Land Transportation Standards Subcommittee (LTSS) to develop compatible safety and operating standards among the countries. There are major differences in U.S. and Mexican commercial trucking regulations and operating practices that could affect highway safety and infrastructure if NAFTA's trucking provisions were fully implemented under present regulatory conditions. Under NAFTA, in

those areas in which the two countries do not agree to make their regulations compatible, trucks operating in the United States will have to comply with U.S. standards (text of the North American Free Trade Agreement).

On December 18, 1995, the day NAFTA's trucking provisions were to kick in and expand market access to the U.S. border states, U.S. Secretary of Transportation Federico Pena hailed the agreement and attempted to reassure U.S. citizens that trucking deregulation was good for the economy and would not jeopardize safety. Despite his reassurances, Pena simultaneously announced that while the United States would accept applications from Mexican trucking companies to operate in the border states, the Department of Transportation (DOT) would not finalize the applications until safety and security consultations were completed between the United States and Mexico (U.S. General Accounting Office 1996; Office of the Secretary of Transportation 1995).

It has always been widely accepted that cross-border trucking presented significant safety and security risks. The DOT, the Food and Drug Administration (FDA), and the Drug Enforcement Agency (DEA) lack the resources to effectively monitor and inspect the huge volume of goods being trucked across the U.S.-Mexico border and the Mexican trucks that deliver them within the commercial border zones. In addition, Mexico has weak or nonexistent trucking, environmental, and food standards and an inability to enforce those standards it does have due to chronic corruption. In the years since passage of NAFTA, there has been little evidence that the cause for concern should diminish. Indeed, the increased trucking traffic post-NAFTA has significantly exacerbated these problems. Based on a variety of governmental and media sources, Public Citizen's Global Trade Watch was able to identify a disturbing list of "real-life results" that have heightened concern over NAFTA's trucking provisions (Public Citizen, Global Trade Watch 1998). This list included insufficient truck inspections at the border, increased cross-border transport of hazardous food from Mexico, increased cross-border transport of hazardous waste, increased cross-border transport of illegal drugs, and increased cross-border smuggling.

Teamster Organizing

While the preceding problems were of general concern to the Teamsters and their membership, the more direct threat derived from the "downward leveling" potential of the trucking provisions. As Mexican-based trucking companies introduced competition based on significantly lower wages, driver conditions, and safety standards, they would destabilize the U.S. trucking market, starting in the border states. Consequently, the Teamsters have waged a long, hard, and to date successful campaign seeking to

stop implementation of NAFTA and the NAFTA trucking provisions. While the Teamsters were certainly not alone in opposing NAFTA, their campaign is quite distinct from that waged by the rest of the U.S. labor movement. The distinctive elements of the Teamsters' campaign have been (1) its early start and longevity, (2) its high visibility, especially at a national level, (3) the breadth of its message, (4) the willingness of the Teamster leadership to directly threaten and punish those elements of the political establishment that have opposed their goals, and (5) its reliance on broad labor and nonlabor coalitions, which built links with allies that most of the labor movement ignored until quite recently.

In both the pre- and postadoption periods, the Teamsters, and especially President Ron Carey, clearly emerge as labor's most visible and consistent voice of opposition (see Borgers 1999). In addition, while the AFL-CIO and the other international unions threatened political retribution for those who supported NAFTA, they quickly withdrew these threats and rushed back into the Democratic fold in the immediate aftermath of NAFTA's passage (see Borgers 1999). In contrast, the Teamsters have been willing to match their political rhetoric with raw political muscle (see Borgers 1999). Aside from Teamsters' President Carey, only IUE's (International Union of Electrical Workers) President Bywater maintained a comparable level of media visibility and political consistency. However, there are two critical distinctions between the IUE and Teamster anti-NAFTA campaigns. IUE lacked the Teamsters' power of enforcement. With 1.4 million members, the Teamsters had access to far greater campaign contribution money. The Teamsters had demonstrated that they were willing to use this political capital to punish enemies and reward friends. Second, IUE did not engage in the broad solidarity work that gave the Teamsters legitimacy within the wider anti-NAFTA community and gave them the ability to mobilize a broad coalition of rank-and-file political activists in their support.

In the postadoption period, the Teamsters have continued to play political hardball in their efforts to halt implementation of the trucking provisions. Industry and media observers unanimously attribute Clinton's failure to implement the provisions in the subsequent years to the Teamsters' sophisticated and aggressive application of political power inside and outside the beltway and their continued coalition-based grassroots organizing (see Borgers 1999). It should be noted that this defensive victory has been won in the face of a massive and concerted industry offensive, led by the American Trucking Association (see Borgers 1999).

The breadth and depth of the Teamsters' organizing and coalition work was critical in creating a broad and supportive activist base, generating visibility, and giving its anti-NAFTA rhetoric legitimacy outside the narrow

confines of Washington and traditional labor–Democratic politics. The Teamsters’ visibility in the preadoption period was generated in part by the huge amount of mobilization work in which the union engaged. Both nationally and locally, the union was instrumental in organizing and hosting rallies and other high-visibility events (see Borgers 1999).

In addition, the Teamster campaign quickly established and then sustained links to a broad range of nontraditional labor and nonlabor organizations, both domestic and foreign. The Teamster campaign worked with (among others) the National Farmers Union, the Florida Consumer Action Network, Ralph Nader’s Public Citizen—Citizens Trade Campaign, the Alliance for Responsible Trade, Jesse Jackson’s Rainbow Coalition, the Sierra Club, Greenpeace, Friends of the Earth, Environmental Action, and Clean Water Action, as well as independent labor organizations such as the United Electrical Workers (UE) in the United States and the independent Frente Autentico de Trabajo (FAT) in Mexico (see Borgers 1999).

The Teamsters’ work with UE and FAT is particularly noteworthy. The Teamsters were one of the first NAFTA member unions (along with the UE) to file an NAO charge under the labor side agreements.¹ They also engaged in a number of cross-border worker exchanges and became part of an international organizing alliance with UE and FAT (see Borgers 1999). While there has been some tentative outreach to such groups by broader segments of the U.S. labor movement more recently, the Teamsters were building these alliances during a period when most of labor’s leadership, including that of the AFL-CIO, considered such behavior highly inappropriate.

Teamster Rhetoric

The following discussion presents a summary of the results of preliminary content analysis of Teamster rhetoric based on media reports and Teamster flyers.²

Media Reports

The primary source for the media reports are Lexis-Nexis searches for January 1, 1993, through November 30, 1997. This period covers the intense political maneuvering before, during, and after ratification of NAFTA and the debate and legislative positioning around, but unsuccessful inclusion of, the NAFTA trucking provisions and captures the campaign rhetoric as developed and used by the Teamsters during the Carey administration.

Text was coded for both contextual and categorical variables. The contextual variables provide important background information, such as when the rhetoric was delivered, who the audience was, who the speaker was,

and the nature of the text (e.g., a direct quote vs. a reporter's summary of a quote). The categorical variables classify the nature of the rhetoric along three broad dimensions:

1. *Campaign target.* One can observe references to the broader NAFTA agreement, the trucking provisions, or working conditions in Mexico³ in identifying the general target of the rhetoric.
2. *Trucking target:* Teamsters' references to the trucking provisions can be more specifically analyzed in reference to their emphasis on downward leveling of the trucking market (which would include references to negative impacts on U.S. jobs, wages, benefits, and working conditions) versus effects around general health and safety (which would include references to insufficient truck inspections at the border and increased cross-border transport of hazardous food and waste and illegal drugs from Mexico).
3. *Causal link:* What are the causal links made by Teamster rhetoric? This section of the analysis is the most complicated and requires extensive unraveling, grouping, and classifying of causal statements. The key dimension of this analysis involves determining the extent to which the rhetoric targets U.S. versus Mexican entities and, in particular, the extent to which Mexican workers receive blame for the negative impacts of NAFTA and the potential negative impacts of the trucking provisions.

These dimensions identify the breadth versus narrowness and the ideological flavor of the Teamsters' anti-NAFTA rhetoric. They are important because they help evaluate two overlapping organizational challenges faced by unions engaged in international work:

1. *Ideological breadth.* Identifying which types of campaign and trucking targets dominate Teamster rhetoric measures the general ideological breadth of the campaign. From a narrow (business union) perspective, the Teamsters should be concerned only with the downward leveling impacts of the trucking provisions. The identification of broader or other targets would indicate the attempt to produce rhetoric that might (a) mobilize activists outside the Teamsters in support of their campaign, (b) weaken critics' arguments that the campaign was being waged on narrowly protectionist grounds, and (c) push their own members' opposition to free trade onto a higher analytical and ideological plane.
2. *Political space for alliance building.* Identifying which types of campaign and trucking targets and causal links dominate Teamster rhetoric measures the breadth of the political space for domestic and international alliance building. A narrow focus on downward leveling of Teamster jobs potentially isolates the union from other anti-NAFTA groups pursuing

their own specific agendas. Further, the classification and analysis of the prevalence of causal attributions reveal the extent to which the Teamsters relied on rhetoric that could offend domestic and Mexican allies and could undermine support and weaken institutional ties.

The preliminary analysis of six 6-month sections of data during the covered period⁴ generated 54 articles and 76 segments of text data. Based on these segments, the following patterns of occurrences were found. The primary “speaker” for this sample is the Teamsters’ International, which accounted for 58 out of the 76 data segments (76%), with President Carey alone accounting for 27 data segments (36%). The majority of the data consists of reporters’ summaries of Teamsters’ statements (43 data segments, 57%), while 24 data segments are direct quotes (32%), and 9 are op-ed pieces (12%). All of the pieces were directed toward some form of public consumption (i.e., they were delivered at public events or directly to the press).

With regard to the categorical variables, the data reveal the following. Overall, the Teamsters were targeting the trucking provisions most frequently (40% of the time), followed by NAFTA in general (27% of the time), poor working conditions in Mexico (23% of the time), and a combination of NAFTA and trucking provisions (10% of the time). In terms of the rhetoric around trucking, references to broad safety concerns occurred slightly more frequently (53% of the time) than downward leveling of the trucking market (47% of the time). Within the downward-leveling references, the loss of U.S. jobs dominated (56% of the references). With regard to the causal links drawn by this rhetoric, causal attributions targeting Mexico occurred slightly more frequently (55% of the time) than those targeting the United States (45% of the time). Within the causal links to Mexico, 39% referenced the Mexican national government, while 50% referred to Mexican drivers or workers. U.S. corporations (20 references, or 29% of the total) were the most frequent causal attribution, occurring almost twice as often as references to the U.S. national government or political entities, and such references slightly exceeded the most common Mexican causal link, Mexican drivers or workers (19 references).

Teamster Documents

The present preliminary analysis examines four flyers that were developed by the Carey administration and that were widely distributed during the Teamsters’ campaign against “fast-track” approval in late 1997.⁵ These were coded using the same categorical variables discussed earlier.

Three out of four flyers targeted broad safety concerns around trucking and NAFTA, specifically the increased importation of contaminated food,

unsafe highways, and increased drug smuggling. The fourth targeted NAFTA in general, specifically blaming it for the loss of American jobs *and* declining Mexican wages. All four flyers follow the same basic pattern of causality: NAFTA has created these problems, now “big corporations”/ “corporate interests” (of unspecified national origin) want to expand NAFTA and have Congress grant President Clinton “fast-track” authority. With the exception of the flyer that targets U.S. job loss and declining wages in Mexico, all three of the flyers weave nationalist themes into their texts and target various aspects of Mexico’s lack of regulation and enforcement as significant causes for these problems. The flyer on unsafe highways mentions Mexican trucks three times and, in the text accompanying a picture of an overturned trailer (which killed four people in California), states: “The company that owned the truck was using a driver from Mexico who did not have a valid U.S. driver’s license.” This same flyer also points out, “These companies are willing to risk public safety so they can exploit Mexican drivers—who earn as little as \$7 a day—to haul freight now handled by US drivers.”

Summary

Given the sample of data, I should preface the summary with the following provisos: (1) the analysis is almost entirely based on the International’s rhetoric, (2) the conclusions are based on a sample of just over half the texts, and (3) there are significant questions as to the degree of analytical bias introduced by media partiality.⁶

The analysis of media reports indicates that the Teamsters focused their attention on the trucking provisions more than on NAFTA in general. However, it should be noted that 83% of the articles in this sample were from the post-NAFTA-adoption period—a period in which one would expect greater emphasis on the trucking provisions. While causal attributions to Mexico dominate those to the United States, the heavy emphasis on broad safety concerns and causal attributions to U.S. corporations, compared with the relatively light references to U.S. job losses and causal attributions to Mexican drivers or workers, indicate the creation of significant ideological breadth and political space for alliance building.

The flyers show even greater breadth, placing little or no emphasis on downward leveling threats to their membership. While the causal links within the flyers do fall back on nationalist themes and, in one instance, highlight “Mexican trucks” and link a Mexican driver to U.S. highway fatalities, these references are nuanced, with a causal link back to “companies.” It should be noted that the flyers’ reliance on “alarmist” language and images may be considered offensive by some.⁷

Conclusion

In many ways, the Teamsters' campaign against NAFTA and the trucking provisions represents a noteworthy, and in many ways ground-breaking, attempt to create an internationalist identity. The campaign reached far beyond labor's traditional allies and relied on a level of political aggressiveness and risk taking that is quite rare in today's environment. In addition, while blemished by some narrow and sometimes alarmist rhetoric, the Teamsters' campaign projected an analysis and rhetoric whose breadth is quite unusual for U.S. labor (Cowie 1997) and which helped create the political space for broad alliance building throughout the campaign.

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Endnotes

¹ The charge was filed against Honeywell in 1994. See Borgers (1999).

² Given the length restrictions for this paper, it is not possible to provide a detailed discussion of the methodology employed. Please see *Content Analysis Guide* (available from author).

³ Concern over working conditions in Mexico relate primarily to conditions at Honeywell and GE plants in Mexico that were targeted as part of the Teamsters' multiunion organizing work.

⁴ The specific periods were January–June 1993, July–December 1993, July–December 1994, January–June 1995, January–June 1996, and January–June 1997.

⁵ The full analysis will be based on a wide range of Teamster documents, which include press releases, leaflets, and various internal informational/educational documents.

⁶ This is of particular concern here, given the preponderance of reporters' interpretive summaries over direct quotes or op-ed pieces. Even when direct quotes are used, it is obviously still possible for writers or editors to bias which quotes are or are not included.

⁷ Indeed, preliminary anecdotal evidence suggests that some activists from non-governmental organizations, especially those organizing in Mexico or along the U.S.–Mexico border, were quite disturbed by some of this rhetoric.

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A Profile of a Union-Led Political Coalition

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Since their infancy, labor unions have sought a voice in the U.S. political system. One strategy that emerged during the 1830s, and is presently experiencing a mild revival, is to sponsor third-party candidates, seeking victories first in local elections and building organizational momentum for higher posts. It is a direct approach and one that appeals to the democratic ideal of political choice. It is also a strategy that has demonstrated only mixed success at the local government level and is rarely attempted in federal elections. The key reason is the high risk associated with a “winner-take-all” electoral process: Promoting a third “labor” candidate potentially draws support away from a friendly political opponent, allowing the least desirable candidate to win by plurality. Given these risks, a more practical strategy is for labor to forge interorganizational coalitions powerful enough to shape the platforms of candidates, influence electoral outcomes, and apply pressure on incumbents within a two-party structure. And this is precisely the political strategy that has dominated U.S. labor history. It is largely through coalitions that labor has exercised its political voice and shaped public policy.

Coalitions are defined here as assemblies of organizations that share resources for a common goal; in our case the goal is to elect a COPE-endorsed candidate. But why would labor organizations decide to pool resources to elect a candidate? One reason why coalitions form and fracture may be the anticipated gain. For example, participation in the coalition by any single group is believed to be a function of the chance for political success (Lawler and Youngs 1975; Riker 1962) or the expected payoff (Bacharach and Lawler 1980). Yet by far, theorists stress common ideology as a precondition to political partnership (Bacharach and Lawler 1980; Sink 1991). The notion that crafting a unified political agenda among diverse and often competing groups depends on the ideological distance between organizations flows from the conventional wisdom that a precise, targeted political message is more persuasive than a broad, inclusive one. As the political ideology of the members associated to organizations becomes more disparate, it becomes

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more difficult for coalition leaders to reach agreement on a compelling common theme. If organization leaders reach the conclusion that the collective message holds little relevancy with membership, then the idea of contributing resources to a coalition effort becomes unattractive.

In their 1987 review of the literature on union political activities, Masters and Delaney note that there have been some "striking omissions" in the literature. Several of these gaps regard the extent to which "local unions participate in electoral activities sponsored at the national level" and the extent to which "unions participate in interorganizational electoral alliances" (Masters and Delaney 1987, p. 348). In this paper, we begin to address these shortcomings by describing the organizational and structural relationship between the 1996 national AFL-CIO project and local COPE operations in Wisconsin and by testing for differences in political attitudes among members of allied organizations at the local level. This is achieved by decomposing the coalition and using factor analysis to determine the extent that members from these groups held similar political views.

Labor '96: A National and Local Project

In November 1994, nearly 40% of AFL-CIO members voted for Republican congressional candidates, a phenomenon that helped the GOP take control of the House and Senate. Intent on addressing the flow of support to the GOP, the new leadership of the AFL-CIO committed to transforming the scale and form of its political operation. Toward this end, the AFL-CIO Executive Council committed \$35 million to rebuild labor's political capacity for the fall 1996 elections. Yet unlike recent political cycles, these funds were not earmarked for campaign contributions. Rather, this money was used to finance an issue centered media campaign and to place political organizers into congressional districts with the mission of developing grassroots political networks (Byrne 1996). On election day, these efforts appeared to contribute to a high union-voter turnout, with labor comprising 23% of the overall vote, as compared to 14% in 1994. Moreover, the number of union members who voted for Republicans dropped to 32% (*America@ Work* 1996).

The full story behind this success, however, requires a discussion of the efforts taking place at the local level. In Wisconsin's two largest cities, Milwaukee and Madison, state AFL-CIO responses to national AFL-CIO initiatives were aided by preexisting interorganizational electoral coalitions. Prior to the policy changes by the Sweeny administration, the South Central Federation of Labor (SCFL) and the Milwaukee County Labor Council (MCLC) had forged labor political coalitions that brought labor council affiliates together with non-AFL-CIO unions such as the Wisconsin Education

Association Council. These coalitions included strong support from unions with above average interest in political campaigns such as AFSCME and nonlabor organizations such as Citizen Action.

In south-central Wisconsin, the electoral coalition had been in place since the summer of 1994. It grew out of the common recognition that coalition members usually supported the same candidates and that interorganization cooperation would lower costs, increase efficiency, and build overall political capacity (Cavanaugh 1996). Beyond these instrumental roles, it was also hoped that the coalition would "grow the relationship between not only the organizations sitting there, but their members" by organizing events in which "non-affiliated union members, . . . affiliated union members, and representatives from Citizen Action who may be seniors or environmentalists, will actually be sitting together in a room doing a mass mailing and getting to know each other." (Cavanaugh 1996).

Organizationally, the coalition is loosely structured. The six organizations that have been at the table regularly are SCFL, AFSCME, Madison Teachers Inc. (MTI), Wisconsin Education Association Council (WEAC), the Carpenters, and Wisconsin Citizen Action. Other unions join and exit depending on their particular interest in an election. Each participating organization, except the labor council, is expected to cover the costs of contacting their members. Shortfalls are made up by groups such as AFSCME, which can contribute more than their share, and by special contributions from labor council affiliates.

The largest nonlabor coalition partner, Citizen Action, is a grassroots advocacy group that has become a voice for progressive causes, such as pushing for legislation to limit mining in Wisconsin. They played a dual role in recent political cycles: as a partner in developing outreach strategy and by providing staff to implement the strategy. Citizen Action staff were retained by the labor coalition in part because of their experience in political campaigns and also to minimize interunion rivalries that might arise among unions participating in the coalition.

Thus, the Madison and Milwaukee area coalitions have been targeting races in local and national elections since the fall of 1994. Their efforts have centered on creating and distributing common outreach literature and on contacting members for candidate persuasion and get-out-the-vote appeals. Consequently, by the summer of 1996, the Wisconsin AFL-CIO had a nascent member mobilization and outreach system in place at the time research from the national AFL-CIO emphasized the need for political education (Hart 1995). In 1996 the Wisconsin state AFL-CIO responded by crafting a campaign around economic issues that would serve as the basis for educating members. Dubbed the "Campaign for Working Families," the

Wisconsin effort intended to “make economic security the leading issue of this [1996] election season” (Wisconsin AFL-CIO 1996). This message was delivered in two ways. The first method was a sequence of four direct-mail pieces sent to the homes of coalition members. The second method involved delivering training to local unions and coordinating their tactics to facilitate member education and get-out-the-vote efforts.

Wisconsin AFL-CIO Coalition

In this section we focus on the local Wisconsin coalition and attempt to understand the level of divergence among the membership of the coalition partners. First, we use survey data to construct four factors on the perceived importance of political issues. Then we test for statistically significant differences on the factors across groupings of coalition members.

Data and Measures

A probability sample of coalition members was surveyed by telephone in late August 1996, prior to the distribution of union-sponsored outreach. The sample was stratified to include a testable proportion of Wisconsin Citizen Action (WCA) members and union members. The starting sample was 1,990 union members and 400 WCA members. During the survey, respondents were asked to rate the importance of a list of political topics.

The perceived importance of political topics was gauged by a feeling thermometer, a measure that has been used in the National Election Surveys (ICPSR 1993) since 1964, and has been applied to union surveys (Form 1995). The feeling thermometer asks respondents to rate the importance of political topics based on a 100-point scale (zero is unimportant, 100 extremely important). Thermometer scores were collected for the following political topics: environmental issues, the budget deficit, education, health care, job security, the economy, welfare, workplace safety, campaign finance reform, abortion, social security, taxes, and gun control. The responses to these issues were used to construct four political types. Respondents were then scored according to the political types.

Factor Analysis Results

To explore the political differences among coalition members, we first present the factor loadings for the thirteen political interest variables from the survey. The principal factor technique provides estimates for the level of association between the survey variables and underlying factors.

As table 1 shows, the thirteen political issues yield four discernable factors.

TABLE 1
Factor Analysis Results for Political Issue Importance

	Rotated Factor Loadings				Final Communality
	Factor 1: <i>Economy and Social Safety</i>	Factor 2: <i>Fiscal, Jobs, and Welfare</i>	Factor 3: <i>Education and Environment</i>	Factor 4: <i>Gun Control and Abortion</i>	
Environment	0.271	0.055	0.506	0.046	0.36
Budget deficit	0.130	0.547	0.308	0.016	0.42
Education	0.474	0.218	0.496	0.034	0.52
Health care	0.628	0.117	0.378	0.137	0.57
Economy	0.773	0.117	0.099	0.055	0.63
Job security	0.574	0.489	0.081	-0.031	0.59
Welfare	0.201	0.478	0.070	0.260	0.35
Workplace safety	0.565	0.112	0.172	0.167	0.49
Campaign finance	0.161	0.252	0.185	0.125	0.26
Abortion	0.183	0.212	0.069	0.398	0.25
Social Security	0.605	0.203	0.087	0.196	0.47
Taxes	0.331	0.499	-0.013	0.208	0.41
Gun control	0.297	0.107	0.099	0.389	0.28
Eigenvalue	4.06	0.60	0.43	0.30	

Note: Results are based on orthogonal (Varimax) rotation methods.

Factor 1 has by far the largest eigenvalue (4.06), indicating that a significant proportion of the sample responses fit this dimension. Labeled “Economy and Social Safety,” this dimension has the economy as the strongest variable, followed by health care, social security, job security, and workplace safety: a list consistent with the issues emphasized in the member outreach conducted by the AFL-CIO. The eigenvalues of the remaining factors are much smaller, suggesting that the economy and social safety are dominant among respondents. Factor 2 has the budget deficit, taxes, job security, and welfare as its strongest variables and was therefore labeled “Fiscal, Jobs, and Welfare.” Factor 3 is composed primarily of education and environment, with notable loadings on health care and the budget deficit. The last factor, labeled “Gun Control and Abortion,” has relatively high loadings on abortion and gun control and, secondarily, welfare and taxes.

Intraorganizational Comparison

The first comparison is (table 2) between all union members and members of Wisconsin Citizen Action. Hotelling t-tests yield a statistically significant difference ($p < 0.01$) across group means for factor 3, “Education and Environment.” Citizen action members scored higher on this factor, a result that is not surprising given their advocacy orientation. The same test also

yielded significant differences ($p < 0.05$) for factor 4, "Gun Control and Abortion." Once again Citizen Action members scored higher, but we offer no explanation for this result.

There was no statistical difference across group means on the core factor, "Economy and Social Safety," even though the point estimate does show union members with a higher average score. Finally, there was no statistical difference between union and WCA members on factor 2, "Fiscal, Jobs, and Welfare."

Interunion Comparison

We established four union groups based on their international affiliations: trade unions, public service unions, private service unions, and industrial unions (table 2). In these tests we compare the mean of each group to the combined mean of the remaining three union groups. Citizen Action respondents are therefore omitted.

We report significant differences across union groups on the factor that best captures the core labor issues, "Economy and Social Safety." The building trades scored significantly lower on this dimension than the other union groups ($p < 0.01$), as did public sector unions ($p < 0.05$). Industrial unions scored the highest on this dimension, and the difference was statistically significant ($p < 0.01$). Moreover, means tests between the four union groups and Citizen Action yield significant differences across the trades ($p < 0.05$), private service ($p < 0.05$), and industrial ($p < 0.01$) union categories. These findings suggest a divergence across union and nonunion members on the perceived importance of core political issues.

There was no statistical difference across union groups with the second political factor, "Fiscal, Jobs, and Welfare." Nor were there any measurable differences between the four union categories and Citizen Action on this factor. For the third political factor, "Education and Environment," private service union members had a significantly higher average score ($p < 0.05$) than other union members. And all union groups had averages that were below Citizen Action at an alpha level of 0.05 or less. For the last political factor, "Gun Control and Abortion," private service union members once again departed from other union members and registered statistically higher average scores ($p < 0.05$). Yet here the only group of union members that had mean values significantly lower than Citizen Action was the industrial workers ($p < 0.05$).

Individual Unions

In the next level of analysis, we provide summary statistics and means tests for individual unions with the largest representation in the sample

(table 2). The variation of scores for “Economy and Social Safety” shows that United Auto Workers (UAW) scored highest on this dimension, and this was statistically significant ($\rho < 0.01$). The International Association of Machinists (IAM) scored a higher mean value, but we could not reject the null hypothesis of equal means, in part, due to a small sample size. The International Brotherhood of Electrical Workers (IBEW) scores were statistically lower than the average for other union members ($\rho < 0.01$), despite the sample size.

There also appears to be differences on the other factors as well. The UAW is on average lower for the second political factor, “Fiscal, Jobs, and Welfare,” and the Service Employees International Union (SEIU) is statistically higher on “Education and Environment” ($\rho < 0.01$). There is no statistical difference between any single union and other union members on the dimension “Abortion and Gun Control.”

TABLE 2
Standardized Factor Scores for Select Coalition Groups (standard error)

	Sample Size	Factor 1: <i>Economy and Social Safety</i>	Factor 2: <i>Fiscal, Jobs, and Welfare</i>	Factor 3: <i>Education and Environment</i>	Factor 4: <i>Gun Control and Abortion</i>
<i>Intracoalition</i>					
Citizen Action	328	-0.062 (0.029)	0.036 (0.038)	0.160 (0.038)**	0.053 (0.032)*
Union Members	909	0.022 (0.045)	-0.012 (0.025)	-0.058 (0.022)	-0.019 (0.019)
<i>Interunion</i>					
Trades	109	-0.291 (0.098)**	0.083 (0.071)	-0.110 (0.068)	-0.070 (0.054)
Public Service	277	-0.082 (0.052)*	-0.061 (0.049)	-0.074 (0.039)	-0.012 (0.034)
Private Service	222	0.082 (0.055)	0.034 (0.048)	0.025 (0.043)*	0.047 (0.038)*
Industrial	301	0.187 (0.047)**	-0.037 (0.043)	-0.086 (0.040)	-0.058 (0.032)
<i>Individual Unions</i>					
AFSCME	231	-0.066 (0.056)	-0.058 (0.053)	-0.088 (0.043)	-0.014 (0.037)
UAW	187	0.214 (0.062)**	-0.109 (0.055)*	-0.050 (0.051)	-0.065 (0.042)
LAM	38	0.224 (0.117)	0.177 (0.098)	-0.076 (0.098)	0.073 (0.089)
IBT	35	0.108 (0.168)	0.038 (0.133)	-0.065 (0.144)	-0.029 (0.105)
IBEW	44	-0.372 (0.157)**	0.079 (0.112)	-0.231 (-0.115)	-0.165 (0.100)
SEIU	56	-0.031 (0.109)	-0.016 (0.086)	0.175 (0.095)**	0.039 (0.073)
UFCW	77	0.173 (0.091)	0.019 (0.084)	0.077 (0.055)	0.098 (0.064)

1. There are 42 respondents with dual membership in WCA and a labor union. These individuals were originally part of the WCA sample and are included in the WCA estimates only.

2. * $\rho < 0.05$. ** $\rho < 0.01$. Statistical results are based on a two-tailed t-test.

Table 2 includes the basic statistics necessary to perform means tests between any remaining labor and nonlabor organizations. Instead of discussing the possible combinations, we conclude this section by noting that the level of variation in perceived importance of political issues across groups is

greater than would be predicted by chance. This is the case for the general intracoalition comparison, the interunion group tests, and for individual unions.

Discussion

Coalition theory postulates that a major precondition for groups to unite and devote resources to a common political goal is similar ideology. We described a union-led political coalition that assembled in 1996 and reported findings based on a survey of the members of that coalition. Contrary to coalition theory, we find a notable level of diversity in perceived importance of political issues among members of the allied organizations. The divergent political position of members was evident for the core issues for the 1996 political campaign as well as secondary political types. This implies a considerable level of tolerance of political viewpoint and issue emphasis within working labor coalitions, or that labor unions and progressive advocacy organizations are willing to live with their differences for the sake of political victory.

Given the ideological differences among rank-and-file members, why form a coalition now? We offer some final thoughts based on our own experience with the Wisconsin coalition and informal interviews of union leaders. First, there was a sense of political urgency caused by the Republican takeover of the House and Senate in 1994. Fewer friends in Congress eliminated the chance for prolabor reform, and more critically, increased the likelihood of antilabor proposals. After 1994, labor was forced to rely on the willingness of a Democratic president to wield the veto, and the precarious state of this pressure point is precisely why the election in 2000 looms so large.

The second factor is the mutual recognition among key leaders of the need to set aside personal differences and share resources. To some extent, a new alignment of personalities arose because of turnover of several senior COPE officials. Specifically, the state AFL-CIO elected a new COPE director just prior to 1996. Another critical factor was the retention of a nonlabor advocacy group, in this case Citizen Action, to take the lead role in implementing the outreach strategy. The use of a nonlabor partner to facilitate interunion cooperation is a precondition that has not been explored in prior research.

More central to our study, however, is that union leaders assembled a coalition of union members with dissimilar issue preferences. This suggests that convergence among leaders, rather than members, is a critical precipitating condition for coalition formation. If so, then the long-term durability of coalitions may be more a function of factors such as leadership personality and turnover than the constraints members place on leaders to enter and

break from these alliances. These findings also raise an important question on the efficacy of the coalition tactics. The ultimate test of whether the coalition successfully reconciled the political differences among their organizations is whether they managed to create and deliver a collective message that broadly motivated their members.

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DISCUSSION

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Recent demonstrations in Seattle uniting labor, environmental, and other social action organizations riveted attention on the current labor drive to build coalitions with like-minded community groups, an objective critical to the future of the American labor movement and the subject of two of the papers featured on this panel. At their peak of organizing success, American unions enjoyed widespread community support. Midwest auto and rubber workers who “sat in” at their workplaces were supported by networks of family and neighbors; coal miners in West Virginia and Pennsylvania faced with armed opposition by mine owners mobilized whole communities to ensure their survival; and garment workers in New York City who rebelled against the sweatshops in the “Uprising of 10,000” were backed not only by their immigrant communities but by wealthy friends of labor in the Women’s Trade Union League. Throughout labor history, community sympathy and support have been decisive. Currently the “New Voice” leadership of the AFL-CIO aims to rebuild alliances shattered in the 1960s through schisms over civil rights and the Vietnam War. All of the initiatives instituted under President Sweeney—organizing the unorganized, corporate campaigns to boost bargaining power, and political action—depend on success in achieving collaboration beyond the union membership.

Papers presented here deal with key questions relating to prospects for success in these efforts including (1) the extent to which differing points of view tend to undermine such alliances; (2) types of appeal that attract support from organizations with differing agendas; and (3) the role that leadership plays in achieving cooperation.

Roland Zullo and Stuart Eimer in their examination of the Wisconsin AFL-CIO experience with Citizen Action and Wisconsin educators deal with the first question, Is ideological conformity essential to forming durable and effective alliances? Frank Borger, looking at the Teamsters’ NAFTA campaign, targets the second. Both papers also directly or indirectly touch on the role of leadership. These two case studies promise to enlighten union policy makers and serve as the basis for further research.

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Zullo and Eimer polled the constituents of the Wisconsin alliance, asking them to rank-order priorities among issues that they considered to be most important. Not surprisingly the authors found differences in ranking. Of interest are not only differing priorities among educators, AFL-CIO, and Community Action constituents but differences among union members based on the industries in which they are employed. Nonetheless, reported rankings reveal a high degree of common priority for economic, health, and environment issues, which helps explain why these organizations came together in the first place. I question whether differences in rank-ordering of priorities constitute what the authors classify as “ideological” differences. Their questionnaire does not pinpoint contrasting points of view (i.e., ideological differences); for example, they did not ask whether respondents were for or against abortion, gun control, and taxes, thereby, uncovering opposing viewpoints that might threaten the potential for concerted political activity. As a matter of fact, common interests with differences in emphasis are generally characteristic of alliances. Therefore, I question the authors’ interpretation of their findings. They conclude that the Wisconsin coalition succeeded despite ideological differences and attribute the success, in part, to leadership (a turnover in officialdom). The significance of leadership in making this coalition work is not supported by the data they report but may be a subject for further research.

Borgers examines another type of coalition effort—a campaign initiated by a union with a specific objective relating to bread-and-butter issues for its members. The Teamsters’ experience in garnering support for its anti-NAFTA campaign is of special interest since it successfully enlisted support from groups with widely divergent agendas—environmental and consumer as well as international. Borgers does not examine whether there were, in fact, ideological differences among the participants, which might be expected given the diversity of the organizations involved. Instead his research focuses on the appeals—the rhetoric—used by the Teamsters. He found that the Teamster appeals were more broadly pitched than might be expected given the self-interest of members in jobs and income, and suggests that their broad approach was a factor in the success, to date, of coalition efforts. This is a significant finding that may have implications for other union-based campaigns for community support. However, to assess whether the rhetoric used or even the formation of alliances with community groups accounts for success in fending off cross-border trucking, research should attempt to segregate the efficacy of coalitions as compared with more traditional union tools, such as muscle power on picket lines and cash distributions to political candidates. Further research might also look at the role of leadership. There has been a change in national direction of

the Teamsters. The campaign against cross-border trucking, which began under the leadership of Ron Carey, continues with high priority under James Hoffa. What about the strategy of alliances with community organizations?

These case studies contribute to our understanding of factors leading to effective coalitions between labor and community organizations. We need more of these coalitions.

DISCUSSION

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The two papers by Frost and LeRoy have little content in common, but they both have implications for union strategy. Frost's paper serves as a reminder to trade unionists that they do have a choice of how to respond to workplace restructuring. And the union's choice of strategy can have a major impact on the outcomes of the restructuring process for union members and for management. In Frost's paper, the unions that were most successful were those that involved multiple layers of union officials, managers, and workers in the decision-making process. This is consistent with other case studies. They also put the changes up for a vote of the membership.

I wholeheartedly agree with Frost that the terms "militant" and "cooperative" can be difficult to apply consistently in the context of workplace change. Frost proposes the terms "interventionist" and "pragmatic." However, I suggest that there are already at least two sets of terms that adequately describe the differences in behavior of the three local unions. These are "proactive" versus "reactive" and "organizing model" versus "servicing model."

Reactive unions are those that wait for management to act, and then they react. As a result, they are always working from management's agenda. In contrast, proactive unions ask themselves, "What do our members want?" and then they try to make that happen.

The concepts of the organizing model and the servicing model apply quite well to these cases. Local M2 took a traditional servicing approach by leaving the bulk of the negotiating to the local president and not involving the membership. In locals that operate this way, there is often a low level of member activism. In contrast, locals M1 and C took an organizing approach to workplace change. They involved several layers of the union hierarchy, solicited input from the entire membership, worked by consensus, and put the final decision up for a vote. It is not at all surprising that in these locals the members see the union as highly relevant, whereas this is less so in Local M2.

One of these cases, Local C, also instituted a practice that is unusual in contract language related to workplace change. Workers could red-circle

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themselves by accepting the basic principles of the change for the workplace as a whole but not agreeing to its implementation in their particular case. A benefit of this is making workers more comfortable with the change process. I would like to hear more about this practice. Specifically, what percentage of workers took advantage of this option? Were they concentrated in certain departments or spread evenly throughout the mill? How many eventually agreed to work under the new system? How long did it take? We have evidence from other cases that when change is implemented in some departments but not others within the same workplace, it can be much more difficult to manage and less likely to last. Were there problems with managing departments in which some workers were red-circled and others were not?

This work also suggests another research direction. In these cases—and indeed in most cases—workplace change was initiated by management. Far less frequently, local unions are the initiators of a change in work organization. Interesting research questions might include whether the same strategies work in those situations and how unions can convince management of the need to change. Overall, the Frost paper has rich case material that would be useful to both union leaders and researchers.

LeRoy's paper discusses the changes in the unfair labor practice (ULP) doctrine that have been harmful to unions and concludes that the Gould board has mitigated the effects of these changes by declaring more strikes to be ULP strikes. A helpful addition to the paper would be statistical testing of the difference between the decades (table 1) and between the Gould board and the Stephens board (table 2).

This difference between the two boards highlights the importance of political action on the part of labor unions. Elections determine not only the winning candidate but also a large number of appointments in a wide range of government offices that affect employment, including federal judges, board members, and Department of Labor staff. But this paper also reminded me of an observation by a recent graduate of our program who has been working in the labor movement for about a year. After working on a strike in which the employer refused to bargain for over five years with a certified union, the graduate concluded that labor laws are the easiest to violate in our country. They are violated often, for long periods of time, and with little consequence to the violator.

What happens to the employees in these circumstances? How often are people rehired when the NLRB orders the employer to do so? How long does it take? What happens to people in the meantime? These and other questions are an important part of understanding the change in the ULP doctrine.

LeRoy's paper is helpful to union leaders who are faced with the prospect of a strike. Along with other information, it can help them understand the consequences of economic versus ULP strikes and assess the chances that their particular strike would be declared a ULP strike.

IX. NEW INITIATIVES IN THE REGULATION OF THE WORKPLACE

Everything Old Is New Again: Regulating Labor Standards in the U.S. Apparel Industry

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The problem of sweatshops in the U.S. apparel industry is an old one. In 1893, the Committee on Manufactures of the House of Representatives released a report regarding their investigations of the “sweating system” of production. Among other conclusions, the committee concluded that 80% of production originated in sweatshops (U.S. House of Representatives 1893). Several years later, President McKinley appointed a commission made up of members of Congress and private citizens, which documented extensive abuses, including long hours of work, low pay, and unsanitary conditions (Industrial Commission on Immigration and Education 1901).

One of the most disturbing aspects of the sweatshop problem in the apparel industry is therefore its persistence. Despite periods when public and private policies seemed to have brought the problem under control, sweatshop conditions have reemerged again and again over the past century. This article discusses the problem of regulating labor standards in the U.S. apparel industry today. It does so by placing the regulatory problem in the larger context of long-standing economic forces surrounding the apparel industry and more recent restructuring in the retail channels that distribute apparel products. With the market forces as a backdrop, I turn to traditional enforcement activity of the U.S. Department of Labor and recent efforts

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that attempt to use market forces to enhance regulatory efforts. The impact of enforcement on contractor compliance behavior is then examined

The Statutory Framework

At the turn of the century, the term *sweatshop* primarily applied to the crowding and hygiene problems associated with contract work conducted in tenements and the potential transmission of communicable diseases from garment workers to consumers (Commons and Andrews 1936). The death of 146 women in a fire at the Triangle Shirtwaist Company on March 25, 1911, refocused public attention on the safety dangers facing apparel workers and led to passage of some of the first factory safety regulations.

Since 1938, however, the definition of sweatshop within the United States is primarily based on the Fair Labor Standards Act (FLSA), passed in that year. The FLSA sets minimum wages, overtime compensation for work exceeding 40 hours, and restrictions on child labor. Thus, FLSA creates the “floor” by which minimum working conditions—including those in apparel—can be measured.

Enforcement of FLSA is carried out by investigators of the U.S. Department of Labor Wage and Hour Division (WHD), located in 400 offices around the country (and in particular in three major apparel manufacturing centers: New York City, Los Angeles, and San Francisco). WHD investigators conduct inspections of workplaces and respond to employee complaints. If, in the course of those workplace inspections, violations are detected, employers are liable for back pay to workers equal to the difference between actual earnings and those to which they were entitled under FLSA. Employers may also be assessed liquidated damages equal to back pay, as well as civil penalties for repeat violations, violation of child labor prohibitions, and other serious infractions (29 U.S.C. 201 et seq., sec. 16).

An important feature of the FLSA is section 15(a), the so-called hot-cargo provision. The provision makes it unlawful for any person “to transport, offer for transportation, ship, deliver, or sell in commerce . . . any goods in the production of which any employee was employed in violation” of the act. Though this provision provided limited utility to regulatory efforts historically, recent market changes have made it a critical component of regulatory strategy, as discussed below.

