

**INDUSTRIAL
RELATIONS
RESEARCH
ASSOCIATION**

**PROCEEDINGS OF THE
SEVENTEENTH
ANNUAL
MEETING**

**Chicago, Illinois
December 28-29, 1964**

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DECEMBER 28 and 29, 1964**

EDITED BY GERALD G. SOMERS

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PREFACE

The Association's Seventeenth Annual Meeting emphasized prediction of the future course of industrial relations as well as description and analysis of current issues at home and abroad.

Four of the eight sessions focused on alternative solutions for the problems to be faced in 1975 in the areas of social security, trade unions, collective bargaining and manpower policies. The sessions on current topics included an evaluation of national manpower policies, labor participation in management, and the industrial relations policies of American corporations abroad. The annual joint session with the American Economic Association dealt with benefit-cost analyses of manpower and welfare programs.

In his presidential address, Solomon Barkin discussed a current focus for industrial relations research; and President Barkin has also provided a concluding review of the issues raised at the annual meeting.

We are indebted to the chairmen of the various sessions, to the speakers and discussants for their effective participation, and for their prompt submission of the manuscripts included in these *Proceedings*. A special note of thanks is also due the Chicago members of the IRRA for their excellent local arrangements.

GERALD G. SOMERS
Editor

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Part I

PRESIDENTIAL ADDRESS

A CURRENT FOCUS FOR INDUSTRIAL RELATIONS RESEARCH

SOLOMON BARKIN
*OECD, Manpower**

This country is surfeited with research reports in the broad field of industrial relations. But an uneasiness prevails concerning their real contribution to the solution of the problems and the proper design of institutions, and practices and developments in this field. There is a yearning for a grand design or theme. In its absence, the practitioners search for new methods and areas of analysis hoping thereby to create the base on which the unifying hypothesis and predictive models may be built. This listlessness was evident at the very first annual meeting of the Association when speakers of the individual disciplines explained the contribution each could make to the study of industrial relations and has been reflected in the continuing discussions in these meetings.

The major criticism has been that there is no all-enveloping system of analysis built on a comprehensive theoretical framework. A contrast is drawn between this field and the idealized images of other disciplines. Economists are depicted as having identified a persistent set of problems for their study; the anthropologist has a distinctive method of research; political scientists engage in the study of comparative political systems; sociologists and social psychologists deal with unified theoretical systems.

In contrast industrial relations research is described as consisting of discrete descriptive reports often duplicating one another. Only isolated efforts have been made in recent years to build models of operative systems and these have not been widely accepted. The researchers have gravitated to the opportunities for financing their efforts so that their interests have shifted as the sponsors have changed. The stress has been on timely and nonintegrated themes.

This dissatisfaction is reinforced by the realization that a real central interest unified the labors of the investigators and theorists in industrial relations in prior periods. It should be possible to do similarly in the current era.

The period of the twenties has sometimes been selected as a possible model but it was only an interlude in the social history of the

* The views expressed in this paper are the personal views of the writer and are not to be attributed to any organization with which he is associated.

United States, more significant for having preceded a period of active social reform and governmental activity than for its own achievements. Unions were shrinking in size and importance and retreating to grounds which they hoped employers would approve. Independent political action by unionists and liberals succumbed to repeated defeats. Social reformers and workers spent their time advocating rather than enacting social and labor legislation. Institutionalism, as an economic orientation, corralled the rebels against the classical economic tradition but only succeeded in focusing attention on the influence of economic and social institutions on human behavior and the current problems, without creating a new system of thought.

PRE-WORLD WAR I—A PERIOD OF COHERENCE

Of more relevance to a search for past models, is the epoch from 1880 to the outbreak of World War I. During this period the unifying theme of social theorists and actionists was economic and social reform. Many problems abounded including poverty, poor working conditions, inadequate educational opportunities, trade union organization, industrial relations, immigration, housing and others. Unions grew in importance. Strikes and industrial disturbances were of such frequency and size as to gain political and industrial significance.

Social reformers sought to ameliorate conditions and supported unions and collective bargaining. A number of economists and social thinkers provided the intellectual and factual base for these discussions. Robert T. Ely devoted himself both to the study of trade unionism and labor problems. Jacob Hollander and George Barnett focused on the problems of technology and unionism. John R. Commons was the expert on labor law administration and lead the writing of the history of American trade-unionism. Sociologists saw themselves as reformers and outlined changes in our social system in the setting of social conflict, the theme of the first meeting of the American Sociological Society in 1907. The close link between the intellectual, literary, political, and social movements of the period is a possible prototype for our current era.