The Market Context

The labor standards problem in apparel arises now, as it did in the past, from the structure of product and labor markets. In the United States from the 1920s onward, men’s clothing is produced primarily in factory settings, with manufacturers designing, cutting, sewing, pressing, and packaging

products. In contrast, a more splintered production system characterizes the women's segment of the industry, in which different enterprises carry out the various steps of production. For example, a jobber may sell a design to a retailer and then contract with a manufacturer for delivery of the product. The manufacturer, in turn, may purchase and cut the product but then contract out sewing to one or more companies. As a result, sweatshops have been far more a problem of the women's rather than the men's industry.

In general, as one looks at lower levels of apparel production (i.e., from design and cutting to stitching), the degree of competition intensifies, and profit margin per garment diminishes. Sewing contractors—themselves often recent immigrants to the United States—compete in a market with large numbers of small companies (25–35 workers in the typical women's establishment), low barriers to entry, and limited opportunities for product differentiation. This creates classic conditions for intense price-based competition. Because labor costs represent the vast majority of total costs for a sewing contractor, the pressure for the contractor to strike deals with jobbers and manufacturers that are not economically sustainable if the contractor complies with wage and hour laws is high. This is hardly a new problem but one exacerbated by the increased bargaining power at the retail end of the industry (Carpenter 1972).

Labor market conditions also tend to push wages toward the legal minimum or below. The apparel industry, sewing in particular, has always been attractive to immigrants given its low skill requirements. The consequent elastic supply of workers and the relatively low skill-level demands for them keep wage levels low and the incentive to work long hours—even in inhospitable work environments—high. The illegal status of many workers, language barriers, and cultural norms further undercut the bargaining power of these workers (Kwong 1997).

These long-standing product and labor market forces have been modified in recent years by a new dynamic in the channel of relations among retailers, apparel manufacturers, and textile producers. A new model of retailing, "lean retailing," takes advantage of information technology by using real-time sales data to match consumer demand and retail orders from suppliers. This reduces retail exposure to risk arising from fickle consumer tastes. Apparel suppliers, in turn, must be more responsive in accurately filling weekly orders and consequently must accept a great deal more risk than in the past (Abernathy, Dunlop, Hammond, and Weil 1999). The lean-retailing revolution has also increased retail bargaining power relative to apparel suppliers and has made such factors as speed of delivery, accuracy of orders, competence in logistics, and sophistication in forecasting

and planning essential for apparel companies' survival. Lean retailing also makes disruptions to the weekly replenishment of retail orders by apparel suppliers a major problem—one that can lead to penalties, cancellation of orders, and even loss of retail customers for those suppliers.

Traditional Enforcement Activity

Regulatory systems such as the one created by FLSA seek to change employer behavior by providing incentives to comply with promulgated labor standards. This can be done by changing the costs and benefits as perceived by the employer of complying or not complying with standards. Table 1 presents figures on regulatory activity of the Department of Labor (DOL) in the apparel industry since 1996. The Wage and Hour Division undertook a total of 2,467 investigations in the garment industry between 1996 and 1999. Although this represented an increase in enforcement effort, the annual probability that a given contract shop will receive an inspection is below 10%.¹ Penalty policy is the other aspect of traditional enforcement that affects contractor compliance with labor standards. The average civil penalties—that is, the fine assessed on top of back wages—are \$126,478 per quarter, or about \$1,298 per contractor.

Based on the figures reported in table 1, investigations yielded an average recovery of lost wages of \$368 per affected worker.² This is a significant amount of earnings for workers in the industry: with average hourly earnings in the women's industry for 1998 of \$8.18, this recovery represents about 45 hours of work, or a little over one week's pay. Back wage recovery also provides a measure of the "benefits" arising from noncompliance with FLSA. On the basis of information in table 1, the average contractor paid about \$6,600 in back wages. WHD investigators currently focus their attention on a 90-day period prior to the investigation, implying that the amount of back wages is roughly equal to not paying 1.5 workers their wages during the 90-day period. Given that average contract shops have between 25 and 30 workers, this implies that the benefits to contractors of skirting the law are significant.³

Taking the low probability of inspection, the expected civil penalty, and the "benefits" of noncompliance suggested by the preceding analysis, the deterrence effect presented by WHD is modest. In fact, a rational contractor should choose noncompliance if it is balancing its benefits (i.e., not paying wages equal to what is required by FLSA) against the costs of noncompliance (i.e., the probability of being caught in violation multiplied by the amount owed in back wages plus civil penalties).⁴ This simple math, played out in the context of extremely competitive product market conditions for sewing contractors, explains the economics underlying the intransigence of

TABLE 1
Enforcement of FLSA in the U.S. Apparel Industry, 1996–1999 (Quarterly)

Quarter	Number of investigations	Investigations w/ violations	Back wages recovered ^a	Employees receiving back wages	Civil fines imposed ^b	Investigations w/ violations (%)
1996 Q2	223	131	\$699,323	2,486		58.7
1996 Q3	194	118	\$786,264	2,208	\$108,485	60.8
1996 Q4	293	123	\$827,466	2,200	\$196,419	42.0
1997 Q1	212	102	\$486,716	1,367	\$52,133	48.1
1997 Q2	268	107	\$1,208,688	2,443	\$260,423	39.9
1997 Q3	212	99	\$611,328	1,850	\$112,385	46.7
1997 Q4	221	80	\$330,595	1,233	\$49,550	36.2
1998 Q1	201	99	\$655,653	1,518	\$108,265	49.3
1998 Q2	232	126	\$704,385	2,028	\$103,205	54.3
1998 Q3	154	98	\$606,722	1,761	\$192,095	63.6
1998 Q4	175	55	\$636,191	1,290	\$135,395	31.4
1999 Q1	82	31	\$153,199	548	\$72,900	37.8
Total	2,467	1,169	\$7,706,530	20,932	\$2,391,255	—
Average per quarter	205.6	97.4	\$642,211	1,744	\$126,478	47.4
SD	53.8	29.6	\$260,409	575.7	\$65,521	10.4

^a Back wage settlements with workers during a quarter include payment for minimum wage and overtime wage violations documented by the Wage and Hour Division in the course of investigations.

^b Civil penalties represent fines to employers above and beyond back wage settlements.

Source: Based on data reported in U.S. Department of Labor, Wage and Hour Division, *Garment Enforcement Report* (issued quarterly).

the sweatshop problem. This math, however, misses changes in enforcement strategy that potentially increase the effect that enforcement actions can have on compliance by raising both the threat effect posed regulators and the costs of noncompliance.

Capitalizing on Market Forces for Enforcement

Enforcement of labor standards in low-wage industries has been a priority of the DOL since early in the Clinton administration (U.S. DOL 1998; Ziff and Trattner 1999). An important element of the DOL strategy began in 1992, originating in discussions among senior staff. The “No Sweat” strategy incorporates a variety of operational level policies in order to improve WHD enforcement effectiveness, from inspection targeting through the creation of new means to improve contractor compliance (see U.S. DOL 1998).

Among other innovations, the “No Sweat” strategy shifts the focus of enforcement from contractors to manufacturers and retailers and the retail–apparel channel itself. This involves using the long-ignored hot-cargo provision of the FLSA. The right to embargo goods afforded by section 15(a) had limited impact in traditional retail–apparel relationships, where long delays in shipments and large retail inventories were an intrinsic part of business (Abernathy et al. 1999). Invocation of the hot-goods provision today, however, raises the potential costs to retailers and their manufacturers of lost shipments and lost contracts. Interrupting the flow of goods creates channel-level penalties arising from FLSA violations that quickly exceed those arising from lost back wages and civil penalties.

Rather than only securing back wages for workers from the previous 90-day period, DOL policy uses violations as a lever to persuade manufacturers and retailers to agree to compliance-monitoring agreements with their contractors. These agreements provide for an array of monitoring activities undertaken by the manufacturer (or third parties it hires) on its contractors. These include, at minimum, assurances that the contractor will comply with the stated policies of FLSA. More important, the agreements provide for a more advanced set of monitoring arrangements and work practice agreements, including use of electronic time clocks, agreement not to subcontract work without prior approval of the manufacturer, the right of monitors to review contractors’ payroll records and time cards and to interview employees, and the right to make unannounced visits (U.S. DOL 1998, 1999a; U.S. DOL WHD 1996).

In New York City in 1997, only 10% of contractor shops surveyed by WHD had entered into monitoring agreements; by 1999, 51% of the contractors had such agreements. Similar increases in these arrangements have also been documented in San Francisco and Los Angeles (U.S. DOL WHD

1996–99). The impact of channel-based enforcement strategy is also demonstrated by the growing number of companies entering into the independent monitoring field—most of them for-profit enterprises such as accounting firms.

Compliance Results

How successful have the traditional and new tools of enforcement been in changing contractor behavior? Compliance patterns in the three major apparel markets, presented in table 2, portray the difficulty of changing contractor behavior in the industry. Table 2 presents the results of randomized surveys conducted by WHD during the period 1994–1999 in terms of overall compliance (all provisions of FLSA) and compliance specifically with minimum wage and overtime provisions (U.S. DOL WHD 1996–99). The results reveal low levels of compliance in the New York and Los Angeles markets and the difficulty in improving overall compliance over time.

TABLE 2
Compliance with FLSA Labor Standards in Three U.S. Cities, Selected Years

New York City		1997	1999	
Overall		37%	35%	
Minimum wage		80%	69%	
Overtime provisions		46%	39%	
Los Angeles		1994	1996	1998
Overall	22%	39%	39%	
Minimum wage	39%	57%	52%	
Overtime provisions	22%	45%	46%	
San Francisco		1995	1997	1999
Overall	57%	79%	74%	
Minimum wage	84%	100%	92%	
Overtime provisions	57%	79%	75%	

Compliance defined as percentage of establishments in compliance with all provisions of FLSA (overall) or specific provisions of FLSA (minimum wage; overtime provisions).

Source: Based on data reported in U.S. Department of Labor, Wage and Hour Division, Garment Compliance Surveys for New York City, Los Angeles, and San Francisco.

The voluntary monitoring agreements between manufacturers and contractors described earlier show more promise. Table 3, also based on the randomized surveys conducted by the WHD, examines the impact of monitoring arrangements on compliance behavior. The table compares compliance levels for each market among contractors with no monitoring arrangements to those with “low” or “high” monitoring arrangements. The presence

of at least one of a range of monitoring activities between contractors and manufacturers or retailers—including review of payroll records, review of time cards, employee interviews, advisory discussions, and unannounced inspections—seems to raise compliance levels relative to contractors that do not have such agreements. The presence of a number of these factors together (high monitoring) further increases compliance relative to contractors with few monitoring components in place.

TABLE 3
Impact of Monitoring and Enforcement Activities on Compliance with
FLSA Labor Standards for Three U.S. Cities, 1998 or 1999

Compliance ^a	All	Unmonitored	Low monitoring ^b	High monitoring ^c	Previous WHD inspection ^d
New York City, 1999					
Overall	35%	33%	38%	46%	52%
Minimum wage	69%	63%	74%	79%	90%
Overtime	39%	39%	38%	46%	52%
Los Angeles, 1998					
Overall	39%	20%	40%	56%	NA
Minimum wage	52%	33%	56%	72%	NA
Overtime	46%	40%	48%	56%	NA
San Francisco, 1999					
Overall	74%	57%	76%	90%	NA
Minimum wage	92%	71%	94%	95%	NA
Overtime	75%	57%	78%	95%	NA

^a Compliance defined as percentage of establishments in compliance with all provisions of FLSA (overall) or specific provisions of FLSA (minimum wage; overtime provisions).

^b Contractor shops have at least *one* of the following seven monitoring components in their agreements: review of payroll records, review of time cards, interviews of employees, providing compliance information, advising about compliance problems, recommending corrective action, making unannounced visits.

^c In New York City, high monitoring indicates contractor shops in which *four* or more of the seven monitoring components occurred. In Los Angeles and San Francisco, high monitoring indicates contractor shops in which *six or seven* of the monitoring components occurred.

^d New York City provides information on compliance among contractor shops that had been previously investigated by the Wage and Hour division.

Source: Based on data reported in U.S. Department of Labor, Wage and Hour Division, Garment Compliance Surveys for New York City, Los Angeles, and San Francisco.

The New York City compliance numbers also allow comparison of the effect of WHD inspections to that of monitoring arrangements: contractors previously inspected by WHD are still more likely to be in compliance at the time of the survey than those with even high levels of monitoring in

place (.52 versus .46). The subset of contractors that have agreed to unannounced inspections by monitors working for manufacturers or retailers have almost as high overall levels of compliance (.48) as those that have been previously inspected by the government. Surprise monitoring itself may turn out to be a key ingredient for effective private or public enforcement.

Conclusion

A significant number of apparel industry contractors do not comply with basic labor standards set out in the FLSA. The persistence of sweatshops must be attributed to the relentless role of the market on contractors' decision making and the simple economics of noncompliance that still dominate the behavior of very small, transient, and mobile garment shops. At the very bottom of this manufacturing system, the pressure on contractors to cut costs remains enormous, and the incentive to subvert the law great.

This problem is further exacerbated by the ongoing interaction between the regulatee and the regulator, which in the apparel industry results in an ongoing cat-and-mouse game between WHD investigators and contractors (Dunlop 1976). Nonetheless, the channel focus of WHD efforts and the use of the hot-cargo provisions of FLSA to persuade manufacturers and retailers to enter into more comprehensive monitoring arrangements show promise.

Acknowledgments

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Endnotes

¹ There were about 10,000 establishments in the segments of the apparel industry that are the focus of WHD regulation. Given that WHD investigators conduct an average of 800 investigations annually, the annual probability of inspection is about .08. Focusing on one particular city yields similar estimates. In 1998, there were 260 investigations and an estimated 2,600 apparel establishments in New York City, yielding a probability of inspection in that year of about .10.

² This is based on the average back wages recovered for workers in investigations per quarter (\$642,000) divided by the average number of workers recovering wages per quarter (1,744).

³ This calculation assumes average straight-time wages for women's outerwear in 1998 (\$8.18) plus 15% and 40 hours of straight-time work for 12 weeks.

⁴ This can be demonstrated using a simple one-period compliance model. If the cost of compliance is C , the probability of being caught p , and expected penalties f , then the

cost of not complying (if detected) is $C + f$. A risk-neutral contractor should be indifferent between complying and not complying where $C = p(C + f) + (1 - p) \cdot 0$. Solving for the cost of complying at this point of indifference yields $C = [p/(1 - p)] \times f$. Given that $p = .1$ and average civil penalties are \$1,298, the indifference point between complying and not complying is \$144. If the costs of complying with FLSA are above that level, the contractor should not comply in the period; if they are less, the contractor should comply. Since the average amount of back wages owed in the period was \$6,592, the rational, risk-neutral contractor should choose noncompliance on a period-by-period basis.

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DISCUSSION

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It is now an article of faith that recent developments in the economy and human resource management have created major challenges for the framework of American workplace regulation. The accelerated dispersion of technological change, inadequate laws and regulations, employers' reliance on alternative work arrangements, and declining regulatory resources have exacerbated the problems in enforcing labor and employment laws. In response, federal agencies have focused on devising alternative strategies designed to leverage existing enforcement resources while still passing muster with increasingly conservative legislative oversight. The papers discussed here today illustrate examples of alternative enforcement initiatives regarding the enforcement of labor and occupational safety and health standards and suggest some of the strengths and weaknesses of these initiatives.

David Weil's paper on regulating working conditions in the U.S. garment industry provides an excellent overview of the dynamics of the U.S. apparel industry and the long-standing challenge in eradicating "sweatshop" working conditions. The labor-intensive apparel industry continues to be characterized as one with easy firm entry and exit, extreme price competition, low wages, and an immigrant labor force, making it vulnerable to extremely substandard working conditions. However, Dr. Weil notes that in recent years the industry has followed a new dynamic of "lean retailing," under which apparel suppliers must operate with far greater degrees of responsiveness to and acceptance of greater risk from fickle consumer tastes. Delivery times and the accuracy of orders now assume a greater prominence than in the past. Consequently, this new dynamic potentially provides greater leverage to the labor department's authority to use the hot-goods provisions of the Fair Labor Standards Act (FLSA).¹ Labor has coupled this enforcement tool with greater publicity of illegal sweatshop operations, "stakeholder" meetings with apparel industry representatives, and other changes in its enforcement procedures. In addition, labor has

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sought to prod apparel manufacturers to participate in compliance-monitoring agreements with their contractors. These agreements provide for an array of monitoring activities to ensure that the manufacturer's contractors comply with the FLSA.

While these strategic initiatives appear promising, it is unlikely that they will seriously reduce the continued and fairly widespread operation of apparel sweatshops. The requirement to first obtain an injunction and show that the employer willfully violated the FLSA put serious limitations on the use of the hot-goods provision. Other than moral suasion, there also is little leverage available to labor to get most apparel manufacturers to participate in the monitoring agreements. Consequently, while apparel shop compliance with the FLSA has increased, it still remains very low (35% to 74%), even in areas where federal enforcement is supplemented by state inspections (New York and California) and a comparatively strong union presence. Furthermore, labor's compliance measures do not get at those apparel contractors "flying under the radar"—those firms that not only violate minimum wage and overtime standards but also do not provide workers' compensation coverage or pay unemployment insurance and other payroll taxes. It is unlikely that these are the firms responding to the surveys that the labor department uses to determine compliance. Nevertheless, given its limited options, labor's strategic initiatives represent at least a good faith effort to deal with the long-standing problem of substandard working conditions in the apparel industry.

Dr. Grob's paper on work-site health and safety committees in the construction industry points out the limitations of relying solely on regulations mandating such committees as a strategy to secure, safe, and healthful workplaces. While available evidence suggests that the existence of such work-site committees improves workplace safety and health, Dr. Grob's work provides evidence that simply having a work-site program standard in place may not provide the levels of employee participation necessary to maximize safety program effectiveness. Dr. Grob found that violation of the work-site program standard was lower at unionized work sites than at nonunionized sites (22% and 27% of OSHA inspections). Work sites that had no program standard violations had a greater likelihood of employee participation than those establishments with violations. Most interestingly, unionized work sites with violations were 30% less likely to involve employees in inspections than those unionized work sites without violations. Yet nonunion work sites with violations were not much different from those without violations in employee participation in OSHA inspections. As Dr. Grob notes, the standard increases voice in the union sector above already high rates but has little effect on employee participation in the nonunion

sector. Essentially, unions can enhance the effectiveness of such committees.

The theme implicit in both of these papers is that effectively protecting workers on the job requires a “combined arms” approach to labor market regulation. Innovative enforcement, voluntary agreements with employers, and regulations that encourage worker participation can be part of this approach but by themselves are incomplete. Enforcement innovation has to be bolstered by stronger laws, enforced by federal agencies that coordinate their enforcement activity with their state counterparts, with reasonably adequate levels of enforcement resources better leveraged by union participation. We cannot expect piecemeal changes here and there, no matter how innovative, to solve long-standing problems such as sweatshops or unsafe working conditions. While the current political climate may not appear congenial to the development of such a broader workplace enforcement strategy, identifying the problem, like therapy, is a good start.

Endnote

¹ See section 15(a) of the Fair Labor Standards Act. This provision allows the Department of Labor, upon the procurement of an injunction, to seize apparel goods produced in violation of the act.

X. WORKPLACE TRANSFORMATION IN EUROPE

The Transfer of Competences to European-Based Japanese Affiliates

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This paper focuses on the ability of Japanese multinational companies to transfer their domestic business practices to their overseas manufacturing operations located in Britain and France. By *business practices* we refer not only to the firm's work practices but also to its human resources system, including the management of pay, promotion and internal careers, and training.

The study draws on two sources of information. One is the results of a postal questionnaire sent to the managing directors of the 223 affiliates located in Britain and the 108 located in France, which the Japanese External Trade Organisation's (JETRO) 13th Survey of European Operations of Japanese Companies in the Manufacturing Sector identified as operating production sites.¹ The other is information based on interviews conducted with managerial personnel on the sites of three affiliates located in the United Kingdom and six located in France.

Table 1 gives the sector breakdown for the 55 U.K.-based and 22 France-based affiliates that provided complete responses to our questionnaire. In terms of investment type, 80% of the U.K. sample and 59% of the

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TABLE 1
Distribution of Affiliates by Industrial Sector

Sector	France (%)	U.K. (%)
Mechanical engineering and transport	36	29
Electronics and electrical equipment ^a	36	40
Chemicals and pharmaceutical	23	11
Other ^b	5	20
No. of respondents	22	55

^a Includes precision instruments.

^b Primarily textiles, clothing, food, and tobacco.

French sample are new creations. As regards size, the large majority of the respondents fall in the SME category, with 73% of the U.K. sample and 77% of the French sample employing less than 500 employees. Table 2 provides basic information on the nine case-study affiliates that were visited between March and June 1999.

TABLE 2
Summary of the Case-Study Companies

Company	Year established	Employees	Investment type	Main products
BR1 Electronics	1984	635	New creation	Printers and copiers
BR2 Electronics	1986	202	New creation	Printers and faxes
BR1 Auto	1990	286	New creation	Ball bearings
FR1 Electronics	1987	778	New creation	Printers and copiers
FR2 Electronics	1983	700	New creation	Printers and copiers
FR3 Electronics	1989	303	New creation	Printers and copiers
FR1 Auto	1991	1,124	Acquisition	Steering systems
FR2 Auto	1990	42	New creation	Spark plugs
FR3 Auto	1984	880	Acquisition	Auto supplies

A Comparison of Work Practices and Employee Involvement

Table 3 provides comparative information on the utilization rates for a set of work practices that are often described as constituting the core of the Japanese way of organizing work. The penetration rates for most of the practices are equal or are somewhat higher in the United Kingdom. However, a standard test of significance of difference indicates that with the exception of making any use of project teams, the reported differences are not statistically significant.

Some care needs to be taken in interpreting this difference. Our interview evidence suggests that French managers tend to attach a more technical

TABLE 3
Organizational Practices of Affiliates: Production Operators

Practice	Percentage making any use of practice		Percentage involving over 33% of operators in practice	
	U.K	France	U.K.	France
Job rotation	64	68	35	41
Quality circles	55	55	29	18
Self-managing teams	49	41	27	25
Employee responsibility for quality control	85	73	75	73
Multidisciplinary project teams	55*	27	20	14
Just-in-time production	55	36	45	27
Number of respondents	55	22	55	22

* Significantly different at the .05 level using Pearson's Chi square.

connotation to the term *equipe projet* than their British counterparts attach to the term *project team*. French managers associate it with such technical activities as new product development or the introduction of new production lines. Interviewees at BR1 Electronics and BR2 Electronics, on the other hand, used the term *project team* to refer to activities that in France would more properly be referred to as the activities of quality circles or to what is commonly referred to in the auto sector as the activities of *groupes de progrès* (see Georgeu, Mathieu, and Pialoux 1998:39).

The comparable rates of diffusion of Japanese-inspired work practices reported in table 3 need not preclude significant differences in the extent to which particular combinations of practices are displayed by each national sample. To test for this, we clustered the entire population of affiliates according to the combination of practices used and then looked for a significant relationship with the classification by country of location.

Multiple-correspondence analysis, a data reduction technique, is used to identify underlying factors or "axes." The input for the analysis is an indicator matrix where the rows correspond to individual cases and the columns correspond to three different possible levels of utilization of the six work practices listed in table 3: 0% of operators involved, between 0% and 33% involved, and over 33% involved. Three factors were identified that account for approximately 85% of the total variation in the original data matrix as measured by the Chi-square statistic.

A single-link hierarchical clustering method was applied using the factor scores along the first three factors as input. This led to the identification of

four clusters of affiliates with the following characteristics. Cluster 1, consisting of 24 affiliates, is dominated by firms making no use of the various work practices, with the notable exception of individual responsibility for quality control. This cluster comprises the “traditional firms.” Cluster 2, with nine affiliates, comprises the “experimenters.” It is dominated by firms that make low-level use of quality circles, job rotation, project teams, and individual responsibility for quality control but no use of just-in-time production methods and self-managing teams. The third and fourth clusters comprise the “innovators.” Cluster 3, with 19 affiliates, is distinguished from cluster 4 by the greater emphasis the affiliates in it place on involving their employees in continuous improvement activities. Firms in the third cluster tend to combine high-level use of individual responsibility for quality control, self-managing teams, and quality circles with either low or high use of both project teams and just-in-time production methods. Cluster 4, composed of 25 affiliates, is dominated by firms that place the emphasis on more technical solutions involving the combined use of job rotation, just-in-time production methods, and individual responsibility for quality control. There is relatively little use of quality circles, project teams, and self-managing teams among the firms in this cluster.

Cross-tabulations not reported here indicate that no significant relationship exists between the clusters and the classification by country of location or between the clusters and classification by type of investment (whether a new creation or an acquisition). Table 4, however, reports a significant relationship between the clusters and the sector classification.

The results show that firms operating in the chemical sector are characterized by relatively low penetration rates when compared with firms in the

TABLE 4
Cross-Tabulations Between Work-Practice Clusters and Sector of Activity

Sector	Cluster				Total
	1	2	3	4	
Mechanical engineering and transport	3 12.5	4 44.5	7 36.8	10 40.0	24 31.1
Electronics and clerical equipment	7 29.2	3 33.3	9 47.4	11 44.0	30 39.0
Chemicals and pharmaceuticals	8 33.3	1 11.1	0 0.0	2 8.0	11 14.3
Other	6 25.0	1 11.1	3 15.8	2 8.0	12 15.6
Total	24 100.0	9 100.0	19 100.0	25 100.0	77 100.0

Pearson $\chi^2(9) = 17.1545; p = .046$

electronics and mechanical engineering sectors. This supports the hypothesis that assembly-based technologies constitute a more fertile ground for the development of characteristically Japanese methods than do process technologies (see Aoki 1988).

Limits to the Transfer of Work Practices

On the face of it, the percentage figures reported in table 3 suggest that Japanese multinationals have been quite successful in transferring their business practices to European soil. Despite the often high rates of penetration reported, our interview evidence speaks quite conclusively in support of the view that the transfer remains partial. While it is common in Japan to integrate production tasks with such troubleshooting work as diagnosing and proposing solutions to quality problems or equipment failures, we saw little of this in the plants visited.² Rather, in most cases a classic division of labor obtains, with specialized technicians or even senior engineers being called in to solve the problem. The limited development of problem-solving skills by operators can be linked in the first instance to a much less systematic use of job rotation as an integral part of on-the-job training for operators than is common in Japan. The only affiliate that claims to have generalized the use of job rotation among its operators is FR1 Auto. In the other case-study affiliates, job rotation is either confined to the fraction of the workforce organized in cells (*ilôts de production*) or is confined to specialized flexible (*polyvalent*) employees who are on a higher job grade.

The generally low level of operators' problem-solving skills in the U.K.-based and France-based affiliates in turn restricts their involvement in continuous improvement activity, be it in the form of quality circles, *kaizen* activities organized through project teams, or task forces or *groupes de progrès*. Both BR1 Electronics and BR2 Electronics abandoned as unworkable in the United Kingdom the practice originally promoted by Japanese management of making quality circles mandatory activity outside of working hours. Voluntary participation in quality circles during paid hours exists for a minority of operators at FR1 Auto and FR3 Auto. FR2 Electronics has retained the Japanese practice of organizing quality circles outside paid hours; however, participation is voluntary, and only a small fraction of the operators are concerned.

Difficulties experienced in introducing quality circles in the Japanese manner were also attributed in both countries to a widespread sentiment on the part of the manual workforce that such activity is properly the responsibility of management, who is compensated for undertaking it. This perhaps accounts for the quite general tendency observed in both countries to compensate operators for their involvement in such activity. This takes a

number of forms. First of all, quality circles and the *kaizen* activities of teams are, with the rare exception, organized either during regular work hours or during paid overtime hours. A popular incentive scheme is to compensate employees for making suggestions for improvements. Two of the auto parts producers we visited in France equated compensation for suggestions with the notion of *kaizen*. A third method is to pay bonuses to teams that perform well in achieving certain quality or performance targets.

The perception that operators will only commit themselves to the goal of continuous improvement if they are paid directly for their participation accounts in large part for the widespread use of contingent pay systems in the affiliates. This tendency constitutes a significant modification of standard Japanese business practice, where participation in quality circles and quality improvement activities is treated as a normal part of an operator's job.

Contingent Pay and the Diffusion of Work Practices

Table 5 shows the percentage of the affiliates that involve any of their operators in four common forms of contingent pay: profit sharing, gain sharing, collective or team bonus payments, and compensation for suggestions. These forms of contingent pay are not typical elements of Japanese human resource systems (Itoh 1994; Koike 1994:52-53). Their considerable use in our sample of affiliates suggests that Japanese multinationals operating in Europe have modified their compensation practices to create a more direct link between short-term performance and pay than is common in Japan.

TABLE 5
Pay Policies of Affiliates: Production Operators

Policy	Percentage of Affiliates Making Any Use of the Policies	
	U.K.	France
Profit sharing	18*	41
Gain sharing	4**	41
Collective bonus	29	41
Compensation for suggestions	40	45
No. of respondents	55	22

* Significantly different at the .05 level

** Significantly different at the .01 level

The test of significance of difference used is Pearson's Chi square.

Table 5 shows that a larger percentage of the French sample of affiliates report making some use of each of the four practices. However, the

differences are only statistically significant in the case of profit sharing and gain sharing. The higher rates of utilization of profit sharing and gain sharing in France can probably be accounted for by the impact of state intervention in the form of tax advantages for those companies that introduce profit- or gain-sharing plans for their employees by means of negotiations with the local unions or the *comité d'entreprise*. Among the case-study affiliates located in France, only one, the auto parts supplier FR3 has a profit-sharing plan that does not take the form of *intéressement légal* and that links pay to achieving certain performance and quality targets.

The cross-tabulation presented in table 6 shows that there is a highly statistically significant relationship between the classification of affiliates according to clustering by combination of work practices used (described earlier) and their classification according to whether they make any use of at least one of the contingent pay policies identified in table 5.

TABLE 6
Cross-Tabulations Between Work-Practice Clusters and
Use of Contingent Pay

Contingent pay	Cluster				Total
	1	2	3	4	
No use	14	3	4	4	25
	58.3	33.3	21.0	16.0	32.5
Any use	10	6	15	21	52
	41.7	66.7	79.0	84.0	67.5
Total	24	9	19	25	77
	100.0	100.0	100.0	100.0	100.0

Pearson $\chi^2(3) = 11.5474; p = .009$

Inspection of the results shows that contingent pay systems are more present among the innovators in clusters 3 and 4 than they are among the experimenters in cluster 2. Contingent pay systems are considerably more present among the innovators than they are among the traditional firms in cluster 1. The results support the conclusion drawn earlier on the basis of the case-study evidence concerning the tendency of European-based affiliates to promote employee involvement by paying for it directly.

Job Grading, Evaluation, and Promotion

One of the stylized attributes of Japanese human resource practice is that the compensation system provides incentives for the long-term development of skills and competences (Koike 1988; Itoh 1994). This is accomplished by means of job-grading systems and annual evaluation procedures

that link both annual increments to base pay and promotion to an assessment of the individual's success in expanding the range and depth of his or her skills and problem-solving capability. Such systems, as presented in the classic descriptions of Koike (1988) or Aoki (1988), are based on grading systems that assign points to a worker depending on how many jobs he or she can undertake without supervision and on the range of technical or maintenance-related problems he or she can solve.

With the exception of BR1 Auto and FR3 Auto, all the affiliates visited make use of job-grading systems combined with annual evaluation procedures to determine promotion, annual increments in base pay, and the allocation of merit pay where it exists. In the case of the electronics producers, the job-grading and promotion systems in place are modified versions of those currently used by the Japanese parent firms. In the France-based affiliates, certain of these modifications can be accounted for by the requirements imposed by regional collective agreements (*conventions collectives*) for the engineering and metalworking sectors. Branch *conventions collectives* establish legally mandatory classification systems, which fix a range of scores or *coefficients* that are divided into levels (*niveaux*) and then further subdivided into a set of finer grades (*echelons*). A range of coefficients, and thus levels and grades, is set for broad occupational categories: workers (*ouvriers*), technical employees (*techniciens*), and foremen (*agents de maîtrise*). This system creates a much more stratified or hierarchical classification structure than is typical of the Japanese parent firms, with 16 different coefficients for manual grades as compared to 6 or 8 grades.

Within the constraints imposed by *conventions collectives*, the electronics producers we visited in France have sought to introduce flexibility to the system by allowing for a range of base salary levels for the same coefficient. Furthermore, FR1 Electronics and FR3 Electronics have a system of individual merit pay raises, which form a permanent part of the individual's salary, though it is conceptually distinguished from base pay. In this way, the France-based affiliates in the electronics sector have sought to introduce Japanese-style incentive systems. The principal difference has to do with the criteria upon which raises and promotions are decided. In contrast to the common Japanese practice of evaluating employees at least in part on the basis of the acquisition of competences, a distinct preference is shown for assessing employees on the basis of achieving specified productivity or quality targets. The explanation for this has to do with job characteristics and management's policies regarding on-the-job training. In all of the plants visited, only a minority of the employees are involved in job-rotation schemes or in continuous improvement activity. This simply precludes any generalization of employee evaluation based on the ongoing acquisition of competences.

Similar remarks pertain to the two British-based electronics producers we visited. The manager of the production division at BR1 Electronics described how they had abandoned as unworkable in the United Kingdom the parent firm's promotion and evaluation system a number of years following the affiliate's creation. It was replaced with a system of individual evaluation based on achieving targets. At BR2 Electronics, the Japanese parent plant's system of points based on acquiring competences was in place only for those working in cells. The lack of job rotation for those working on the assembly lines precluded any generalization of the system.

Although the limited number of visits undertaken precludes drawing firm generalizations, our interview evidence suggests that Japanese multinationals have modified their pay and promotion systems to create a much more explicit link between pay raises and promotion on the one hand and improvements in measured performance on the other than is common in their domestic operations.

Conclusion

This paper focused on the nature of the employment systems adopted by Japanese multinationals in their industrial plants located in Britain and France. The labor market institutions of these two countries differ in important respects, and one might anticipate that these differences would affect the ability of Japanese companies to transfer their business practices. The evidence presented here provides only partial support for this thesis. Despite some differences in emphasis, Japanese multinationals operating in Britain and France have experienced comparable degrees of success in transferring their work practices. The principal difference between the employment systems of the U.K.-based and France-based affiliates concerns the nature of their pay and job classification systems and how these are linked to employee involvement.

The observed ability to combine Japanese-style work practices with different national human resources systems points to a surprising universality of Japanese organizational forms. This conclusion should be qualified, however, by noting that the transfer remains partial in both national settings in the sense that operators are not involved in problem-solving and continuous improvement activities to the same extent as their counterparts in Japan.

Endnotes

¹ Our sample excludes those Japanese companies operating vineyards in France.

² See Shibata (1999:195–96), who makes the same observation concerning U.S. operators in his comparison of team organization in three Japanese and three U.S. plants.

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DISCUSSION

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The evidence marshaled in the papers for this session contributes to a growing literature on the adoption of Japanese-style human resources practices by Japanese-affiliated firms located in Western economies. The national coverage of these studies is broad and brings us closer to being able to answer the following five questions (in order of difficulty) about the transferability of such practices into other national settings.

1. Are Japanese-style human resource practices being transferred in a significant degree to other industrialized countries? The answer is unambiguously yes.

2. Are such practices effective in other national settings? Where available, the studies find a correlation between the number of practices adopted and indicators of business performance.

3. Are there complementarities among these practices? There are both national and sectoral differences in the utilization rates of such practices. However, the most common clustering of practices involves teamwork and total quality management and, to a lesser extent, quality circles. These clusters of practices are often associated with other Japanese-style management practices, such as just-in-time production and the use of advanced technologies.

4. If these practices improve performance and embody complementarities, why aren't adoption rates higher? A substantial fraction of Japanese transplants do not adopt such practices, even after controlling for industry differences. Evidence from the United States, however, suggests that Japanese transplants adopt these practices more frequently than their domestic counterparts (Doeringer, Evans-Klock, and Terkla 1998) and that the overall rates of utilization in manufacturing plants have risen rapidly since the wave of Japanese direct investment in the 1980s (Osterman 2000). The evidence from this session is that there are far too many U.S. and U.K. consultants promoting these practices for ignorance to explain low adoption rates and that there are many Japanese affiliates that are currently experimenting

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with such practices. This suggests that adoption rates are likely to increase over time in Europe, as they have in the United States.

Not all manufacturing plants, however, are good candidates for adopting these practices. Low-value-added industries like apparel and furniture, small firms that are already highly flexible, and companies that prefer more traditional authoritarian practices of workplace control are likely to lag in the adoption of high-performance human resource practices.

5. Is there one human resources model that will prevail among Japanese transplants in Western economies over the next decade? This is the hardest question of all. The limited evidence of clustering suggests a single model, but there is also evidence of national differences that are concentrated in the areas of compensation and internal labor market structures. These elements of the employment relationship, which are most commonly contested by workers and employers, are often regulated by governments, and the differences in these practices appear to be most pronounced in countries with strong trade union movements. It makes intuitive sense that something like a dominant Japanese human resources model can be transferred to other countries but that the adoption of this model is shaped by national differences in union power and government regulation.

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DISCUSSION

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In an ideal world of infinite resources, what would a systematic program of research on the diffusion of organizational innovation across Europe look like and yield? It might look something like this:

1. Sizable, nationally representative survey evidence for each country would document the extent of diffusion for innovations broadly defined and measured over a specified time, and (with any luck) the cross-country set of results would be largely explicable in terms of observable national system-level characteristics.
2. The diffusion of a smaller subset of innovations (precisely defined and measured) or a carefully selected subset of them (ideally on a matched-sample basis) would be documented for all these countries, with the results broadly consistent with the preceding findings. But more important, a detailed (individual) organization-level focus (involving both a company- and establishment-level perspective) would identify the relevant factors that shape the incentive and ability of organizations to innovate or adapt.
3. Turning from the demand side to the supply side of the process, the role of certain key diffusion mechanisms that constitute important linkages within and between individual organizations would be highlighted. The mechanisms covered would include the roles of “product champions,” consultants, and benchmarking processes.

This is clearly a tall order, but the papers presented at this session constitute something of a start along such lines. Hence, I structure my discussion around these three types of analysis.

Discussions of organizational diffusion still overwhelmingly assume that the more diffusion, the better, which sits rather uncomfortably with the view that individual organizational settings are becoming more heterogeneous in nature; the notion of an optimal diffusion rate is still essentially absent from such literature, which worries me. But the available aggregate survey evidence is clear on one key point: flexible working practices (variously

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defined) have spread considerably in European countries in recent times. However, there are substantial variations among countries, but this variation does not correlate particularly well with any of the standard measures of differences in national-level human resource management/industrial relations (HRM/IRS) characteristics. This pessimistic finding should cause us to reflect on the following questions and issues.

First, does it suggest, as some people have argued, that the whole notion of a national system of HRM/IRS is no longer valid and useful as a unit of analysis? Those who reject such an extreme view can point to the fact that country dummy variables still have very considerable statistical power in multivariate studies of certain HRM/IRS measures across European countries. Such results are typically interpreted as indicating the role and strength of differences in national culture, but the tangible manifestations of such differences in national culture vary enormously among individual commentators: differences in labor legislation, corporate governance arrangements, management style, labor market institutional arrangements, etc. However, *statistical* power is not the same thing as *explanatory* power, which is why I think dummy variables are so aptly named. Accordingly, I think we have a choice to make. Researchers who favor the national systems-level approach need to reduce their reliance on (country) dummy variables and the “intellectual blunderbuss” notion of national culture by developing more detailed and objective measures of such influences.

The other response is to try to develop more of a bottom-up, rather than top-down, framework of analysis. And here we know two things: the relatively limited diffusion in southern European countries is associated with their large small-firm sector, and foreign-owned subsidiaries of multinational corporations (MNCs) are at the leading edge of such diffusion. Our best research on MNCs is primarily based on case studies, emphasizing the highly “political” nature of headquarters–subsidiary relationships. Such work has already suggested, among other things, that better-performing subsidiaries have the least incentive to respond to corporate-level initiatives and that the ability to respond is strongly shaped by certain (historical and contemporary) subsidiary-specific influences. The challenge for us as researchers is to take such individual hypotheses from our individual case studies and provide more-generalized tests of them within the larger MNC population and ideally beyond it. But this will be far from easy to achieve; nationally representative samples in comparative research are difficult to generate, and political establishment-specific influences are difficult to incorporate in standardized questionnaires.

As for diffusion mechanisms, most existing studies of organizational innovation typically distinguish between early-stage adopters, driven by

technical–rational considerations, and later-stage adopters, for which institutional factors are the major drivers of the process. Already we have some relevant insights: choosing a single “product champion” in an MNC setting is politically difficult, and benchmarking processes involve concerns about noncomparability (i.e., not a level playing field) of the poorer performers in heterogeneous settings. Given the huge growth of the management consulting business in recent times, the role of consultants as important institutional influences seems overdue for serious consideration. There are many important, individual questions that could be the focus of such research: Does the consultant role explain why large-sized organizations have an above-average propensity to adopt such innovations? Have consultants reduced the time lag between early and later-stage adopters, thus enhancing the overall adaptation rate over a given time? Do consultant activities increase the homogeneity of the adoption process? Do they assist the longevity of adoptions? These are just some of the questions we could usefully address.

XI: RETHINKING THE THEORY AND PRACTICE OF ENTERPRISE GOVERNANCE: LABOR'S CHALLENGES, LABOR'S OPPORTUNITIES IN THE "NEW ECONOMY"

Linking Institutions of Governance and Industrial Outcomes: The Case of Global Aircraft Engine Manufacturing

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Introduction

As the "American Century" draws to a close, the U.S. economy is enjoying its longest period of growth since the 1960s. A combination of low unemployment and low inflation has been the hallmark of what some observers have dubbed the "new economy," in which technological advances (especially in information technology) have fueled productivity advances, allowing noninflationary economic growth while simultaneously accommodating real wage gains. Of course, there is nothing particularly new about this notion; rather, it is a description of a virtuous cycle in capitalist economies whereby investments made in people and physical capital pay off in the form of innovation, which allows more products of better quality to be produced at a lower true economic cost than was formerly feasible.

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But there are some things new about the new economy that unfortunately paint a far less optimistic picture for those who live and work in the United States. First is that although wage gains started to outpace inflation in 1996, it took a full decade for prerecession wage levels to be restored broadly: it was not until the first quarter of 1999 that wages in each income decile had recovered to 1989 levels (J. Bernstein 1999). Another of the defining and troubling features of the so-called new economy is that even in those industries where U.S.-based producers have been successful at maintaining market share in international competition, such enterprise success has not necessarily served to insulate workers in the United States from the effects of corporate restructurings and the job losses they entail. Despite the booming economy and the fantastic run-up in the stock market, 1999 is poised to be the biggest layoff year of the decade. According to the outplacement firm, Challenger, Gray and Christmas, Inc., during the first eight months of 1999 alone, American employers had announced layoffs totaling close to half a million. Certainly, corporations' urge to merge, as evidenced by mega-mergers like MCI Worldcom-Sprint, Exxon-Mobil, and CBS-Viacom are one force driving layoffs, but plain and simple profit pressures are also contributing to a divergence of fortunes between workers and owners of financial assets in the U.S. economy.

These patterns are symptomatic of what some have viewed as a breakdown in the "social contract," or the set of mutual obligations and expectations that parties have for work and employment relationships, in the U.S. economy. But given the strength of U.S. macroeconomic indicators, an obvious question is whether or not this "breakdown" matters for economic performance. In other words, aside from moral or political concerns, need policy makers care about this state of affairs? This paper argues that the breakdown of the social contract is indeed a cause for concern. Informed by a theoretical perspective in which the innovation process plays a central role in explaining economic growth, this paper traces the connections between the social contract and economic performance. Recognizing that economic outcomes are shaped by corporate strategy and that corporate strategy is in turn shaped by enterprise governance, this paper builds on the framework developed by O'Sullivan (forthcoming) that recasts traditional notions of what we mean by *governance*. To illustrate the usefulness of this framework, the paper offers a case study of one high-tech industry, jet engine manufacturing, and shows the ways in which institutions of governance in U.S. corporations have shaped corporate strategy and what the outcomes of this process are for workers, shareholders, suppliers, and other stakeholders.

The New Economy and the Innovative Enterprise

If the prosperity of the new economy is centered on the aforementioned virtuous cycle of a technologically dynamic capitalist economy, then the central actor in the story of today's prosperity must be the "innovative enterprise," described by Lazonick (1991). The innovative enterprise can be contrasted with the adaptive enterprise, insofar as through its investment activities, it goes beyond the mere *utilization* of existing resources to *developing* productive resources with the goal of producing existing products at lower real economic costs or even developing entirely new products. Although the innovation process is inherently fraught with uncertainty, the firm, if successful, will be rewarded for its efforts with economic rents.

As O'Sullivan (forthcoming) explains, what happens with these rents is not inconsequential for the regeneration of the innovation process. First, some sharing of rents is required to ensure that members of the organization have incentives to continue participating in the learning processes that generate those rents. Likewise, there needs to be commitment of financial resources toward reinvestment in people and capital to sustain innovation. The institutions that govern this process of resource allocation can be described as the system of enterprise governance. Which parties are involved and the ways in which they are involved in this resource allocation process reflect enterprise governance and, of course, shape corporate strategy.

One way to think about an "ideal" system of enterprise governance is as one that functions in such a way as to support the conditions necessary for innovation. In other words, if a governance system serves to ensure first that resources are allocated in such a way that all parties whose participation in learning processes is required have the incentives to participate in those learning activities and second that there is a commitment of financial resources to the innovation process, then the virtuous cycle of noninflationary growth has a better chance of being established and sustained. As already discussed, the evidence for the breakdown of the social contract might give cause for concern about whether this first condition is being met in the U.S. economy, broadly speaking. But what about the second condition—that of financial commitment?

Here the evidence is perhaps even less encouraging. The 1990s have witnessed an unprecedented distribution of financial returns to owners, perhaps even at the expense of reinvestment in the productive capacity of enterprises. While capital appears quite "patient" (even to the point of being irrationally so) in some sectors, Internet IPOs being a favorite example, when we look at enterprises where the bulk of the productive capacity of the U.S. economy resides, the situation appears otherwise. Nonresidential

fixed investment has averaged just 11% of U.S. GDP over the current business cycle, below the rates posted for the 1970s or the 1980s. Part of the reason may be that financial resources are simply less available to support real investment. Of course, this is not because the stock of financial funds is shrinking; rather, it is because funds are being committed to other ends. To illustrate, despite the rapid growth of equity holdings in the U.S. economy, net equity issues have been negative since the first quarter of 1994, reflecting U.S. corporations' rush to engage in large-scale repurchases of their own stock. While this practice certainly has helped to fuel Wall Street's bull run, it is a potentially huge drain on enterprises as financial returns, which have traditionally been the source of low-cost financing for new investment (i.e., retained earnings), are less and less available. Similarly, the proportion of profits distributed to shareholders in the form of dividends has also been on the rise. For the current business cycle, 73% of after-tax profits have been paid out as dividends, compared with 68% for the prior business cycle and 33% for the period 1973 to 1980 (Almeida and Weller 2000). The idea that the stock market is acting as a drain on corporate resources as opposed to being a source of new funds for investment is a controversial one, given the persistently high level of funds flooding into equity markets over the course of this bull market, but it is nonetheless one that is supported in the aggregate numbers and on corporate balance sheets. Perhaps most troubling about the present situation is that because the value of managerial compensation has become so closely linked with stock performance, those entrusted with making decisions about corporate resource allocation have a strong, personal, financial interest not to "rock the boat" by discouraging this massive distribution of financial returns to shareholders (Reingold 1999).

Given these trends, we may have cause for concern that the foundations upon which future economic growth must be built are being eroded by corporate practices that reflect the primacy of shareholder interests in the system of U.S. corporate governance. Moreover, at the same time that the strength of traditional macroeconomic indicators has masked signs of trouble with respect to corporate resource allocation, it has also masked sectoral differences in economic performance. The manufacturing sector in particular is truly struggling, having shed more than half a million jobs just since March 1998. That this sector, traditionally the engine for growth and innovation in our economy, is experiencing such hardship even in the midst of an unprecedented boom should be of great concern to policy makers since it is not just low-skill, low-wage manufacturing industries feeling the strain. From the newly restructured steel industry to the high-tech aerospace industry, manufacturers in a broad range of industries continue to downsize.

Aircraft Engine Manufacturing: A New Economy Paradox

The manufacture of aircraft engines is a case in point. A strategic industry in more than the military sense of the word, jet engine manufacturing has been the source of many of the key advances in air travel during the postwar era. By virtue of their successes in designing ever newer generations of engines that were able to allow airplanes to shuttle passengers more quickly, cheaply, and quietly across the globe, U.S. manufacturers of jet engines built a strong global market share position throughout the postwar years, which they maintain to this day. U.S. producers of jet engines General Electric Aircraft Engines and Pratt & Whitney are the market leaders in an intensely competitive global oligopoly in supplying engines to power aircraft of all types: airliners, combat aircraft, regional and business jets, even helicopters. Illustrating their market dominance, these two firms have enjoyed combined market shares that have consistently been in the range of 75% to 80% over the course of the past three decades in the market for large, turbofan engines that power jetliners. These enterprises not only display market strength, they also boast impressive profitability. In 1999, GE registered \$1.7 billion of operating profits on \$10 billion in sales, while Pratt & Whitney took in \$1 billion in profit on \$7.9 billion in sales (translating into operating margins of 17% and 13%, respectively).

But this market strength and bright profit picture have failed to provide good things for these companies' U.S. workforces. Just this summer, Pratt & Whitney announced plans to cut 1,500 jobs from the company's payrolls, part of a larger corporate-wide downsizing that will shrink the workforce at parent company, United Technologies, by 14,500 (Freudenheim 1999). Indeed, in the industry as a whole, the employment picture has been gloomy for most of the decade. Both the blue-collar and the white-collar workforces have shrunk by about 35% from 1988 employment levels. While much of the downsizing of the industry in the early part of the decade could be attributed to declining defense orders in the waning days of the Cold War, the recovery of the aircraft market mid-decade did little to restore employment levels in the jet engine sector. Sales of engines in constant dollars by 1998 had recovered just about to 1987 levels, some 12% below their 1990 historic peak. But employment in the industry remains stuck at a level fully one third below 1990 employment levels. On the wage front, the news for workers is also grim: inflation-adjusted average hourly earnings have remained flat over the course of the 1990s (Almeida forthcoming).

The usual suspects to which economists generally would look to explain this divergence of fortunes are two: trade and technology. The standard story economists have told to explain the growing gap between blue-collar

workers and everyone else focuses on a “sunset” industry that becomes susceptible to transfers of production overseas to lower-wage locations because of product obsolescence or changes in production technology. But this story fails to fit the jet engine industry, given the available evidence. To begin with, both blue- and white-collar workers saw employment prospects drop in this industry, in just about equal proportions. Moreover, even the end of the Cold War could not relegate aerospace goods to the status of the proverbial buggy whip. As income levels rise globally, so does the market for air travel, increasing the demand for aircraft. Over the past two and a half decades, annual growth in world passenger traffic has averaged a robust 6% per year, while freight traffic has increased about 7.5% annually (Almeida 2000). It is equally difficult to argue that the production processes involved in the manufacture of aircraft engines are outdated. The thousands of precision parts that make up an aircraft engine are fabricated of specialty materials using some of the most advanced techniques in manufacturing to meet extremely tight tolerances. Because of the obvious product safety issues involved, producers must meet exacting production standards and are subject to Federal Aviation Administration production inspections and audits (Gunston 1998). Largely for these reasons, job losses in the industry should not be attributed simply to a global “race to the bottom” search for low wages and lax labor standards, which may be an accurate characterization of events in other industries. To be sure, import penetration, as measured by the ratio of imports to the value of the industry’s shipments in the industry, has been significant. This ratio has seen a steady increase, from levels of less than 5% in the 1970s to about 15% by the mid-1980s to about 30% by the end of the 1990s. But for most of the past two and a half decades, much of jet engine work leaving the United States has been moving to locations where employers are generally perceived to face *more* regulatory obstacles and where labor markets are considered much *less* “flexible” than in the United States. Indeed, the top five sources of turbine engine parts imports in 1998 were (in order of importance) France, the United Kingdom, Germany, Canada, and Japan (Almeida 2000).

Rather than a simple technology or trade story, it appears that what is behind the divergence of fortunes in the jet engine industry is a more complex, yet discernable inability, unwillingness, or both on the part of U.S. enterprises to invest in the kinds of activities that would enhance employment outcomes for the U.S. workforce. Under the banner of focusing on their “core competences,” the leading producers have been gradually getting out of the business of building equipment in favor of designing, marketing, and servicing aircraft engines.

On the basis of this strategy, we might conclude that U.S. producers of aircraft engines are operating under the premise that thinking and doing are separable activities in manufacturing. Such a premise would appear consistent with the U.S. system of governance, which has historically segmented blue-collar workers from the learning processes that lead to innovation within the firm and from the associated system of incentives held out for those who would be included in the process (long-term employment, career ladders within the firm, etc.). Several scholars have documented the deep-seated reluctance on the part of U.S. corporations to include the blue-collar workforce in learning processes within the firm (Brody 1993; Gordon, Edwards, and Reich 1982; Lazonick 1990), and based on prior research on the jet engine industry, we may conclude that the American industrial tradition of organizational segmentation applied equally here. From the 1965 conflict over the introduction of numerically controlled machine tools at GE documented by David Noble (1986) in *Forces of Production* to 1980s efforts to build “factories of the future” that would eliminate a reliance on (unionized) skilled production labor to 1990s efforts to “multi-skill” the workforce, those directing the resource allocation process at the leading U.S. jet engine makers over the years made clear their desire to avoid making long-term investments in people or organizations that for varied reasons they felt they could not control (Almeida forthcoming).

But during the same period that U.S. producers were pursuing these strategies, firms in countries with different industrial traditions and different systems of enterprise governance had recognized the strategic importance of aerospace, not merely in the traditional, military sense, but also to industry overall in generating high-end product and process technologies. Building on their relationships established in military aircraft coproduction agreements, beginning in the 1970s, many firms in European nations and in Japan offered to serve as “risk-sharing partners” in developing new, commercial engine designs in cooperation with U.S. firms. In exchange for agreeing to bear a share of the financial and technical risks of developing new products, partners were awarded fixed work shares once the engine entered production. The breadth and depth of this type of partnering have progressed impressively. At this time, there is not a single large commercial turbofan engine in production at GE or Pratt & Whitney that was not developed and is not being produced without some involvement of overseas partners (Almeida 2000). Foreign firms have in many cases moved on from simple “build-to-spec” arrangements to key roles in prototyping and design work (National Research Council 1994).

What have been the consequences of these strategies for economic performance in the United States? In the short run, it seems that by outsourcing

production and establishing a far-reaching web of strategic partnerships with firms in other countries, U.S. manufacturers have found a way to maintain (and even enhance) profitability while disengaging from actual production and even some design and research activities. The divergence of fortunes between the industry's workers and shareholders of firms in the industry has been an obvious outcome. When the desire on the part of other countries to build up their domestic aerospace capabilities presented itself as the opportunity to off-load production work, U.S. firms took that opportunity. Certainly, their motives were varied. While they stood to gain from accessing new suppliers and partly hoped that having foreign suppliers would help to win sales overseas, the potential danger with this strategy is that by collaborating closely with a sophisticated supplier, one might inadvertently foster the growth of a future competitor. Perhaps because of the implicit belief that thinking (i.e., design) and doing (i.e., production) could be separated, that danger was not high on the list of concerns. But the longer-term and crucial question for the industry is: What happens if thinking really does rely on doing? While it is possible that current profit pressures have led to decisions that will ultimately undermine the long-term interests of shareholders, we can do no more than speculate at this stage of the game. It could be years, or decades, until we know for sure.

Still, in light of the trends already discussed in the distribution of financial resources to shareholders, it is difficult to imagine how the pattern of disinvestment in this industry might be reversed. For even if the will existed on the part of corporate decision makers to rebuild domestic production capacity, unfortunately, the financial resources to back up that will are sorely lacking in many enterprises, not because of a lack of profitability, but rather because of the aggressive distribution of these financial returns to shareholders, both directly in setting high dividends and indirectly by devoting large shares of cash flows to stock repurchases. The parent companies of the two industry leaders, General Electric and United Technologies, illustrate the point. In 1998, General Electric devoted \$3.6 billion to share repurchases and paid out \$3.9 billion in dividends, on a cash flow of \$10 billion. At United Technologies, a company with cash flows of about \$2.5 billion, share buy-backs totaled \$650 million, and dividends of \$316 million were paid out.

Conclusion

While one ought to be hesitant to draw general conclusions from individual examples, examining the case of aircraft engine manufacturing is a useful exercise, as it lends insights into the microlevel forces behind some troubling macroeconomic trends. After all, as we all know, *economies do*

not produce, nor do they make resource allocation decisions—enterprises do. This is an obvious point, certainly, but one economists tend sometimes to overlook. What the case presented here helps us understand is how the links between governance and economic performance actually function, enhancing our understanding of broad economic trends.

This case illustrates how systems of governance shape corporate strategy. As we know, in any given situation, there may be a range of competitive strategies available to the firm; those ultimately chosen will reflect the interests of those making decisions, which of course are tightly linked to the incentive system to which they are responding. The performance of the U.S. jet engine industry perhaps can also serve as a cautionary tale of the ways in which institutions of governance in U.S. corporations view investments in human capital in knowledge-based industries. In other words, expenditures on direct production workers (and increasingly, perhaps indirect design and engineering workers) are viewed not as investments but as a cost to be off-loaded. The case presented here illustrates what the impact of this orientation is on workers, shareholders, suppliers, and even other stakeholders in the enterprise.

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Understanding the Challenges and Opportunities of Increased Shareholder Activism for Workers

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Introduction

The “new economy” is characterized by old contradictions. Wall Street has outperformed the fondest dreams of investors with double-digit growth rates since 1994. In contrast, the real economic performance of the U.S. economy has been less than stellar during the current business cycle: average real GDP growth cycle amounts to 3.2%, less than in the 1960s or the 1980s; business investment stands at an average of 11% of GDP, below the rates posted for the 1970s and 1980s; and real wage gains still do not compensate for wage declines in the last recession.

Both financial and real trends over the past two decades are the result of altered corporate behavior. To reduce the growing divide between real and financial sectors, corporate behavior hence needs to be changed. Corporate governance can help to alter corporate behavior.

The growing wedge between the financial and real sectors has left unions with new means to influence corporate governance. Aside from collective bargaining, unions now hope to use “labor’s capital” or “working capital” to turn stock market gains into shop-floor improvements.

Thanks to the stock market boom, pension-fund assets to which unions have access have grown. Unions have the most direct influence over multi-employer or Taft-Hartley funds, which have 50% union representatives on their boards. Collectively bargained and public pension funds sometimes offer organized labor influence through the participation of union representatives on their boards. All in all, these pension funds held \$4.7 trillion in assets at the end of 1998. The questions are whether union pension-fund activism can target corporate decisions to reverse the growing gap between financial and real trends and how effective they can be.

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Background

Since the stock market took off in 1983, the value of corporate equities has grown ninefold, from \$1.9 trillion to \$17.1 trillion in June 1999. Corporate debt has increased merely three and a half times, from \$1.2 trillion to \$4.1 trillion, over the same period. Banks that traditionally provided long-term debt seem to be replaced by mutual funds and investment bankers.

The changed relative size of different asset types does not adequately reflect their importance in financing corporations. Despite the rapid growth of stocks, the quarterly flow of net equities has been negative since the first quarter of 1994. That is, firms are buying back shares faster than they are issuing them, leading ultimately to rising stock prices.

Aside from stock repurchases, corporations are also dedicating a growing share of their after-tax profits to dividend payments. The share of dividends has increased to 73% during the current business cycle, following 68% for the last cycle and 33% for the period 1973 to 1980.

With less money to go around, corporations invest less. For the current business cycle, net investment out of total internal funds has amounted to an 11% average, slightly above the 9% average for the last business cycle. The last two business cycles, however, pale when compared with the 30% to 50% net investment outlays out of total internal funds of the previous postwar business cycles. Corporate governance thus needs to ensure increased business investment.

To effectively target investment through pension-fund activism in corporate governance, we first need to understand what has been driving the prolonged stock market boom. The answer is that the demand for stocks has been rising and the supply of stocks has been declining.

Demand for equity investment has grown as retirement income insecurity has gone up. More and more households are providing for their retirement through private institutions, in particular mutual funds, aided by legal changes, such as the introduction of 401(k)s. Retirement income security is declining because employment-related benefits are cut back to lower costs. Employer-provided pension plans cover fewer workers, and those who are covered are increasingly covered by defined-contribution rather than defined-benefit plans. While 39% of all workers had a defined-benefit plan as their primary plan in 1975, only 23% did in 1995. In contrast, the percentage of full- and part-time private-sector workers who were covered by a defined-contribution plan rose from 6% in 1975 to 23% in 1995. As workers face greater retirement income insecurity, their demand for high-yielding investments via institutional investors, such as mutual funds or pension funds, has also grown.

The rise of institutional investors has also led to a concentration of equity holdings, which has allowed institutional shareholders to actively influence how corporations are governed. Initially, sluggish performance of U.S. stocks in the 1970s was partially attributed to a principal-agent problem between owners and managers. Supposedly, managers were not working as hard as they could to increase the value of the company since their pay was independent of the company's performance. Subsequently, there has been a gradual shift to make managers' pay dependent on their company's performance by giving them stock options.

In addition, the rise of institutional shareholder activism has also led to a greater emphasis on the stock market for corporate control. In particular, underperforming companies should become takeover targets if their stock price adequately reflects their performance. However, doubt has been raised that takeover targets are actually poor-performing companies (Crotty and Goldstein 1993). Instead, both the growing use of stock options and the fear of being taken over lead managers to emphasize strategies that prioritize stock price gains over productive growth.

To ensure the long-term sustainability of corporations means to change their investment behavior so that more resources are allocated to investment and less to propping up share prices. Hence, the pressures on managers to allocate funds to uses other than productive investments need to be alleviated. As pressures originate from the stock market, they can be reduced by weakening the link between stock market performance and executive pay and by improving retirement income security for workers.

Union Shareholder Activism

Unions are increasingly active in corporate governance because they see "their members as the ultimate beneficiaries of much of the institutional money in the U.S. capital markets. They hope to leverage what has been described as 'labor's capital' or 'working capital' to better promote the interests of their constituency" (O'Sullivan 2000). The AFL-CIO considers Taft-Hartley pension funds, collectively bargained pension funds, and some public pension funds—a combined \$4.7 trillion in financial assets by the end of 1998—as a potential pool for union shareholder activism.

To evaluate the effectiveness of union shareholder activism, I proceed in two steps. First, I compare the AFL-CIO's *Proxy Voting Guidelines* with other corporate governance guidelines (see table 1): the guidelines from the California Public Employees' Retirement System (CalPERS), the Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), and the Council of Institutional Investors (CII) and the core principles of the Organisation for Economic Cooperation and

Development (OECD). This comparison shows how far U.S. trade unions intend to go with respect to corporate investment, executive pay, and retirement income security in comparison with other institutional investors. Second, guidelines are merely written words. Hence, I look at AFL-CIO-identified key proxy votes from 1998 and 1999. Only the combination of ideals and the reality of shareholder activism can serve as a basis to assess the effectiveness of pension-fund activism in changing corporate governance.

TABLE 1
Comparison of Corporate Governance Principles
and Proxy Voting Guidelines

	AFL-CIO	CalPERS	TIAA-CREF	CII	OECD
Enhance corporate investment	~	-	~	-	N/A
• Plant and equipment	N/A	N/A	~	N/A	N/A
• Stock repurchases	+	+	+	+	N/A
Unlink executive compensation from stock market	+	~	+	-	N/A
Improve retirement income security	+	-	+	N/A	~
• Retirement benefits	+	N/A	+	N/A	~
• Income security	+	-	+	N/A	~
• Job security	+	~	+	N/A	~

Notes: - indicates that the corporate governance principles are harmful to the issue at hand, ~ indicates that the corporate governance principles are neither harmful to nor supportive of the issues at hand, and + indicates that the corporate governance principles are supportive of the issue at hand.

Sources: AFL-CIO (1997); CalPERS, *Corporate Governance Core Principles & Guidelines*, 1998; CalPERS, *Domestic Proxy Voting Guidelines*, 1999; CII, *Core Policies*, 1999; CII, *General Principles*, 1999; CII, *Positions*, 1999; TIAA-CREF, *Policy Statement on Corporate Governance*, 1999; OECD, *OECD Principles of Corporate Governance*, 1999.

So far, three goals for pension-fund activism have been identified. First, a greater emphasis should be put on allocating corporate resources to productive investments. Second, executive pay should be tied more closely to the firm's real performance rather than its stock price. Third, retirement income security for workers should be improved.

Investment decisions are not viable targets for pension-fund activism due to SEC rules. Under commission rule 14a-8(c)(7), a shareholder proposal that "deals with a matter relating to the conduct of the ordinary business

operations of the registrant” can be omitted from the shareholder meeting (O’Sullivan 2000). While investment lies outside the purview of shareholders, corporate strategies that inform investment decisions do not. Further, the allocation of corporate resources to share repurchases is generally subject to shareholder approval.

Investment does not feature prominently among institutional shareholders’ guidelines. Only TIAA-CREF possesses a section on strategic planning, which suggests that the “board should discuss the strategic plan of each of the company’s businesses at least annually.” All other sets of guidelines are silent on this issue. Not so when it comes to stock repurchases. Two of the five corporate guidelines, those of TIAA-CREF and CII, include suggestions not to buy back shares above market prices, and two more, the AFL-CIO’s and CalPERS’, support such limiting measures in case of takeover (so-called greenmail payments). Importantly, the AFL-CIO guidelines are slightly weaker on stock repurchases than those of TIAA-CREF or CII (see Almeida and Weller 2000 for a detailed tabulation of proxy voting guidelines).

In contrast to investment, executive pay appears in all corporate governance guidelines except the OECD’s. The AFL-CIO’s guidelines encourage union pension-fund trustees to support measures that spread stock options among employees or to tie stock options to performance measures, such as industry indexes, or to employee compensation and benefits. Only TIAA-CREF has similar, yet weaker, requirements, which allow performance requirements tied to stock options that also consider other stakeholder concerns. CalPERS, in contrast, has no specific proposal on linking executive pay to performance measures and explicitly opposes connecting stock options with health or environmental standards. CII implicitly subscribes to the idea that improving corporate performance is best achieved if all directors are stock owners and if the majority of executive compensation comes in the form of stocks. Out of the represented five corporate governance guidelines, the AFL-CIO’s suggests the strongest restrictions on stock options as executive pay.

Retirement income security improves with better employer-provided pension benefits but also with greater income and job security. All corporate governance guidelines, with the exception of CII’s, speak to the issue of retirement income security more or less directly and more or less strongly. The OECD merely indicates that corporate governance should ensure that the rights of stakeholders such as workers, which are protected under the law, are respected. A more active, yet also more adverse, position is taken by CalPERS, which opposes linking executive pay to layoffs or to international labor standards. In contrast, TIAA-CREF supports links

between executive compensation and improved income and job security, similar to the AFL-CIO's guidelines. Overall, the AFL-CIO and TIAA-CREF provide the strongest retirement income security language in their corporate governance guidelines, as they tie corporate governance to wages and benefits and to income and job security.

The AFL-CIO's corporate governance guidelines contain the strongest language on corporate investment. In particular, it goes furthest in unlinking executive pay from stock performance and providing retirement income security.

Despite the AFL-CIO's willingness to go farther than other institutional investors in its guidelines, it still falls short in important areas. Take the example of stock repurchases as a drain on corporate resources. Since the AFL-CIO is worried about the dilution resulting from new stock issues—for example, to satisfy executive stock options—it implicitly has to favor stock repurchases up to a certain point. Second, the AFL-CIO accepts that managers' compensation should be linked to a company's stock performance in addition to other performance measures. Yet the argument that stock prices reflect economic fundamentals becomes hard to defend during a prolonged stock market bubble, where, for instance, loss-making companies can issue new shares at record prices.

Guidelines are merely pieces of paper unless they are put in practice. The AFL-CIO has hence identified key proxy votes since 1997 and surveyed fund managers about how they voted on these. Out of 10 key votes in 1997, none won a majority, whereas 4 of 40 key votes in 1998 won a majority, and 7 of 26 key votes gained majority support during the 1999 proxy season.

Table 2 provides an overview of the issues addressed in the key votes. Two of the 1997 key votes speak to the issue of executive pay. The Teamsters sought shareholder approval for performance-based executive pay at GE, and the Teamsters Affiliates Pension Plan proposed that executive stock options could not be exercised after layoffs at Mobil Corporation. In 1998, four of the AFL-CIO-sponsored votes gained majority support at the ballot box, but none of the winning votes addressed corporate investment. Two winning votes supported the redemption of poison pills at Consolidated Natural Gas and Wellman, one supported the declassification of the board at Fleming, and one opposed the creation of a dual class structure at Marriott International Hotels. A total of five proposals focused on executive pay, including three connecting executive pay to job security or income security: linking compensation to layoffs at RJR Nabisco, linking it to social criteria at Knight Ridder, and connecting it to overseas labor standards at the Limited. Two more votes addressed job and income security, namely

the proposed adoption of MacBride principles at Dun & Bradstreet and reporting on equal employment opportunities at Home Depot. Finally, six of the winning votes in 1999 dealt with the board's declassification, seven addressed poison pills, and one spoke to shareholder meeting rights. As in prior years, none of the wins was connected to investment. Most proposals that addressed investment indirectly were votes on executive pay, with one proposal at Citigroup attempting to establish a maximum ratio between the highest- and lowest-paid employee. Finally, one proposal dealt with job and income security issues alone, namely a vote to adopt the ILO's labor standards at GE, which failed in 1999 however.

TABLE 2
Key AFL-CIO Votes

	1997	1998	1999
Enhance corporate investment			
• Plant and equipment	0	0	0
• Stock repurchases	0	0	0
Unlink executive compensation from stock market	2 (0)	5 (0)	4 (0)
Improve retirement income security	1 (0)	5 (0)	3 (0)
• Retirement benefits	1 (0)	0	1 (0)
• Income security	1 (0)	1 (0)	2 (0)
• Job security	1 (0)	5 (0)	2 (0)
Total	10 (0)	40 (5)	26 (14)

Notes: Individual proxy voter statements may speak to more than one issue. Hence, the total may be smaller than the sum of all entries. The number of successful votes is noted in parentheses. Figures for 1999 are preliminary since a few votes on various actions, such as mergers and SEC decisions, were pending as this paper was written.

Sources: AFL-CIO, 1997, *10 Key Votes Survey*; Center for Working Capital (1999); Institutional Shareholder Services (1999).

There may be interesting trends emerging. First, the rise in winning votes shows that unions become more effective. Second, investment is mainly addressed indirectly as shareholder resolutions on executive pay receive more attention. Third, while executive pay proposals were used to raise retirement income issues in the past, unions increasingly separate the two. One of 10 resolutions linked executive pay to retirement income security in 1997, 3 out of 40 resolutions did so in 1998, and only 1 out of 26 connected the two issues in 1999.

Union pension-fund activism faces regulatory, legal, and financial obstacles. First, the SEC's "ordinary business" rule considered executive pay to be ordinary business until 1992, and employment practices to be so until 1998, when the SEC finally changed its rules so that "employment related practices that raise significant social policy issues will not . . . be automatically excluded" (O'Sullivan 2000). Second, union trustees are bound by the Employee Retirement Income Security Act of 1974 (ERISA) in meeting certain fiduciary duties, which are designed to protect beneficiaries from mismanagement and abuse. They may also force trustees to make decisions consistent with the economic best interests of beneficiaries and against the interests of current workers. Union trusteeship hence becomes a high-wire act. The safety net is a joint statement by the Department of Labor and the Treasury from 1989 that clarifies that acting in the best economic interest of plan participants does not mean maximizing short-term gains if long-term interests of plan participants are hurt. Third, other institutional investors are more concerned with chasing the highest short-term gains instead of actively influencing corporate behavior (O'Sullivan 2000). Hence, unions that have access to only a minority of financial assets have a hard time finding allies. Unions had access to \$4.7 trillion out of \$8 trillion in pension-fund assets at the end of 1998, on top of \$5 trillion in mutual-fund assets and \$6 trillion in equities held by households and nonprofits. Common ground with other institutional investors is crucial for wins and is found most easily if the stock price is affected directly. When Marriott introduced a dual-class share proposal in 1998, the Hotel Employees and Restaurant Employees International Union together with State Street Bank opposed it successfully (Rehfeld 1998).

Conclusion

Can unions influence corporate investment through pension-fund activism? The AFL-CIO has been willing to push a number of issues further than other institutional investors. Its main attention has been on connecting executive pay to other factors besides stock market performance or on improving retirement income security for workers. Both of these are important parts to an integral strategy to reverse corporate investment in the long run. To do so more directly, unions have to build viable coalitions with other institutional shareholders or push the legislative and regulatory agenda to widen the scope for institutional shareholder activism.

Despite the fact that unions are not winning majority support for their shareholder proposals on executive pay or retirement security issues, their votes may not be lost. Most important, issues related to corporate investment such as executive payments linked solely to stock performance or

workers' retirement income security are brought before an audience that historically has not been forced to address these issues, namely shareholders. Similarly, by actively using their financial assets, unions have more ready access to executives and can make their concerns over corporate governance known outside of the bargaining table.

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XII. BRINGING INDUSTRY BACK IN INDUSTRIAL RELATIONS STUDIES: A 20-YEAR EXAMINATION OF COLLECTIVE BARGAINING TRENDS IN FOUR INDUSTRIES

Labor Relations in the U.S. Daily Newspaper Industry 1976–1998: Preliminary Findings and Emerging Issues

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The purpose of this paper is to provide an overview of the major labor relations developments and outcomes in the U.S. daily newspaper industry between 1976 and 1998. During this time, with some exceptions, management took the offensive in wresting control from the unions. Nowhere could this be seen better than in strikes at the *Washington Post* in 1975–76 and recently in Detroit between 1995 and 1997 (Raskin 1978; Zimbalist 1979; Fitzgerald 1995, 1998; Peterson 1997b).

This paper argues that a combination of labor-saving technologies; public policies that have helped to create and nurture large, powerful, publicly traded newspaper companies; and inter- and intraunion rivalries have contributed to a number of unfavorable bargaining outcomes for unions. The paper concludes with a discussion of some important new developments and how they may bode for the future of newspaper unions.

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Industry Characteristics

The newspaper industry produces over \$45 billion of economic activity, employs over 440,000 people, and is the oldest and one of the most profitable media segments in the United States. Industry experts consider newspapers to be excellent investments¹ given their financial stability, strong cash flows, stable and predictable revenues and costs,² and general lack of competition (Picard and Brody 1997: 3, 48; Picard 1998:114; Newspaper Association of America [NAA] 1999:28).

There are about 1,500 daily newspapers in existence today, down from a stable 1,750 between 1950 and 1980. Since then, the number has dropped as a result of the closing of afternoon editions of morning papers in response to changing work and commuting habits, recessions, and a spike in newsprint prices (Picard and Brody 1997:11–12; NAA 1998:15).

Total daily circulation peaked in 1970 at 62 million and stands at roughly 56.7 million. Most dailies are small, averaging roughly 38,000 readers, and only 1% exceed 500,000. The largest 20 newspapers are morning editions (Emery, Emery, and Roberts 1996:544–45; Picard and Brody 1997:11–12; NAA 1999:16; Picard 1998:114).

The industry is characterized by either monopoly or duopoly. In 1995, 96% of the nation's dailies existed as the sole paper published in its market. Dailies face very limited competition in circulation, advertising, and content from suburban dailies, weeklies, and shoppers (Picard and Brody 1997; Busterna 1988:833; Picard 1998:112).³

The domination of group or chain ownership, originating with the birth of the Scripps McRae League of Newspapers in 1890, became more significant after World War II. For example, in 1968, 159 groups owned 828 dailies, or 47% of the total. By 1997, 120 groups controlled 77% of the dailies (Adams 1995; Emery et al. 1996:47; Lacy and Simon 1993:14; Picard 1998:115).⁴ As chains have mushroomed, the number of independent properties has fallen from 1,650 in 1920 to 300 by 1998 (Risser 1998:29). Many newspaper companies also own portfolios containing other media properties.⁵

Public Policies

The consolidation of the newspaper industry has been assisted by public policy. The first impetus came during the 1960s when the Internal Revenue Service reappraised property valuations after companies installed computer-based technologies that lowered production costs and raised profits. This made it nearly impossible for heirs of deceased publishers to meet their gift and estate tax obligations and led to the selling of 587 family

papers between 1960 and 1980.⁶ An income tax law further accelerated chain growth by creating an unintended incentive for owners to retain earnings to fuel additional acquisitions instead of paying dividends to shareholders. The combined forces of estate and gift taxes, an excess accumulation surtax, and the cost of new technology set off a selling frenzy of family-owned papers to emerging chains such as Gannett. Moreover, between 1969 and 1973, over a dozen newspaper companies went public (Neiva 1996).

A 1986 tax law change again set off a selling frenzy involving 119 properties and 73 transactions worth \$3 billion. A new record was set in 1997, when 162 dailies changed hands in deals worth \$6.2 billion, nearly doubling the previous record set in 1995 (Neuwirth 1998b; Morton 1997a). Newspaper financial analyst John Morton (1997a) describes the recent phenomenon of chains swallowing chains as “an industry approaching the final stages of ownership concentration, a process that came late to the newspaper industry.”

Public policy also has contributed to the decline of competition with the passage of the Newspaper Preservation Act in 1970. The statute affords two competing newspapers antitrust exemption in order to preserve two editorial voices in the community. The newspapers set up joint operating agreements (JOAs), under which most operations such as printing, advertising, and distribution are combined, while editorial voices remain separate. At the peak, there were 28 cities with JOAs. Twenty-nine years after the act was passed, only 13 JOAs remain, with a few more likely to be terminated in the next few years because of circulation disparities between the two papers (Busterna and Picard 1993; Albarran 1996; Moses 1999b:18). In general, market power increases as fewer JOAs continue to operate.

Technological Changes

Economists James Dertouzos and Timothy Quinn (1985:12–13), in a Rand Corporation study, note that since the early 1960s, the industry has been swept by a technological revolution that has dramatically lowered production costs by reducing the amount of labor required to compose a newspaper. Their sample of 493 composing rooms revealed a drop in employment from about 14,500 to roughly 6,900 between 1970 and 1983. As the major union representing these workers, the International Typographical Union (ITU) also suffered. Between 1970 and 1982, total membership fell from 105,300 to 77,100, a decline of 27%. Total active membership fell by 40% and the number of apprentices by 27%.

This “cold type” revolution, in which computerized typesetting and off-set printing techniques came to dominate during the 1970s and early

1980s, has also wrought skill degradation and homogenization among the crafts toward the lesser-skilled mailers (Kalleberg et al. 1987; Sleigh 1998). Microelectronics also has permitted spatial relations to change as companies geographically separate production and editorial departments (Sleigh 1998) and has facilitated the growth of clustering and online newspapers.

The Unions

Historically, most newspaper unions organized along craft or quasi-craft lines. Although technological changes have eroded craft skills, vestiges of craft unionism continue today in the form of separate craft agreements and narrow, decentralized bargaining structures. In response to lost bargaining power, unions have undergone seven successful mergers between 1964 and 1997. During this time, there also were a number of failed merger attempts involving all the major unions. For example, between 1977 and 1987, the ITU attempted five mergers before being absorbed by the Communications Workers of America (CWA).

Merger proceedings also created both internal union political conflict and interunion rivalries. This was the case between the ITU and the Teamsters: between 1983 and 1985 the Teamsters tried to take over the ITU, causing an ITU presidential election rerun, many successful Teamster raids of ITU mailer units,⁷ bitter union rivalries, and in the end, a repudiation of the merger proposal. And when printers struck the *Chicago Tribune* in 1985, Teamsters crossed their picket lines in retaliation for not voting for the merger, thus contributing to a major union defeat (Chaison 1996:32–38).

Today, three major international unions represent the vast majority of newspaper workers. The 500,000-member CWA includes about 27,000 members of the Newspaper Guild who work at 165 dailies and roughly 30,000 former ITU members. The CWA absorbed the ITU in 1987 and the Guild in 1997. These unions are now semiautonomous sectors within CWA.

The 93,000-member Graphic Communications International Union (GCIU), more prominent in commercial printing, represents roughly 10,649 workers at 275 newspapers, mainly press operators and other non-composing room personnel. The 1.2 million-member International Brotherhood of Teamsters represents roughly 20,000 workers, mainly in distribution, including a number of mailer units (Gifford 1998; GCIU 1998; Rudder 1999:61).

Major Developments and Bargaining Outcomes

Deunionization

Total newspaper employment has grown between 1975 and 1997, from 376,800 to 441,100. In between, however, employment fluctuated. After

peaking in 1991 at 485,900, industry employment has fallen by 9% (NAA 1999:28). Despite overall employment growth, union density has fallen. Current Population Survey data reveal that, after peaking at 20% in 1978, density rates dropped from 17.7% in 1983 to 10.8% in 1997. Overall, between 1975 and 1997, density rates plummeted by 39% (Kokkelenberg and Sockell 1985).

NAA reports suggest that unions currently operate at roughly 21% of the 1,669 member papers in North America (including Canada) and at 72 of the 106 (68%) North American papers with circulation exceeding 100,000 (Burroughs 1998:57). In general, unions are found in larger, big-city papers. For example, the Newspaper Guild represents workers at 41 of the nation's largest 100 newspapers and has contracts at over 90 U.S. newspapers (Dottinga 1998a:20; Newspaper Guild 1999).

Unit decertification and limited organizing efforts also have contributed to declining density rates. All of the major unions have had multiple units decertified at small and large papers owing to management aggressiveness and low union bargaining power. After fending off decertification attempts in 1995 at the *Cincinnati Enquirer* and the *Detroit Free Press* in 1998, the Guild lost a large unit in 1998 at the *San Diego Union-Tribune*, then the nation's 21st largest paper and the Guild's 10th largest unit. It was its biggest loss since 1970 and one of five newsroom decertifications in the 1990s (Dottinga 1998b:8).

Labor Disputes

Strike activity across industries in the United States has declined precipitously since 1980 (Kaufman 1992). Labor dispute trends in the newspaper industry have followed these larger strike patterns. After reaching a peak of 30 in 1978, newspaper strikes have become increasingly rare. NAA data indicate that between 1970 and 1978 an average of 25 strikes per year occurred. The 10 strikes that took place in 1979 were the fewest recorded since 1961, while the two in 1983, both lasting one day, matched 1943's total. Moreover, the absence of strikes in 1986 had never before occurred since the trade association began collecting data during the 1930s. For the remainder of the 1980s, workers struck only once a year. And since the two long-term strikes began in Detroit and Ellwood City, Pennsylvania, in 1995, not a single American newspaper union has taken to the picket line ("Strike Summary" 1980-90; "Strikes" 1997:238).

Industry financial analyst John Morton (1996: 51, 56) comments on this decline: "Union power at newspapers began to wane . . . as the computer-driven revolution in newspaper technology swept through the industry in the 1970s and 1980s. . . . The bitter truth for the strikers is that they have

been replaced by fewer workers than even management had thought possible, replaced by technology and by a decisive shift in the balance of power.”