POST WORLD WAR II—AN EMPHASIS ON REMOVING STRAINS AND TENSIONS

The above period of coherence of thought and action was succeeded by the twenties, an era of advocacy and the thirties, a time for practical innovation. Following World War II until the beginning of the sixties,

we have been devoted to normalizing relations and getting broader acceptance of past reforms. Recovery was the first order of the day. The new industrial relations institutions created by the war were to be absorbed. Full employment was to be maintained. The increased equity effected in the distribution of income through full employment, the tax system and new social legislation provided an optimistic basis for progress to a better social system. The great countervailing groups would assure a self-enforcing balance. The reformist tendencies were relaxed. Adjustments of areas of tension rather than structural reorganization were the primary concern. The expert or specialist who could help in effecting such adjustment was more highly sought than the philosopher or generalist.

The same tendencies were evident in the field of industrial relations. Attention was focused on the relation of the individual to the enterprise so personnel management and the study of human relations gained preeminence, followed by the current emphasis on behavioral sciences. Industrial relations concentrated on the problems at the job and plant level where the tensions were most immediately evident and which the investigator could handle. Methods of communication within the firm and even the union gained prior attention over the examination of the institution's functions, appeals and structures.

The problems of groups such as older workers, minorities, or women, were tackled individually rather than as evidence of fundamental deficiencies within the social system. An interest in the overall issue of poverty had to await the precipitation of the national drive for racial equality, and it is still envisaged as a challenge to assuring real individual opportunity. Studies of manpower mobility and the labor market remained academic reports without relevance to the thinking of the public authorities. The latter, and union and business leaders, enlisted the research of many in studying specific issues, without inviting fundamental appraisals of their entire system of organization.

A REEXAMINATION IS IN ORDER

Evidence is mounting that the removal of strains and tensions in individual areas is no longer enough. Mere reconstruction is not sufficient. Perplexing persistent problems exist in our social and economic systems. High levels of unemployment linger after the adoption of fiscal policies designed to lower this total of unemployed and at a time when other industrial countries face labor shortages.

Large groups of unintegrated rural, minority, industrial change victims and other categories of persons continue to challenge the body politic to find new solutions. Rates of economic change and productivity are increasing, thereby raising the demands for even higher capacities of adjustment to the new industrial environment. The new management arts and industrial tools, particularly automation, are revolutionizing the industrial setting for all groups. The proliferation of international connections and associations for our business enterprises, the increasing importance of international agreements and standards and the expectations of other countries have made our past organizations and beliefs somewhat outmoded.

Concurrently we are finding our urban areas ill-equipped to assure adequate services and living arrangements for the teeming millions in their environs. The expectations of the citizenry are rising at a time when the population is growing in unprecedented numbers. Pressures are intensifying for more central guidance for the governmental and individual efforts in our society, as may be found in other democratic societies, to assure the proper listing of priorities. A dramatic crisis such as the Negroes developed in the last decade would immediately force us to realize the need for a reexamination and an intellectual and physical restructuring of our society to bring it abreast of the demands of our times.

THE NEW FOCUS FOR INDUSTRIAL RELATIONS

This type of reexamination is essential in the field of industrial relations. In pursuing this task one cannot limit oneself to the problems within the work place. The total occupational life of man was the preoccupation of the student of "labor problems" (of the pre-World War I era) and must remain the province for the student of "industrial relations." In this broad field, the industrial relations expert becomes more dependent upon other specialists and generalists, but his responsibility is in no way limited as he finds his own competences and insights enriched by the findings and thought of other fields.

In pursuing this reexamination, the industrial relations researcher has relatively clear guides defined for him as to the goals and beliefs for this new era. These command even broader support and greater consent than the goals of social reform of the pre-World War I era. They are generally incorporated in international instruments defining public policy and our country is party to many of them.

These goals and beliefs can be summarized as seeking the realiza-

tion of a constructive humanistic democracy in which there is a continuing expansion of the rights and opportunities and improvement of the well-being of individuals in a democratic society in whose decision-making process they share through their representatives. The government's responsibility is to insure the availability of job opportunities for people willing to work, and considered capable of working, at jobs which would provide them adequate outlets for their capacities and skills and for their participation in the economy under conditions which are optimum in terms of individual and national interests. People should be free to choose their employment and be as well informed as possible about their job opportunities. Training and transfer facilities have to be available where these are required. A coordinated system of provisions arranged by enterprise and public authorities is needed to assure these aids for individuals. Area redevelopment should be fostered where economically feasible in labor surplus areas. The emphasis on an employment oriented economy is also matched with a determination to assure continuing growth at a level which OECD countries have defined as an annual rate of 4.3 percent. This advance will ensure a rising per capita income level for the people.