Pay-Related Issues

The decline of union bargaining power also can be observed through pay data, including the Bureau of Labor Statistics’ establishment wage surveys. BLS data show that between 1976 and 1997 average nominal wages for newspaper production workers rose from \$6.14 per hour to \$12.90, a gain of 110%. Real wages (in 1995 dollars), however, fell over the same period from \$16.45 to \$12.25, a decline of 25.5%. Looked at another way, the ratio of the average newspaper production worker’s wage to that of the average manufacturing worker fell from 1.18 in 1976 to 1.02 in 1991 and to 0.98 since 1996. Real average top minimum weekly wages (in 1995 dollars) for reporters and photographers fell 14%, from \$829.20 in 1977 to \$708.00 in 1997, although nominal wages grew 126%, from \$329.72 to \$585.70, over the same period (Newspaper Guild 1999).⁸

With unions on the defensive, some newspaper companies have attempted to limit pay growth and control wage determination by implementing merit pay plans, especially in newsrooms. These plans seek to codify newsroom productivity quantitatively under a factory model of production. The Newspaper Guild has a long history of negotiated merit pay to complement minimum “livable” salaries, but it objects to the substitution of merit raises for across-the-board increases and unilateral management control (Newspaper Guild 1998:22).

The Guild recently won a few significant court cases that preserved its role in wage determination. The most recent case involved two California properties: the *Sacramento Bee* and the *Modesto Bee*, both owned by the McClatchy Company. The dispute arose in 1986 and was not decided until 1998, when the U.S. Supreme Court refused to hear the company’s appeal of a 1997 court decision. The appellate court found McClatchy in violation of the law for not providing the union with information necessary to meaningfully challenge the plan during contract negotiations (BNA 1998; Childs 1998; Hathaway 1998). Despite labor’s legal victories, merit pay continues to be a highly contentious issue in newsrooms around the country.

The Rise of Long-Term Job-Security Contracts

The implementation of new computerized production processes in composing rooms during the 1960s and 1970s led companies to demand concessions from unions in work processes and work rules, including the manner in which labor was deployed. In return for complete control over the implementation of new processes and labor deployment, some unions,

notably the ITU, received lifetime job guarantees for select members, opportunities for retraining, and early retirement incentives specified in long-term agreements.

The New York City ITU led the way in 1974, when it signed an 11-year deal with the *New York Times* and the *Daily News*. Similar long-term contracts followed in Minneapolis (1975), Dayton (1976), Buffalo (1977), and Baltimore (1980), among others (BNA 1980). By the early 1980s, the ITU reported that 13% (about 127) of its 980 contracts contained some form of absolute job guarantee, while the American Newspaper Publishers Association found 120 job-security contracts to exist. Its survey also showed a tapering off of such language in new agreements (“Annual Report” 1980; Newsom 1981). Subsequent long-term deals have been either negotiated or renegotiated and have been extended to include other units. Examples include those at the *Minneapolis Star Tribune*, *Cleveland Plain Dealer*, and both papers in San Francisco, to name a few (Fitzgerald 1996; “Labor Statesmanship” 1996; Sleigh 1998). Despite the existence of job-security contracts, an older, protected, unionized workforce continues to shrink from additional termination incentives and retirements.

Emerging Issues in Newspaper Labor Relations

A host of new issues have emerged during the mid-1990s that have the potential to either continue union decline or revive newspaper unions, depending on how the parties respond to them. Some of the main factors that drove changes in labor relations since the 1970s—technological change, public policies, and union behavior—continue to be important.

Shared Jurisdiction

The continuing advances of new technologies have altered traditional union jurisdictions. To maximize production efficiencies, some contracts now contain shared jurisdiction language that permits companies to establish new work areas, such as digital imaging, technical services, and pre-press, where workers from different unions work together doing similar tasks. Typical units involved are printers, engravers, and newsroom personnel. Specific terms vary, but contracts typically specify cross training, new overtime rules, and dispute-settlement and shift-selection procedures. Pay and benefits usually remain the same (NAA 1997b:3; “Labor and Personnel” 1997). Implications for unions include widening bargaining structures and more mergers.

Online Newspapers

The advent and growth of the digital newspaper has created a host of new, immediate concerns, including union recognition and jurisdiction,

employee status, and ownership and compensation for reuse of work. In the long run, new bargaining structures, new organizing, and the merging of unions outside the newspaper industry may follow.

In 1994 there were 20 online editions; in 1997, there were 1,500 worldwide. By 1999, there were 2,799 online newspapers in the United States. Knight Ridder has the most involved operation, with 45 Web sites and 400 employees (Sullivan 1999). At present, the Newspaper Guild has approximately 20 agreements covering online workers, all where the Guild has representation rights (Rudder 1999:61).

From Independent Contractor to Union Employee

The use of independent contractors in the newspaper industry is concentrated in distribution, where, since 1996, the number of adult carriers has surpassed the number of teenage carriers (Neuwirth 1998a; Strupp 1999). The vast majority (94%) of home deliverers are independent contractors—mainly adults, who buy and resell newspapers (Potter 1994; Gyles 1999:45). As a result, unionization in the carrier force is very rare.

There has been some attempt by the Guild to organize part-time “stringers,” whom newspapers claim are independent contractors. The most significant and successful of these organizing efforts involved 175 suburban correspondents and photographers at the *Philadelphia Inquirer*. Protesting low pay and benefits and full-time workloads, these workers finally won representation rights and their first contract over a 10-year period, between 1988 and 1998. The bargaining unit, however, is separate from the Guild’s main 1,200-member unit at Knight-Ridder’s Philadelphia Newspapers, Inc.⁹ (Garneau 1994; Caparella 1998). Only continued organizing of stringer and online personnel will keep the Guild viable in the age of the Internet and corporate flexibility.

Geographic Clustering

Clustering involves the geographic concentration of newspaper functions to enable newspaper companies to reduce operating costs, including labor; consolidate administrative functions, such as accounting of employee benefits; and improve advertising revenues by offering large retailers regional buys and higher circulation (Morton 1997b). There are about 125 clusters in existence, involving over 400 properties, or 25% of the nation’s dailies. Of the 545 newspaper transactions that have occurred since 1994, 70% involved small-town papers, while nearly 40% of all small papers have been sold to establish better clusters (Bass 1999:66, Walton 1999:73).

Clustering presents unions with new and cheaper organizing opportunities as traditionally nonunion smaller newspapers are consolidated into

larger regional properties. But clustering also poses big challenges, as evidenced by ongoing disputes in Long Beach and Monterey, California, and to a lesser extent in Wisconsin.

In the first two cases, MediaNews and Knight-Ridder added newspapers to their growing clusters in the Long Beach and Monterey areas, respectively. Both purchases were asset sales, which both reduce tax obligations and permit the purchaser to abrogate union contracts under certain conditions. In Long Beach, MediaNews cut the salaries of most editorial employees by 20% and dismissed 200 non-editorial employees (Neuwirth 1997; Bass 1999). Knight-Ridder set aside all union contracts and fired the entire staff of 235 full- and part-time workers, including 160 Guild members. All were invited to reapply for their jobs at the same pay but with reduced benefits, night differentials, and job security protections. The company demanded staffing flexibility by using more stringers and changes in staff assignments (Stein 1997; Peterson 1997a). At present, no collective agreements have been signed at either the *Long Beach Press-Telegram* or the *Monterey County Herald*.

In Wisconsin, the Canadian-based Thomson chain brought together union and nonunion newspapers in a single cluster. The move created both invidious wage and work rule comparisons and more difficult labor relations. For example, union editorial workers in Sheboygan with five years' experience earn 33% more than nonunion workers in Oshkosh, a paper with similar circulation (Bass 1999:75). Without organizing nonunion properties, unions will face employment cuts and cheapened contracts.

Summary, Conclusions, and the Future of Newspaper Unions

Since the 1970s, the combined forces of technological change, the profit-seeking behavior of public newspaper companies, federal tax policies and antitrust laws that favor public newspaper companies, and internal union problems have dramatically shifted the balance of power away from the unions in favor of newspaper companies. But a set of new issues, rooted in technological change and public policy, has emerged that can either continue the process of deunionization or stimulate union rebirth. With over 300 collective agreements set to expire by 2001 (Rudder 1999:60), the future of unionization may be found in these upcoming negotiations.

Endnotes

¹ During the 1980s, operating profit margins averaged 17% and peaked at 22% during the middle of the decade. Between 1993 and 1997, operating margins at public companies grew from 14.7% to 19.5%. Margins increased to slightly over 20% for 1998 (Liebeskind 1999:8; Morton 1999).

² Advertising accounts for between 70% to 85% of operating revenue, while circulation brings in between 15% and 30%. Newspapers receive roughly 27% of all dollars spent on advertising, the largest of any media sector. The largest single expenses are mechanical (13–15%) and newsprint (20–35%; Picard and Brody 1997:49; Picard 1998: 118–19).

³ Research shows that limited competition exists for advertising dollars between daily papers and other media such as radio, television, and cable. In general, newspapers face the most intense advertising competition from media forms that can provide the greatest market penetration, such as total-market-coverage papers and direct mail (Picard and Brody 1997).

⁴ The six leading newspaper companies in terms of daily circulation are Gannett Co. (5.99 million), Knight Ridder (3.87 million), Newhouse Newspapers (2.78 million), Times Mirror Co. (2.37 million), Dow Jones & Co. (2.31 million), and the New York Times Co. (2.25 million). Since its birth in 1997, Community Newspaper Holdings, Inc., (Birmingham, Alabama) has become the largest company in terms of the number of dailies. Its 95 properties are mainly small-town newspapers. Gannett had 74, MediaNews had 51, and Thomson had 50 dailies in 1998 (NAA 1999:19; Moses 1999a:28).

⁵ See <http://www.cjr.org/owners> for a list of newspaper companies and their portfolios.

⁶ These taxes amounted to roughly 70%.

⁷ Between July 1986 and March 1987, mailers in 19 cities decertified ITU units and joined the Teamsters. In total, about 3,000 workers left the ITU (“Growing Number” 1987).

⁸ The Guild reports average wages only. Moreover, many journalists earn more than the specified minimums, but these data are not readily available.

⁹ Knight-Ridder changed its corporate name to Knight Ridder in 1998.

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Airline Industrial Relations Following Deregulation

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It may seem paradoxical that at the conclusion of an analysis in which we tentatively demonstrated a positive regulatory impact on union power, we reverse direction and predict that deregulation also may provide a favorable environment for unions. I see nothing inconsistent with our prediction, for it seems to me that the industry and unionization characteristics that developed over 40 years of regulation have created a bargaining environment that should not change substantially in the near future (Hendricks, Feuille, and Szerszen 1980:80).

Despite the turbulence of the two decades following deregulation, the airline industry's unions have exhibited relatively remarkable staying power. Unlike Hendricks, Feuille, and Szerszen (1980), I am not willing to argue that the environment has been exactly favorable to unions. On the other hand, these authors demonstrated tremendous foresight to recognize that the institutional characteristics of the industry provided a foundation for sustaining the relative viability of labor in a period when labor has not fared well in general. The descriptions in the popular press of concessions and strikes tend to draw attention away from the general evidence that suggests that the industry's labor movement is comparatively strong. This paper first presents support to back up this claim of relative strength and then explores possible explanations for labor's relative viability. Finally, challenges facing airline labor's future are addressed.

Railway Labor Act and Election Activity

Part of the strength of labor in the airline industry stems from its coverage under the Railway Labor Act of 1926 (RLA). While deregulation represented a significant environmental shift for the industry, the RLA has remained constant. Mutually drafted between railroad management and labor, the law was designed to settle agreements voluntarily and without compulsion for the primary objective of preventing service interruption.

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The law ensured employees' right to organize and to assist in the prompt settlement of interest and grievance disputes (Rehmus 1976). Thus, the history of this legislation differs significantly from the National Labor Relations Act (NLRA) in that labor and management jointly agreed that avoidance of service disruption was paramount.

One possible source of strength in the airline industry is that under the RLA, union elections are held on a strict craft or class basis. These crafts can be defined quite narrowly, such that election units may be as small as six dispatchers. Thus, among the employees a strong "community of interest" is more likely to exist than under the NLRA. The importance of the community of interest concept does not appear to have been lost on unions such as the Aircraft Mechanics Fraternal Association (AMFA), who recently challenged the International Association of Machinists and Aerospace Workers (IAM) and won representation rights at Northwest and Alaska. The AMFA's campaign centered on the advantages of being a member of a craft rather than an industrial union (Aircraft Mechanics Fraternal Association 1999).

Table 1 summarizes election activity for flight attendants, mechanics, and pilots. In the early regulatory period (1972–77) there were no new industry entrants; thus, there were only 16 representation elections, and unions won 15 of them. As new companies entered the industry in the early deregulatory period (1978–84), election activity increased to 48 elections over six years, but the union win rate dropped to 81%. The trend of increased number of elections but decreased success rate continued over the period of 1985 to 1995. Nonetheless, airline union success rates of 64% still greatly exceed the 49% union win rate in NLRB elections over the same time. However, the union success rate in NLRB elections did increase slightly from the early 1980s to the 1990s, while airline union win rates markedly declined. This declining airline union win rate may be a function of the increasing number of elections, while the number of NLRB elections has been decreasing over time.

TABLE 1
Election Activity for Flight Attendants, Mechanics, and Pilots

Years	Airline elections	Airline union win	Airline new certification	NLRB election wins by union
1972–77	16	94%	13%	52%
1978–84	48	81%	33%	46%
1985–95	128	64%	38%	49%

Sources: Airline data from National Mediation Board (1972–95). NLRB data from Masters (1997).

A second source of union strength in the airline industry is that independent unions and challenge elections are relatively common. Table 1 illustrates that in recent years the majority of elections were not new certification elections but rather challenge elections of an incumbent. With the exception of the Air Line Pilots Association (ALPA), no other union in the industry clearly dominates a craft. Even with the ALPA having organized pilots at over 50 airlines, independent unions still represent pilots at major carriers such as American and Southwest. The IAM and the International Brotherhood of Teamsters (IBT) typically organize airline mechanics; however, as noted earlier, the AMFA presents a viable threat. A number of unions, including the Association of Flight Attendants, IBT, the Transport Workers Union, and an assortment of independent unions, represent flight attendants. Thus, this plethora of unions in the industry suggests that even the dominant airline unions must consider that if they fail to adequately represent workers, their membership has credible alternatives. This competitive threat may motivate these unions to remain vigilant in their representation of existing members.

Union membership in the airline industry also remains relatively high. Hirsch and Macpherson (1995) estimated industry unionization levels to be 39.5% in the early 1990s, down from 50.7% from the 1970s. This decrease represents a 22% decline in percentage of workers organized. By contrast, construction was 21% organized in 1990 and experienced a 44% decline in percentage organized over the same time period (Masters 1997). The public sector represents the only other industrial sector with unionization levels near the airline industry levels, at 37% unionized.

Wage Outcomes

At the onset of airline deregulation, economists typically argued that it would lead to an erosion of union power that would be reflected in wages (Ehrenberg 1979). Transportation regulation had essentially restricted entry into the industry and controlled pricing. The government assigned routes and set prices based on a cost-plus pricing model. Thus, the airlines had few incentives to resist union wage demands. Deregulation then removed barriers to entry and allowed carriers to establish their own fares. The argument was made that new entrants would generally compete on price. Thus, the entrants would put pressure on the former trunk carriers to reduce wages in order to remain competitive because wage costs are about a third of total costs.

Clearly, new entrants have entered the industry, and many carriers have exited or merged with existing carriers. In 1972 there were 36 certificated route air carriers, and in 1995 there were 68 carriers classified as majors,

nationals, and large regionals. Only 6 of the 12 majors in 1995 were part of the 12 regulated trunk carriers. Further, it is difficult to dispute that competition in the industry has shifted to price away from service. In an industry where profitability has always been marginal, fare yields have dropped by almost 50% (Air Transport Association 1999). In the early 1990s a vast majority of firms in the industry were operating in the red, although profitability began to increase by the mid-1990s. At the same time, the industry has more than tripled in revenue passenger miles flown and increased load factors by over a third.

Thus, increased competition and focus on cost cutting led to demands by carriers for concessions. In the early deregulatory years (1979–88), concessions took the form of wage freezes, two-tier wage scales, or direct wage cuts. Slightly over half the concessions were in the form of two-tier wage scales. Unions would agree to these cuts because they did not affect the employees they currently represented. However, these cuts were of dubious financial value to carriers in that they did not reduce wage costs until carriers added employees. As Walsh (1988) observed, carriers may have used two-tier wage concessions as an opportunity to alter the labor relations structure. Supporting this contention, Thomas, Officer, and Johnson (1995) found that the stock market responded far more favorably to wage cuts than to two-tier wage scales. Thus, two-tier wage scales were potentially a rather ineffective concession. Further facilitating their demise was the fact that at large, growing airlines such as American, the lower-scaled (B-scale) employees were becoming a sizable majority within the union (Petzinger 1995). The B-scale workers put pressure on the union to restore wages to a single scale. Thus, by the beginning of the 1990s, many of the two-tier wage scales were being phased out.

The question remains what the net effect of these concessions is upon wages. In general, most studies have not found significant earnings declines in the airline industry in the early regulatory period (e.g., Hendricks 1994). However, more recent research finds significant declines for pilots and flight attendants but not for mechanics. Two studies generally concur that pilot earnings have dropped somewhere in the range of 12% to 20% by the early 1990s (Crémieux 1996; Hirsch and Macpherson 1995). However, there is a relatively large disparity in these authors' estimates of flight attendant declines. These range from 15% (Hirsch and Macpherson 1995) to 39% to 65% (Crémieux 1996). This large disparity may be partially attributable to methods. However, deregulation roughly coincided with changes in employment practices that allowed men into the occupation (1971) and lessened restrictions on marriage (1968), pregnancy (early 1975), and age (1975; Crémieux 1996). These factors may have further confounded flight

attendant earnings by increasing labor supply and driving down wages farther than deregulation would have alone. Further, the Association of Flight Attendants (AFA) spun off from the ALPA in 1973. This move may have also served to weaken the union as indicated by Crémieux's (1996) insignificant union coverage coefficient on flight attendant wages. In sum, the evidence suggests that mechanics earnings were not significantly affected by deregulation, pilots' earnings declines were modest, and flight attendants may have experienced the greatest declines, but the declines may have resulted partially from other factors.

The preceding earnings estimates are for the late 1980s and early 1990s, when airlines were operating at a loss. By the early 1990s, most airlines were in a dire financial position. About the only profitable airline in the country was Southwest. Three major carriers, Eastern, Pan American, and Piedmont, had ceased to exist. TWA and Continental were in and out of bankruptcy. Thus, the remaining carriers argued that they needed wage relief for survival. Unions agreed to grant concessions but the quid pro quo for this relief became employee ownership and control. In July 1994, United Airlines put into place the largest ESOP ever. Wage cuts were exchanged for a 55% ownership stake in the company by mechanics and pilots. Employees at TWA and United were granted 45% and 30% stakes in their respective companies. Southwest pilots agreed to a five-year wage freeze in exchange for stock options and profit-sharing bonuses. US Air gave all employees a 20% share of common stock and board representation in exchange for a 12.9% cut in wages and work rule changes. A number of other carriers, including Delta, Federal Express, and UPS, have adopted profit-sharing programs as well (Air Line Pilots Association 1999).

More recently, profitability has returned to the industry. Thus, airline employees could be realizing the benefits, in the form of increased compensation, of participating in profit-sharing and ESOP plans. This compensation over the last five years may offset earlier estimates of wage declines.

Challenges for the Future

Globalization of the industry represents one of the biggest threats to American airline industrial relations in the future through "open skies" agreements with foreign countries, code-sharing arrangements with foreign carriers, and foreign-based domiciles in which American carriers employ host-country employees. One fear among labor unions is that these arrangements will lead to a loss of jobs to foreign carriers and employees. Furthermore, unions in both domestic and international code-sharing arrangements are concerned that the code-sharing partners will use this arrangement to whipsaw their respective unions. In response to this trend,

some pilots' unions have begun to form their own alliances for the purpose of information sharing and the protection of their professional interests (Allied Pilots Association 1999).

A second threat to labor remains in reorganization of the existing airlines. The American Airlines pilot sick-out of early 1999 was in response to the acquisition of Reno Air and the "alter ego" status of their pilots. Much like the globalization issue, this threat concerns the code-sharing arrangements and other strategic alliances among major airlines and their regional counterparts. The fear of the unions is that the management at the major airlines can switch business to the regional carrier to reduce both labor and operating expenses on short-haul flights and further erode the wage base in the industry. To combat these activities and the potential for management to whipsaw the unions at member alliances, cooperative organizations for the purpose of information sharing and the protection of their member unions are also being formed among domestic unions as well.

Perhaps the greatest threat to airline labor is simply profitability in the industry. Airline profit margins have always been small. Most of the growth in the industry has resulted from tapping the elastic portion of the product demand curve that is extremely sensitive to price and income. Further, the cost structure of the industry comprises three major facets: large capital expenditures, fuel, and labor. Thus, the first two costs are essentially given in the short run, leaving labor to absorb economic swings. The move to profit sharing and ownership in the industry does mean that a portion of these swings (both up and down) are directly absorbed by labor. Thus, union wages may be threatened should the economy decline.

Conclusion

The point of this paper is to provide evidence that labor in the airline industry remains strong. Unionization is at relatively high levels, and unions continue to successfully organize and reorganize. The threat of independent unions helps to keep incumbent unions focused on servicing their membership. With the exception of flight attendants, wages have not declined as much as many economists forecasted.

The future of the airline unions may rest on their ability to work together while remaining a threat to one another. This tension results because labor may have derived part of its strength from union competition. However, management can use this competitive threat to pit unions against one another. Past research has found that airline unions have not generally worked together (Walsh 1994). A new form of alliance between competing unions representing the same craft across carriers may provide a feasible option for combating the shift of work to lower-paid employees within the

code-sharing alliance. In the interim, unions in the industry remain relatively strong and credible forces with which to be reckoned.

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The Concentration of Commercial Aircraft Manufacturing: Examples of Its Implications for Employment and Productivity

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Introduction

During the last 50 years there has been a significant trend toward mergers and consolidation of large-scale manufacturing firms in the United States and internationally. Examples from the auto industry include the recent merger of Chrysler and Daimler-Benz, and in aerospace, the acquisition of McDonnell Douglas by Boeing. In economic theory, takeovers or threats of takeovers can be seen as a way to transfer wealth from unionized workers to shareholders (Chemla 1998:28).

Perhaps no industry has undergone greater merger and consolidation activity than commercial aircraft manufacturing in the United States. For example, immediately following World War II, there were 15 separate firms producing large-scale commercial aircraft in the United States (Golich 1992), but by 1999 there was only one. There are significant barriers to entry, and these costs are large and growing. The launching cost of a new aircraft line has gone up more than 65 times from the early 1950s through the 1980s in constant dollars (Taneja 1980; Golich 1992). The industry is of special interest since it is the second largest employer of production employees (with about 382,000 in 1990) and is the largest exporter of manufactured goods.

The sector is characterized by huge investments in capital, substantial research and development, and long product development periods that sometimes exceed a decade from the research and development stage to the rollout of the final product. Also, the product cycle is long, frequently

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exceeding 20 years. The assembly of the final product, which is the primary contribution of the firm, includes elements of mass production and of a customized product. Although the assembly process is similar across planes, each section of the commercial aircraft has unique elements specific to the final customer. Labor costs as a percentage of total value added are low, but hourly earnings of production workers are more than 40% above the average wage in manufacturing, resulting in low voluntary quits, and the industry employs a substantial number of scientists and engineers (Kleiner, Leonard, and Pilarski 1999). The ratio of the average wage of employees in aviation manufacturing to the average wage in manufacturing has increased from 1.12 in 1949 to 1.42 in 1998 (BLS 1999).

Traditionally, this industry has been one of the most highly unionized manufacturing industries in the United States, with almost 30% of the employees belonging to unions in 1998 compared with an average of 17.5% in manufacturing (Hirsch and Macpherson 1999). The industry is represented by the International Association of Machinists (IAM), which has the largest number of members in the industry; United Automobile Workers (UAW), which represents employees at some Boeing plants; and the International Union of Electrical Workers (IUE), which is involved in bargaining through General Electric's aircraft engine group (Bluestone, Jordan, and Sullivan 1981). Overall, the industry has been characterized by highly acrimonious labor relations that have resulted in large numbers of strikes since World War II (Erickson 1994). During the 1950s the industry averaged more than 20 strikes per year, but during the late 1990s the number of strikes was between zero and two annually. This reflects in large part the increasing concentration of the industry. There has also been a decline in the level of acrimoniousness of labor relations as both labor and management have become committed to policies of total quality management with higher levels of employee involvement and unions have become reluctant to use their strike weapon.

A major factor in labor relations in U.S. commercial plane manufacturing has been increased international competition in the form of Airbus, a foreign manufacturer, which has forced the one remaining U.S. firm to hold wages down or attempt to increase productivity through the collective bargaining process to maintain jobs. However, relative employment in the industry has been increasing. For example, in 1949 1.86% of all manufacturing employment was in aircraft assembly and manufacturing, but by 1998 the number had increased to 2.79% (BLS 1999). In large part, this is due to the robust growth in air traffic, which has increased by an average of 10% a year for the last 50 years (various years' data from IACO, United Nations). The structure of the U.S. industry has encouraged American firms to look

toward acquiring foreign firms as a way of entering this lucrative market without paying the high entrance costs of starting a new line of aircraft.

Given these industry characteristics, the main purpose of this paper is to analyze two recent examples of increased concentration through mergers and acquisitions and to examine what effect it has had on employment, and in one case, labor productivity of the acquired company. These are two of the key elements that influence outcomes of any collective bargaining process. In examining employment, we focus on a recent acquisition of an American commercial aircraft firm we call Big Plane (BP) for confidentiality and compare it with an acquisition of a European firm by an American aircraft manufacturer. Because of confidentiality requirements in obtaining and using detailed plant-level data, we call this second case Small Plane (SP). We summarize our results and present some implications for unions, management, and policy makers who are concerned with the impact of mergers on employment and labor productivity as a basis of future negotiations.

Employment Effects of a Takeover

A major concern of unions, management, and policy makers has been the effect of takeovers and consolidations on employment. For example, during the late 1990s there was one major takeover of a U.S. commercial aircraft company. This was done in large part to consolidate production and to remove a major competitor from the market. For labor unions, it involved dealing with the merger of union contracts, seniority rights, and work rules for two major national unions and their local affiliates. For management, the task was to combine two different corporate cultures that placed different values on the discipline and monitoring of employees (Kleiner, Nickelsburg, and Pilarski 1995). The U.S. organization that was taken over, BP, had its major commercial lines discontinued, and some technical support and professional personnel were moved to the acquiring firm's headquarters, but employment at the headquarters and at their other plants remained stable. At the acquired firm the number of production workers was greatly reduced, and the union's bargaining power was diminished as cutbacks occurred. Employees in the company saw this decline in employment, and they perceived that management was unreasonably tough and cared little about them or their working conditions. As a consequence, the professional engineers in the merged firm voted to join a union and started the collective bargaining process during 1999.

A second takeover provides an interesting contrast to this American example. In this case the merger involved an American firm acquiring a European commercial aircraft company. In this case, the acquiring firm

wanted to make the European firm more productive and reduce costs by increasing labor productivity through American-style management practices, by renegotiating the labor contracts, and by entering the new European Union (EU) market for planes. The firm being acquired was unionized and also had to follow EU labor regulations on “redundant workers” who may have been involved in large-scale layoffs. The rules within the EU require significant advance notice and large severance-pay packages for terminated employees in addition to guarantees provided in the collective bargaining agreement, which also may retard the ability of the firm to terminate workers.

Table 1 provides information on the production employment effects on the firm being acquired in both cases, using employment by year starting two years before to two to three years after the takeover. The results show that production employment dropped in both firms that were being taken over. In the U.S. case, the takeover of BP, employment fell by 5,130 production employees, or 47%. In large part, this occurred because the major production lines were discontinued. In the second case, the takeover of SP, employment fell by 597 production employees, or 20%. A major goal of the takeover of SP was to improve the productivity of the workforce and to introduce a new jet engine product line that would have ready access to EU airline markets. On closer examination of the table, we see that employment at SP was declining prior to the takeover, in contrast to BP, where employment was growing. In the second year following the takeover, employment at SP started to grow. In the third year following the takeover, employment at SP grew by more than 500 employees. The difference in employment between the two mergers largely reflects the different reasons for the merger and the ability of firms operating in the United States to discharge employees without going to works councils for authorization. In addition, there were weaker labor contracts on large-scale layoffs and lower unemployment insurance costs for BP.

TABLE 1
Employment Effects on the Major Plant Acquired

	Employment in U.S acquisition (BP)	Employment in European acquisition (SP)
2 years before	10,980	3,032
1 year before	11,900	2,569
Year of merger	12,370	2,122
1 year after	9,900	1,705
2 years after	5,850	1,933
3 years after	—	2,435

Do Mergers Affect Labor Costs and Productivity?

Major reasons for the takeover of the European manufacturer SP by the American firm were to increase the productivity of the organization and “turn it around” to make it profitable. Through the collective bargaining process, the firm could obtain new work rule concessions to raise productivity, gain wage and benefit give-backs, or both. In the case of SP, new policies by the acquiring company included more disciplining and monitoring of the workforce under the contract, which would presumably result in higher levels of labor productivity. To test whether this was the case for this merger, we specified a standard time-series model of labor productivity for aircraft assembly, using data on planes assembled and corresponding monthly data (Kleiner, Leonard, and Pilarski 1999).

Table 2 shows our results. Our data measures production of commercial-class aircraft from October 1993 to March 1999 for 107 assembled planes. Each unit is standardized because the quality of each aircraft is monitored by pilots, who must fly the aircraft through rough weather; government agencies, who rigorously test the product for safety; and the customer, who has paid several millions of dollars for the plane and must certify acceptable delivery. In columns 3 and 4 we show the means and standard deviations of the main variables in the model. The dependent variable for our analysis is the logarithm of the ratio of actual hours per plane to the planned number of hours per plane. The planned number is the figure that operation managers thought would be the number of hours of assembly under ideal conditions, and the actual number is the number of standard labor hours allocated to each plane. We also estimated this relationship using the logarithm of actual hours as the dependent variable and planned hours as an independent variable with the controls listed and found qualitative results similar to those presented in table 2. These estimates are available from the authors. Planned production is estimated approximately two years in advance of actual production. We included parts shortages per month during the production of the aircraft measured by the logarithm of the number of unavailable units. We assume that shortages would reduce productivity since the employees must wait until the part arrives during the production process. Typically, an important variable in production analysis is the learning curve, measured by the number of standardized hours since the beginning of the production of this line of aircraft and the logarithm of that value squared. Since the plant we examined produced both propeller and jet versions of the same aircraft during the period we analyzed, we added a control for the type of craft produced, because jet aircraft assembly takes considerably more hours. Our key

experimental variable is the date of the takeover of SP by the American firm. We measured this variable as a dummy, taking the value 0 before the takeover and 1 after the takeover. We also used standard econometric controls in time-series analysis, such as a dummy value counter, the lag of the dependent variable, and controls for first-order autocorrelation in column 1, and we dropped the lag of the dependent variable in column 2 because of the high collinearity with the learning curve.

TABLE 2
Key Variables and the Impacts on the Logarithm of Actual Hours/Planned Hours per Plane in the Principal Plant ($N = 107$ assembled planes)

Variables	1 AR(1) coefficients ^a	2 OLS coefficients ^b	3 Mean	4 Standard deviation
Actual average hours per plane			18,166.06	11,254.12
Planned hours per plane			17,743.66	11,865.97
Parts shortage (counted parts per plane)			623.64	647.24
Constant	-1.30 (9.13)	7.26* (3.39)		
Log parts shortage	-0.01 (0.01)	0.02 (0.02)		
Time trend	-0.00 (0.00)	-0.00* (0.00)		
Log learning curve	0.34 (3.26)	-2.81* (1.26)		
Log learning curve squared	-0.02 (0.29)	0.27* (0.12)		
Lag of the dependent variable	0.47* (0.11)			
Jet (dummy)	0.27* (0.03)	0.24* (0.03)	0.03	0.17
Takeover (dummy)	0.04* (0.02)	0.06* (0.02)	0.46	0.50
R^2	.65	.48		

^a The regression standard errors are in parentheses with corrections for first-order autocorrelation.

^b The regression standard errors are in parentheses. This OLS excludes lag of dependent variable due to the collinearity between lag of dependent variable and learning curve.

* Significant at the 95% confidence level.

Our results are consistent with much time-series analysis of labor productivity. We find that jet aircraft take more hours to assemble and that the learning curve is significant when the lag of the dependent variable is dropped. In our analysis, the takeover variable is statistically significant:

following the merger, productivity in the plant dropped between 4% to 6%, depending on model specification. However, as part of the merger, the union gave large concessions to management in the form of wage reductions and major pension give-backs that greatly reduced unit labor costs. From the company estimates, unit labor costs from two years before the merger to two years after the merger were reduced by more than 33%, which likely increased the profitability of the company. Although the plant suffered from reduced labor productivity, unit labor costs fell even more dramatically, leading to a suspected rise in profitability, which is consistent with some other firm-level analyses of the potentially complex relationship of productivity to profits in manufacturing (Freeman and Kleiner 1998:46).

Implications of the Results

A major feature of commercial aircraft manufacturing has been the increased concentration of the industry over the last half century along with dramatic growth in the demand for the product. This concentration has coincided with greater employment in the industry, fewer strikes, higher relative wages, and relatively more unionization. Examining the effects of two recent mergers, one in the United States and the other in Europe, we find varying outcomes that depended on the purpose of the takeover. Our results show that the company being acquired suffered dramatic declines in production employment in the United States, but in the U.S. takeover of a European firm, the declines were smaller and employment started to grow. Since the American firm was taken over in large part to reduce a major competitor, it is not surprising that employment fell after growing in the years before the takeover. Although initial attempts to raise productivity were unsuccessful, through collective bargaining with the union and works council, the U.S. firm in the SP case was able to reduce unit labor costs and enhance potential profitability.

Since mergers of the kind discussed in this paper must have government approval and often labor's consent, regulators should be aware of the potential employment, productivity, and compensation effects of concentration in large-scale manufacturing. Our results show that employment is likely to decline, but it is dependent on the purpose of the merger. Further, the estimates suggest a decline in productivity, but unit labor costs decline even further. These results occur in an industry that is experiencing rapid growth in demand for the product and overall employment growth. Although our example of just two firms is certainly not enough to be conclusive, it does suggest that public policy makers should at least examine the potential effects of mergers on employment and productivity before allowing even greater concentration in other large-scale manufacturing industries.

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Recent Developments in U.S. Maritime Collective Bargaining

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The U.S.-flag oceangoing maritime industry has seen dramatic changes in collective bargaining since 1980. This paper summarizes the state of unions and collective bargaining in the industry prior to 1980. Then the changes in the 1980s and the 1990s are presented and analyzed.

Early in the 20th century, the U.S.-flag merchant marine employed workers whose terms and conditions of employment were among the worst in American industry (Levinson 1966:134). During the 1930s, the seagoing maritime industry became almost completely unionized. Collective bargaining in this industry has long reflected a multiplicity of unions divided along occupational, geographic, and other lines, and a multiplicity of employers (Kilgour 1975:11).

By the early 1950s, the oceangoing U.S.-flag maritime industry was a paradigm of strong unionism and strong collective bargaining relationships. The industry was almost completely unionized, including employees who were clearly managerial (licensed deck and engineering officers). Very strong pattern bargaining was the rule, with settlements that generally exceeded the widely followed automobile pattern.

While U.S. ocean-borne foreign trade grew dramatically during the postwar period, the fraction of that trade carried in U.S. vessels declined. In 1950, U.S.-flag vessels carried 42% of the United States' ocean-borne commerce; by 1997, that total was down to 3.9%. Whereas in 1973 there were 330 U.S.-flag commercial vessels in foreign trade, there are currently 101 (*Journal of Commerce [JOC]*, November 5, 1999). The result has been a precipitous decline in jobs for seafarers (Roger 1983:102-3).

One result of strong unionism in the maritime industry was that crew costs became extremely high by the standards of most other international fleets. This reflected three related issues: wages and benefits per employee, work rules, and staffing levels. U.S.-flag seafarers had high base rates of pay. In addition, the 24-hour-a-day nature of ship operation resulted in high overtime earnings, sometimes adding as much as 50% to base pay (Gibbs

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1954:158–59, 215). This has also been an industry with high fringe benefit costs (especially vacation pay), well above the average for U.S. industry.

With regard to work rules, collective bargaining and public policy combined to create sharp distinctions among deck, engine, and steward departments and among occupations. They also limited flexibility in the utilization of personnel. Collective bargaining agreements contained a myriad of penalty rates for different assignments.

As to staffing, the U.S. fleet had crew sizes well above world standards. Since many vessels were subsidized and those subsidies compensated for high crew costs, there was little incentive for employers to insist on cutting crew sizes in collective bargaining. The Coast Guard, which mandates minimal safe crewing levels, also was behind the “staffing curve” internationally, and the work rules mentioned earlier tended to require higher staffing levels than was true of other international fleets.

Thus, labor costs on U.S.-flag vessels were high because work rules were restrictive and because wages, benefit levels, and staffing levels were high. These cost disadvantages were sustainable only to the extent that public policy prevented shipping markets from being competitive. As the 1980s began, international competition and an outmoded regulatory regime were beginning to undermine the union bargaining power that had produced high wages and generous benefits.

The 1980s marked a turning point in collective bargaining in the U.S.-flag maritime fleet. Changes in bargaining structure, deunionization, and concession bargaining were all important factors during this decade.

The structure of maritime bargaining has always been complex. On the labor side, there have been many competing unions. The employers have been divided by vessel type, by subsidy status, and geographically. However, the bargaining structure that existed in 1980 was still highly centralized and reflected strong patterns. In the mid-1980s, this changed significantly. Unions were whipsawed by employers. The National Maritime Union (NMU) and the Seafarers International Union tried to underbid each other to win military cargoes, which typically move on vessels not covered by standard collective bargaining agreements (*Seafarers Log*, June 1987).

A related problem was the growing reluctance of carriers to deal with multiple unions. This resistance helped to produce a flurry of union merger talks. However, some of these mergers came to a bad end, in particular, that between the NMU and the Marine Engineers Beneficial Association (MEBA) District 1. While employment fell for all the unions, those willing to bargain individually with employers and to bargain “market will bear” agreements on particular trades did the best in protecting members’ employment. The American Maritime Officers was one example.

For some unions, the 1980s saw a series of disasters. The Masters, Mates and Pilots (MMP) suffered as some employers chose to rid themselves of some of their bargaining obligations. The deck officers were an obvious target because of their expensive wage and benefit packages and because they are supervisory and thus unprotected by the National Labor Relations Act (*Marine Fireman*, July 17, 1987; *Pilot*, August 1987; *JOC*, June 17, 1987). In addition, MMP, NMU, and MEBA all suffered enormously from the 1986 bankruptcy of United States Lines, the largest carrier bankruptcy in U.S. history (*JOC*, April 28, 1986; *Seafarers Log*, December 1986). Other carrier bankruptcies provided operators with the leverage to renegotiate their wages and benefits substantially downward (*JOC*, March 12, 1996).

The first half of the 1980s was marked by concession bargaining in a variety of industries (Borum and Conley 1986; LaCombe and Borum 1987; Mitchell 1982; Kassalow 1982). The maritime industry was characterized by concessions, but these did not end during the early 1980s but rather continued into and through the 1990s. The 1986–87 bargaining round provided a variety of concessions in wages and benefits in the standard agreements covering most seafarers. The agreement between Sea-Land and the MMP cut the base monthly rate of a third mate from \$3,990 to \$3,428. Vacation benefits were also slashed (*American Shipper*, June 1986; *Pilot*, January 1987; *JOC*, February 6, June 9, June 15, 1987; *West Coast Sailors*, July 1, 1987).

Major wage and benefit concessions occurred in the standard agreements of all of the major maritime unions. There was also a breakdown in traditional bargaining patterns. This produced wage drift downward from the levels specified in the standard agreements. This result was similar to that observed in other industries but seemed more permanent in the maritime industry. Negotiations during the 1980s also produced significant downward trends in negotiated staffing levels, although these still left the U.S.-flag fleet with higher staffing than most of its competitors.

The maritime industry has been well-known for restrictive rules with regard to the utilization of shipboard labor. Under the auspices of the government's "Effective Manning" program, some of these regulations were eased, and work rule concessions grew commonplace in bargaining during the 1980s (National Research Council 1984). These changes and concessions still left the U.S.-flag fleet with considerably less flexibility in the utilization of staff than most of its competitors.

In the face of all these demands for concessions and despite the history of labor militancy in the maritime industry, the 1980s saw virtually no strike action. Excess capacity in the industry was part of the explanation but so were deregulation of shipping and highly insecure employment for an aging workforce that feared permanent job losses (Donn and Maret 1990:496).

During the 1990s, collective bargaining in many American industries stabilized, and the shift in the balance of power toward management that had characterized the 1980s abated. However, in maritime a continued unfavorable public policy environment exposed the oceangoing fleet to growing international competition. Accordingly, the 1990s saw an intensification of the trends evident in maritime bargaining in the 1980s.

The Reagan administration refused to ask Congress to fund the vessel construction subsidy program. This meant that operators who accepted operating subsidies or operated in domestic trades were required to buy vessels built in costly U.S. shipyards, with the exception of a brief window in the early 1980s during which operators were permitted to order new vessels from overseas. Another major direct subsidy, Operating Differential Subsidy (ODS), was designed to offset the higher cost of operating cargo vessels under the U.S. flag. As the 1980s and 1990s wore on, the government refused to allocate new money for this program. ODS was based on long-term contracts, and as these began to expire, the system was heading toward extinction. In 1996, American Presidents Line (APL) negotiated significant wage and pension increases and no major work rule adjustments with its unlicensed unions. However, the contract would also automatically expire 45 days after a new subsidy system was adopted, which is exactly what happened (*JOC*, July 24, 1996).

The 1996 Maritime Security Act implemented the Maritime Security Program (MSP). This had advantages over ODS for operators, principally a reduced set of regulatory requirements and elimination of the requirement to purchase only U.S.-built vessels. However, there were also some significant negative factors. First, the MSP is subject to annual appropriation. Second, fewer vessels are subsidized than had been. Third, the annual per-vessel subsidy is lower under MSP than under ODS, inducing operators to attempt to recoup the difference through bargaining concessions. Fourth, the subsidy is a fixed amount rather than an amount paid to offset higher costs of U.S.-flag operations, making operators more sensitive to labor costs. The impact of all this on collective bargaining was dramatic. APL used the change from ODS to MSP to renegotiate with its unions, insisting that they make up the difference in subsidy levels with wage and benefit concessions (*American Shipper*, November 1996, January 1997; *JOC*, June 28, November 26, 1996; January 27, February 14, 28, July 18, August 4, 1997).

High U.S. operating costs and high taxes, a restrictive regulatory environment, the decline of the older subsidy system, and the limited availability of subsidy in the MSP system have all encouraged U.S. vessel operating companies to "flag out." Typically, leaving the U.S. flag also means leaving behind U.S. crews. In the 1990s this not only had an impact on bargaining

on the U.S.-flag fleet but it also gave rise to a newer kind of "extraterritorial" collective bargaining.

While vessel operators who flag out have no interest in hiring unlicensed U.S. seafarers on their "overseas" vessels, some are willing to hire U.S. officers. Officers, especially masters and chief engineers, need considerable training and are responsible for the safe operation of expensive vessels and equipment. Accordingly, U.S. operators of foreign-flag vessels have proved willing to consider hiring such U.S. officers but only at wages and conditions substantially below those that prevail on U.S.-flag vessels. The officers' unions, though unhappy about these events, have decided to come to terms with them. In fact, MMP and MEBA District 1 have formed the Officers Union of International Seamen in the Cayman Islands to represent U.S. officers on U.S.-owned foreign flag vessels. Although it has caused internal controversy and opposition within the unions, they have negotiated an agreement with Sea-Land Services to provide officers for their foreign-flag vessels (*JOC*, August 24, September 29, 1995).

Under its agreements with MMP and MEBA District 1, Sea-Land guaranteed job security, in return for which the union agreed to a wage freeze until January 1997 (and other concessions), after which there would be a cost-of-living adjustment, but that would have a total cap of 5.5% (*JOC*, January 10, 1995). However, "U.S. deck officers hired to work on five ships that Sea-Land Service Inc. is reflagging overseas will see their pay reduced more than 40% and lose virtually all their collective bargaining rights. . . ." The MMP wage and benefit package goes down to \$73,000 for working an eight-month shift from \$132,000 for working six months on U.S.-flag vessels. The agreement also obligates the MMP not to seek bargaining rights for other seafarers on these vessels, and MMP will not be exclusive referral agent except for U.S.-citizen licensed deck officers (*JOC*, March 7, 1995).

These agreements involve dramatic decreases in wages and benefits for U.S. officers. They also constitute *de facto* acknowledgment that the unions will not be able to preserve employment in the U.S.-flag fleet. The result is a kind of two-tiered bargaining, with fortunate officers finding work on the U.S.-flag fleet and a group of "second-class" members who work on the foreign-flagged fleets.

Maritime collective bargaining in the U.S.-flag fleet recently has seen the almost complete breakdown of traditional bargaining structures (Donn 1989:193-200). Together with bargaining for U.S. officers on foreign-flag vessels, this has produced a form of bargaining almost completely unrelated to that of the 1950s and 1960s.

The reason that bargaining concessions have been so deep but that the beneficial effects have been so small in maritime is that the industry was

already in long-term decline. Maritime labor is keenly aware of its dilemma. They have agreed to concessions not in the hope of solving their industry's problems but rather in an attempt to survive while they search for long-run solutions. This is also reflected in the fact that maritime unions received few quid pro quos for the concessions they have made.

There is no set of wages and working conditions for U.S.-citizen seafarers that could be acceptable to them and at which U.S.-flag, U.S.-crewed vessels can really be competitive with foreign operators, especially flag-of-convenience, crew-of-convenience operators. The negotiations for officers' jobs on foreign-flag vessels suggest that it may be possible to compete at least for those jobs but only based on wages and conditions even well below those that two decades of concession bargaining have produced. There are no such options for unlicensed seafarers. Accordingly, if the U.S. government desires a U.S.-flag fleet staffed with U.S.-citizen mariners, it will have to subsidize that fleet either directly or indirectly. Otherwise, competitive pressures will continue to push that fleet, and the jobs of its employees, toward oblivion.

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DISCUSSION

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The four papers presented in this session demonstrate, once again, the worth of studies of collective bargaining focused on the industry level. Industry-level studies allow us to see both the commonalities and variation in the functioning of collective bargaining in different environments. These papers demonstrate the rich variety of contexts in which collective bargaining still takes place in the United States. They are particularly noteworthy for the range of occupations covered. These include an occupation widely viewed as typical of unions in the United States, highly skilled metalworkers in aircraft manufacturing, as well as less typical workers, such as highly educated reporters in newspapers, high-status officers on merchant vessels and airline pilots, and the quintessential service workers, flight attendants.

Although the subheading for this session was “A 20-Year Examination of Collective Bargaining Trends in Four Industries,” only the papers on the newspaper and maritime industries actually take on that task. I found both of these papers to be rich in their description of events, trends, and context.

The Stanger paper describes the factors that led chains to buy family-owned papers, thus fundamentally altering the industry and the context for bargaining. The part of the story describing the impact of technological change is relatively well-known. The role of tax policy in encouraging the consolidation of the industry is less so. On the one hand, it seems to be further confirmation of a point noted by other scholars that the deteriorating economic environment for collective bargaining has been a product, in large part, of public policy choices (Kochan and Piore 1984:182; Voos 1994:9). On the other hand, it is not clear whether the outcomes of these particular policies for this particular industry were simply unintended consequences.

Returning to a focus on occupational diversity, this paper would be strengthened by a clearer discussion of the nature of the professional unionism provided by the (now-merged) Newspaper Guild. This industry offers a relatively rare window into private-sector professional unionism that could be helpful in understanding the likely future of representation for those

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workers. Although the paper includes a discussion of pay-related issues for the editorial workforce, it would be useful to understand other dimensions of their collective bargaining agreements. For instance, did Guild contracts contain the sort of job-related boundaries and work rules typical of blue-collar units? Were professional concerns represented in these contracts? Did the change in the production end of the business alter the jobs and skill sets of reporters? What, if any, were the tensions between the professional and production sides during the period of rapid technological change? When the unions worked together, why and how? Have the mergers with CWA improved this relationship?

The maritime industry is less familiar to the average reader, although the stresses it is facing, particularly the issues of international competition, are shared with many other industries. It presents a good case in which to consider the deeper policy issues of maintaining an industry that will have trouble competing globally. The issues properly concern the conditions of work, not just for U.S.-based workers, but for the workers based elsewhere in the world, many of whom appear to face appalling working and living conditions. They also concern broader consideration of the national role of this industry in trade and possibly national defense. The author suggests that the choice for the U.S. fleet is subsidy or oblivion. What is the possibility of a third way, an international labor standards approach for this industry, which could logically be subject to international regulation through the various treaties and other forms of international law that must or could govern it?

While the paper was quite thorough, it nevertheless provoked several additional questions: Have there been changes in the structure of ownership in the industry as in the other three industries described here? What does this industry tell us about the motives for and causes of decentralization in bargaining debated in the literature? Does the case of the Officers Union of International Seamen offer any lessons for the future international forms of unionism?

The airline paper is less comprehensive. Interestingly, it presents a more upbeat story of the functioning of collective bargaining and its outcomes for workers in the airline industry. This is especially surprising given the upheaval resulting from deregulation. Still, it is important to note that this is a story of *relative* success. Unionization, union strength, and wages have not increased but have declined less than in many other sectors. And the impact of international competition is only beginning to be felt in the form of code sharing. Ultimately, the attempt to present a “happy” story is not quite convincing.

The paper could be strengthened by attention to some additional points. Johnson argues that one significant development was substantial employee

ownership and profit sharing. While she speculates that these new forms of compensation may now be delivering handsomely to workers, she says less about their impact on corporate governance. Governance issues may be important, however; the Machinists have recently begun exercising muscle in this area, focusing first on executive compensation issues. Johnson also argues that flight attendants' earnings have experienced the greatest declines among the various organized occupational groups. In the United case, the flight attendants were not part of the ESOP. Have there been other quid pro quos, at this airline or others, for wage relief for this group? In particular, flexible scheduling has been very important to this work group. Is it possible that wages have been traded off for other conditions of work? Given the centrality of customer concerns about quality and service in this industry, is there an opportunity for alliances between unions and customers? Finally, to what extent will international code sharing be a catalyst for cross-border union activity, and where will that activity lead?

The aircraft manufacturing paper is still less comprehensive, focusing on the employment effects of two particular events in the larger consolidation of the industry. As with newspapers and airlines, the changing structure of ownership has had a serious impact on the industry and its workers. The paper argues, from its two cases, that the impact of takeovers on employment is not automatically negative (and on simple measures of productivity, not always positive) and depends on the reasons for the takeover. Of equal importance to the story on both employment and productivity, however, would appear to be the differing national contexts and, therefore, rules and institutions in which the takeovers took place.

Overall, these papers offer a chance to reevaluate the factors that Voos (1994) argued are driving change in collective bargaining. They tend to confirm the importance of public policy, especially deregulation, and technological change. There is more emphasis on international competition and interunion conflict and less on high-performance work systems. Whether these differences result from the particular industries or real change over time is difficult to say.

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XIII. RESTORING THE SOCIAL CONTRACT FOR FEDERAL EMPLOYEES

Employee Compensation in the Federal Sector: Is Comparability Enough?

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Discussion of compensation in the federal sector, as well as compensation of state and local government employees, revolves around the issue of comparability. Comparability standards have, at first blush, the advantage of providing straightforward criteria for setting the federal compensation. Experience with comparability suggests that it contains substantial areas of ambiguity and that different approaches may lead to very different conclusions about federal pay. Equally important, use of comparability as the sole standard for establishing the terms and conditions of employment for the federal workforce undermines the federal government's role as a model employer. The experience of the last 30 years has shown that the private sector is a powerful engine for change in the employment relationship. The goals of private-sector firms and the power of private-sector employers, however, limit the range of innovations that will occur in the private sector. Federal employment, in contrast, provides a laboratory for experimentation with the employment relationship that reflects evolving public policy, the concerns of the citizenry with the nature of employment, and the interests of employees. It also provides a prominent beacon through which innovative employment practices can be brought to the attention of the public and employers. Adherence to a strict standard of comparability cedes the federal role in shaping a progressive employment relationship and advancing the social contract.

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The Comparability Standard

Comparability standards have been part of the federal compensation system since 1862, when legislation required that the wages of federal blue-collar workers conform to that of nearby private establishments. The Federal Salary Reform Act of 1962 tied the pay for the majority of federal employees to private-sector earnings. The Federal Pay Comparability Act of 1970 and the Postal Reorganization Act of 1972 established that federal civilian employees should be paid on a level with private-sector employees engaged in similar work. For example, the Postal Reorganization Act established that "It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy" (Postal Reorganization Act, 39 U.S.C., sec. 1003).

Although the comparability standard offers an apparently straightforward solution to the issue of the determination of federal compensation, experience with comparability finds that the issues *who* and *what* are to be compared are not readily resolved.

The criteria for establishing *who* in the private sector is to be used as the base of comparability have been controversial since such standards were first applied. Disagreements arise over the size of the private-sector employer to use as the base of comparison, the sectors that provide the appropriate counterpart for federal employees, and the appropriate treatment of occupations that are unique to the federal sector (Fogel and Lewin 1974). The treatment of union membership has arisen as an issue not only in scholastic research but in interest arbitrations in the Postal Service.

A perennial issue is whether federal employees should be compared with all employees or only employees of larger employers. This debate had its origins in criticism of federal wage surveys, which were limited to employers of 100 in a limited number of sectors. It took on new life in the 1970s as development of more comprehensive employer surveys and use of microdata on individuals made it possible to construct measures of comparability with and without reference to employer size. Measures of comparability are substantially different with differences in treatment of size. For example, regressions without allowance for size indicate that male federal employees earn 7.8% more than comparable private employees; with allowance for firm-size effects, there is no measured comparability effect (Belman and Heywood 1996). What is at issue are two different views of comparability. One views comparability as an exercise in which we ask what would happen to federal workers' earnings if each individual was transferred into the private sector. In this view, firm size should either not be

accounted for or should reflect the distribution of employment by firm size across the private sector. The second view poses a very different thought experiment in which, in essence, we ask what the federal government would pay its workers if it were a private employer. In this view, comparability incorporates not only employee characteristics but also characteristics of the work and the employer, including firm size.

The issue of *who* should be used as the private-sector base of comparison is particularly problematic when private markets are influenced by forces that are counter to public policy. For example, few would suggest that adherence to comparability requires that the federal government replicate the private-sector wage structures that result in lower wages for African Americans. But there is no universally accepted standard for comparability once we reject the existent private sector. A theoretically appealing alternative might be the wage that the competitive market would produce in the absence of discrimination, but there is considerable disagreement over the appropriate methodology for determining this wage.

The effectiveness of comparability in producing appropriate wages also depends on recognition of important contours in the wage structure. For example, the private sector, as a whole, pays higher wages in urban areas than in rural locations. In contrast, the federal government has a unified national wage structure.¹ As a result, federal workers in urban areas tend to be much closer to comparability than those living in rural areas. Measures of federal comparability that aggregate urban and rural employees are heavily influenced by the wage advantage of federal workers residing in rural areas and may be misleading as to the comparability of wages for the majority of federal workers who live in urban areas. Attempts to move federal wages toward comparability that do not recognize differences in comparability by urban or rural residence are likely as not to move federal employees living in urban areas away from comparability while only minimally resolving comparability issues in rural areas. The application of comparability to urban or rural pay is further complicated because current federal policy parallels the practices of many firms that have national employment structures. It may be that the observed pattern of urban and rural wages reflects, in largest part, differences in wages paid by employers who are local to a particular place and that the practice of national pay structures is appropriate to firms with national employment. If so, then a movement toward comparability based on paying differently in urban and rural locations will result in problems within the federal employment system.²

The issue of *what* is to be compared is possibly more difficult than the issue of *who*. Prominent among the problems of *what* is how fringe benefits might be incorporated into comparability exercises. The importance of

benefit comparability is recognized in the postal statute. President Carter attempted to implement benefit comparability in the Federal Employee Compensation Reform Act of 1979 through comparison of the costs of total compensation. Exclusion of benefits from the comparability exercise has reflected the difficulty in developing an acceptable standard for the comparison of fringe benefits.

Consider the problem of comparing public and private pensions. While almost all federal employees participate in the federal pension system, only half of private-sector workers participate in employer-provided pensions. Allowing for differences between the private and federal labor force, federal employees are about 20% more likely to participate in a pension plan than a comparable private-sector employee. Should comparability be interpreted as requiring that the pension participation rate of federal employees be the same as that of comparable private-sector employees? If so, how then does the federal government go about excluding the appropriate number of employees, and is the exclusion permanent? An alternative approach would be to interpret comparability as requiring that the average cost of federal pensions be equal to that of the private sector inclusive of employees who do not participate in pension systems. Although such averaging is appealing from a cost-equity standpoint, it would result in federal pensions that were substantially less generous than those of participating employees in the private sector. Finally, comparability might be approached as a thought exercise in which the pension structure of the federal government is compared with that of a similar private-sector firm. Because federal statutes require that private-sector pension plans result in broad coverage of employees, the extensive coverage of federal employees would be less anomalous under this criterion than under the two prior criteria. Similar issues exist for fringe benefits such as health insurance.

The issues of comparability of fringes become more complex because fringes may be offered in different forms in the private and public sectors and some fringes may not be available in any form for one or the other sector. For example, while the public sector tends to grant leave as vacation and sick leave, the private sector is moving toward a model in which both forms of leave are consolidated as personal leave to be allocated by the employee. The personal leave model provides additional flexibility to the employee, but the noncumulation of sick leave may reduce the value of personal leave to the employee. Simple comparisons of these two approaches cannot capture the qualitative differences in the systems. Another example of the difficulty in comparison of fringe benefits is found in profit-sharing schemes, which are increasingly popular in the private sector but cannot be replicated in the public sector.

It may be that rather than concerning ourselves with fringe-by-fringe comparisons, overall cost comparability may provide a more appropriate metric. Even here, there is potential for disagreement because the federal government has been successful in reducing its benefit costs relative to the typical private-sector firm. As a result, comparability in per capita costs of fringes may result in federal employees enjoying substantially higher overall value of benefits. Further, differences in the time flow of funding of future costs, such as pensions, between the federal government and private employers can result in substantial differences in annual costs, even when benefit levels are comparable. Focus on costs, rather than benefit levels, simplifies but does not resolve basic issues of comparability.

The concept of comparability has been extended to include nonpecuniary factors such as job stability. It is argued that the relatively low likelihood of termination in the public sector is, in essence, a benefit and should be accounted for in establishing a comparable compensation package for federal employees. This constitutes an interesting extension of the comparability concept, but the treatment to date assumes, rather than demonstrates, that greater job stability is associated with lower wages in the private sector. Further, there is no ready means of establishing the appropriate valuation of nonpecuniary factors so that they can be incorporated into the comparability exercises.

This brief review of the limitations of comparability as a criterion for establishing federal pay is not intended to suggest that comparability exercises are without value, rather that long experience with comparability finds that it is not a razor-edge criterion.

The Federal Government's Role in Advancing the Employment Relationship

The more important limitation of comparability is that it places the federal government in the role of following rather than leading the private sector. Historically, the federal government has played an important role in the evolution of the employment relationship by providing a test bed for new employment practices and a means of demonstrating that progressive practices can be implemented in a manner consistent with successful administration of an organization. If such a role is ceded, as it would be under a broad definition of comparability, innovation in employment practices will be driven solely by private-sector needs and by legislative regulation of the private sector.

Although the federal government has seldom been an originator of new employment practices, it has consistently played an important role in the employment relations system as an early implementer of progressive practices.

The National Eight Hour Day Act of 1868 established an eight-hour day for federal employees and contractors and required that daily earnings remain equal to their previous level (Montgomery 1967). The implementation of the eight-hour day anticipated the findings of work fatigue studies 30 years later and the eventual acceptance of the eight-hour day by industry following World War I.

The federal government also played an important role in the development of the employer-based pension system in establishing a comprehensive pension system for federal workers in 1920. Prior to 1920, employer pension systems existed among a few progressive state governments and a few large employers, notably utilities. The federal pension system, enacted in the Civil Service Retirement Act of 1920 in response to ongoing lobbying of federal employee organizations, incorporated the more-progressive features of these other systems, including payments based on a combination of years of service and salary, the concept that employees with sufficient service might receive a pension even if they left the system prior to retiring, and allowance for payments to disabled employees, again with sufficient service. The creation of the federal system served both as a template that other employers might follow and as a focal point for employee expectations about pension systems. The evolution of the system over the following 30 years, from one that was intended to assist managers toward one that provided protection to employees, served to incorporate and highlight the pension practices of the most advanced private and other public systems (Committee on Post Office and Civil Service 1983).

The federal government has also played a central role in the development of the employment relationship outside the realm of compensation practices. The development of merit-based employment systems incorporating standards, rules, and decision-making procedures was substantially advanced by the Pendleton Act of 1883, which replaced the spoils system with a civil service system. Although several states and municipalities had preceded the federal government in enacting civil service reforms, the form adopted by the federal government became influential in the development of employment systems in government and the private sector (Doeringer et al. 1996). The federal government was also influential in the adoption of the methods of scientific management, both in being an early adopter in arsenals and shipyards and in public review of that experience. The Lloyd-LaFollette Act of 1912 established the right of federal employees to join unions and petition Congress for the redress of grievances substantially prior to legislative implementation of union-recognition procedures in the Railway Labor and the Wagner Acts.

It is not necessary to extend the examples of the twin roles of the federal government as a test bed and popularizer of progressive employment practices. The federal government has played an important role in leading progressive reform of the employment relations system of the United States for at least 150 years. It is to be expected that in response to internal issues and Congressional action, it will continue to play such a role into the future. The role of the federal government as model employer is less amenable to methodological dissection than is comparability. Nevertheless, the importance of the federal government to the evolution of the employment relationship, the social contract between employer and employee, argues that our understanding of federal compensation policy may be better served by rebalancing attention toward its role as a model employer.

Endnotes

¹ The federal government has implemented a form of locality pay as part of the white-collar schedule, although the differentials, from 6% to 15%, are not of sufficient size to standardize real federal pay across localities. The Postal Service maintains a unified national pay schedule.

² For example, it might make it difficult to transfer employees from urban locations, with high levels of social services, to rural locations, with lower levels of social services, because such a move would result in a reduction both in available services and earnings.

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The BLS Approach to Benchmarking: The Compensation 2000 Program for General Schedule Employees

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Federal employees provide vital and valued services to the nation's citizens. If the federal government is to attract, retain, and motivate competent employees capable of carrying out these services, it is critical that human resource practices (e.g., staffing, career and training opportunities) and outcomes (e.g., rewards, public respect) be at least roughly equivalent to those in other labor markets open to these employees (Adams 1965; Folger and Greenberg 1985). A key equivalency criterion for most employees and potential employees is rewards level.

There has been a long discussion, sometimes heated, as to whether pay levels of federal employees are equivalent to those of private-sector employees (e.g., *Federal Personnel* 1995; Freeman 1987; Katz and Krueger 1991; Krueger 1988; Moulton 1990; Smith 1976). Whether or not this is true in the aggregate, it certainly has not been the case in local labor markets (The Wyatt Company 1989). In part, this was because General Schedule employees were paid based on a national pay structure.

In 1990 Congress passed the Federal Employees Pay Comparability Act (FEPCA, Public Law 101-509, 104 Stat. 1463), mandating that for employees under the General Schedule

1. there be equal pay for substantially equal work within each local pay area;
2. within each local pay area, pay distinctions be maintained in keeping with work and performance distinctions;
3. federal pay rates be comparable with nonfederal pay rates for the same levels of work within the same local pay area; and
4. any existing pay disparities between federal and nonfederal employees should be completely eliminated (FEPCA, sec. 5301).

It should be noted that "eliminated" in this context means that federal pay, where less than the market rate for a locality, should be brought within 5% of that rate (FEPCA, sec. 5304).

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There were many difficulties in implementing FEPCA. One of the major difficulties (as in the research comparing private- and public-sector pay rates cited earlier) was determining comparable private-sector market rates. FEPCA itself provides some guidelines on this issue:

(A) compares the rates of pay under the General Schedule with the rates of pay generally paid to non-Federal workers for the same level of work within each pay locality, as determined on the basis of appropriate annual¹ surveys that shall be conducted by the Bureau of Labor Statistics . . . [FEPCA, sec. 5304(d)(1)(A)]

and

(2) The pay agent shall —

(A) provide for meetings with the Council and give thorough consideration to the views and recommendations of the Council and the individual views and recommendations, if any, of the members of the Council regarding —

(ii) the coverage of the surveys of pay localities conducted by the Bureau of Labor Statistics under subsection (d)(1)(A) (including, but not limited to, the occupations, establishment sizes, and industries to be surveyed, and how pay localities are to be surveyed). [FEPCA, sec. 5304(e)(2)(A)(ii)]

The original approach of the Bureau of Labor Statistics (BLS) was to adapt and convert Area Wage Surveys, White Collar Pay Surveys, Industry Wage Surveys, and Service Contract Act survey programs into the Occupational Compensation Survey Program (OCSF; Buckley and Dietz 1997). Because of budgetary constraints imposed on the BLS and problems surfacing with the OCSF, BLS developed a different approach to benchmarking: the National Compensation Survey (NCS) program.

Briefly, the OCSF utilized a traditional job-based benchmarking approach. Wage data for 115 jobs (work levels) were collected in a varying number of localities, depending on the year. These jobs were defined in terms of federal jobs and represented a substantial portion of the federal employees covered by the General Schedule. If data were obtained for all jobs, about 35% of federal employees would be directly matched to the market (Jordon Pfuntner, personal correspondence 1999). Field economists match jobs found in surveyed establishments against generic job descriptions of the 115 jobs being benchmarked.

The wage data collected under the OCSF are undoubtedly suitable for the pay-setting procedures described under FEPCA, but it should be recognized that these data are not perfect. Problems include

- inability to collect a common set of wage data for all pay localities,
- use of old data and use of estimated wage data as filler when necessary, and
- biases in the job-match approach used to collect wage data.

Bias in this context refers to the fact that field economists matched establishment jobs to survey job descriptions judgmentally. Field economists typically know the wage of the job when making these matches. Two studies have found that knowledge of pay levels influences decisions about job content, even for highly similar jobs (Grams and Schwab 1985; Schwab and Grams 1985). Further research indicates that a key source of bias in matching job descriptions to job evaluation scales is knowledge of the salary level of the job being matched (Mount and Ellis 1987). It is reasonable to think that a similar bias occurs in the job-matching process by field economists. While field economists have received explicit instructions not to use wage level as the determinant of job match, knowledge of the wage level itself is enough to cause the perceptual bias in the job-matching process.

The OCSP approach to determining market wage data (especially the actual market rates published by BLS) provides good estimates of market wages for selected jobs that account for a substantial portion of General Schedule employment. There is “face” validity for the results among federal employees; unions representing those employees; and legislators, administration officials, and staff charged with making recommendations or decisions about pay levels of General Schedule employees. It has good customer acceptance. There has been widespread (but not universal) acceptance of wage gaps calculated using OCSP data.

The OCSP approach parallels traditional methods of determining wage rates used by private-sector organizations and does it with more rigor. Most private-sector organizations would find the OCSP approach acceptable, although few large private-sector organizations make much use of these data. (This is because small establishments, which most private-sector organizations do not consider relevant labor market competitors, are included in the sample, pulling down market rates. Where possible, BLS has published separate data for establishments of 500 or more employees. The blue-collar jobs surveyed are generally considered more useful.)

While the OCSP uses a job-matching approach to obtain wage data for comparing market rates to General Schedule wages in each locality, the NCS adopts a job attribute-matching approach. Briefly, a sample of establishments is selected in each locality (as with the OCSP). Then, in each establishment, a random sample of employees is selected, and the jobs of those employees become the NCS job sample. (Where establishment records

make this procedure difficult, field economists have the option of sampling establishment occupations rather than employees; Jordan Pfuntner, personal correspondence 1999.) Thus, even though the sampling procedure is based on people, the survey unit of analysis is the job, and further data collection focuses on the job.

The field economist, in cooperation with an establishment employee, evaluates each job against nine Factor Evaluation System (FES) scales and an additional supervisory scale. These scales are fairly typical job evaluation scales and in this case serve as job attribute (or characteristic) scales. The FES scales are also used to assign each job to a General Schedule grade. The job attributes covered by the FES are

Knowledge	Personal contacts
Supervision received	Purpose of contacts
Guidelines	Physical demands
Complexity	Work environment
Scope and effect	

An occupational designation for each job is assigned. These approximately 450 occupation codes are part of the Census Occupational Classification System. (In the future, this will be changed to the Standard Occupational Classification system, or SOC.) The COCS has nine major occupational groups:

- Professional specialty and technical occupations
- Executive, administrative, and managerial occupations
- Sales occupations
- Administrative support, including clerical occupations
- Precision production, craft, and repair occupations
- Machine operator, assembler, and inspector occupations
- Transportation and material moving occupations
- Handler, equipment cleaner, helper, and laborer occupations (including forestry and fishing occupations)
- Service occupations

The approach to wage data collection introduced under NCS has several characteristics that make it an improvement over the OCSP approach, at least in theory. Advantages of the NCS approach include

- Survey data stability from sample rollover
- Data on an increased set of jobs
- Data on “new work” jobs
- Common data set for ECI, FEPCA, and benefits surveys

The NCS approach also has some drawbacks. (Some of these also existed in the OCSF approach.) These include

- Sampling of people rather than jobs or salary levels
- Sampling or identification of establishments rather than organizations
- Handling of management and supervisory categories
- Regression techniques that differ from those used in private-sector organizations
- Lack of buy-in from key constituencies for the NCS process
- Difficulty of explaining the NCS process to key constituencies
- Lack of credibility of FES as a job attribute measure among key constituencies

Both of these approaches are valid and are in common use by private-sector organizations. A major survey provider, Hay Management Consultants, uses job attribute scores (standardized Hay points) to ensure similarity of level of work, for example, although it does so for specific job categories. A large computer company commissioned an experimental survey from the author in 1993 based solely on job attribute data to make job matches for human resource positions. Similarly, many organizations that market price build job attribute models to price jobs for which no market rates are available. Thus, many organizations use job attribute data in ensuring similarity of level of work for jobs. The approach used by NCS is neither novel nor unique.

The OCSF approach is undoubtedly more common. However, as organizations redesign work, attaining job match on task and duty sets is becoming more problematic. Articles with titles like "Is 'the End of Jobs' the End of Pay Surveys Too?" (Yurkutat 1997) are becoming more common, with the recognition that at least for some job categories whole-job matching, with (possibly) size, scope, and function modifiers, is no longer appropriate and that it will be necessary to identify and match roles, skills, competencies, and other job components. In one major survey sponsored by the American Compensation Association, nearly half of the respondents reported trying new approaches to measuring market rates for "hybrid jobs," and more than 20% reported trying new approaches for team jobs, skill-based pay system jobs, and contract employees (Fay, Risher, and Mahony 1997). Many organizations are seeking new approaches to collecting market wage data, and the NCS approach (if not the specific technology) is likely to become more common.

The NCS approach has several major advantages compared with the OCSF in ensuring equity for federal employees, although not all data collection procedures are yet in place. Because NCS combines collection of

several types of data needed by the government for various purposes, the NCS provides data that can ensure comparability of rewards other than base pay. The mix of rewards received by private-sector employees includes a wide variety of variable pay and long-term incentives such as stock options not previously captured in OCSF data. Many of these forms of data will be included in the NCS data. Similarly, OCSF data did not include information on benefits received by private-sector employees. Because the NCS program has combined benefits surveys previously collected independently, it will be possible to provide a total-rewards benchmark to ensure full comparability for General Schedule employees (Wiatrowski 1998).

Endnote

¹ The requirement for annual data collection has since been repealed.

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Comparability and the Social Contract: Reflections on the Postal Experience

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Comparability between the pay of public- and private-sector employees who do similar work is a common principle of government pay systems at the federal, state, and local levels. In many respects, the principle can be seen as reflecting a social contract between the citizenry and its public employees. With comparability, citizens and taxpayers are assured that the cost of government is not inflated by public compensation systems that reward employees with excessive pay given the duties they perform and the skills they bring to their positions. With comparability, public employees are assured that they will be fairly compensated after years of service in public positions that may not leave them with the ability to transfer to jobs in the private sector with a similar level of responsibility.

The problem, of course, is that the organizations that represent public employees, management compensation professionals, and labor economists who study public-sector pay often have had different views on how to determine comparability. This is true even in the area of wages themselves—ignoring the much more conceptually complex issues that relate to comparability of benefits. Nowhere has the debate over comparability been sharper than in the Postal Service.

In general, the postal unions have preferred the direct comparison of postal jobs to similar jobs in large private-sector organizations that also move parcels and express mail (Federal Express and United Parcel Service, in particular). They have claimed this comparison is analogous to a traditional job-based benchmarking approach. The Postal Service claims that the jobs are too dissimilar for such a comparison. It has relied primarily on evidence from a human capital-based multiple regression analysis of the wages of all private-sector nonmanagerial employees.¹ Since one of us (Voos) has been involved as an expert witness in postal arbitrations (testifying on behalf of the National Association of Lettercarriers), our comments about the specifics of this comparability dispute are unlikely to be viewed as dispassionate. Instead of reviewing the particulars of this impasse and

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arguing once again the union's position, this forum is used to reflect on the postal comparability situation in a more scholarly way. We stress that our ruminations come from us alone; are necessarily somewhat tentative—serving more as hypotheses for future research than as final, fixed views; and do not represent the position of the Lettercarriers or any other labor organization.

Regression-Based Analysis of Pay Comparability

It is useful to begin the discussion with an example of the type of evidence on pay comparability often utilized by labor economists (and the Postal Service). Table 1 contains a human capital-based regression that analyzes the pay of all federal and postal managers, relative to the pay of private-sector managers. Only employees in managerial occupations are included in the sample. Many informed observers believe that higher-level government employees are less well compensated in comparison with the private sector than are lower-level government employees, so this group of employees is particularly suited for demonstrating the typical bias of the human capital approach.

TABLE 1
Earnings of Postal and Federal Managers in Comparison to
Private-Sector Managers

Variable	Coefficient	<i>t</i> statistic
Postal, nonrepresented	.163	2.10
Postal, represented	.219	3.85
Federal, nonrepresented	.118	6.85
Federal, represented	.114	3.75
Private, represented	.026	1.26
Age	.069	31.97
Age squared	-.0007	27.53
Years of education	.072	42.13
Nonwhite	-.110	9.53
Small metro area	.118	11.50
Large metro area	.192	20.31
Veteran	.014	1.16
Female	-.172	23.40
South	-.031	4.06
Constant	.094	1.87

R squared = .276. This OLS regression equation is based on 14,624 managers for whom complete information was available in the 1997 CPS data. Private-sector, nonrepresented (nonunion) managers in nonmetropolitan areas outside the South are the base group.

Data is from the 1997 Current Population Survey (CPS), so there is little information on actual job level or job content. Instead, the regression controls for the employee's years of education, age, gender, race, veteran status, union status, region, and residence in either a large or small urban

area. The human capital variables (education and age in particular) are assumed to capture, in part, the level of work performed as a manager. The results from this regression are typical. Federal managers are found to earn 12% more than similar private-sector managers, and postal managers do a little better, whether or not they are represented by a labor organization (18% or 24% respectively).² On average, managers are paid 12.5% more in small metropolitan areas (population of 100,000 to 1 million) than in less urban areas and 21% more in large urban areas (population of more than 1 million)—a result largely driven by the private sector.

A recent Congressional Budget Office (CBO) report provided a useful overview of other human capital-based studies of federal compensation:

The size of the estimated pay advantage varied substantially among studies and years but was often around 20 percent. In other words, these studies found that compared with the private sector, a given worker could expect to earn a salary about 20 percent higher working for the government.³

The Congressional Budget Office itself calculated the federal pay differential for 1996 using two very different methods. With a simple human capital regression, federal employees were found to be overpaid by 20%.⁴ However, when federal jobs were benchmarked to jobs in the private sector in the same locality, using Bureau of Labor Statistics survey data, federal employees were underpaid on average by 22%. The underpayment ranged from a high of 35% in Houston, Texas, to a low of 18% in the least urban of the 30 labor market areas.⁵

It is clear from the CBO study that the human capital approach to measuring comparability substantially overstates any premia that may or may not actually exist; this fact is driving our results on federal and postal managers (whom we doubt are truly overpaid). Both our results and the CBO results also indicate the importance of locality for comparability. Other evidence on the importance of location for postal comparability emerged from the last arbitration.

Direct Evidence on Postal Comparability by Location

Before the Postal Reorganization Act (PRA) was passed in the early 1970s, postal employees were federal employees whose pay was determined in the same manner as other workers—with single nationwide rates for General Schedule (white-collar) employees.⁶ The PRA made the Postal Service an independent branch within the federal government with a unique labor relations system. The PRA mandates collective bargaining on compensation but substitutes final and binding interest arbitration for the strike as the dispute resolution procedure. Since 1990, Congress has

moved to vary General Schedule pay by locality. However, postal pay is still set on a nationwide basis for each craft.

Econometric work done in preparation for the 1999 postal arbitration reveals that there is significant variability in postal pay relative to that of similar private-sector workers, depending on location. Table 2 contains information based on the 1998 CPS for all postal workers, not just managers. The first row contains results from a regression in which the natural logarithm of hourly earnings is regressed on postal employment and a set of control variables: educational attainment, age, age squared, gender, race, ethnicity, region of residence, part- or full-time status, union status, and major occupation. If individuals in the entire United States are included in this equation, the coefficient on the postal variable is positive and significant at .107, indicating that postal workers earn 11.3% more than similar private-sector employees. (Of course, this measured "premium" reflects the standard bias of the human capital approach and hence may not exist in actuality.)

TABLE 2
Postal Earnings in Comparison to Private-Sector Earnings:
Importance of the Geographic Basis of Comparison

Area	Postal coefficient	Union coefficient	Percentage of U.S. population
All U.S.	.107 <i>t</i> = 10.2	.157 <i>t</i> = 47.8	100
All urban areas (186 largest MSAs)	.068 <i>t</i> = 5.5	.144 <i>t</i> = 33.8	81
Largest urban areas (30 largest MSAs)	.057 <i>t</i> = 3.2	.138 <i>t</i> = 22.4	40
Rural areas outside 186 MSAs	.185 <i>t</i> = 9.2	.168 <i>t</i> = 28.4	19

Figures are the estimated coefficients on the "postal employee" variable and the "union member" variable in an OLS regression equation using 1998 CPS data. Controls were included in the estimated equation for educational attainment, age, gender, race, ethnicity, region of residence, part- or full-time status, union status, and major occupation.

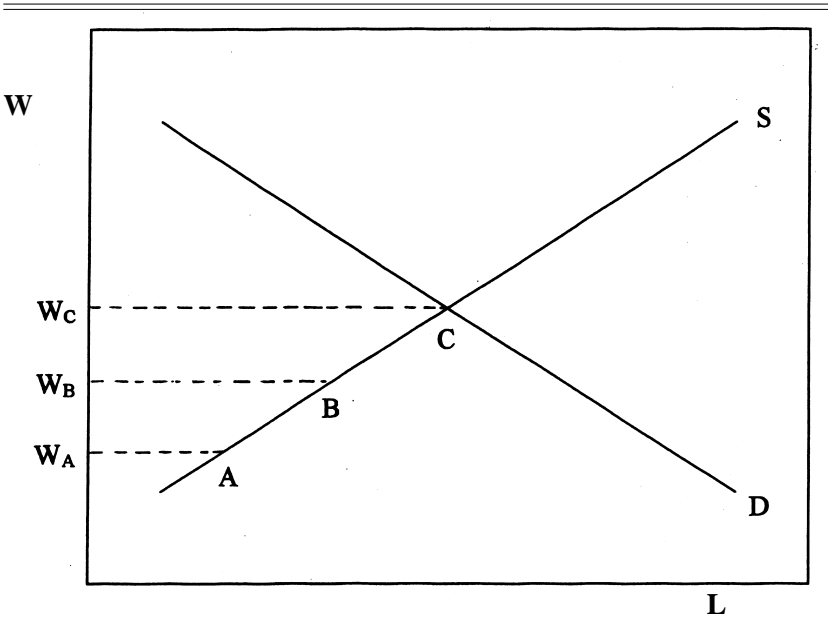
However, the differential shrinks substantially if one examines only postal workers who live in the largest 186 urban areas, all urban areas of sufficient size to be individually identified in the CPS data, as reported in row 2 of table 2. In such urban areas, the postal differential is a mere 7.0% (estimated coefficient of .068). In the 30 largest urban areas (row 3), it is even smaller and presumably would be smaller still in the highest-cost cities of the United States. This occurs because postal wages are uniform nationwide, whereas private-sector pay for similar employees tends to be higher in large urban areas. This observation leads us to propose the following simple

model of postal pay. The model both explains the current pattern of observed pay differences and suggests a different approach to pay policy.

A Model of Postal Pay by Location

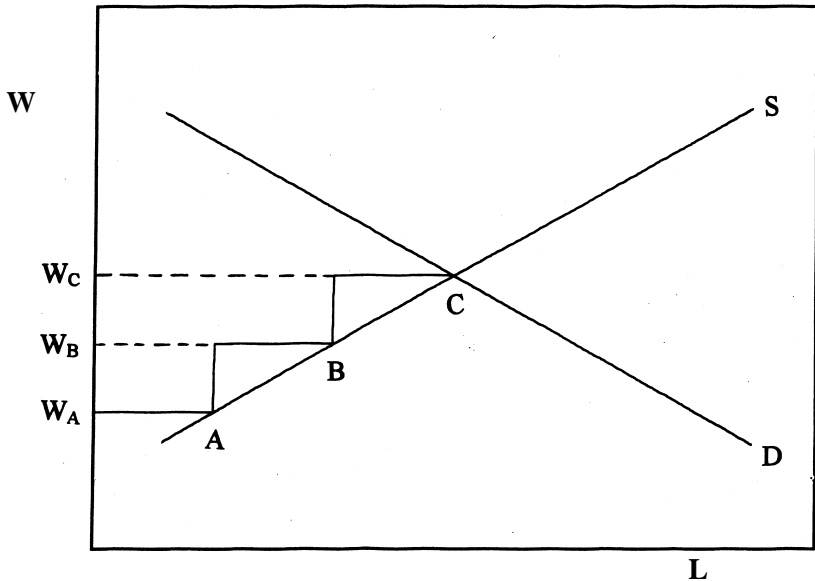
Given that private-sector pay varies across major areas within the United States for workers with similar skills and human capital characteristics as postal workers, we posit that there is a rising supply price of labor to the Postal Service (see figure 1). In rural areas, the supply price of labor is much lower (as in the position marked A) than it is in intermediate-sized cities (in the position marked B), and that is lower still than the supply price of labor in our highest-cost urban areas (in the position marked C). The Postal Service cannot substitute workers from rural Alabama for workers in New York City because mail service must be provided simultaneously in all locations and rural Alabama residents cannot deliver mail in New York City without moving and incurring the higher living costs. This is why the labor supply curve is upward sloping rather than horizontal. With a single nationwide wage scale, the Postal Service must pay the amount that is dictated by the high-cost areas in which employees have better private-sector alternatives (wage C). Yet in a mathematical sense, the average postal employee (a person in position B) is "overpaid" relative to the private sector.