The programs usually provide for aids, services, and funds to assist individuals to adapt to the industrial, occupational and geographical changes in industry. The support for these programs is motivated first by a concern for the individual's well-being but then also by the realization that such arrangements will also facilitate the individual's acceptance of, and ultimately participation in, the introduction of change.

An important element in this new system of beliefs is the conviction that employees should participate through representatives in the planning of changes, certainly as they affect the terms and conditions of adjustment for people, and possibly in the development of the schedule for introduction of change. As national economies are increasingly affected by defined qualitative and quantitative goals, and national machinery is established for assuring adherence, the major economic interests should share in the discussion and development of policies and aid in their implementation.

Among the important beliefs broadly accepted and incorporated in the convictions of the day is that economic growth is substantially advanced and facilitated by improvements in the quality of human

resources. Investments in the health, education, physical well-being, welfare services, housing, and even the leisure of people are increasingly important to raising the productivity of people and promoting economic growth.

The need to realize these goals and the implementation of these beliefs, the new economic and social environment and the new policies and institutions present this and other nations with a real challenge. The relief of strains and stresses is not sufficient for attaining these ends at a time when many existing institutions, beliefs and behavior patterns are rooted in prior eras. The new age demands the organization of much that is new and the restructuring of much that is old. Resistance to innovation and reorganization is a common problem. Lack of understanding of the purpose of the new institutional behavior and the methods of adjusting the older to the new are producing prolonged debate, delays in adjustment and struggles which may well produce great strain and tension. The great need is therefore for the use of knowledge, study and definitions to understand the new era, to define the areas of dysfunction, and to conceive of the alterations and the innovations necessary to achieve the goals and beliefs.

It is in contributing to the study, examination and restructuring of institutions, agencies, policies, and beliefs so that they better serve our new era that the modern industrial relations researcher has his most clearly defined mandate. His task is to define and evaluate the goals and beliefs more precisely, particularly in the individual fields, to identify the forms of dysfunctionality, to examine conflicts and identities, to spell out the alternative courses for the attainment of goals, to identify the sources of resistance to change and indicate strategies for overcoming them, to outline the progressive steps for the ultimate realization of the ends, to assist in the preparation of lists of priorities and to calculate the costs and benefits of innovations.

In aiding in the wholesale reexamination of our industrial relations structures, institutions, policies and beliefs, the industrial relations researcher will move from the preparation of disparate, uncoordinated research efforts into a program with grand design, even if the specific tasks are individually conceived. Research will become action-oriented even when the procedure is completely theoretical and the methodology and data are not immediately understandable by the ultimate policy-maker. The research will contribute to the smoother adjustment through the restructuring of our industrial relations system to the needs of the day.

ACTIVE MANPOWER POLICY

The redesign of the industrial relations policies, institutions and behavior has proceeded far enough so that we now have guides in some areas for structuring the new patterns. In no field is the new system more clearly evident than in the field of manpower policy and administration. A great contribution has been made by international institutions such as the ILO and the OECD toward the crystallization of these views.

The underlying conclusion is that the countries should adopt "an active manpower policy" which predicates the maximum utilization of manpower resources of a country. The services and programs should promote the availability, mobility, and quality of the human resources, assure the smooth adjustment of people to the changing occupational pattern of employments, and promote such jobs and encourage such a geographical redistribution of employment as would assure the employment of marginal groups and persons in chronic labor surplus areas. Its main emphasis is upon the implementation of a "full productive and freely chosen employment policy."

The realization of this program is dependent upon the existence of a national manpower agency coordinating existing agencies, policies and resources and promoting such new policies and programs as may be needed to achieve these purposes. It should be adequately staffed to be able to follow developments in the manpower field and to provide groups both inside and outside of the government with the information needed for decisions affected by manpower resources. Its interests must extend to all labor groups and employers. It must enjoy sufficient prestige and command such respect for its judgment as to be able to counsel economic and political policy-makers as well as other agencies such as those in charge of education, urban development, public expenditures, health, welfare and social questions, to gain their assistance in the realization of the fundamental objectives of manpower policy. Its work must embrace the study of those developments, institutions, employer practices and employee behavior which inhibit or encourage the achievement of its ends, for the purpose of reinforcing the latter and securing the modification of the former. Its interests must be national as well as local and its relations must extend beyond national boundaries. Its programs, or those it influences, must be flexible enough to be responsive to the changing needs of the specific groups and areas and general conditions, and to changes, adversities, and opportunities.

An active manpower policy can be described as embracing the placement of those employed, underemployed or unemployed who are seeking jobs, the supply of labor to those employers in need of employees, the counseling of both employees and employers on how best to meet impending manpower demands and supply conditions, and the assumption of the initiative in proposing and implementing policies which assure the employment of those who are underutilized due to part-time work, uneconomic employer practices, excessive employee restrictions, or low productivity, and of the unemployed.