FIGURE 1



This is the result that is reflected in the econometric analysis of large nationwide data sets using a human capital approach. Comparability is apparently violated even when the pay in the Postal Service is set in precisely the same way that it would be set in a private-sector firm paying uniform wages to a national market with a similar supply curve, at position C.⁷ Locality-based pay can theoretically mitigate this problem (see figure 2) by introducing different pay levels for different locations with differing local labor markets. It achieves lower costs—lower levels of employer expenditure on pay—while simultaneously maintaining a fair standard of compensation for employees: comparability to workers with similar jobs in the same urban area.

FIGURE 2



What are the downsides? For the postal unions, there is significant internal opposition to locality-based pay, reflecting the interests of members in less urban areas. Whether union members as a whole are in fact better or worse off with a single nationwide pay scale than with locality-based pay depends in part on whether that nationwide pay is set as a simple average (wage B) or set as it would be in the private sector (wage C). In any event, unions may perceive locality-based pay systems to be divisive and hence to have drawbacks as well as advantages.

Management too may perceive such systems to have significant drawbacks. Locality-based pay can be problematic if managers are frequently

moved by an organization from high-cost areas to low-cost areas. No organization wants to say to a manager, “Congratulations—you are being moved to Tuscaloosa. Your pay is being cut 20%.” No employee wants to hear that, even if the cost of living is lower in the new location. Represented postal employees are not moved involuntarily by the Postal Service across distant metropolitan regions. Our impression is that lower- and midlevel managers are not either. However, we do not know enough about patterns of career mobility at higher levels in the Postal Service to know whether or not pay differentiation by location would be a real problem for the organization.⁸

Finally, it is more difficult to set pay by location both for the organization involved and for the unions that represent employees. If the Postal Service and the organizations that represent its employees do decide to vary pay by locality, a benchmarking approach is probably more feasible than an approach based on regression analysis. Considerable study would be needed to determine the operation of any system of pay differentials by location.

Concluding Observations

We began this paper by noting that comparability has been an attractive principle of compensation for public employees—one that serves a more general social contract by promoting a perception of fairness to all involved. There is nothing in the concepts of fairness, comparability, or the social contract itself to indicate that wage variation by urban area should be ignored in pay setting. Indeed, General Schedule pay has varied by location since 1990, although the pay-setting process for federal employees apparently undercompensates for the full differences in the cost of living across urban areas. The Postal Service and the labor organizations with which it negotiates should consider whether or not a location-specific approach to comparability might better serve their interests. Both theory and evidence indicate that a single nationwide pay scale will either produce wages that are on average “high” relative to the private sector nationwide or will seriously undercompensate employees in our highest-cost urban areas.⁹ The alternative is a locality-based pay system, but such a system in the Postal Service may not be feasible or desirable in the view of the parties involved. If that is the case, then future discussions of pay comparability in the Postal Service should include a frank recognition of the difficulties introduced by a single nationwide pay system.

Endnotes

¹ The Postal Service has viewed it as inappropriate to limit wage comparisons in the regression analysis to the same industry (even to the broader transportation, communications, and utilities sector in which it is placed by the Commerce Department). Postal Service experts, moreover, have adopted a methodology that produces similar results to

ones that do not control for union status. The unions dispute the appropriateness of comparisons that essentially ignore industry and union status and, moreover, claim that the Postal Service procedure controls inadequately for employer size. Fundamentally, the unions and the Postal Service do not agree on the “comparables.” Hence, in each arbitration the parties reiterate this fundamental dispute, hoping that an arbitrator will make a determination that resolves the matter in their own respective favor. Arbitrators, of course, have and likely will continue to decline to rule on such a fundamental question as the comparables, instead considering all those submitted by each party.

² According to the 1997 CPS, 65% of all postal managers were represented by labor organizations. This compares with 23% of all managers in the federal government and 3.0% of private-sector persons classified as managers by the CPS. Data are from the “CPS Org” files that pool information across all survey months with the appropriate elimination of repeated observations on the same individuals.

³ Congressional Budget Office, “Comparing Federal Salaries with Those in the Private Sector,” CBO Memorandum, July 1997, p. 13. The report notes that detailed controls for geographic location and occupational group typically reduce the reported wage advantage in such human capital-based studies.

⁴ This is from a human capital regression using data from the NLSY with controls for education, work experience, work experience squared, gender, race, an interaction between gender and race, and private/federal employment status (see p. 22 of the CBO report).

⁵ This area is termed “rest of the U.S.” The differences across urban areas result from (1) substantial differences in private-sector pay across urban areas that are presumably related to the cost of living and other labor market factors and (2) a federal locality-adjustment process that does not completely reflect such private-sector variation.

⁶ The governing statute was the Postal Service and Federal Employees Salary Act of 1962. That law stated, “federal salary rates shall be comparable with private enterprise salary rates for the same levels of work.” The Postal Reorganization Act states, “It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy” (39 U.S.C., sec. 1003).

⁷ We would argue that a monopoly model does not fit the facts of this situation. A private postal monopsony could not hire a smaller quantity of labor and pay a lower wage than is dictated by the intersection of supply and demand (as is dictated by the monopsony model) because this would fail to move mail in high-cost urban areas.

⁸ This discussion assumes, of course, that the pay of postal managers is linked to the pay of lower-level employees. The Postal Service might also consider breaking such a linkage of pay practices.

⁹ This is true whether or not that single nationwide wage is set by benchmarking or by the multiple regression approach.

XIV. NAFTA AT FIVE YEARS: IMPACT ON LABOR MARKETS AND LABOR RELATIONS IN NORTH AMERICA

Employment Growth in North America Since NAFTA: What Has Changed

MARÍA ELENA VICARIO

North American Commission for Labor Cooperation

Introduction

Five years have passed since the North American Free Trade Agreement (NAFTA) was signed by Canada, Mexico, and the United States, forming the largest free trade area in the world. In 1998 merchandise exports in this area totaled US\$1.004 trillion while imports totaled US\$1.247 trillion. These figures represented 19.1% of total world exports and 23% of total world imports in that year.¹ North American countries accounted for almost 7% of the world's population and generated 30.9% of global Gross Domestic Product (GDP) in 1998.

One of the objectives of NAFTA is to stimulate trade and private investment among the three member countries, thereby creating better job opportunities and better standards of living for their respective populations. During the first five years of the agreement's existence, trade among the signatory countries has increased. In fact, trade has been one of the major sources of economic growth in the three countries.

The objective of this paper is to present an overview of the major changes in employment in Canada, Mexico, and the United States after 1994. There is no attempt to establish a causal relationship between the trade agreement and changes in the labor market because multiple factors

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have also influenced the evolution of employment since the coming into force of NAFTA on January 1, 1994. The first part of this paper describes the economic growth and the evolution of trade in NAFTA countries within the period between 1994 and 1998. It serves as a background to the review of changes in employment during the same period that is described in the second part of the paper.

Economic Growth in NAFTA Countries

The economic conditions of the three NAFTA countries after 1994 occurred in a macroeconomic context marked by sustained growth in Canada and the United States and by cyclical behavior of the Mexican economy consisting of a period of economic crisis in 1995, which lasted until the first quarter of 1996, and a period of economic recovery as of the second quarter of 1996 (figure 1).

The United States posted the best performance among its counterparts, which resulted in major spin-off effects for the economies of Canada and Mexico. After a period of recession, which began in July 1990 and lasted eight months causing the loss of 5 million jobs, the economy of the United States began its recovery in mid-1993. In 1997, real GDP increased by 3.9%, the highest annual rate since 1984. The impact of the economic crisis in a number of Asian countries had a substantial effect on exports that was felt in 1998. Despite this, GDP maintained its annual growth at 3.9% in response to a strong rise in domestic demand. This period of expansion also featured control over inflation.²

In Canada, the recession that began in April 1990 accelerated toward the end of the year, leading to a 1.9% drop in real GDP in 1991. This downturn, which was less severe than the 1982 recession, resulted in the loss of 249,000 jobs in 1991. Beginning in the second half of 1993, economic growth in Canada began to increase at a higher rate. Since then, economic growth has been sustained. Although in 1998 growth slowed, partly caused by the economic crisis in a number of Asian countries, the economy grew at 3.9%. The industries with the highest output growth during the 1994–1998 period were trade, manufacturing, transportation and communications, and mining.

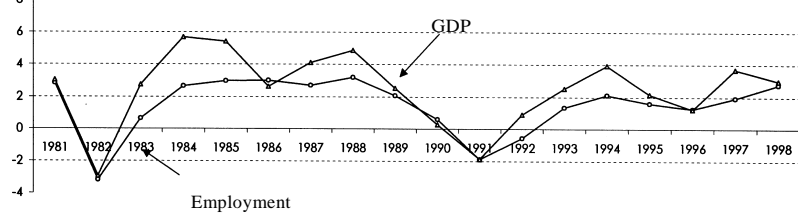
Mexico embarked on the 1990s by continuing the changes begun in the mid-1980s, such as opening the country to international trade, privatizing government business enterprises, and developing a securities market. By the end of 1994, a sudden change in the expectations of security holders provoked a massive sell-off of government bonds. The flow of this capital abroad caused the peso to fall. Aggregate demand had a significant reduction, which led to a 6.2% decrease in real GDP in 1995.³ The Mexican

FIGURE 1

Real GDP and Employment Growth in North America, 1981–1998

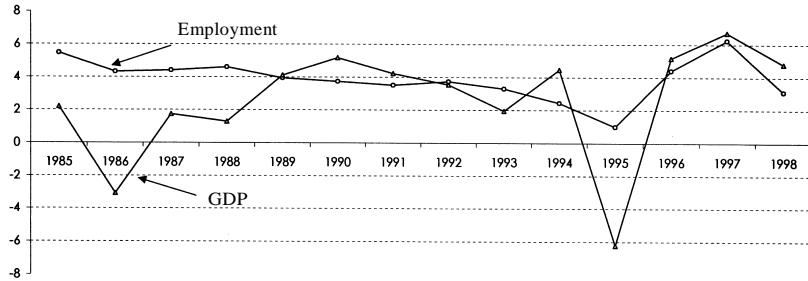
Canada

Percentage of Annual Growth



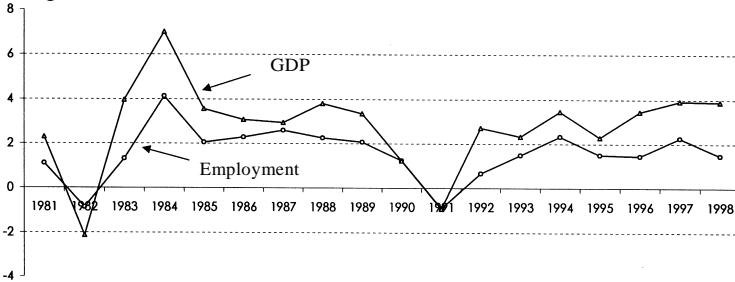
Mexico

Percentage of Annual Growth



United States

Percentage of Annual Growth



Note: For Canada and Mexico, figures include workers 15 years old and older; for the United States, figures include workers 16 years old and older.

Sources: Canada: Statistics Canada, Labor Force Survey, and National Income and Expenditure Account.

Mexico: STPS-INEGI, Encuesta Nacional de Empleo; INEGI, Encuesta Ingreso Gasto de los Hogares; and INEGI, Sistema de Cuentas Nacionales.

United States: Bureau of Labor Economic Analysis, National Income and Product Accounts; and Bureau of Labor Statistics, Current Population Survey.

economy began to recover in the second quarter of 1996. From that year to 1998, real GDP has grown at an annual average rate of 5.8%. Among the factors explaining growth was the strong export performance, which increased by 21.6% during the 1996–1998 period. Additionally, private consumption recovered substantially, and private investment grew strongly.⁴ As in Canada and the United States, growth in Mexico slowed in 1998, with real GDP having risen 4.8%. Since 1996, the economic sector posting the strongest recovery was manufacturing.

Evolution of Trade among NAFTA Countries

Foreign trade in goods and services is important for the NAFTA countries overall, accounting for almost 30% of the region's GDP in 1998. The openness of the NAFTA countries to foreign trade is not recent but has become more marked over the 1990s. Trade among NAFTA countries increased substantially during the 1994–1998 period. Even though intraregional trade is characterized by a large and growing proportion from Mexico and Canada to the United States, the proportion of trade from the United States to its trading partners has also increased during this period.

In 1998, Canadian exports of goods to the United States accounted for US\$173.3 billion, while imports accounted for US\$156.6 billion. In comparison with 1994, Canadian exports to the United States in 1998 represented an increase of 34.9%, while imports grew by 36.8%. Canada's leading exports to the United States are products from the automobile sector and products with a high natural resource content such as paper, petroleum, and natural gas. On the import side, automobiles, engines, parts, and accessories also constitute a large part of merchandise imports from the United States.

Trade between Canada and Mexico has grown consistently since 1991; however, it remains rather modest. In 1998, Mexico's merchandise imports from Canada accounted for US\$2.3 billion, which represented 1.8% of its total imports. Mexican exports to Canada amounted to US\$1.5 billion, 1.3% of its total. For Canada, total merchandise exports to Mexico in 1998 represented 0.43% of total Canadian exports, while imports from Mexico represented 2.5% of its total imports. Canadian exports to Mexico are mainly concentrated in automobile engines and bodies, parts and accessories, telecommunications equipment, parts and electronic components, machinery and equipment, and wheat and oleaginous cultivated products (except corn). Imports from Mexico are mainly in automobile bodies, parts and accessories, and telecommunications equipment components.

The United States also increased its merchandise trade with Canada and especially with Mexico during the 1994–1998 period. In 1998, imports from

Mexico totaled US\$103 billion, almost doubling the amount from 1994. Exports stood at US\$93.3 billion, a rise of 73% in comparison with 1994.⁵ U.S. merchandise trade with Canada also increased. In 1998, U.S. exports to Canada accounted for 23% of total exports, while imports from Canada represented 19% of total imports. The United States' trade growth with its partners has allowed Canada to retain its position as the first U.S. trading partner and Mexico to replace Japan as the second U.S. trading partner.

Evolution of Employment in NAFTA Countries

Generally speaking, employment conditions in Canada, Mexico, and the United States improved between 1994 and 1998. On the one hand, employment grew by an annual average rate of almost 2% in Canada and the United States and more than 3% in Mexico. On the other hand, unemployment rates tended to fall in all three countries. The data used in this section come mainly from the respective employment surveys of each country.⁶

The improved performance of the Canadian economy since 1994 has had a positive effect on employment (figure 1). Between 1994 and 1998, employment grew at 1.9% per annum, for an average annual increase of 258,000 employed people. Even though this rate implies a recovery compared with the reduction of employment observed during the recession of 1991 and 1992, it points to a slightly lower rate of growth when compared to the 1983–1989 period. After 1994, employment growth has been continuous, reaching a growth rate of 2.8% in 1998. That year, employment rose by 386,000 people, the largest employment increase in 10 years. Good employment performance in Canada had a positive impact on unemployment, which began to decline after 1994, reaching its lowest level in 1998. In that year, the number of unemployed people amounted to 1.3 million, almost 200,000 fewer than in 1994.

The characteristics of employment in Canada have undergone substantial modifications between 1994 and 1998. During the first two years of this period, employment growth was essentially among the wage and salary workers, while in 1996 and 1997, employment growth was largely the result of increased self-employment. In 1998, wage and salary employment increased substantially, accounting for 85% of total employment growth. It is also observed that during the 1994–1998 period, the jobs created were of better quality because employment growth was essentially of a full-time nature. Although this situation marked the entire period, it reached its apogee in 1998, when 9 of every 10 new jobs were full-time. Most wage and salaried employment growth in 1998 consisted of permanent jobs.

Employment in Mexico between 1994 and 1998 deteriorated during the first two years and then entered a period of high growth starting in

1996 (figure 1). The initial employment deterioration was caused by the economic crisis that began in 1994. This situation reduced the employment growth rate and increased unemployment, which reached its high period in 1995.⁷ The Mexican economy began to recover in the second half of 1996. This situation was reflected in a recovery in employment, which grew by 9.6% between 1996 and 1998. Formal employment, as measured by the number of workers insured by Instituto Mexicano del Seguro Social (Mexican Social Security Institute, IMSS), increased by 16% between 1996 and 1998, for an employment increase of 1.6 million workers. The quality of employment in Mexico also improved during these years. Six out of 10 new jobs between 1996 and 1998 were full-time jobs. Wage and salary employment also grew at a higher rate than did self-employment, and most of it (86%) was permanent employment.⁸ However, an important share of the employment growth occurred in small establishments, where earnings are usually lower than in the medium and large establishments.⁹ The favorable evolution of employment after 1996 and the lower growth rate of the labor supply in Mexico resulted in a continuous reduction in the unemployment rate, reaching 2% in 1998, less than half the rate observed in 1995.

In the United States, the sustained economic growth in the 1994–1998 period had a positive effect on employment (see figure 1). Employment increased at an annual average rate of 1.7%, for an annual average employment increase of 2.1 million workers. This average growth was higher than that reported for the previous four years but less than the rate registered for the 1984–1989 period. After 1994, the growth of employment was expressed in better-quality employment. The employment increase was essentially in wage and salary positions. Another indication of these improved employment conditions was that the growth rate in full-time employment was higher than the growth rate of part-time employment. In 1998, over 98% of the total employment increase came from full-time employment creation. Likewise, the number of workers with temporary employment fell from 2.7 million to 2.4 million between 1995 and 1999. The last figure represents 2.0% of total wage and salary workers.¹⁰ Since 1994, the growth of employment in the United States has been accompanied by a decline in the unemployment rate. In 1998, the unemployment rate stood at 4.5%, the lowest in 18 years.

Industries with the Highest Employment Growth

During the 1994–1998 period, changes in the distribution of employment by branch of economic activity in Canada, Mexico, and the United States maintained the trend noted in previous years, with employment reductions in agriculture and employment growth in the service sector.

However, one important change that has reversed the overall trend observed in previous years is the increased participation of the manufacturing sector in employment in Mexico and Canada during the 1994–1998 period. In the United States, the decline of employment in manufacturing activities has tended to slow.

In Canada the most dynamic industries in the net generation of employment between 1994 and 1998 were the services industry and the manufacturing industry. Business services played an especially important role, with 29.5% of employment growth. The manufacturing industry generated almost 30% of total employment growth between 1994 and 1998. The most dynamic manufacturing industries in terms of employment growth were transportation equipment (especially aircraft, aircraft parts, motor vehicles, parts and accessories); the metal products industry (mainly stamp press and coal metal products); the wooden products industry; the plastic products industries; the electrical and electronic products, machinery, and equipment industries; and the chemical products industries. The paper and allied products industries (especially pulp and paper), which had been important employment sources in the past, experienced employment declines. Employment in the clothing and apparel industry, which had declined until 1993, recovered during this period and increased substantially in 1998. However, the employment level in 1998 did not reach levels observed in 1984.¹¹

In the United States, changes in employment by economic activity are associated with a larger share of employment in the services sector. Between 1994 and 1998, 50.3% of the employment increase took place in this sector. Services supplied to companies—specifically computer and data processing services, personal services, health care services, and educational services in primary and secondary schools—were the activities with the highest level of employment growth in that period. Trade was the second most important activity in employment gains. In this activity, employment increased by 1.5 million people between 1994 and 1998, the equivalent of 31% of total employment growth.

With regard to the U.S. manufacturing industry, employment increased by 576,000 jobs between 1994 and 1998, contributing 6.9% of total employment growth. The increase in employment during this period reversed the reduction observed during the previous four years, although in 1998 employment in the manufacturing industry experienced a slight reduction. The most dynamic manufacturing activities in employment absorption during the 1994–1998 period were those related to the manufacture of durable goods. Among the industries with high employment reduction were the textile and garment industries, whose employment fell by 238,000 during the 1994–1998 period.

Mexican employment in the manufacturing sector underwent a considerable increase of 1.8 million people between 1995 and 1998; that sector became the most important generator of employment. This favorable evolution of employment in the manufacturing industry was the result of a considerable recuperation of GDP in this industry between 1996 and 1998.¹² The most dynamic manufacturing activities for the generation of employment were the garment industry, the food and beverage industry, the manufacture of transportation equipment, the manufacture of metal products, and the leather and footwear industries. Together, these industries accounted for a growth of 1.3 million workers during this period, or 74.2% of total employment growth. The behavior of employment in the Mexican manufacturing industry has been highly influenced by the evolution of employment in the in-bond export industry. Between 1994 and 1998, the number of in-bond companies, or *maquiladoras*, rose from 2,085 to 2,983. By 1998, this industry employed over a million people, or 424,987 more than in 1994.

Communal, personal, and social services have also played an important role in employment growth in Mexico. Between 1995 and 1998, employment in this sector increased by 1.3 million people and accounted for 27% of the total employment increase. The services with the highest employment growth rates were health and educational services, domestic services, and repair and maintenance services. These last two activities are mainly informal employment industries.

Real Earnings in NAFTA Countries

The favorable evolution of employment in Canada, Mexico, and the United States since 1994 has not resulted in a substantial improvement in earnings levels. For example, nominal increases in earnings have permitted only a slight recovery of salaries in real terms.

In Canada, real earnings increased by 2.6% between 1994 and 1997, a situation that was largely the result of an increase of nominal earnings, which surpassed the inflation rate increase for this period. This earnings increase served to reverse the declining trend observed between 1990 and 1993, when earnings fell by 4.1%. In Mexico, the growth of average nominal salaries has been surpassed by the more pronounced growth of inflation. Between 1994 and 1998, the average nominal salaries of workers in the formal sector, as represented by workers insured by IMSS, increased by 90.8%, while price increases totaled 154%.¹³ The result was a 25% deterioration of real earnings between 1994 and 1998. In the United States, real weekly earnings of wage and salary workers rose by 4.5% between 1994 and 1998.¹⁴ The salary recovery observed during this period started in 1997. Substantial increases were reported in 1998, when real salaries rose

by 3.9%, the highest increase for 18 years. This situation offset the trend observed since 1986 for real remuneration to continuously decline, thereby causing a 4.4% loss of earnings purchasing power between 1986 and 1996. Despite the increased earnings in the last two years, in 1998 real earnings were 5.6% lower than in 1980.

Conclusions

Trade among NAFTA countries has continued to increase after 1994, and economic growth has been sustained in Canada, the United States, and Mexico since 1996. In this context, employment in Canada, Mexico, and the United States has performed well, with employment rising mainly in full-time jobs and rates of unemployment declining continuously. However, real earnings have recovered only slightly, mainly in the last two years.

Acknowledgments

This paper is based on the main results of the second edition of *North America Labor Market: A Comparative Profile*, which will be published by the Secretariat of the Commission for Labor Cooperation in 2000. The description of the economic evolution of the NAFTA countries was based on chapter 1, which was elaborated by Dalil Maschino, who was a senior economist at the Secretariat.

Endnotes

¹ In 1998, world merchandise exports accounted for \$5.260 trillion and world merchandise imports stood at \$5.432 trillion (World Trade Organisation, *Focus News Letter*, April 1999).

² The annual growth in the consumer price index declined from 2.6% in 1994 to 1.6% in 1998.

³ Aggregate demand, in constant terms, was reduced by 10.2%, in comparison to 4.9% growth in 1994.

⁴ Fixed gross investment grew at an annual average rate of 15.8% between 1996 and 1998.

⁵ In 1994, Mexican trade with the United States accounted for 84.9% of total merchandise exports and 69% of total merchandise imports.

⁶ For Canada, Labour Force Survey; for Mexico, Encuesta Nacional de Empleo; for the United States, Current Population Survey.

⁷ In 1995, the level of unemployment in Mexico totaled 1,651,794 people.

⁸ In 1998, wage and salary workers with permanent jobs numbered 20.7 million, while wage and salary workers with temporary jobs totaled 2.1 million. Temporary employment in Mexico is defined as those wage and salary workers with contracts with a specific ending date or task.

⁹ Between 1996 and 1998, the number of wage and salary workers in Mexico rose by 2.4 million people, which represented 75% of total employment growth, while self-employed workers increased by 827,000 people.

¹⁰ Temporary or contingent workers are defined as wage and salary workers who expect that their jobs will last for an additional year or less and who had worked at their jobs for one year or less. Data correspond to the months of February 1995 and February 1999 and are from the Bureau of Labor Statistics' Contingent and Alternative Employment Arrangements, Biennial Supplement Survey to the Current Population Survey.

¹¹ In 1998, employment in the clothing industries totaled 121,600 workers, 12,000 more than in 1994 but 17,000 less than in 1984.

¹² The GDP of the manufacturing industry, which in 1995 decreased by 4.9%, increased by 8.7% between 1996 and 1998.

¹³ The average weekly earnings of workers at IMSS was Mex\$662.76 in 1998.

¹⁴ Data refer to the median weekly earnings of wage and salary workers.

The Effectiveness of the North American Agreement on Labor Cooperation

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In an article published in 1997, we argued that despite the skepticism of many, “the North American Agreement on Labour Cooperation and the institutions that it has spawned have had some modest successes in labour’s favour” (Adams and Singh 1997:181). We urged those interested in promoting labor rights not to dismiss the scheme but rather to further test its initial promise. At about the same time, the IRRA-NAFTA Committee came to a similar conclusion, arguing that “[t]he NAALC benefits labor, and interested parties should utilize the procedures it contains” (Cook et al. 1997:9). We are gratified to report that during the past two years that is precisely what has happened. The number of cases filed has increased significantly, as has the number of issues considered. Both the Canadian Labour Congress (CLC) and the American Federation of Labor–Congress of Industrial Organizations (AFL-CIO), who initially condemned the procedure, have more recently become associated with NAALC complaints. Whereas all of the initial cases were complaints against problems in Mexico, more recent cases have alleged labor policy problems in Canada and the United States. Although the NAALC’s achievements are still modest, developments since the publication of the earlier piece have strengthened our conviction that despite its limitations it does “have the capacity to advance the struggle for labor rights.”

An Assessment of the NAALC’s Effectiveness

In assessing the effectiveness of the NAALC, it is pertinent that its track record be compared with its intent (for a detailed description of the operation of the NAALC, please see Adams and Singh 1997; Compa 1999;

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Summers and Verge 1998). The overarching goal of the NAALC is to ensure that none of the three countries would gain an unfair trade advantage by promoting or tolerating poor labor standards. The achievement of this goal may be measured through an assessment of the two main components of the NAALC, namely, the cooperative activities and the mediation and dispute resolution procedures.

Cooperative Activities and Labor Standards

While the NAALC emphasizes cooperative activities in achieving its overarching goal, commentators and scholars tend to downplay the importance of these activities when assessing the effectiveness of the agreement. Over the past six years, there have been over 40 cooperative activities organized by the NAALC's Secretariat and the various national administrative offices (NAOs), including conferences and seminars; these activities have been attended by representatives of labor, business, government, and the academic community. The Secretariat has also initiated a number of studies on comparative labor markets, comparative labor law, plant closings and labor rights, practices in the North American Apparel industry, and a number of short reports.

Many observers, including representatives from trade unions, many of whom criticize the NAALC (e.g., White 1998), have expressed considerable satisfaction with the organization and outcomes of the cooperative activities. As Summers and Verge (1998) concluded in a recent review: "[T]he cooperative activities . . . have led to a greater understanding and appreciation by the participants from each country of the labor conditions and labor laws of the other countries. This makes a major contribution to dealing with mutual problems and providing the basis for future cooperation."

Other scholars and practitioners have expressed similar sentiments about the cooperative activities (e.g., McFadyen 1998; Compa 1999). In fact, there is little criticism of these activities, leading to the reasonable conclusion that they have generally been effective in promoting the principles and objectives of the NAALC. This conclusion is supported by empirical evidence. In a survey on the effectiveness of the NAALC, 114 respondents in Mexico rated the usefulness and effectiveness of the cooperative activities relatively high (see *Four-Year Review of the NAALC*: annex 4). The cooperative activities, as well as the complaint mechanism (discussed later), have helped stimulate unions' coordination efforts on NAALC-related activities (Compa 1999). Most submissions, for example, have been signed by labor organizations in at least two and often all three of the countries. Although NAFTA alone would have stimulated some of this activity, the NAALC provides a focus that otherwise would have been absent.

Mediation and Dispute Resolution

The mediation and dispute resolution procedures of the NAALC have attracted the most attention and criticism.¹ What is the experience in this respect?

Contrary to a commonly expressed fear that the processing of cases would be long and drawn out (Cowie and French 1994; Levinson 1998), the U.S. and Canadian NAOs have kept within the time frames stipulated in the agreement (e.g., 60 days for investigations leading up to the acceptance or rejection of the submission, 120 days to issue a report). The Mexican government never agreed to these time lines (but instead agreed to a “reasonable” time to review cases), and although early cases submitted to the Mexican NAO were processed in about the same time as those in the United States, recent cases have taken longer.

Although the submission of only a handful of cases in the early years reinforced the concerns of some that the apparently cumbersome and complex procedures would turn away potential users, recently there has been a significant increase in the number of cases filed. In the first four years, there were 10 submissions, compared with 12 filed since January 1998 (for a discussion of these cases, see Adams and Singh 1997; Compa 1999; Summers and Verge 1998; U.S. Department of Labor 2000). These cases deal with an increasing number of the labor principles, including some that have the potential to proceed to the arbitration stage. A recent submission (the Washington apple industry case) mentions the possible violation of 7 of the 11 principles.

Another early fear of critics was that the NAOs would be very selective in accepting cases since the formal criteria for review is systematic failure of enforcement. Contrary to expectations, the NAOs have been expansive in their interpretations of the NAALC, thus leading to the majority of the cases filed being accepted for review. (Out of 22 cases that have been submitted, 3 were withdrawn by the submitters; out of 19 that were processed, only 5 were not accepted for review, for one of which the submitters failed to provide additional data requested by the NAO.) Of the 14 cases accepted for review by the NAOs, ministerial consultations (which occur only when the initial review concludes that there are problems in need of attention) have been recommended in 9 cases. Of the remaining five, three are still under review, and consultations were not recommended in two instances.

Another criticism leveled against the NAALC is that these cases result in no effective remedies. Frequent mention has been made of the failure of the NAALC procedures to ensure the effective reinstatement of workers who lose their jobs illegally and the lack of punishment for the offending

companies. Thus, the NAALC is viewed as “toothless” in curbing employer practices that violate the relevant labor laws (e.g., Levinson 1998; Summers 1999; White 1998).

It is indeed a fact that most of the workers who lost their jobs in NAALC cases have not regained them, even though the reviews suggested irregularities. Nevertheless, the Side Accord and the institutions it has spawned have begun to have an effect on egregious employers’ practices in the region and may be leading to a more strict observance of labor laws, especially in Mexico (Delgado 1995). As a result of the complaint procedures and the sometimes widely publicized public hearings, there has been a “sunshine” effect. Practices that previously would not have attracted much attention have come under public scrutiny, in some cases with clear effect (Cook et al. 1997; Elwell 1998; Robinson 1995). Even Thea Lee, an ardent critic, concedes that the NAALC “has also fostered transparency in the administration of labor law in the territory of each country. Sunshine and exchange of information [are] important to the establishment of labour market institutions that provide for the equitable distribution of the benefits of trade” (1998:2). Joel Solomon, the research director of Human Rights Watch/Americas, an organization involved in a few of the submissions, makes a similar point: “[T]o the extent that the NAALC leads to public awareness in Mexico about longstanding labor rights problems, we find the Accord positive. In fact, in Submission 9601 [merged Mexican ministry case], we clearly saw such benefits. Similarly, Submission 9701 [pregnancy testing case] has helped increase public awareness in Mexico regarding the serious labor rights problems we raised in the petition” (1998:2). The “sunshine” effect has been clearly evident in other Mexican cases, including Maxi-Switch, Han Young, Echlin, and “gender discrimination” (for a description of these cases, see Adams 1999; Compa 1999; Summers and Verge 1998).

Employers’ and governments’ practices in Canada and the United States have also been subjected to pressures and complaints induced by the NAALC. For instance, the Conservative Government of Alberta (Canada) announced plans in 1996 to privatize the enforcement of health and safety standards. Currently, such standards are publicly enforced in all Canadian jurisdictions. The Canadian Association of Labour Lawyers and the public-sector unions subsequently threatened a NAALC submission, upon which the government backed down and withdrew the legislation (Cook et al. 1997; Compa 1999).

Further, the NAALC provides an avenue for labor rights advocates to highlight the weaknesses of the U.S. labor regime, as illustrated by the Washington apple industry case. American unions have long complained

that the government does not deliver on its commitment to promote the right to organize and bargain collectively. In fact, it is well documented in the literature that employers in the United States systematically use loopholes in the law to flagrantly oppose unionism in the workplace (e.g., Adams 1993; Block, Beck, and Kruger 1996).

The apple industry case—which alleges a long litany of offenses against NAALC principles, from interference with union organizing to inadequate health and safety standards and administration—offers workers' rights advocates a new angle to pursue. Not only is the United States violating its international commitments, but also by its inaction against labor policy violators, it is taking advantage of Mexico by providing American producers with an export subsidy (Adams 1999). Apples in Washington are picked largely by immigrant workers, most of whom are from Mexico. While most of the harvest is sold in the United States, an increasing volume is being exported to Mexico. Thus, the argument maintains that in subsidizing labor costs with substandard labor conditions, the United States is gaining a competitive trade advantage in flagrant violation of the NAALC. This case has attracted considerable press attention and political pressure for reform (e.g., Davila 1999; Greenhouse 1998; Moore 1998). Although it would be naive to expect radical changes in U.S. labor law following this case, it does suggest a strategy that if pursued diligently may serve as a catalyst for reforming some of the most egregious aspects of U.S. policy.

Partly as a result of these initial successes, many critics of the NAALC have dampened their attacks, and labor organizations are increasingly utilizing the mediation and dispute resolution procedures in their struggles for workers' rights. In fact, the central labor organizations have begun to file cases (for instance, the Echlin case, involving the AFL-CIO; the CLC; and the FAT, the independent union organization in Mexico, and the Decoster Egg case, involving the CTM). Further, representatives from labor, employers, government, and academic communities continue to attend and share relevant information in the cooperative activities organized by the NAALC's Secretariat and the various NAOs.

These initial successes have also led some employers and Mexican official union and government representatives to accuse the NAOs, especially the U.S. NAO, of extending their mandates (e.g., Katz 1998, Medina 1998; Mexican National Advisory Committee 1998). One claim is that the U.S. NAO accepts these cases willy-nilly, without regard for the fact that domestic procedures are not exhausted. Probably fearing a backlash from their stakeholders, employers' groups have also expressed concerns that companies are being named in these submissions, claiming that the NAALC stipulates that the allegations be against a country for not enforcing its laws.

Despite these early successes, many employers and governments in the region continue to violate labor laws and NAALC's principles. Some of these violations, uncovered in the NAALC complaints, were captured in invited submissions to the various NAOs during the recent four-year review of the NAALC. For instance, the Canadian Association of Labour Lawyers (CALL) has argued that among other labor policy problems Mexican labor tribunals often fail to register and recognize independent unions or to arrange fair elections. Contrary to U.S. and Canadian practice, they do not regularly conduct secret ballot votes. Too often they do not protect against violence and intimidation during union organizing drives. Nor do they, CALL alleges, convene public hearings with due notice and expedition or ensure an opportunity for victimized workers and unions to present evidence and make submission. Finally, the CALL submission claims that Mexican tribunals often fail to issue impartial decisions (Greckol, Sack, and Melancon 1998). Other critics argue that Mexican workers continue to face deplorable health and safety conditions in many workplaces (e.g., Lee 1998). As noted earlier, complaints filed with the NAOs have also begun to highlight many labor policy problems in Canada and the United States.

A recent case filed by a U.S.-based employer organization (Labor Policy Association) and a business firm (EFCO Corporation), which challenged the National Labor Relations Board's interpretation of section 8(a)(2) of the National Labor Relations Act (NLRA), suggests how the NAALC may become "corrupted" by being used as an instrument against labor's interests. This submission to the Canadian NAO in early 1999 challenged NLRA's stipulations that restrict the use of employer-established labor-management committees that deal with negotiable issues in non-union facilities. Employer organizations have lobbied hard for the Team Act, which was passed in the U.S. legislatures but was vetoed by President Clinton (for a discussion of related issues, see Gould 1996; Kaufman 1999). It seems as if the NAALC was being used as a backdoor method to keep the issue in the public sphere. Although the submission was not accepted for review, it indicates a potential future threat to the effectiveness of the NAALC. NAOs are not independent agencies but rather are administered by the respective departments of labor. Thus, future administrations unfriendly to labor could easily undermine the effectiveness of the NAOs through appointments more likely to be receptive to such submissions.

Conclusions

The NAALC has experienced mixed fortunes and growing pains in its infancy. The cooperative and research activities have generally been effective in promoting the objectives of the agreement, and the complaint and dispute

resolution procedures have had moderate success. The NAALC's "sunshine" effect is leading to heightened awareness of labor rights issues, and many employers and governmental authorities may be changing questionable labor practices under threat of exposure through the NAALC. In our view, though far from ideal, the NAALC has performed well enough to win the respect of labor rights advocates rather than their scorn.

Endnote

¹ There are a number of objections to the operation of the NAALC that are not based on its performance against its stated objectives. Some opponents hold that free trade agreements are so inherently objectionable that all aspects should be rejected in principle. Others are unwilling in principle to see any reduction in sovereignty, even though such a reduction is an inherent part of all multinational agreements. Some business spokespersons object to interference in business operations even if the challenging of employers' practices is precisely the objective of the agreement. While such ideological objections are part and parcel of the NAALC debate, they are not central to our concerns in this paper.

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DISCUSSION

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The three papers presented discuss various aspects of the labor experiences of the three NAFTA countries since the implementation of NAFTA at the beginning of 1994. The first paper, by María Elena Vicario, reports on aggregate economic, employment, and wage performance of the three countries. The second paper, by Francisco Zapata, discusses the specific case of Mexico. The third paper, by Parbudyal Singh and Roy Adams, analyzes the operation of the NAFTA labor side agreement, or North American Agreement for Labor Cooperation (NAALC).

As reported by Vicario, the period was characterized by positive overall economic performance, first by recovery from the 1990–1991 recessions in Canada and the United States and the 1994–1995 crisis in Mexico, and then by high rates of growth in all three countries in the most recent period. In terms of trade patterns, one notes a definite reorientation of the three economies toward each other, especially in manufacturing, although the greatest GDP growth is in services. Shifts in employment follow shifts in output. Most pronounced is the rapid employment growth of manufacturing in Mexico in the *maquiladoras*, or export-processing zones, especially in clothing and textile, electrical and electronic equipment, and transportation equipment, reflecting the worst fears in the United States and Canada of job loss due to trade. Only after 1997 does employment growth in non-*maquiladora* manufacturing outpace employment growth in *maquiladora* manufacturing. On the other hand, income increases did not follow employment gains, and real positive movement in incomes is seen only after 1997. In fact, if the period were closed in 1997 rather than in 1998, the results would be decidedly less positive, and the dislocations due to the 1994–1995 crisis in Mexico would be more evident, being less masked by the effect in Mexico of general economic growth in the United States.

In sharp contrast is the Mexican case as analyzed by Francisco Zapata, who reports a worsening in the quality and conditions of employment since 1982, with no improvement as yet as a result of NAFTA. He describes

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NAFTA as one phase of a process of trade liberalization, privatization, and restructuring of labor markets, which was a reactive response to the 1982 debt crisis. Foreign investment was allowed to enter Mexico and economic-development decision making was transferred out of Mexico, making the development process a by-product of the strategies of multinational corporations. Zapata highlights five types of impact of free trade on labor markets. First is the mismatch between the modernization needs of the new export economy and the skills, technology, and managerial practices preexisting in Mexico, including only limited training capacity. Second is the negative impact of increased agricultural imports on agricultural employment in Mexico, resulting in increased urban population, increased informalization of labor markets, and increased migration to the United States due to lack of job creation in Mexico, contrary to earlier claims of NAFTA proponents. Third is the stagnation or deterioration of wages and working conditions in the NAFTA period, even in the high-growth export industries such as the automobile industry and the *maquiladora* sector, even in the presence of high profits and productivity gains, which are derived from suppression of clauses in labor contracts, flexibilization, and use of temporary workers. Fourth is changes in the occupational structure resulting from declining industrial and state-sector growth and the increase in services and in the *maquiladora* sector, leading to decline in industrial employment in midsized enterprises and an increase in women in the formal and informal sectors. Fifth is the weakening of union impact on the terms and conditions of employment. The overall assessment is that while some aggregate statistics have improved, Mexican workers are worse off as a result of the opening of the economy. At best, NAFTA might result in improvement of the situation of Mexican workers if some of the benefits of trade begin to be transferred to them.

The Singh and Adams paper assesses the impact of the North American Agreement for Labor Cooperation (NAALC), as the labor side agreement is called, and concludes that it does have a positive impact, particularly in the area of advancing labor rights. The paper presents an overview of the operation of NAALC institutions and mechanisms, including the cooperative and dispute resolution activities. The detailed review of the cases filed under the dispute mechanism illustrates the breadth of the issues covered and draws on a number of sources that credit NAALC cases with positive impacts. Broadly, the paper fits into the body of literature that argues, contrary to the position of some worker rights proponents, that the NAALC has some utility, a view that is contrasted with the general mood at the time of the adoption of NAFTA. At that time, the NAALC was dismissed as useless by those who had hoped for a stronger worker rights mechanism. Consistent with this

paper, many of the disappointed have found the NAALC processes to have utility, either in general or in specific cases.

Two main lines of criticism should be considered. First is whether the observed positive impact should be considered to be a permanent feature of the NAALC or should be seen as the result of initial support from the founding governments and of the dedication and enthusiasm of the first staffers in the Secretariat of the Commission for Labor Cooperation and in the national administrative offices of the three NAFTA member governments. Most staff positions have turned over recently or will turn over, and the governments themselves may change soon. Second is whether or not the NAALC processes are sufficiently potent to be a significant source of improvement in labor conditions in the NAFTA countries, in contrast to more traditional intervention by labor movements or national governments. Even the relatively optimistic Vicario paper does not suggest that no further intervention is needed. The Zapata paper suggests that conditions are going in the wrong direction and that much intervention is needed. While the NAALC mechanism may be a step in the right direction, attention to it should not detract from action and strategies elsewhere.

DISCUSSION

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It has been a pleasure to be involved in this symposium. I have thoroughly enjoyed reading the three very interesting papers covering different issues related to labor standards and NAFTA. While we've been reviewing *five* years of labor markets and labor relations under NAFTA, another anniversary has crept up, and as of this month NAFTA turns *six*.

Francisco Zapata's paper on Mexico situates the evolution of the Mexican labor market in relation to the debt crisis of the 1980s, which preceded North American integration. Mexico lost control of its own development process to the international financial institutions and multinational companies. While labor markets have gone through several far-reaching transformations, the benefits of NAFTA, according to Zapata, have accrued to the multinational companies investing in Mexico. This should not surprise us since NAFTA was set up as a low-wage export platform to take advantage of U.S. technology, Canadian resources, and cheap Mexican labor. NAFTA is primarily an investment agreement whose aim is to deregulate investments and enforce property rights. In this context, then, one would have to question the feasibility that NAFTA might now begin to redistribute benefits of free trade to Mexican workers, as Zapata alludes in the conclusions of his paper. Until now, it has been the multinational companies that are reaping the benefits of NAFTA. NAFTA in Mexico is fulfilling the objectives for which it was designed.

The NAALC Secretariat's paper on employment growth presents economic data to show that NAFTA is fulfilling its objectives, "to stimulate trade between the three countries, thereby creating better job opportunities and better standards of living for the population," concluding that "trade has been one of the major sources of economic growth in the three countries." Figures presented on GDP and employment growth in all three countries from 1994 to 1998 are impressive, although "real earnings have recovered only slightly, mainly in the last two years," and salary dispersion among workers is still high. These results remind me of an article that

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recently appeared in the *Globe and Mail* called "If Things Are So Good, Why Do We Feel So Bad?" This poll assessed the stress levels of working Canadians, whose earnings are the same as or lower than 15 years ago; whose savings rates have dropped to almost nothing; who have very limited access to affordable, good-quality daycare for their children; and who have witnessed over the past decade severe cutbacks to essential social programs such as universal health care, good-quality education, and unemployment protection, among others. In spite of strong growth and an increase in corporate profits (26% from the third quarter of 1998 to the third quarter of 1999), the benefits for working people are very slow to trickle down. Over the economy as a whole, real wages for many have been flat or falling (unionized workers have fared somewhat better). Inequality is increasing, partly due to attempts to harmonize social policy in order to make Canadian labor markets more like U.S. labor markets because of increased pressures of competition. The growth in GDP and employment deriving from trade has more to do with a very low Canadian dollar over the past few years. This might change over the next year as we see the effects of a revaluing Canadian dollar.

The Singh and Adams paper assesses both the cooperative activities and the dispute resolution components of the side agreement on labor, NAALC, and argues that despite its limitations, NAALC does have the capacity to advance the struggle for labor rights in the context of NAFTA, concluding that the NAALC "should be respected rather than scorned."

"NAALC commits member states to promoting high labor standards, in light of free trade, without transgressing on their sovereignty." This statement is really the crux of the matter and needs to be debated more extensively than the time limitations of this exercise permit. What are these so-called high labor standards that currently prevail in each of the parties' territories? The term *high labor standards* is not defined in the agreement and would seem to be a subjective one, depending on each government's perception. What is the test to determine when a standard is high enough? In the NAALC, the adequacy of standards is not measured against International Labour Organization (ILO) conventions and other human rights instruments such as the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights. In fact, no reference whatsoever is made to international labor standards in the agreement. Zapata's paper describes real implementation of labor standards in Mexico and, in my reading of it, confirms that Mexico does, in fact, pursue a trade advantage by promoting and tolerating poor labor standards, in contrast to the high standards enshrined in Mexican labor legislation and the Constitution. In the case of the United States,

according to IRRA President Tom Kochan's draft presidential address to the IRRA assembly, "American labor law, and our inability to update it, is nothing short of national disgrace. Study after study has documented the failure of labor law to provide workers with the means to implement what the international community has [correctly described as a fundamental human right, the right to join a union]," and he goes on providing details of this failure. In the case of Canada, most workers are not covered by the NAALC since Ontario, which is the industrial heartland of the economy, has not ratified it. On the contrary, rather than promoting high labor standards, the Ontario government has lowered employment standards, with new legislation allowing replacement workers, for example, as part of its slash-and-burn social policy.

It is true that since the early 1990s Canadian and U.S. unions have more actively pursued common ground with Mexican labor activists, independent unions, and new union organizations. However, many of these important interunion and multisectoral relationships began prior to the existence of NAFTA or the NAALC. Mobilization on free trade in Canadian civil society reached a pinnacle in the late 1980s in opposition to the CUSFTA. Contacts with Mexican counterparts were well established by January 1994, when NAFTA and the NAALC came into law. These relationships have developed over time quite outside the formal structures of the cooperative activities of the NAALC. I would claim that it was these relationships that set the stage for the initial complaints submitted to the NAALC dispute resolution structures. Networks of unions, environmental groups, women's groups, church groups, and development NGOs of the three NAFTA countries (now referred to as civil society) have more recently joined with similar networks from Chile, Brazil, Central America, and the Interamerican Regional Workers Organization (ORIT) to form a "hemispheric social alliance" to confront the expansion of NAFTA to the Americas. The groups in the alliance have published a book of alternatives to the dominant economic and political model of NAFTA, *Alternatives for the Americas*, calling for mechanisms to guarantee workers' rights and labor standards to be embedded in the core of any trade agreement that is negotiated for the Americas and rejecting the side deal model that has such a weak enforcement capacity. Unions and civil society groups from the hemisphere identify strongly with the labor market developments described in Zapata's paper. Is there any country in the Americas where the labor market has not already undergone neoliberal restructuring, deregulation (flexibilization), feminization, atomization, deindustrialization, and downward pressure on unions in order to clear the road for the free trade agenda? Other countries see how Mexico's export development model has evolved,

and they don't like what they see. In a recent ILO study on labor markets in Latin America, the labor organization reported that the "modern economy of Latin America has ceased to produce new jobs."

At this point, in the Canadian labor movement we have serious questions about whether the time, energy, and resources that have been committed to pushing the various envelopes of the NAALC have produced or can produce sufficient outcomes to justify continued involvement. The refusal of the U.S. NAO to accept for review the case of Canadian rural postal couriers who are legislatively denied the right to join a union and bargain collectively was a significant setback for Canadian labor activists who had agreed to test the efficacy of the NAALC. From the Canadian labor perspective, this turn of events, along with a number of procedural questions related to the Canadian NAO and failure on the part of governments to make improvements in the agreement after the four-year review, shifted the balance from the "gem" to the "scam" side of the scale considerably. It is increasingly difficult to mobilize union efforts to make use of the side deal in the Canadian context, although we do continue to discuss various possibilities.

The final point I would like to make relates to the role of Bill Clinton in linking free trade and labor rights. It is ironic to review Clinton's role as the grandfather of the NAALC in light of his address to the World Trade Organization in Seattle supporting the idea of ultimately instituting trade sanctions for countries that violate internationally accepted core labor standards, in both cases responding to the American labor movement's strident opposition in the lead-up to presidential elections. A recent issue of the *Manchester Guardian* reported, "Activists have realised that they can achieve far more through confrontation with power than through cooperation. Voluntary organisations and trade unions which have been negotiating for years to try to soften the blows delivered by the corporate giant have found themselves outflanked, as campaigners put the demo back into democracy."

DISCUSSION

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I would like to offer my comments in the context of the first stated objective of the NAALC: “to improve working conditions and living standards in each Party’s territory.” First, a few observations about each of the papers, and then I will close with some general comments.

Mr. Zapata suggests that most changes in the Mexican economy over the past five years are more attributable to adjustments made in response to privatization, the debt restructuring in 1994, and other internal factors than they are to NAFTA. In so doing, he injects yet another factor into the mix of the already numerous variables that make it difficult to isolate NAFTA-related costs and benefits in the three countries. He also describes, among the trends aggravated by free trade in Mexico, the significant migration from rural agriculture to the export processing zones and elsewhere. Yet as the U.S.-Mexico Binational Commission concluded, this migration off the land, both into the United States and Canada and also within Mexico, has not been accompanied by a net creation of new jobs.

Also interesting is Mr. Zapata’s observation that there has been no significant improvement in working conditions in the existing or newly created jobs. For example, in the *maquiladora* sector, the population has doubled with all the new investment, yet the working families there are no better off. It is an environmental dump site; people are living in cardboard, all, of course, side by side with brand-new factories. Finally, he points to the lack of any evidence showing that NAFTA is closing the living standards gap between workers in Mexico and the United States. Note, for example, how the ratio of auto industry wages between the countries has not changed, despite much bigger auto company profits.

By contrast, María Elena Vicario asserts in her paper’s introduction that stimulating free trade will lead to better job opportunities. However, the paper provides little evidence of that. By her own admission, there has been a drop in real earnings. And while she points to modest recovery in this past year, she acknowledges that even now Mexican workers have

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made up only one half of their loss in real wages during NAFTA's first four years. So what we have is strong evidence of substantial productivity growth, a huge increase in corporate profits, but again little to show for the workers themselves.

Thus, clearly, not everything bad that has happened to these countries' economies over the past five years is due to NAFTA. Yet, while it may indeed be hard to measure its failure or success in terms of net job loss or creation, we can nonetheless fairly charge that NAFTA is reinforcing some of the worst tendencies of multinationals. First, we see the proverbial race to the bottom, with companies seeking out the lowest wage and benefit standards possible, competing for the cheapest labor while uprooting workplaces and entire communities. Second, to make matters worse, companies are now directing their suppliers—even those that are *not* labor intensive—to relocate (as, for example, in the clothing industry, where the labor-intensive apparel makers order their dependent, non-labor-intensive cloth manufacturers to move with them). In other words, one effect of free trade in this context has been market power used to leverage an *inefficient* real location of resources, where these captive suppliers, if allowed to act rationally and efficiently, would not be motivated to close down their U.S. operations and relocate. Third, we see the erosion of government regulation and of unions, which, where allowed the opportunity, could serve as an effective substitute for government regulation.

Furthermore, even where companies do not move, NAFTA has provoked constant threats of plant closures and relocations, often as a means of depressing labor standards and avoiding union organizing here in the United States, as Cornell's Kate Bronfenbrenner has documented in research commissioned by the NAALC Labor Secretariat.

Of course, this takes us to the question of labor standard protection and the NAALC, the focus of the Singh and Adams paper. This paper is helpful in showing through its analysis of the cases brought to date that there may have been some value in the "sunshine" effect of focusing the spotlight on certain egregious practices. More significantly, however, the case history to date serves to show that even when workers win under these procedures, they still lose. To elaborate, no workers have been reinstated by any of the NAALC cases; there have been no concrete remedies ordered, nor any financial sanctions imposed. And there has been very little change in corporate or government behavior as a result of the 15 or so cases brought. This has been true particularly in the cases involving freedom of association.

Finally, the praise for the labor-management cooperation aspects of the system is surely exaggerated. The NAO-sponsored meetings and seminars, while perhaps well intentioned, have drawn small attendance, with

few high-level government officials, little media coverage, and a complete absence of company representatives. (One *useful* by-product, as Singh and Adams point out, has been the cooperation among the three countries' labor movements that the NAALC has generated.)

In sum, the AFL-CIO's major criticisms of the NAALC remain what they were when we submitted our comments to the NAO last year. Most significantly, despite the NAALC's explicit obligation not only that the respective countries comply with their own labor laws and standards but also that they "continue to strive to improve those standards," there has been no evidence that any improvement in labor standards has been achieved or even attempted. U.S. labor laws remain ineffective in protecting the rights of American workers, and Mexican workers are facing intense political pressures to diminish the effectiveness of labor laws that historically provided a certain measure of protection.

So, too, our recommendations would remain pretty much the same as they were a year ago. Among those are (1) the NAALC should be part of NAFTA itself, which says absolutely nothing about workers' rights in contrast to intellectual property rights or other types of protection that were considered critical by the U.S. business community; (2) all 11 of the worker rights principles covered by the NAALC (rather than the present 3) should be subject to final and binding dispute resolution and subject to possible sanctions; (3) the NAALC should address the need to *raise* a country's labor standards where inadequate, not just the obligation to adhere to a country's existing laws; (4) the U.S. NAO process needs improvement, in particular, the time frame of the dispute process needs to be shortened; and finally (5) where a dispute involves an allegation that a company has violated the law, that company should be required to participate in the hearings. Offending companies should be penalized.

XV. ANNUAL STUDENT WRITING COMPETITION

The Effects of Network Structure and Content on Learning Environments in the Workplace

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Introduction

A growing body of literature documents the richness and variety of social networks as a potential locus of learning (e.g., Haunschild and Beckman 1998; Powell 1990; Uzzi 1996). Podolny and Page (1998) suggest two ways in which social networks can foster learning. First, networks potentially encourage learning by promoting the rapid transfer of self-contained pieces of information. Second, networks may provide novel syntheses of information that are qualitatively distinct from the information that previously resided within nodes such as distinct individuals or organizations. However, most analyses of networks and learning have focused exclusively on the *structure* of interorganizational relations as an explanatory variable. In contrast to previous research, this study examines the effects of network *content* as well as network structures within an organization on an employee's environment for learning his or her job.

Podolny (1998) raises networks to a level of metaphorical abstraction: networks as pipes carrying information and resources, and networks as prisms splitting out and inducing differentiation among actors. An increasing number of research streams on networks have applied the metaphor of a prism by emphasizing the role of status (Han 1994; Podolny 1994; Podolny and Feldman 1998; Podolny and Phillips 1996), prominence (Baum

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and Oliver 1992; Haunschild and Beckman 1998; Stuart, Hoang, and Hybels forthcoming), and categories (Zuckerman forthcoming). I argue that network content also differentiates the effects of network structures on an individual's learning environment in the workplace. Podolny and Baron (1997) support the plausibility of this hypothesis by examining how the content of individuals' networks in the workplace differentiates the effects of network structure on intraorganizational mobility. All of the preceding research, except for Podolny and Baron (1997), pertains to *interorganizational* networks. Like Podolny and Baron (1997), my analysis explores *intraorganizational* networks among employees. So this study indirectly examines the applicability of the setting of interorganizational networks to the setting of intraorganizational networks. If the hypotheses in the paper are supported, it would imply that the prism effects in networks can be produced in an organization.

In the next section, I first suggest three kinds of network content that might be related to the learning environment of a job: task advice, buy-in, and mentor relations. Then, building on the previous research and findings in the settings of interorganizational networks, I develop six hypotheses about the effects of intraorganizational network structures on the employee's learning environment in the three categories of network content. In the third section, I describe the data and the measurement of the variables used in this study. In the fourth section, I report the results of the analyses of the effects of the network content and structure on the employees' job learning environments. Finally, I discuss the theoretical and practical implications for future research on the relationships among networks, outcomes, and actions. Some limitations in the study are also discussed.

Theory and Hypotheses

Podolny and Baron (1997) suggest two dimensions along which network content is distinguished. One dimension distinguishes position-to-position ties that reflect job interdependencies from person-to-person ties that reflect interpersonal attraction and trust. These two categories are usually labeled *formal* and *informal* or *prescribed* and *emergent* ties (Ibarra 1992), respectively. The other dimension distinguishes ties that convey information and resources from ties that convey organizational identity or normative expectations. This dichotomy is similar to Ibarra's (1992) distinction between work-flow networks and influence networks. While many ties in the organizational context serve as conduits for resources, particularly access and information, other ties are crucial sources of organizational identity and normative framework. Granovetter's (1985) notion of the "social embeddedness" of economic exchange indirectly shows a significant

overlap of individual networks that transmit resource-based and identity-based content. Podolny and Baron (1997) add mentor relationships as an intermediate network type, conveying some combination of identity and resources and of person- and position-centered contents.

Thus, the preceding two dimensions produce five categories of networks by content: task-advice network (information–position quadrant), buy-in network (identity–position quadrant), strategic information network (information–person quadrant), social support network (identity–person quadrant), and mentor relations (intermediate). I argue that the five categories of network content differ in terms of how significant they are for the various variables that are linked to organizational and individual outcomes, such as effectiveness and efficiency.

The learning environment of the employee's job is related to position-to-position ties because job interdependencies can affect the employee's job environment. Consequently, this study focuses on three categories of network content: task-advice ties, buy-in ties, and mentorship relations. I exclude strategic-information ties and social support ties because those person-centered ties are not directly related to job environments. Task-advice and buy-in networks commonly derive from organizational position through job interdependencies. However, task-advice ties convey tangible resources and information, while buy-in ties transmit role expectations and organizational identity. Mentorship ties can fit into both of the categories because mentorship relations involve double ties of disparate resources and organizational identity (Burke and Mckeen 1990).

Task-Advice Network

Granovetter (1974) and Burt (1992) emphasize the information benefits that derive from a large, nonredundant network. In their study of the biotechnology industry, Powell, Koput, and Smith-Doerr (1996) find that strong-performing firms have a larger number of alliances than do weak-performing firms. Davis (1991) and Rogers (1995) discuss how firms that have more ties are exposed to more information and thus are likely to do such things as adopt innovations. Haunschild and Beckman (1998) and March (1991) report that exposure to diverse examples provides a better base from which to draw inferences. This suggests that diverse network experience, because it is nonredundant, is likely to produce a better learning environment and thus better decisions than a homogeneous network experience.

Burt (1992:18) also argues that structural holes, or “the relationships of nonredundancy between two contacts,” yield control benefits as well. That is, the ego's control over alters is a function of the extent to which the ego, as the *tertius gaudens* or “the third who benefits” (Simmel 1950:154, 232),

plays off against one another. For example, when two or more players want to buy something, the seller can play their bids against one another to get a higher price. Thus, players with relationships free of structural holes at their own end and rich in structural holes at the other end are structurally autonomous. Thus, development of a high level of exploratory learning environment depends on having numerous structural holes around the ego's contacts.

The fruitful structural holes can produce positive consequences, indirectly as well as directly, for the ego's learning environment by increasing the extent to which the ego's whole network or each network contact is dependent on the ego. Brass (1984) and Cook et al. (1983) argued that the vulnerability of the network to the removal of a given point (i.e., ego in my study) from the network can be operationalized to represent the ego's criticality in the network. Their suggestion implies that the ego's status is high to the extent that the removal of the ego from the network weakens or impairs the qualities and flows of the whole network. If the ego receives diverse resources and information through fruitful structural holes, which leads to the ego's unique combination of the resources, network-wide vulnerability at the ego's point would be high. In contrast, the ego who develops redundant information or resources increases his or her substitutability, thereby increasing the criticality of the resources. The withdrawal of that ego would have much less impact on the resource flows or qualities of the whole network. Thus, the ego's high autonomy, which may derive from the high criticality of the ego's resource or information, can indirectly lead to the beneficial learning environment of the ego's job.

Therefore, to the extent that ties convey information and resources, large, sparse networks are more advantageous to the learning environment of the job than small, dense networks. This leads to hypotheses about the relationship between the structure (size and density) of the task-advice network and learning environment because the task-advice network is the locus of information and resources. Following Scott (1991) and Burt (1992), network size is defined as the number of direct ties that connect an employee to those in his or her network. Network density is defined as the number of ties among the alters.

H1: The larger the ego's task-advice network, the better the learning environment of the ego's job is.

H2: The less dense the ego's task-advice network, the better the learning environment of the ego's job is.

What is the relationship between the duration of the task-advice network and the exploratory learning environment of the ego's job? We can

predict that the longer the duration of the ego's task-advice ties to the same alters, the less opportunity to learn new knowledge the ego has. However, the longevity of task-advice ties is a function of how long the ego has been in a particular formal position in the organization. The task-advice that the ego needs and the task-advice that an alter can provide are closely linked to their formal positions and roles. This fact implies that as the formal positions and roles of the ego and alters change, their task-advice ties tend to be updated naturally or to decline in value over time. Thus, the simple examination of the relationship between the average duration of the ego's task-advice network and the learning environment neglects this important characteristic of task-advice networks. More useful is to compare the number of task-advice ties formed *before* the ego's most recent grade shift (i.e., position change) with the number of task-advice ties formed *after* the ego's most recent grade shift. I predict that more recent task-advice ties are more conducive to the learning environment of the ego's job because they encourage the ego to do more new things.

H3: Task-advice ties formed before the ego's most recent grade shift are less beneficial to the learning environment of the ego's job than task-advice ties formed after the ego's most recent grade shift.

Buy-In Network

Buy-in networks include ties to alters whose "buy-in" is essential for initiatives coming out of the ego's office or department in an organization. Buy-in networks are the systems of favors granted and owed, of mutual benefit and protection, and of connections invoked for the exercise of power (Ibarra 1992). Thus, the number of the ego's ties to those individuals (i.e., the size of buy-in networks) can be a partial indicator of the ego's low status and therefore low autonomy. The number of direct ties to those with fate control, namely authority or influence, reflect the extent to which the ego's job is low status and nonautonomous.

Status construction theory argues that structurally constrained interaction plays a crucial role in the construction of status value beliefs (Ridgeway 1991; Ridgeway et al. 1998). Thus, the characteristics of an employee's fate-control ties can shape his or her sense of personal status. I argue that a large number of buy-in networks foster an ego's subjective belief that his or her job status is low. Based on the resource dependence perspective that a low level of power or status reduces an actor's discretionary potential (Pfeffer and Salancik 1978; Salancik and Pfeffer 1974), an increasing amount of research on the relationship between job status and learning ability or innovation has followed. A consistent result is that an employee's high job status

leads to autonomy (Ross and Wright 1998), which induces a high level of the employee's innovative learning ability (Kelly 1992; Koys and DeCotiis 1991).

Moreover, a stream of network exchange theories (e.g., Lawler and Yoon 1998) argue that exchange networks produce cohesive dyadic relations among actors when a network structure generates equal-power as opposed to unequal-power relations. This argument implies that a large number of buy-in contacts based on unequal-power relations reduce cohesive relations between an ego and his or her buy-in contacts. Reduced cohesiveness may make inefficient the transfer of role expectations and organizational identity from buy-in contacts to ego, which decreases the ego's adaptability in the learning processes.

Therefore, I predict that a small buy-in network leading to an ego's higher status is more conducive to the learning environment of the ego's job than is a large buy-in network.

H4: The smaller the ego's buy-in network, the better the learning environment of the ego's job is.

A buy-in network is composed of individuals whose support an ego needs in order to pursue initiatives successfully within the organization. In this network, cohesive buy-in ties that convey clear normative order also help the individual optimize performance. If the alters in a buy-in network are cohesive, the ego is likely to face a well-defined and consistent normative milieu within which to pursue his or her interests (Podolny and Baron 1997). By contrast, if the ego's buy-in contacts have few relationships with one another, the ego must adjust to less homogeneous role expectations from his or her buy-in contacts, which impedes the ego's learning processes by making learning direction obscure. Thus, for ties that are conduits of normative expectations or identity, structural holes are not beneficial to the learning environment of a job.

H5: The denser the ego's buy-in network, the better the learning environment of the ego's job is.

Mentor Relations

Because mentorship ties could fit into both a task-advice network and a buy-in network, the hypotheses in the previous sections lead to a hypothesis concerning the effects of mentor ties on the learning environment of an ego's job. Hypothesis 2 implies that the lack of overlap between a task-advice network and a mentor relationship should be beneficial to the learning environment because it increases the ego's number of structural holes and because such a mentor provides nonredundant access. In contrast,

hypothesis 5 implies that the lack of overlap between a buy-in network and a mentor relationship should not be beneficial to the learning environment because such a mentor is another constituency to which ego must adjust. Thus, it is meaningful to distinguish between mentors who are in an employee's buy-in network and mentors who are in a task-advice network.

H6: Having a mentor inside the ego's buy-in network is more beneficial to the learning environment of the ego's job than is having a mentor inside the ego's task-advice network.

Methods

Data

My target population consists of exempt (i.e., salaried) personnel in professional and managerial positions of a worldwide high-technology engineering and manufacturing corporation headquartered in California. The data were collected in 1994. A random sample of 658 names of exempt employees in two of the three main operating divisions was provided by human resource representatives in the organization. Computer-administered questionnaires were distributed to the 658 individuals in the target sample.

Most questions in the survey asked the respondent to provide his or her own information on the individual level. First, the respondent was asked to list the names or initials of the important individuals within his or her network. Appendix A lists the three name-generating items relevant here. Respondents could list up to five names in response to each name generator for the task-advice and buy-in networks, but they could not list more than two mentors. The same individual could be listed in response to the different name-generating items. In the second section of the survey, the respondents were also asked to provide information on the people they identified as being in their networks, including demographic information. Information on the ties among alters in a respondent's network was also obtained from the respondent. The final section of the survey included questions about the respondent's satisfaction, organizational commitment, and job environment. In addition, the company personnel records for all 658 respondents included demographic information, career history, performance appraisal history, and current salary.

Of the 658 surveys issued, I obtained responses from 236 individuals, a response rate of 36%. According to company officials, this response rate is comparable to what the firm achieves from its in-house pencil-and-paper surveys done on company time. This response rate was achieved despite the fact that my survey was more time-consuming and was administered in an unfamiliar (computerized) format. I tested for selection bias on the

basis of grade, occupation, division, race, gender, and length of employment with the firm. I found no evidence of selection bias on the basis of grade, occupation, division, gender, and length of employment with the firm, although nonwhites were less likely than whites to respond.

Dependent Variable: Learning Environment of Ego's Job

The measure of the learning environment of the ego's job, the dependent variable, was based on the ego's response to the question, "Does your job keep you learning new things?" The extent to which the ego is motivated and encouraged to be innovative in his or her job reflects the learning environment of the job. This variable was measured on a five-point scale: (5) agree strongly, (4) somewhat agree, (3) neither agree nor disagree, (2) somewhat disagree, (1) disagree strongly. Higher scores reflect a better learning environment.

Independent Variables: Network Ties

Task-advice network. Two properties of the ego's task-advice network were examined: its size (number of direct ties) and density (number of ties among alters). Because the respondent could list up to five alters, size ranges between 0 to 5. The density can range from 0 to $n(n-1)/2$ by the combinations rule, where n is the number of direct ties (i.e., the size of the task-advice network). To test hypothesis 3, I divided network size into two components: the number of direct ties formed prior to the ego's last grade shift and the number of direct ties formed after that grade shift.

Buy-in network. As with the task-advice networks, size can range from 0 to 5, and the density in a network of size n can range from 0 to $n(n-1)/2$. A variable for average duration of the buy-in network ties was not included for the same reason as in the case of the task-advice network (see the section on theories and hypotheses). However, I excluded the comparison between the buy-in networks formed prior to the ego's last grade shift and those formed after that grade shift. Because buy-in networks convey organizational identity, an ego has difficulty discerning buy-in ties to the alters formed before his or her last grade shift from those formed after that grade shift.

Mentor relations. To test hypothesis 6, I distinguished between mentors inside the ego's buy-in network (= 1, dummy) and mentors inside the task-advice network.

Control Variables

As control variables, I include three demographic attributes of respondents: race (nonwhite = 1), gender (female = 1), and age (in years). I also

included the amount of time an individual has been in the current grade (in years) because the amount of an individual's experience with a job can affect his or her exploratory learning environment (March, Sproull, and Tamuz 1991). Because of multicollinearity problems, however, I do not control for tenure in the organization because most people enter this organization at approximately the same age and grade. I also control for several aspects of the ego's formal position in the company: employee's grade and occupation (engineering = 1). These variables have been shown to have the effects on employees' job environments. Arvey, Carter, and Buerkley (1991) found that a higher employee grade has a more positive effect on employee's job environment than a lower grade. Mitchell (1974) reported that engineering-group employees and non-engineering-group employees in high-technology corporations have different job environments.

Model

To assess the effects of network structure and content on exploratory learning environment, I used an OLS model. A positive coefficient thus denotes a positive effect on exploratory learning environment, while a negative coefficient represents a negative effect.

Results

Descriptive statistics with definitions for the variables used in the analysis are reported in table 1. Table 1 shows that in the task-advice network, both the number of direct ties, which measures network size, and the number of ties among others, which measures network density, are larger than their counterparts in the buy-in network. The mean network size scores are lower than the mean network density scores in the two network categories. This result suggests that most individuals have rather large numbers of structural holes in their networks.

Table 2 presents zero-order correlations for the independent and control variables of interests. It indicates that the correlation between the size of task-advice networks and the size of buy-in networks is .32, while the correlation between the density of the task-advice networks and the density of buy-in networks is .41. Although statistically significant, these correlations are sufficiently low that each network can be considered reasonably distinct. With respect to the multicollinearity problem, table 2 shows no discernable high intercorrelations among the independent variables. Tolerance values for the independent variables ranging from .49 to .90 also indicate that there is no problem with multicollinearity in the analysis.

Table 3 reports the results of my regression analysis of the effects of social networks on the learning environment of the ego's job. For the coefficients of

TABLE 1
Means and Standard Deviations of Variables with Definitions Used in the Analysis ($n = 236$)

Variables	Mean	SD	Definitions
Dependent variable			
Learning environment ^a	4.18	0.99	Degree to which the individual agrees that his or her job keeps him or her learning new things
Independent variables			
Task-advice network			
Network size ^b	3.04	1.63	Number of ego's ties to alters in task-advice network
Network density ^c	1.06	1.92	Number of ties among alters in task-advice network
Network size before grade shift ^b	1.27	1.42	Number of ego's ties to alters in task-advice network before his or her last grade shift
Network size after grade shift ^b	1.77	1.56	Number of ego's ties to alters in task-advice network after his or her last grade shift
Buy-in network			
Network size ^b	2.25	1.75	Number of ego's ties to alters in buy-in network
Network density ^c	0.51	1.42	Number of ties among alters in buy-in network
Mentor relations			
Mentors inside buy-in network ^d	0.36		Extent to which ego's mentor networks overlapped with his or her buy-in networks
Control variables			
Nonwhite	0.16		
Female	0.20	7.50	
Age (yr)	36.47		
Engineering/non-engineering ^d	0.64	1.86	Individual's job occupation
Grade (2–11)	6.42	2.47	Individual's hierarchical grade in organization
Duration in current grade (yr)	2.61		

^a 1 = strongly disagree; 5 = strongly agree

^b Six-point scale (0 to 5)

^c Eleven-point scale (0 to 10)

^d Reference categories for dummy variables

TABLE 2
Zero-Order Correlations among Selected Independent and Control Variables Used in the Analysis ($n = 236$)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Task-advice network											
(1) Network size	1.00	.45*	.32*	.24*	.24	-.07	.02	-.01	-.04	-.04	-.10
(2) Network density	—	1.00	.24*	.41*	.20	-.06	.02	.07	.03	.12	.04
Buy-in network											
(3) Network size	—	—	1.00	.43*	.43	-.16	-.05	.07	-.16	.22*	.08
(4) Network density	—	—	—	1.00	.28	-.01	-.02	.05	-.03	.13	-.03
Mentor relations											
(5) Mentors inside buy-in network	—	—	—	—	1.00	-.06	.02	-.08	-.10	.07	-.12
Control variables											
(6) Nonwhite	—	—	—	—	—	1.00	-.16	-.19	.21	-.04	-.06
(7) Female	—	—	—	—	—	—	1.00	-.33	-.24	-.13 (8)	Age —
Engineering	—	—	—	—	—	—	—	1.00	.28*	.44* (9)	Grade
(11) Duration in current grade	—	—	—	—	—	—	—	—	.07	.00 (10)	.17*

* $p < .05$ (two-tailed test)

all independent variables, I employed one-tailed tests of significance because there are no contradictory hypotheses regarding their direction. For those coefficients of control variables that showed contradictory relationships with the dependent variable regarding the direction of coefficients, I employed two-tailed tests.

TABLE 3
Unstandardized Coefficients from the Regression of Learning Environment
on Selected Independent and Control Variables ($n = 236$)

Independent variables	Model 1		Model 2		Model 3	
	Coef.	(SE)	Coef.	(SE)	Coef.	(SE)
Intercept	4.30	(.40)	4.07	(.43)	4.07	(.43)
Task-advice network						
Network size	—		.07	(.05)	—	
Network density	—		.01	(.05)	.01	(.05)
Network size before grade shift	—		—		.05	(.06)
Network size after grade shift	—		—		.08 [†]	(.05)
Buy-in network						
Network size	—		-.11 [†]	(.05)	-.10 [†]	(.05)
Network density	—		.05 [†]	(.06)	.05 [†]	(.06)
Mentor relations						
Mentors inside buy-in network	—		.38 ^{††}	(.15)	.38 ^{††}	(.15)
Control variables						
Nonwhite	-.04	(.18)	-.05	(.18)	-.06	(.18)
Female	.00	(.17)	-.02	(.17)	-.01	(.17)
Age	.01	(.01)	.01	(.01)	.01	(.01)
Engineering	-.13	(.14)	-.14	(.14)	-.14	(.14)
Grade	.00	(.04)	.01	(.04)	.01	(.04)
Duration in current grade	-.12 ^{***}	(.03)	-.10 ^{**}	(.03)	-.10 ^{**}	(.03)
R^2	.078		.170		.172	
Adjusted R^2	.053		.129		.130	
F value	3.21 ^{**}		4.17 ^{***}		4.32 ^{***}	
Degrees of freedom	6		11		12	

[†] $p < .05$; ^{††} $p < .01$ (one-tailed tests)

^{**} $p < .01$; ^{***} $p < .001$ (two-tailed tests)

Model 1 reports the effects of the control variables on the learning environment of an individual's job. The R^2 of .078 indicates that the control variables explain about 7.8% of the variance in the score of learning environment (adjusted $R^2 = .053$). The amount of time an individual has been in current grade has a significant negative effect on the individual's learning environment, indicating that the longer an individual has been in a grade, the worse the individual's learning environment is. Thus, long-term stay in a position impedes an individual's learning capability. The effects of the other controls are not significant.

Models 2 and 3 present alternative specifications for the effects of task-advice networks on the learning environment of an ego's job. When the independent variables are added to the equation, the additional variance in the score of learning environment accounted for by the combined variables is significant ($\Delta R^2 = .09, p < .05$). Model 2 includes size (direct ties) and density (ties among others) in the task-advice network. Inconsistent with hypothesis 1, the effect of size is not statistically significant. Density also has a nonsignificant effect, which does not support hypothesis 2. These relationships may suggest that Burt's (1992) structural hole hypothesis does not apply to the effects of task-advice networks on the learning environment of an ego's job.

These results mask important differences, however, in the effects of long-lived versus short-lived task-advice ties. Model 3 divides the task-advice network into two components: ties formed before the last grade shift and ties formed while in the respondent's current grade. As I argued earlier, task-advice networks are likely to require significant updating after promotion, given the changes in duties and interdependencies associated with a higher position in the organization. Consistent with hypothesis 3, task-advice ties formed since the respondent's most recent grade shift have a positive and significant effect on the learning environment of the respondent's job, whereas the coefficient for ties predating the most recent grade shift is not statistically significant. Therefore, position-centered task-advice ties show clear evidence of obsolescence following promotion, indicating that task-advice ties formed before the most recent grade shift are less beneficial to the learning environment of the ego's job than task-advice ties formed after the most recent grade shift. This result may indicate that the prediction of a positive relationship between task-advice network size and learning environment in hypothesis 1 is supported only for the networks formed while in the employee's current grade.

Consistent with hypotheses 4 and 5, the size of the buy-in network has a negative, statistically significant effect on the learning environment of an ego's job, whereas the number of ties among those within a fate-control network—density of buy-in network—have a positive and significant effect (model 3). Thus, the literature on the role of status and cohesiveness in networks seems to be supported. A lack of cohesiveness among those with fate control impedes the learning environment of an ego's job, in direct contrast to the prediction of Burt's *tertius gaudens* argument.

Models 2 and 3 show that a tie to a mentor within buy-in networks has a significant positive impact on the learning environment of an ego's job, supporting hypothesis 6. This result provides further evidence that structural holes among those with fate control impede the learning environment.

Discussion and Conclusion

I have examined how the structure and content of networks affect the learning environment of an individual's job within a high-technology corporation. In certain respects, my findings are consistent with Burt's (1992) argument. I found that large task-advice networks formed after an employee's most recent grade shift promote an upward job learning environment within the workplace, although the effect for all task-advice ties of the employee is not statistically significant. However, Burt's structural hole hypothesis that task-advice ties that lack indirect ties (i.e., are full of structural holes) are beneficial to the learning environment of a job was not supported. This result implies that structural holes within task-advice networks do not produce information and control benefits to the learning environment of an individual's job.

Furthermore, by disaggregating position-centered social ties into two specific types, task-advice network and buy-in network, I have shown that Burt's predictions do not apply to buy-in networks. Within buy-in networks, structural holes have a negative effect on the learning environment of an individual's job. In contrast to the size of task-advice networks, the size of buy-in networks has a significant negative effect on the learning environment. This finding suggests that the sizes of various types of networks do not have the same effects. Some are advantageous, enhancing the learning environment of an individual's job, while others are clearly disadvantageous, holding the individual in a low status, which disables the individual's learning. This finding supports my argument that network content differentiates the effects of network structure on individuals' exploratory job learning environments.

Given my finding that network size *after* an individual's most recent grade shift is more beneficial to the learning environment of the individual's job than network size *before* the individual's most recent grade shift, the standard practice in network research of simply relating network duration to employees' job environment seems ill conceived. As the result implies, long-lived ties and short-lived ties in task-advice networks have different consequences for the learning environment.

I suggested one dimension along which social ties in work organizations vary: whether the tie is principally a conduit of task-related information and resources or a means of transmitting role expectations, an organizational identity, and a clear sense of belonging. Although the hypotheses I tested were broadly consistent with my findings, the two types of network ties I studied were selected to parallel previous studies in this field, not to provide an optimal representation of the conceptual space distinguished by the dimension. Future theoretical and empirical research on networks can validate and refine my typology and improve our understanding of the contours and consequences of different types of content that flow through social ties.

More broadly, my approach to networks calls attention to the fact that individuals are highly constrained in their ability to form a network that is maximally efficient with respect to some property, such as the network size or the overlap of buy-in and mentor relations. For example, if an ego relies on the same network alters for multiple contents (e.g., receiving both task advice and role expectations), the ego's attempt to increase the size of the task-advice network produces an unintended consequence: increasing the size of the buy-in network simultaneously. Thus, the ego will by definition have to live with suboptimal networks in both domains because it may be difficult to drop one tie without dropping the other. For another example, even if the ego recognizes the value of having mentor relations with an individual from whom buy-in is required, it may not be easy to form a timely new mentor relationship to that individual. A promising direction for future research involves examining stability and change in various types of networks in order to understand how individuals adapt to these constraints and manage the trade-offs they imply.

My findings also support the view that network content may differentiate the effects of network structure on employees' learning environments in the workplace in various ways. Future research is needed to investigate how network content differentiates the effects of network structure on other individual outcomes and actions. What kinds of network content affect an individual's career, satisfaction, and performance in an organization? Why and how does network content make some groups of employees (e.g., female employees) form different types of networks from other groups (e.g., male employees)? Research along these lines should illuminate the relative importance of network structure and network content in shaping social ties and should provide additional insight into the practical implications of the network effects.

Appendix A

Name-Generating Questions Used in Computerized Questionnaire

The following name-generating questions, which closely follow Burt (1992), were used to obtain information on the ego's current network.

Task advice. "Over the last six months, were there any work-related contacts from whom you regularly sought information and advice to enhance your effectiveness on the job?"

Buy-in. "Suppose you were moving to a new job and wanted to leave behind the best network advice that you could for the person moving into your current job. Are there any individuals whom you would name to your replacement whose 'buy-in' is essential for initiatives coming out of your office or department?"

Mentor. "Are there any individuals whom you regard as a mentor—that is, someone who has taken a strong interest in your professional development over the last six months by providing you with opportunities and/or access to facilitate your career advancement?"

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XVI. POSTER SESSION 1

Professors, Managers, and Human Resource Education

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This paper examines whether MBA programs adequately prepare human resource professionals. It also compares managers' and professors' evaluations of the competencies that HR managers will need in the 21st century. It finds that both managers and professors view interpersonal and problem-solving competencies and integration of HR with bottom-line concerns as more important than technical know-how. But HR managers are much more critical of what MBA programs are doing than are HR professors. HR professors may be risking complacency about their product.

Human Resource Departments and the Use of Alternative Dispute Resolution Mechanisms: An Empirical Study

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Alternative dispute resolution methods (ADRs) such as voluntary mediation are becoming increasingly popular as an alternative to litigation for resolving employment disputes. The present study was designed to investigate the familiarity and satisfaction with ADRs among human resource professionals, with specific attention to factors that might potentially act as barriers to successful mediation. Seventy-four human resource professionals

completed a questionnaire concerning a variety of topics—from perceptions of the effectiveness of voluntary mediation to identifying factors that might act as potential barriers to the utilization of mediation. Results revealed that, overall, a significant majority of the respondents were not satisfied with the ADRs such as mediation, even though they did agree that it could be effective in resolving workplace disputes and bringing them to closure.