Such a manpower policy will make an outstanding contribution not only to the fullest utilization of human resources but also to the relief of manpower bottlenecks and the moderation of inflationary pressures stemming from such shortages. By facilitating the movement of people from areas of labor surplus to those of great demand, and fostering a better allocation of the work force according to the changing patterns of industrial and occupational needs, the process of economic growth itself will be stimulated.

The major tools of such a program besides those of research, study, and policy statements, are the employment office, training and retraining institutions or arrangements, aids to geographical transfer, and job creation programs. The public employment office has a long history in most countries but in few has it realized its potential. As it is indispensable and central to the efficient operation of manpower programs, each country must seek ways of correcting the deficiencies and shortcomings of the service. It normally provides assistance in selection and guidance and counseling of applicants. It has to serve all employees and employers and therefore must integrate closely with the employment operations of each enterprise and acquaint the latter on methods of utilizing its services. The status and prestige and the rate of penetration of the individual labor markets must be improved. The employment service must be made a respected and efficient agency.

In view of the extraordinary industrial and occupational shifts in industry, training and retraining facilities must be made adequate. These can be both public and private in character, both in special institutions and within the enterprises. Experience would seem to indicate that in a relatively full employment economy, employers voluntarily assume a high proportion of this responsibility.

Financial maintenance of workers and their dependants is indispensable to the proper functioning of a manpower organization.

Without adequate payments, morale and physical and emotional competences may be lost and irreparable damage will be done to the dependants. An orderly system of adjustment requires adequate maintenance programs.

Essential to the achievement of the desired mobility is financial aid for the geographical transfers of people for whom it is considered necessary or desirable to move to new areas.

Often overlooked in the formulation of manpower programs is the great need to coordinate closely the policies, programs and facilities of the enterprise and the public agencies. They must be integrated to support one another.

Finally, "an active manpower policy" envisages a host of job creation activities designed to stabilize employment opportunities for seasonal workers, to provide temporary employment to persons displaced by structural change, and cyclical lulls, to encourage redevelopment of viable distressed areas, and to develop permanent employment for the noncompetitive groups.

The administrators of these agencies have, as indicated, the central responsibility of advising branches of government on policy, to encourage them to harmonize their efforts with those followed by the manpower institutions and reach understandings with them on areas of mutual concern. For example, it is essential that manpower agencies distill their experience and insights to develop findings and recommendations on the curriculum and methods of education which would better prepare youth for the total work life.

ACTIVE SOCIAL POLICY

The realization of an active manpower policy is often dependent upon providing special assistance to individuals to help integrate them in new environments to build up or rehabilitate their competences or to remove anxieties or individual difficulties which interfere with their employment or successful adjustment. Such services are regularly needed by industrial workers moving into new areas, rural workers shifting into industry or urban communities, foreign workers migrating to new communities, and special groups such as long-term unemployed, minorities, women with family responsibilities, the handicapped, and mentally retarded.

An active manpower policy cannot assume that individuals will automatically adapt themselves to new environments or will always overcome the personal impediments to adjustment. They often have

to be assisted with counseling, aids and programs to accelerate the process of integration, to reduce the human costs and to lift the level of ultimate human productivity. Social adjustment programs involve understanding and accommodation not only of the individuals with problems but also of the members of the receiving community.

EMPLOYER, EMPLOYEE AND UNION RELATIONS

While the objectives of an "active industrial relations system" can be defined, and the dimensions of the problem can be broadly enumerated, there is at present no clear image of the type of integrated employer, employee, and union relationships which will most satisfactorily meet the requirements of the new age. The institutions, and groups and problems to be considered are more numerous and complex than those arising in the consideration of manpower problems. Although the interests and institutions are more interdependent, they are still most distinctive and conflicts exist at many points of contact.

Many employer-employee relation institutions are entire subsystems in themselves, derived from and deeply rooted in the past. Revision and reorganization will require profound efforts at reconstruction of attitudes, beliefs, and behavior patterns. Moreover, the changes may have to be effected largely through persuasion and internal reexamination and at the initiative of the agencies themselves, possibly with some assistance from without the system. Few leaders of these institutions are ready to stand off at a distance and envisage long-term needs. It would be more singular for them to yield positions in the interest of the effective operation of the total system. They are ever suspicious of changes which might strengthen the adversary's power position. Nevertheless, vast significant alterations are imperative if the total system is to operate effectively.

It was said that the objectives are less difficult to define. One such attempt would declare that an "active industrial relations system" is one in which the parties are constantly seeking, by agreement primarily effected through understanding among the representatives, to accommodate the economic interests of the enterprise, industry or nation, and the employees' aspirations, without basically violating the public interest. These agreements would respect the rights of individual members of unions to the democratic expression of their views, and control of the union. The very vagueness of this result is itself proof of the preliminary nature of our efforts to produce tangible guides.

The parties involved in this industrial relations system are on the

whole quite easily identifiable. There are employees who may or may not be organized into trade unions or their equivalents for representation. There are employers who may or may not be associated with other employers in bargaining associations. Both may be limited in their coverage, which may be limited to a single bargaining unit or extend to an entire nation. Thirdly, there is the government or autonomous persons such as independent arbitrators and conciliators.

The ability of each to serve adequately and smoothly is a matter for study. Certainly there is need for close examination of the trade-union organizations whose structure often dates back to a century or more and whose policies and attitudes were often determined prior to our post-war era or in different economic settings. In some western countries several initial efforts have been made at evaluating the reforms needed for the effective operation of unions. But few far-reaching blueprints have been drawn for the reorganized movements. The leaders of the trade-union movement, even where they have been sensitive to the obsolescence of parts of the structure, have been restrained in their statements and cautious in their proposals. Even in the United Kingdom where the urgency for reorganization is most apparent, practical work in this direction is limited and the writings are largely critical rather than prescriptive. In the United States the subject of reevaluation is still taboo in official union circles.

What has been said of trade-unions is even more applicable to the representation of employers in this system. They operate on two levels. First there is the area of personnel relations, and second, industrial relations. The practitioners in the former continue very often to behave quite independently of and oblivious to the existence of public policy and the collective bargaining system. Both these men and the theoreticians of personnel relations tend to build on the assumption of closed establishment units practically isolated from the remainder of the society, often unwittingly resurrecting models of unitary power systems which are in striking contrast with the realities of the parallel systems of collective bargaining.

In the second field, industrial relations, there is even greater chaos. Individual employers may continue to abstain from participation or being bound by the agreements or policies of employer associations. Even where they are members of the associations and bound by collective agreements, they may often foster and engage in individual agreements at local levels. The latter may exist without complementary understandings at the higher levels. The entire question of the opera-

tion and future of employer bargaining institutions has remained inadequately defined. Neither employer nor worker organizations have faced up to the requirements for responsible participation in national policy formation on problems of industrial relations.

What has been said of employers and trade-unions can also be said of the government. Its basic role has to date been that of an outside observer. It has intervened to facilitate agreements or to substitute legislation for voluntary agreements where the latter are absent. In some areas the government has prescribed rules of conduct for the participants. But many serious questions are being raised as to its future activities in view of the increasing economic impact of large-scale work stoppages, the great bargaining power of trade-unions, and the growing importance of formalized national economic policy and measures for guiding the growth and level of activity of the economy and income policy.

The established procedure of collective bargaining is proving inadequate in the present environment. Many are the unresolved issues. How is the setting of discrete negotiations in a specific plant to be related to the national process of bargaining and policies? How is the unending series of problems arising from the constantly changing economic and technical conditions to be dealt with? Are they to be held off until the periodic time for negotiations? How are negotiations on complicated technical problems to be conducted? To what extent is the government to aid in solving the difficult issues confronting the participants, for which they have neither the resources, skills, nor personnel? Shall all agreements become legal instruments to be integrated into master contracts? How much reliance should be made on third-party assistance in effecting agreements between parties? What is the role of the strike, threat of economic force, quickie, or authorized stoppage? Should there be compulsory arbitration? Should national agreements on all economy-wide bases provide the pattern and range for local, corporate and industrial agreements?

Not only have these questions of structure and procedure been relatively unexplored in a systematic manner, but many fundamental policies and issues underlying the system of industrial relations need review. Collective bargaining has been favored but its meaning has differed widely among groups of countries. Which particular design most clearly meets our current needs? Which structures of unions and units of bargaining can prove most viable and consistent with newly evolving industries and occupations?

Equally troublesome are the substantive issues of the agreement itself. These overlap with varied other fields of public interest. As for the wages and benefits, these are income and services for the employees and costs to the employers. They impinge on wage and salary levels, income policies, national economic measures and policies, and the behavior of people in the labor market and varied phases of life. The provisions for working conditions affect the personal well-being of the individual employee as well as costs. The provisions for hours of work and overtime have equally ramified significance beyond their meaning to those immediately concerned.

As for the arrangements concerning adjustments to technological and economic changes, they are intimately related to the active labor market policies to which we have referred. In fact, there is an increasing tendency to call upon the personnel and industrial relations policies and programs to implement the basic principles evolved on a community and national basis through the active manpower programs. The two should be coordinated and should reinforce one another.