Cooperation as a New Mode of Regulating and Planning Occupational and Technical Training: Quebec's Sectoral Committees

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During the last few decades, Quebec has carried out a variety of reforms in the area of occupational and technical training. Comprehensive reviews of occupational and technical training programs have been undertaken with the aim of responding to new labor market needs. Changes have been made to a number of educational policies and manpower policies. These changes have led to the establishment of new institutional frameworks. An example of this is the adoption of a sectoral initiatives policy within the Société québécoise de développement de la main-d'oeuvre (SQDM),¹ which provides the mandate and organizational structure for sectoral committees. The creation of these sectoral committees reflects the government's desire to develop new modalities for planning occupational and technical training based on dual cooperation: between employers and unions in various sectors, who are ex officio members of the committees, and between the representatives of the work environment and representatives of planning authorities within the Ministère de l'Éducation (MEQ, Quebec department of education). By setting up these sectoral committees, the government is seeking to develop partnership between employers and unions at the sectoral (industry) level. Like American and Canadian industrial relations, union-management relations in Quebec are chiefly based on discussions at the establishment or firm level. Thus, the creation of sectoral structures to bring together employer and union representatives to discuss and regulate occupational training in a sector of economic activity can be seen as an innovative approach. It opens the way for establishing systematic and regular relations between those in charge of planning occupational training and representatives of the work environment.

¹ The SQDM is now called Emploi-Québec.

Our paper, as well as report on this research, examines this new institution for planning and regulating occupational training. In part 1, we briefly review the traditional mode of regulating occupational training and present factors that, in our view, indicate that there may be a new form of regulation. In part 2, we first describe the conceptual framework for the study of union-management cooperation and collaboration between the fields of education and work. In part 3, we present a number of facts regarding the structure and operation of the committees (their mandate, organizational modalities, etc.). Part 4 is devoted to the committees' initiatives. The paper concludes by raising several questions about what we view as a new mode of regulation: among other things, exploring the respective roles of the state and actors within the committees and their impact on the supply of training.

Acknowledgment

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Self-Interested Ideology and Attitudes toward Unions and Affirmative Action: A Greater Conflict for the Left?

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Affirmative action and unionization are both under fire. We test this backlash as a self-interested response from those whose demographics position them to benefit from the current opportunity structure or whose ideology defines it as fair. Using 1998 data from academics in business and sociology, we find that being male and conservative is associated with the rejection of both affirmative action and unionization as unwarranted intrusions into a labor market defined from this standpoint as fair. In addition, consistent with standpoint theory's predictions, persons of color viewed unions' mediating effects on unequal economic power differentials to be distinctly different from affirmative action's mediating effects on unequal race or sex differentials.

Downsizing, Safety Practices, and Workers' Compensation Costs

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Matching a survey of human resource and safety practices of 125 companies in Minnesota to workers' compensation indemnity claims, this paper is the first to use firm-level data and claimant-level data to estimate the impact of downsizing on workers' compensation costs per worker, examining separately the impact on both claim frequency and claim severity. In addition, this is the first paper to estimate how much the effect of downsizing is ameliorated by various human resource practices. The rich set of human resource practices analyzed includes worker involvement in various safety programs (ergonomics, workplace violence prevention, return-to-work programs, etc.), worker involvement in firm decision making (quality circles, work teams, TQM, representation on the board of directors, etc.), and worker involvement in financial-incentive programs (profit sharing, gain sharing, ESOP, group bonus plans, 401(k), etc.).

The Impact of Employee Suggestions on Organizational Performance: A Longitudinal Study

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Utilizing longitudinal data over seven years from a plant, the present study examined three competing hypotheses on suggestion effectiveness. The Prais-Winsten analysis showed that whereas there are substantial transaction and agency costs involved in processing suggestions, tangible benefits were obtained from employee suggestions through the utilization of employee knowledge and the enhancement of employee morale. In particular, all three types of implemented suggestions (first-order-learning, second-order-learning, and employee-morale suggestions) appeared to reduce operating costs in subsequent periods. This finding is especially noteworthy because the present suggestion system was discontinued due to "poor quality" of suggestions.

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Change, Innovation, and IT in U.S. National Unions

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This study reports the results of a 1997 mail survey of U.S. national unions on their use of information technology (IT). Nearly all national unions insist that affected union staff have been involved in IT adoption decisions, and few report that union staff members have lost jobs due to IT. A large majority of unions report that IT has improved their efficiency (91%), organizing success (63%), etc., and generally unions see even greater potential for IT to help the union achieve its goals in the future. A majority of union respondents (72%) agree that the union's success depends on IT.

The Labor Market Experience of Immigrant Spouses: The Initial Years

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The objective of this research is to analyze the early labor force experience of immigrant spouses. To this end, we take advantage of a unique Australian data set, the Longitudinal Survey of Immigrants to Australia (LSIA), which provides detailed demographic, human capital, and labor market information for principal applicants and their spouses over the first 18 months of the settlement process.

The results highlight the importance of family circumstances such as the presence of young children, partners' hours of work, and family income in the labor supply decisions of immigrants. English language ability continues to stand out as a strong determinant of hours worked. There are also important differences across individuals in different visa categories.

There's the Rub: Using Nonstandard Jobs to Buffer Tensions in Employment and Customer Relations

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Most studies of nonstandard work arrangements address how such arrangements replace internal labor markets by using contractors, etc., to mediate market pressures. This paper examines a different effect of market pressure: the consequences of competition for customer relations. This case study examines how an insurance company responded to competition by using its nonstandard work arrangement to buffer the effects of market rationalization on customers. As competitive pressures forced the company to rationalize the selling of insurance, the company turned to the emotional labor of its agents to provide a buffer, a countervailing, noninstrumental bond to customers. As this emotional labor became essential to the service process, it became subject to corporate direction and management.

XVII. POSTER SESSION 2

European Works Councils: Alternative Forms of Industrial Democracy

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The experience with voluntary and mandatory EWC agreement negotiations under EU Directive 94/45 is explored ($n = 2,141$ firms). This study builds upon the existing literature on EWCs and, in particular, moves beyond the examination of EWC contract frequencies by standardizing the data for the density of firms affected by the directive. Contrary to the studies involving frequencies, Luxembourg, Belgium, and Ireland have the highest EWC agreement rates. While France had the highest rate of pre-1996 voluntary agreements, a general pattern of Nordic voluntary agreements is also identified. Surprisingly, both Japanese and American firms had higher EWC agreement rates than Germany.

Public-Sector Collective Bargaining in Michigan: Law and Recent Developments

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Michigan passed the pro-union Public Employment Relations Act (PERA) in 1965 but restricted union rights after Republicans won simultaneous

control of both houses of the legislature in 1994. Substantial strike penalties were established for school employees in 1994 and for state civil servants in 1998. A 1994 law made the first restrictions on PERA's broad scope of bargaining, while a 1999 law for the first time took away protected bargaining rights from public employees who had such rights under PERA. At least temporarily, labor's political defeats induced Michigan teacher unions to adopt a warier bargaining stance.

The Effects of General and Specific Beliefs about Labor Unions on the Voting Intentions of Professional Pharmacists

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In 1989, Deshpande and Fiorito found that both general and specific beliefs about labor unions were important predictors of an individual's support for unionization in a hypothetical representation election. We replicate Deshpande and Fiorito's work with a sample of 666 professional pharmacists. However, we also include factors designed to measure unique aspects of professional work. We find that general beliefs about unions as well as professional and stakeholder issues are important predictors of an individual's support for unionization. However, unlike the broader sample in Deshpande and Fiorito's study, specific workplace issues involving compensation, etc. are not significant predictors of union support among professional pharmacists. The findings suggest that professional employees are motivated to support unions for different reasons than nonprofessional employees.

An Examination of the Pluralistic Nature of Industrial Relations in the Professional Sports Industry

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Professional sports have entered a period of intensified labor relations, as reflected in recent strikes. Academic models of public-sector labor relations can be applied to professional sports since they incorporate external participants and are multilateral. Multiple participants must be considered in professional sports since they have a stake in the employment relationship. Not only are players and teams involved, but players' agents and unions, fans, and local governments are part of the process. Some of these relationships are addressed in traditional collective bargaining perspectives, but other entities also wield power and influence and should be conceptualized in any model.

The Effects and Regulation of Marital Status Discrimination

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Increases in the number of dual-earner households make it more likely that spouses will work, or seek employment, with the same employer. Employers have responded by instituting antinepotism/no-spouse policies, which often result in adverse employment actions. These policies have been challenged under various legal doctrines. Our research finds that it is very hard to successfully challenge these policies at the federal level since marital status discrimination is not incorporated into current federal antidiscrimination

legislation. Moreover, only a few states either have enacted legislation or have judicially created broad protections against these forms of employment practices.

Who Goes Last? The Role of Race and Composition in Layoff Decisions

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The intersection of an increasingly diverse workforce with the pervasiveness of downsizing is a critical issue facing organizations today. This paper moves beyond traditional demographic theories of self-categorization and similarity attraction to examine the relationship between race and layoffs. We draw on stereotypes research to predict differential layoff patterns of Asians, blacks, Hispanics, and whites. In particular, we hypothesize that Asians will be less likely to be laid off than other racial minorities. Additionally, drawing on group competition and tokenism research, we suggest that racial composition affects layoff decisions. We hypothesize that members of a minority group will be less likely to be laid off when present in token (< 15%) proportions. To test the hypotheses, we use personnel records from a racially diverse population of 10,226 employees in a Fortune 500 financial organization. Consistent with our predictions, blacks and Hispanics are laid off significantly more than Asians. We also find moderate support for positive token effects. All analyses include controls for individual performance, tenure, age, compensation, occupation, and job level. These results support recent findings that grouping racial minorities into a single nonwhite category is misleading. Implications for diversity and layoff research are discussed.

Third Path to Industrial Democracy? Joint Conference Plans in the 1920s

TEIICHI SEKIGUCHI
Chuo University

Examining ERPs of the four companies of the Special Conference Committee (SCC), this study explores the following: (1) Although some ERPs' main aims were just to avoid unionism, others tried to set a place for communication and commitment. (2) In the former cases, ERPs tended to be

merely nominal ones. (3) In the latter cases, through the establishment of communication- and commitment-oriented ERPs, emergence of a new IR model was observed. The industrial relations of these companies were more internalized and nonadversarial. This IR model seemed to be pioneering the third path to industrial democracy in the United States. (4) The communication- and commitment-oriented ERPs and the internalized, nonadversarial industrial relations seemed to establish steady and strategic bridgeheads in the 1920s.

Union Organizing Revisited at a *Yeshiva* University: A Case Study

KAREN E. BOROFF, PH.D.
Seton Hall University

In this case study, the author explores the process in which faculty at the private Catholic university, Seton Hall University, seek to be represented by a labor organization. The case study is an important one, for it presents two novel issues in collective bargaining in higher private education settings. First, the university prevailed, in a 1983 NLRB ruling, to exclude faculty from the NLRA under the *Yeshiva* decision. Even so, concerned about the absence of “real” shared governance, the faculty have secured an authorization card “showing of interest” and hope to overturn that prior ruling. The recent NLRB’s 1999 ruling in *Manhattan College* has added momentum to the drive. The organizers are also pursuing a novel appeal to the New Jersey Appellate Court to win bargaining rights for the faculty under that state’s constitution.

XVIII. IRRA ANNUAL REPORTS

IRRA EXECUTIVE BOARD MEETING

Friday, June 18, 1999

Hyatt Regency Washington on Capitol Hill

President Tom Kochan called the meeting to order at 7:35 a.m. Present were President Elect Sheldon Friedman, Past President F. Donal O'Brien, and board members Bonnie P. Castrey, Dorothy Sue Cobble, Janet R. Conti, David B. Lipsky, Cheryl L. Maranto, Mary M. Mauro, Lavonne Ritter, John Serumgard, Stephen R. Sleight, and Gregory Woodhead. Also in attendance were Magdalena Jacobsen, president elect-elect; John F. Burton, Jr., program chair for the IRRA National Policy Forum; Paula B. Voos, editor in chief; David R. Zimmerman, secretary-treasurer; and Kay B. Hutchison, administrator and managing editor. Absent board members included Paul Osterman, Beth Shulman, Jan Sunoo, and Daphne G. Taras.

The minutes of the January 2, 1999, executive board meeting in New York City were approved as distributed.

Old Business. Location of IRRA National Office. President Kochan reported on responses received to the executive board's request for proposals from potential host sites for the IRRA national office. He indicated that four academic institutions had responded and that particularly strong proposals had been received from Rutgers and the University of Illinois. The proposals were reviewed by the ad hoc selection committee, consisting of President Kochan, Past President Don O'Brien, President Elect Sheldon Friedman, NCAC Chair Janet Conti, Secretary-Treasurer David Zimmerman, and Administrator Kay Hutchison (ex officio). The ad hoc committee recommended acceptance of the proposal of the Institute of Labor and Industrial Relations at the University of Illinois at Urbana-Champaign submitted by ILIR Director Peter Feuille. Kochan stated that Illinois offered a substantial organizational base for the association and that their bid was accompanied by the strong endorsement of the UIUC administration. Kochan indicated that acceptance of the UIUC offer to host the national office would not affect the continuation of Paula Voos, Rutgers, as editor in chief.

It was moved, seconded, and accepted to relocate the national office to the Institute of Labor and Industrial Relations at the University of Illinois at Urbana-Champaign. Kochan directed that a letter of gratitude be sent to the Industrial Relations Research Institute at the University of Wisconsin-Madison for hosting the IRRA since the early 1950s and for its long and significant support of the association and its activities. Current staff of the national office will work to ensure a smooth transition of the operation from Madison to Champaign.

Report of the Chapter Advisory Committee. Janet Conti, NCAC chair, reported on the committee's recommendations regarding national and chapter relations. The committee met in person and via conference call three times over the course of the year. The recommendations address chapter fees and services, association meetings, the IRRA website, and publications.

The NCAC report, in sum, includes the following recommendations: (1) Replacement of the current fees rebate to chapters for their percentage of national members with a uniform chapter fee structure. (A national bylaws change would be required and will be offered at the Boston annual meeting.) (2) Encouragement of chapters to offer a joint chapter/national membership to their members. (3) No establishment of unitary national/chapter membership dues at this time. (4) Redesign of the annual meeting program to include additional sessions and possibly a track of interest to practitioners. (5) Continuation of regional meetings but with the greater involvement of IRRA chapters. (6) Promotion of national membership by the inclusion of membership in regional meeting registration fees and a reduction in the regional meeting registration fee for current members. (7) Upgrading of the IRRA home page and website. (7) More effective marketing of IRRA publications to practitioners through (a) the inclusion of abstracts of longer work, (b) ready availability of IRRA materials for reprint, and (c) continuation of *Perspectives on Work*, the IRRA practitioner-oriented magazine.

Board members responded to the recommendations by indicating that the Program Committee should be instructed to give consideration to the development of more practitioner sessions or a practitioner track at the annual meeting or the possibility of formalizing NCAC's role on the program committee. Concern was expressed that the association avoid segregating practitioners and academics into separate tracks or sessions. The uniqueness of IRRA meetings has been to bring academics and practitioners together to learn from one another. Efforts must be made to better market IRRA meetings to practitioners, chapters, and academics. The issue to be addressed is how to translate improvements in IRRA meeting programs to membership. Some noted that it was predictable that the chapters would

not fully appreciate the significance of the underlying issue that gave rise to the interest in unitary membership and would oppose it. The question then becomes what is the alternative to a unitary membership structure. Kochan directed that the Finance/Membership and NCAC consider alternatives to unitary membership and prepare recommendations.

Report on the 1st IRRA National Policy Forum. John Burton, Jr., program chair, reported that 160-165 persons had registered for the IRRA National Policy Forum in Washington, D.C., June 17-19. The final program offers an exceptional mix of topics and speakers and has generated enthusiasm from those attending. Membership was incorporated into the meeting fee for attendees who are not currently association members. Burton stated that a determination must be made as to how frequently the IRRA wishes to hold a national policy forum. The options are to hold a meeting every year or every other year (in the off year of the FMCS's annual conference). Holding the meeting every other year would afford more time to develop the program; however, holding the meeting every year gives greater visibility to the meeting and the IRRA. Members suggested that post-publicity of this year's meeting appear in *Perspectives* and the newsletter to build interest for future meetings. The officers will review the financial report for the forum, event's calendar for 2000, and evaluations of the 1999 forum to determine the scheduling of the next national policy forum.

Report on the 1999 IRRA Regional Meetings. Kochan reported that two regional meetings have been held to date and that a total of five or six regional meetings will be sponsored by the IRRA and others over the course of 1999. It is hoped that the IRRA chapters will pick up the regional meeting effort the national association has begun. Kochan said the regional meetings will need to shift to the grassroots level to keep the dialogue going. The schedule of regional meetings will culminate with a general session involving representatives of all the regional meetings at the annual meeting in Boston in January 2000.

Report of the Editor in Chief. Paula Voos reported that the Editorial Committee has accepted the proposal of David Jacobs and Sheldon Friedman entitled *The Future of the Safety Net: Social Insurance and Employee Benefits in the 21st Century* for the 2001 research volume. The 1999 volume, *Employment Dispute Resolution and Worker Rights in the Changing Workplace*, Adrienne Eaton and Jeff Keefe, editors, will be sent to members in December. The 2000 volume is *Nonstandard Work Arrangements and the Changing Labor Market*, Marianne Ferber, Françoise Carré, Lonnie Golden, and Steve Herzenberg, editors.

Report on the Strategic Planning Process. A report of the board's strategic planning meeting held in New York, January 3, 1999, is attached. Hutchison noted recent success in revitalizing organizational memberships within the association. A year ago there were 8 annual organizational members; today there are 18. Efforts must be redoubled to continue to strengthen IRRAs academic, practitioner, and chapter base, as well as its organizational base.

New Business. Board member Mary Mauro announced her resignation from the board effective at the conclusion of the meeting. Her employment interests have shifted away from the field and she wishes to step down from her seat on the board. President Kochan thanked Mauro for her active involvement on the board and NCAC. He will appoint a replacement in advance of the next meeting.

Adjournment. The meeting adjourned at 9:00 a.m.

IRRA EXECUTIVE BOARD MEETING

Thursday, January 6, 2000

Boston Park Plaza Hotel, Boston, MA

President Tom Kochan called the meeting to order at 7:35 p.m. Present were President Elect Sheldon Friedman, Past President Don O'Brien, and board members Bonnie Castrey, Dorothy Sue Cobble, David B. Lipsky, Cheryl Maranto, Ken McLennan, Paul Osterman, Lavonne Ritter, Dennis Rocheleau, John Serumgard, Steve Sleigh, Jan Sunoo, Daphne Taras, and Gregory Woodhead. Incoming board members present included Doug Gamble, Teresa Ghilarducci, Richard Hurd, Mark Keough, and Arnold Zack. Also in attendance were Janet Conti, NCAC chair; Paula B. Voos, editor in chief; David R. Zimmerman, outgoing secretary-treasurer; Peter Feuille, incoming secretary-treasurer; Kay B. Hutchison, administrator and managing editor; Paula D. Wells, executive director; and Lisa Narug of the national office. Absent was board member Beth Shulman.

Guests included President Elect-Elect Maggie Jacobsen; Sanford Jacoby, nominating committee chair; James Auerbach and Eileen Hoffman, co-chairs for the 2000 National Policy Forum; John Burton, chair of the 1999 National Policy Forum; Hoyt Wheeler, co-editor of *Perspectives on Work*; and Edward Sullivan, Jr., president of the Boston IRRA Chapter.

President Kochan thanked outgoing board members Dorothy Sue Cobble, David B. Lipsky, John Serumgard, Jan Sunoo, and Greg Woodhead and

presented them with certificates of appreciation. Plaques of recognition were presented to President Kochan, outgoing Secretary-Treasurer David Zimmerman and outgoing IRRA Administrator Kay Hutchison. All were lauded for their outstanding contributions to the association.

The minutes of the June 18, 1999 executive board meeting in Washington, D.C. were presented. Motion was made by John Serumgard to accept as approved. It was seconded by Bonnie Castrey and approved.

Report of the Nominating Committee. Sanford Jacoby, chair of the Nominating Committee, presented the report on behalf of the committee. The committee met via conference call on December 1, 1999. Committee members included Chair Sanford M. Jacoby, Annette Bernhardt, Bonnie P. Castrey, Roger E. Dahl, Heather Grob, Don O'Brien, and Anil Verma. Jacoby presented the committee's selection of candidates for four executive board vacancies for terms beginning in 2001. A motion was made to accept the committee's recommendations as presented. The motion was seconded and approved.

Report of the Strategic Planning Process. Kochan reported on the progress and activities of the Strategic Planning Committee outlining two goals: to increase the association's visibility and to boost membership. It was recommended that working committees be set up to grow the practitioner and academic base of members. After a brief review of the history of the committee and its successes, Kochan reported the committee's ad hoc work had ended. He recommended that it be disbanded and that "working groups" be established to continue the work.

Report of the Editor in Chief. Editor in Chief Paula B. Voos reported on behalf of the Editorial Committee. The 1999 research volume is in the hands of the members. The 2000 edition will be *Nonstandard Work: The Nature and Challenges of Changing Employment Arrangements*. The 2001 volume will be *The Future of the Safety Net: Insurance and Employee Benefits in the 21st Century*. Proposals for the 2002 volume will be discussed in the Editorial Committee meeting. Voos announced the committee's selection of the winner for the Student Writing Award. The 1999 award is to be presented to Mooweon Rhee. Voos noted the concerns of the committee and their recommendation to change the award. This is the fifth year of the award, but submission of entries has not increased. The committee recommended replacing the award with a "Best Dissertation" award, which would be nominated by the students committee. A discussion ensued exploring options of tying in with other dissertation awards, the need for a more concrete proposal (Hurd). Kochan suggested continuing the Student Writing Award and setting up the Best Dissertation and to do both for a three-year trial period, after

which time, both awards would be reevaluated. The motion made by McLennan was seconded by Ritter and unanimously approved. Board members are to encourage submissions to both awards.

Report on the Young Scholar and Practitioner Awards. Kochan announced the Young Scholar Award will be presented to Christopher Erickson from UCLA, and the Young Practitioner Award will be presented to Amy Dean of the South Bay AFL-CIO. He noted the need for the board and membership to be more proactive in nominating candidates.

Report on Perspectives on Work. Editor Hoyt Wheeler reported he and co-editor Tom Kochan will continue their work for two more issues—one more year, 2000. After that, new leadership and a new location are required. Wheeler and Kochan stated the need for the board to decide if and how to continue publishing *Perspectives*. Kochan suggested IRRA incoming President Friedman setting up a working committee to review proposals. Member Ritter commented how important this publication is to our organization and moved to continue publishing *Perspectives on Work*; Serumgard seconded and the motion passed unanimously.

Report by the National Chapter Advisory Committee. Janet Conti reported on the Chapter Advisory Committee. Eight awards will be presented to chapters at this meeting, the most nominations that were ever received. Conti reported the award nomination form was published in the newsletter, mailed to chapters, and put in *Perspectives*. There was one vacancy on the committee and a replacement will be named by the end of the weekend. Conti also announced plans are in the works to use the IRRA website to announce and promote chapter programs. The CAC also requested more national support of regional meetings. The board was reminded a CAC-supported recommendation to discontinue chapter rebates of membership fees was to be voted on at the membership meeting on the 8th. Conti reported there are 50 active chapters, 12 inactive, and 3 are trying to get started. President Kochan acknowledged the progress being made on building ties between national and chapter and the need for board members to continue volunteering to speak and be active with them. He singled out the FMCS professional staff for helping to build awareness and involvement.

Report of the Program Committees. Tom Kochan expressed his thanks to the co-chairs of the Boston meeting, Paul Osterman and Beth Shulman. Sheldon Friedman, program chair for the New Orleans meeting discussed the 53rd Annual Meeting program, the theme of which will be “Ensuring Respect for Human Rights and Employment.” Friedman announced Lance Compa and Tony Freeman are co-chairs of the meeting, which will be held

January 5-7 at the Fairmont Hotel in New Orleans. They will use the FMCS TAGS system to assist with conference planning. Co-chairs James Auerbach and Eileen Hoffman discussed and answered questions on the plans for the second annual National Policy Forum to be held June 22-23 in Washington, D.C. They reported fund-raising co-chairs Morty Bahr and Randy McDonald had a goal of \$20,000, double that of last year, and were already working hard to find co-sponsors. Jacobsen suggested the website be used for promotion of the event. The needs to include more management people in the event (Ghilarducci) and to broaden the topic (Maranto) were discussed. Friedman brought a proposal from SFLRP to trade co-sponsorships and mailing lists. Members Castrey and Ritter pointed out the benefits, and Ritter made a motion to allow the program chair and executive director to work with SFLRP. O'Brien seconded and the motion unanimously passed.

Report on Finance and Membership. Chair Greg Woodhead reported the revenues estimated in the year-end 1999 projection and in the budget for 2000 were on the conservative side, and that while expenses were up, revenues were as well, and we were still in the black. He identified in the new budget more allocated to promote membership and develop the website. He pointed out membership has increased, and the most important reason for this is one-on-one contacts. The committee suggested that members who joined at half price be encouraged to continue their membership, that academics be targeted by discipline, and that new chapters encourage unitary membership. The committee made the following recommendations: (1) Dues will stay at \$75 for 2001; (2) the Strategic Planning Committee should be replaced by two working groups to develop membership bases for practitioners and academics that will be directed by the committee; (3) organizational memberships should be restructured: \$5,000 would be the benefactor level, \$1,000–\$5,000 would be the supporter level, and \$1,000 is the new annual organizational dues level. Organizational dues at the \$250 and \$500 level will remain for small associations and educational institutions that cannot afford the \$1,000 level. It was further suggested by the board that letters and invoices be sent to life members to solicit further dues. Following a brief discussion, the motion to accept the committee's recommendations as stated was made by Cobble, seconded, and approved unanimously.

Secretary-Treasurer and Administrator's Report. David Zimmerman noted the transition of the national office move from Wisconsin to the University of Illinois was going smoothly and expressed his appreciation to the board and the association for the opportunity to serve. President Kochan then introduced

Peter Feuille as new IRRA secretary-treasurer, who with new Executive Director Paula Wells presented the budget report. It was moved and seconded to adopt the budget as presented and passed unanimously.

New Business. Sheldon Friedman discussed the FMCS grant to IRRA, reporting that the committee was being formed, and while there were commitments from NEA and AFT, committee members from the private sector were also needed. Kochan asked suggestions be made directly to Friedman. President Elect Friedman also discussed and moved for the establishment of an Education Committee as a permanent standing IRRA committee to address college-level teaching of IR and related subjects. He explained another important function would focus on curriculum development and teacher training at all educational levels. Friedman asked that the new committee, as with other standing committees, have members appointed by IRRA president. Members would serve three-year staggered terms and be broadly representative of IRRA major constituencies. Sunoo made the motion to accept the recommendation, Ritter seconded, and following supportive discussion, the motion unanimously passed. Kochan presented the proposed change in the by-laws, a dissolution clause required by the Postal Service to maintain nonprofit status. It was approved unanimously and was to be presented to the general membership for a vote at the meeting on the 8th.

Adjournment. President Kochan, after thanking his colleagues, challenged the board to celebrate the accomplishments of the past year and to continue to put a positive twist on the future. The meeting was adjourned at 10:05 p.m.

IRRA GENERAL MEMBERSHIP MEETING

Saturday, January 8, 2000

Boston Park Plaza Hotel, Boston, MA

President Thomas Kochan called the meeting to order at 6:05 p.m.

Introduction of the new Secretary-Treasurer. President Kochan introduced IRRA's new secretary-treasurer, Peter Feuille, of the University of Illinois. Kochan thanked Feuille for his efforts to bring the IRRA national office to the University of Illinois and for the support and services the institute is providing. Feuille said he and the institute are happy to host the national office and that he is looking forward to serving as secretary-treasurer.

Report on the 2001 Annual Meeting. Sheldon Friedman next discussed the 2001 annual meeting. The theme will be “Ensuring Respect for Human Rights in Employment.” The November *IRRA Newsletter* includes an announcement and call for papers. Tony Freeman and Lance Compa are co-vice chairs of the program committee. The committee will meet after the Boston meeting to consider proposals and finalize the program for the New Orleans meeting.

Report on the National Policy Forum 2000. Kochan followed with a report on the NPF in Washington, D.C. The first forum was very successful. Eileen Hoffman and Jim Auerbach are working on the program for the 2000 meeting whose theme will be “Work and Family”—an important topic for the association. He encouraged the local chapters to bring their members to this meeting.

Report of the Editorial Committee. Paula B. Voos reported on the editorial committee meeting. The 1999 research volume is *Employment Dispute Resolution and Worker Rights in the Changing Workplace*. The 2000 volume will be *Nonstandard Work in a Changing Labor Market*, edited by Françoise Carré, Marianne Ferber, Lonnie Golden and Steve Herzenberg. Voos reported on the new format for submitting papers in 2000. Longer papers will be accepted, which may be submitted to *Industrial Relations*, *Industrial and Labor Relations Review*, and *Advances in Industrial Relations*. These journals have agreed to an expedited review process for IRRA papers presented at the annual meeting that will not be published in the proceedings. David Lewin, editor of *AILR*, encouraged submission of papers from IRRA members to *AILR*.

Report of the National Chapter Advisory Committee. Marlene Heyser, vice chair of the NCAC, followed with a report on the NCAC activities. Eight chapter awards were presented at the presidential luncheon, including the first ever Chapter Star Award to the St. Louis Gateway Chapter. The IRRA national website will include more features directed toward the chapters. Three NCAC sponsored workshops were presented on the pre-conference day and were practitioner-oriented. The NCAC is working on ideas for New Orleans. Heyser reported the chapter representatives’ meeting was well attended and productive. Kochan added that he believes that due to the work of the NCAC great progress has been made in bridging the gap between local chapters and the national association. More sessions have been added at the national meeting that attract professional/practitioner participants, which is important and something to be quite proud of.

Report of the Nominating Committee. President Kochan presented the report of the nominating committee for the officers in 2000. Sheldon

Friedman will become president at the end of this meeting for the 2000 year. Maggie Jacobsen is president elect. The nominating committee has named John Burton as president elect for 2002. He added that the leadership of the association is in good hands.

Report of the Finance and Membership Committee. Chair Greg Woodhead gave the report of the Finance and Membership Committee meeting. He began by requesting that new members of the IRRA introduce themselves at this meeting and welcomed them to the association. He added that new members should be acknowledged and welcomed more often. The committee also thinks it is very important to recognize and credit the organizational members' support of the IRRA, pointing out the posters around the meeting area recognizing organizational members. Woodhead reported membership has increased, a credit to the work done by the organization and that finances are good also. A projected \$30,000 surplus in 1999 was a result of the dues increase and membership increase and has allowed the IRRA to offer more programs and still operate in the black. A few problem areas were identified by the committee, and a plan to target members who took advantage of the half-price membership offer for renewal was announced. Also, the committee wants to target academics by discipline to increase membership. A final area of concern is unitary membership, which had been proposed by the committee. No alternative has been developed, but the committee is still working on this issue. Committee recommendations to the executive board that were adopted include:

1. Dues will remain at \$75 for 2001.
2. The Strategic Planning Committee will be replaced by two working groups—one targeting practitioners and one targeting academics. These working groups will be directed by the committee.
3. Organizational membership dues will be established at the following levels:
 - a. \$5,000 = benefactor level
 - b. \$1,000–\$5,000 = supporter level
 - c. Annual members at the following levels:
\$250, \$500, \$1,000

President Kochan thanked the committee for their work.

Report from the National Office. Kochan said that the board had thanked Kay Hutchison for her years of work with the IRRA. The transition to the new office has gone smoothly. He welcomed the new Executive Director Paula Wells and invited her to report on the national office. Wells said that she expects the trend of increasing membership to continue, reporting

there would be an increase in efforts for membership promotion and use of the Web in 2000 in addition to the suggestions of the committee. She also acknowledged Kay Hutchison who has been very helpful in the transfer of information, database, inventories, and equipment. Most of Wells's efforts to date have been on planning this meeting and building the association infrastructure in Illinois. She acknowledged the Institute for Labor and Industrial Relations at the University of Illinois support, which has included the purchase of a new server, a scanner, and two computers for the IRRA. The membership database has been converted to Access, thanks to the efforts of Kay Hutchison, and the financial records will transition from ledger sheets to an electronic software.

Amendments to IRRA Bylaws. President Kochan discussed the need to amend association bylaws in two areas. Marlene Heyser made a motion to simplify the payment of local chapter dues by eliminating the refund to chapters based on their national membership as recommended in last June's NCAC meeting. The bylaw should be changed to read: "Each local chapter will pay an annual fee to the National IRRA." (eliminating the end of the sentence.) The motion was seconded and passed unanimously. Kochan then explained a dissolution clause needed to be added per the request of the Postal Service. This would allow the agency to retain its non-profit 501(c)(3) status and continue to enjoy the less expensive nonprofit mailing rates. Kochan reported the clause has been reviewed by the IRRA's attorney, Stephen Rynecki, and explained the new bylaw is a statement that indicates the disposal of assets if the association should dissolve and referred the membership to the wording of the bylaw on the paper passed out as members entered the meeting room. Greg Woodhead motioned to approve, with possible modification by the attorney. The motion was seconded and passed unanimously.

In response to a question from the floor, Kochan indicated that local chapters may wish to alter their bylaws in a similar manner.

New Business. Kochan called for any new business. Bonnie Castrey commended Kochan and his presidency.

Adjournment. Kochan said it was his great pleasure to turn over the gavel and become a past president of this great association. He welcomed Sheldon Friedman as president. Friedman called for a motion to adjourn, the motion was made and carried unanimously. The meeting was adjourned at 6:50 p.m.

AUDITED FINANCIAL STATEMENTS
December 31, 1999

We have audited the accompanying statements of financial position of Industrial Relations Research Association (a nonprofit organization), as of December 31, 1999 and 1998 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Industrial Relations Research Association as of December 31, 1999 and 1998 and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles..

Stotlar & Stotlar, S.C.

May 18, 2000

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

Statement of Financial Position
December 31,

	1999	1998
<i>ASSETS</i>		
Current Assets:		
Cash and Certificate of Deposit	\$529,346	\$531,588
Accounts Receivable - Net	5,494	10,496
Grants Receivable	66,400	149,200
Prepaid Expenses	17,698	24,063
Inventory	<u>47,768</u>	<u>54,681</u>
Total Current Assets	<u>666,706</u>	<u>770,028</u>
Property and Equipment	45,004	45,004
Less: Accumulated Depreciation	<u>(36,716)</u>	<u>(33,780)</u>
TOTAL ASSETS	\$674,994	\$781,252
<i>LIABILITIES AND NET ASSETS</i>		
Current Liabilities:		
Accounts Payable	\$ 54,655	\$101,991
Accrued Liabilities	495	859
Dues Collected in Advance	119,036	130,948
Subscriptions Collected in Advance	18,244	17,513
Deferred Income	<u>242,877</u>	<u>329,676</u>
Total Current Liabilities	<u>435,307</u>	<u>580,987</u>
Net Assets		
Unrestricted	171,020	126,971
Permanently Restricted	<u>68,667</u>	<u>73,294</u>
Total Net Assets	<u>239,687</u>	<u>200,265</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$674,994</u>	<u>\$781,252</u>

The accompanying notes are an integral part of these financial statements.

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

STATEMENT OF ACTIVITIES
Year Ended December 31,

	1999	1998
UNRESTRICTED NET ASSETS		
Revenue, Gains and Other Support		
Membership Dues	\$ 213,061	\$ 154,904
Subscriptions	24,497	20,688
Chapter Fees	7,507	9,197
Book, Video Sales - Net	12,156	17,617
Newsletter Advertising	2,960	3,670
Mailing List Rental	7,985	8,062
Royalties	867	1,168
Meeting Registrations	42,609	6,510
Investment Return	20,390	11,653
ASSA Refund	6,352	5,976
Contributions	23,960	5,000
Miscellaneous	0	142
Anniversary Fund	0	25
Net Assets Released From Restrictions	<u>86,799</u>	<u>49,744</u>
Total Revenues, Gains and Other Support	<u>\$ 449,143</u>	<u>\$ 294,356</u>
Expenses and losses		
Program services		
General	\$ 141,947	\$ 108,461
Meetings	67,703	15,079
Clark Grant	25,729	0
Sloan Grant	60,852	49,744
Publications	61,470	68,545
Supporting Services		
Management and General	41,112	29,346
Membership Development	<u>6,281</u>	<u>10,401</u>
Total Expenses and Losses	<u>405,094</u>	<u>281,576</u>
Increase in Unrestricted Net Assets	\$ 44,049	\$ 12,780

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES
TEMPORARILY RESTRICTED NET ASSETS
Year Ended December 31,

	1999	1998
Clark Foundation Grant	\$ 25,728	\$ 0
Sloan Grant	61,071	49,744
Net Assets Released From Donor Restrictions	<u>(86,799)</u>	<u>(49,744)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	\$ <u>0</u>	\$ <u>0</u>

PERMANENTLY RESTRICTED NET ASSETS

Endowment Fund	\$ (10,641)	\$ 0
McKersie Scholarship Fund	1,633	18,795
Education Fund	1,112	1,461
Investment Return	<u>3,269</u>	<u>2,397</u>
Increase (Decrease) in Permanently Restricted Net Assets	<u>(4,627)</u>	<u>22,653</u>
Total Increase in Net Assets	39,422	35,433
Net Assets at Beginning of Year	<u>200,265</u>	<u>164,832</u>
Net Assets at End of Year	<u>\$239,687</u>	<u>\$ 200,265</u>

The accompanying notes are an integral part of these financial statements.

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 1999

	Program Services										Supporting Services		Totals
	General	Meetings		Grants		Publications			Directory & Newsletter	Management & General	Membership Development		
		Annual Meeting	Spring Meeting	Sloan Grant	Clark Grant	Winter Proceedings	Spring Proceedings	Research Volume					
Compensation & Related Expenses:													
Compensation	\$108,281			\$ 13,010									\$121,291
Payroll taxes and fringes	25,602			3,555									29,157
Contract services										\$2,296			2,296
Depreciation										2,936			2,936
Taxes										1,078			1,078
Insurance—liability										1,620			1,620
Insurance—other										599			599
Donations													
Bank charges										2,949			2,949
Promotion											\$5,386		5,386
Equipment lease				696						3,945			4,641
Postage and freight										9,150			9,150
UPS books	811												811
Accounting/auditing				1,742						2,129			3,871
Printing, production				17,586	\$4,301	\$15,875	\$4	\$15,921	\$14,853				68,540
Postage				1,375	7,085	3,883	949	3,876	2,140				19,308
Other publication costs				6,154		2,171		503	1,295				10,123
Meals	\$8,152	\$19,267											31,369
Travel	1,520	5,486		40									14,955
Other meeting expenses	7,564	11,138											20,302
Education													884
National travel	849	1,083											1,932
National Hospitality	4,331	3,174											7,505
National Executive Board	4,111	236											4,347
National Copying	305	487											792
Regional Meeting				15,959									15,959
Supplies													
Computer & label	6,620												6,620
Office supplies				498						2,819			3,317
Fund raising										751			751
Student and member awards	633												633
Telephone				237						854			1,091
Chapter expenses										3,793			3,793
Dues											895		895
Duplicating										3,670			3,670
Other committee expenses										39			39
Miscellaneous										2,484			2,484
	<u>\$141,947</u>	<u>\$26,832</u>	<u>\$40,871</u>	<u>\$60,852</u>	<u>\$25,729</u>	<u>\$21,929</u>	<u>\$953</u>	<u>\$20,300</u>	<u>\$18,288</u>	<u>\$41,112</u>	<u>\$6,281</u>	<u>\$405,094</u>	

The accompanying notes are an integral part of these financial statements.

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

STATEMENT OF CASH FLOWS
Year Ended December 31,

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 39,422	\$ 35,433
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Depreciation	2,936	3,046
(Increase) or Decrease in Operating Assets:		
Accounts Receivable	5,002	4,003
Grants Receivable	82,800	(149,200)
Accrued Interest Receivable	0	501
Prepaid Expense	6,365	(19,218)
Inventory	6,913	(21,381)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(47,336)	26,813
Accrued Liabilities	(364)	(10)
Dues Collected in Advance	(11,912)	45,950
Subscriptions Collected in Advance	731	2,490
Deferred Income	(86,799)	314,676
Net Cash Provided from Operating Activities	<u>(2,242)</u>	<u>\$ 243,103</u>
Payments for Property & Equipment	(0)	(8,997)
Net Increase (Decrease) in Cash and Short Term Investments	(2,242)	234,106
Cash and short term investments:		
Beginning of year	<u>531,588</u>	<u>297,482</u>
End of year	<u>\$529,346</u>	<u>\$531,588</u>

The accompanying notes are an integral part of these financial statements.

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Nature of Organization

The Association is a not-for-profit organization. Its purpose is to provide publications and services to its members in the professional field of industrial relations.

The Association is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. However, net income from the sale of membership mailing lists and newsletter advertising is unrelated business income, and is taxable as such.

Basis of Accounting

The financial statements of the Association have been prepared utilizing the accrual basis of accounting.

Financial Statement Presentation

The Association adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Association is required to present a statement of cash flows.

Contributions

The Association also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made," whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Inventory

The Association's inventory of directories, research volumes, proceedings, and prior newsletters is carried at the lower of cost or market value.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost. Depreciation is provided using the straight-line method over an estimated five- to seven-year useful life.

Membership Dues—Advance Subscriptions Collected

Membership dues and subscriptions are assessed on a calendar-year basis and are recognized on an accrual basis. Funds received for the upcoming 2000 and 1999 calendar years are reflected as deferred income on the statement of financial position.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

Industrial Relations Research Association is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, Industrial Relations Research Association has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 1999 and 1998.

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