The provisions respecting employee rights to a job also affect the public interest. The administrative machinery can not only create an orderly procedure of industrial government, but may also have a substantial effect on the acceptance of these systems by the community. Finally, the rights of the union in the operation or making of policy within the firm or to information about the firm can have major implications for the industrial structure.

This is only a summary listing of subjects and issues which scarcely reveals the multiplicity of problems facing us and only shows how vague is our sense of direction in this field. Certainly, the discordancy, lack of integration and piecemeal consideration of problems in this industrial relations system must be replaced by more fundamental appraisal of the entire industrial relations system.

HUMAN RESOURCE DEVELOPMENT

The objective in the field of human resource development is even less clearly formulated. The path to be followed can be defined but the specific dimensions and issues have not yet been clarified. The evolving technological and industrial as well as political and social systems require that employers and employees possess wider ranges of knowledge and that their capacities be more adequately developed. As individuals are increasingly relieved of many routine physical duties they can occupy more creative roles, but they must be prepared

for this function. In addition, it is being argued by students of economic growth that such investments in the human being are likely to be highly rewarding, and are essential for the utilization of the increasingly sophisticated equipment and for participation in the more complex organizations which abound the world over.

Only a few areas of human resource development have been studied to date. Introductory investigations have been made in the fields of education and health to define their contribution to economic growth. There are still the broad fields of housing, welfare services and leisure activity. The special interest of the industrial relations investigator is of course to define in terms of the industrial system what improvements in these fields will improve productivity most and aid individuals in maintaining their fullest adjustment through their work life. Of particular relevance is of course the curriculum of the educational system namely, whether it serves young people in their preparation for their employment and work life.

STANDARDS OF LIVING INCOME AND SOCIAL SECURITY SERVICES

It has been customary for international agreements or documents on economic growth and institutions dedicated to the promotion of development to declare it to be their purpose to raise the standards of living of their people. It is probable that economic growth and development have resulted in improvements. Certainly, the sharp contrast in the living levels of the mass of the people in the pre-war and post-war periods testify to this conclusion. But the issues are what have been the amount of improvements, and how widespread have they been and what can be done to advance them further.

Having become increasingly aware that the trends toward the further equalization of incomes have possibly been halted in some countries and that the rising national incomes have not resulted in the elimination of the poor, the nations are confronted more than ever before with the need of evolving policies and programs for promoting both goals.

There is not only the problem of advancing toward these goals, but of devising measures which would more adequately gauge the degree to which they have been attained. The study of the definition of standards of living and consumption has an honorable history. Regular work continues in the measurement of the consumer price indexes, consumer expenditures, and in the testing of the adequacy of some expenditures. But a beginning has only been made in examining

the adequacy of these overall expenditures and relating them to income levels. These policy areas need a substantial amount of data to be furnished by the researcher.

The systems of social insurance and services were conceived as well as designed to care for people left stranded by injuries, unemployment, illness, accident, dependency, old age, and other personal deficiencies. Each tended to be devised separately. Older governmental systems became insufficient and private programs were set up unilaterally by employers or negotiated between employers and unions to supplement the preceding. Public and private systems of assistance were developed to fill other gaps in social protection in the community.

Social services have been organized often in the first instance by private philanthropic agencies and on occasion they have been taken over by the government. The groups which have been assisted have been varied, depending upon the appeals of individual problems, the political pressures and numbers of people involved. Many groups remain unaccounted for. Integrated systems of care, service, assistance or social insurance are lacking. Community or even national planning in these fields is absent.

Appraisals of the overall situation are pressingly needed both to obtain a view of the variety of provisions and to formulate the basic questions for public policy. One issue is whether it is desirable to integrate all systems of social insurance to provide a single system of payments for loss of income and a complementary provision for covering costs of services. Might we not well conceive of a national guarantee of income to all which would insure a minimum standard of living despite the specific cause of the dependency? Must not there be a more adequate program for rehabilitation and personal adjustment to enable people to contribute to the maximum degree possible in the economy? Research experts have been so busy with individual aspects of the problem that they have not raised the fundamental issues we face in reconstructing the systems of payments and services for the modern world.

EMPLOYEES AS PARTICIPANTS IN THE POLITICAL SYSTEMS

A final area concerning which a short comment should be made relates to the political activities of employees. These have been crucial in the political history of most countries. The labor, socialist, catholic and nationalist parties of many countries were based upon the support of workers and trade unions. The subjects of controversy in this area

were hotly debated in former years. But the current issues have not yet even been formulated. The restraints on employees and unions through the growing strength of the labor parties and governments remain relatively unanalyzed. The significance of labor governments for industrial relations has hardly been evaluated. The role of unions in modern government needs to be studied if for no other reason than to help them better define their own role. Is representation in governmental decision-making agencies through unions adequate or must it be supplemented by political activity? The modernization of industrial relations depends upon exploration of these as well as other areas.

CONCLUSION

A central focus can be provided for current industrial relations research. It is to assist in updating the objectives, institutions and behavior patterns of the people and the total systems. They have to be brought into coherence with the new goals and environment. The strains from inadequate articulation can cause further dissatisfaction and delay the fulfilment of the objectives which the countries have set for themselves. To effect this adjustment requires careful definition of goals and guides and re-evaluation of institutions and behavior.

No more important task lies ahead of any group than to assist through the application of its skill and analytical powers in effecting those structural changes and adjustments which will help create the overall coherence of objectives, institutions and behavior. The industrial relations research man can now join the practitioners and participants in our industrial world in modernizing its component elements to help effect the needed adjustments. He will in this union of effort gain positive direction and inspiration for his work.

Part II

INDUSTRIAL RELATIONS IN 1975-- SOCIAL SECURITY AND SERVICES

SOCIAL SECURITY IN EVOLUTION: TOWARDS WHAT? ¹

EVELINE M. BURNS

Columbia University School of Social Work

Twenty years ago I prophesied that the institution of social insurance, a revolutionary innovation in its time, was likely to undergo major evolutionary changes which would modify its character and perhaps lead to its substitution by other techniques for assuring income security.² Since 1935 the coverage extensions, changes in benefit formulae and eligibility conditions of our major social insurance system have already seriously modified the institution in this country, so that its inner logic is increasingly difficult to discern. The question of the direction in which are are moving is a fascinating one. For clues, one can only look at what has been happening in the social and economic environment in the meantime.

First, I think it cannot be denied that there is a growing, tho' far from complete, acceptance of the concept of the basic minimum. In this country we see its influence in the concern about adequacy in our social insurance systems. And this is of first importance because social insurance has popularized the idea of making payments (including any minimum) without any test of means or need. The concept of a minimum (this time with a means test) applicable to large groups has also become increasingly prevalent in our public assistance programs. The general practice of the states, spurred initially to this action by pressure from the then Social Security Board, to define and price the basic items of consumption which their public assistance systems should assure to eligible needy people, has inevitably served to give currency to the concept of a basic minimum for the entire state below which no one should fall. We are beginning to hear not merely criticism of the failure of states to achieve this objective³ but also talk of the duty of the Welfare Administration to develop na-

¹ This is a condensed version of the paper as given, from which illustrations and much supporting data have been omitted.

² "Social Insurance in Evolution," *American Economic Review Supplement*, March, 1944, p. 199.

tional minimum standards that could be used at least as models or measuring rods, and even suggestions that compliance with some defined standard should be made a condition for receipt of federal grants under the Social Security Act.

The acceptance of the universal minimum is even more pronounced in other countries although there is a good deal of difference in the way the minimum is assured. In New Zealand since 1938 and Australia somewhat later, there is a guaranteed minimum effectuated through the income-conditioned pension system. Since 1948 Britain's National Assistance system has performed the same function, although it is supplemented by a system of discretionary payments. In France, a recent committee of inquiry into the problems of old age has recommended the adoption of a guaranteed minimum payment designed to ensure an acceptable minimum standard of living to all aged persons.⁴

More directly reflecting acceptance of the concept of the basic minimum is the growth of the demogrant. Widely developed in the form of the children's allowance it is now beginning to be applied to the aged. Sweden has long had what is essentially a demogrant for the aged. Canada adopted the same policy in 1951 for persons over 70.

The policy issue that seems to be everywhere emerging is not whether all members of a large community, such as a nation, should be assured some roughly uniform minimum real income under circumstances which are not regarded as demeaning, but rather how best to bring this about. The feasibility of such an objective has undoubtedly been enhanced by the development in all major countries except the United States, of provisions transferring all or a major part of the costs of medical care from being a charge on private incomes to being a charge on the community through health insurance systems or national health services.

A second important influence is undoubtedly the rising affluence of the United States and other countries that have equipped themselves with more or less extensive social security systems. It has

³ See for example, *Report of the Advisory Council on Public Assistance*, Senate Document No. 93, 86th Congress, Second Session, Gov't. P. O. Washington, 1960, p. 6 and passim.

⁴ Haut Comité Consultatif de la Population et de la Famille, *Politique de la Vieillesse*, Rapport de la Commission d'Etude des Problèmes de la Vieillesse. La Documentation Française, Paris, 1962, pp. 171 ff.

facilitated the making of more substantial transfers of income from the currently productive to the currently non-productive, because even after the transfers the absolute amount of the disposable incomes of the former have still continued to rise. But it has also brought with it a more generous view of the appropriate level of income which public security measures should aim to ensure. Even in the public assistance systems this influence has made itself felt, although often in a somewhat spotty manner. The income-conditioned pension systems over the last 30 years have been characterized by frequent upward revisions of the guaranteed payment and also, except for Great Britain, of the amount of resources an applicant may possess without prejudicing his eligibility. In the social insurances with flat uniform benefits and in some of the demogrant countries, the desire for public assurance of an income above the "bare minimum," which has accompanied the rising real incomes of workers, has led (e.g., in Britain, Sweden and also, it now seems likely, in Canada) to the adoption of a "double-decker" system in which a wage-related contributory system is superimposed on a basic uniform minimum payment. In countries already having wage-related benefit systems such as France or the United States, there has been constant and often successful pressure to increase the money ceiling on taxable, and therefore creditable, earnings and the introduction of "new starts" and "drop-out" years in order to keep benefits to some degree in line with rising earnings.

The problem of adjusting social security benefits to rising prices and, still more challengingly to rising productivity, has been brought to the fore by another feature of the last 30 years, namely the emergence of the aged, rather than the unemployed, as the major security problem. The aged are a group of recipients characterized by long-term duration of receipt of benefit, a duration that is becoming ever longer due to increasing longevity and the tendency of many countries to reduce the age at which benefits can be claimed. For recipients of this type the discrepancy between price or general earnings levels at the beginning and at the end of their "benefit life" may be very substantial.

Hence it is not surprising that in one country after another there is currently a search for devices which would protect benefits of future retirees and, even more difficult to achieve, of the already retired, against loss of purchasing power and which would ensure

that their real value would rise in some measure as the general level of living rises.⁵

At the same time rising levels of real incomes create a new policy question. Should public policy aim to provide a benefit equal to the same proportion of a worker's previous earnings regardless of how high those earnings may be. Or should it be held that beyond some specified benefit level workers with higher earnings who desire a larger pension than this, or who wish to enhance their living standards in old age in other ways, e.g., by the purchase of a home, should be expected and permitted to make private provision therefor.

In the third place, there is a growing body of knowledge about the relative numbers and characteristics of those supported by the various income security programs. On the one hand, there have been revealed certain risks to maintenance of income which have not been covered by, and do not appear readily to lend themselves to coverage by, social insurance. Among these are the risk of family break-up attributable to causes other than death of the breadwinner, and the risk of long period unemployment.

On the other hand, there has been a growing realization that an otherwise adequate income (whether privately secured or obtained from some public income-maintenance program) can become inadequate in the event of very common but unpredictable or irregularly occurring costs, such as costs of rearing children and the costs of medical care. Here the policy question that is posed is whether to aim to meet them through adjustments in the cash payments of programs whose primary focus is on interruption or cessation of income, or whether to provide for them on a quite different basis.

A fourth development which is likely to exert an important influence on the form of the social security system of the future must be sought within the tax system. Since 1935 the scope of the income-tax has greatly broadened in terms of the numbers of income receivers who are caught in its net. And we have witnessed a growing tendency to use the tax system as a welfare instrument.

The very success of social insurance in facilitating the policy of

⁵ See Bulletin of the International Social Security Association, March/April, 1962, pp. 19-96; Daniel S. Gerig, "Automatic Cost-of-Living Adjustment of Pensions in Foreign Countries," *Social Security Bulletin*, March, 1960; the forthcoming article by Robert J. Myers, "A Method of Automatically Adjusting the Earnings Base Under OASDI," in *The Journal of Risk and Insurance*, and *The Canada Pension Plan*, Government of Canada, Department of National Health and Welfare, Ottawa, August, 1964.

collecting income taxes from the poor may have hastened the day when it may undergo a major change of form even if it is not superseded by something else. For now that the coverage of the general tax system is so extensive it may well be asked whether instead of two income-tax collecting systems it might not be preferable to have a single system, especially as the national tax structure is distinctly more progressive than that of the social security system. (It would still be possible, as is done in some countries, to earmark for social security a percentage of the tax payable by each individual.)

The wide population coverage of the income-tax return and its use as a means of discrimination between those who do and who do not have to pay taxes inevitably raises also the question whether this same machinery could be used to discriminate between those who should and should not receive income security payments. In other words, cannot the income-tax return, as is, or modified, become a substitute for the needs test in its many forms?

The increasing use of the tax-system as a welfare instrument through special deductions or exemptions for e.g. the aged, medical costs, or social insurance benefits is also likely to effect our income-maintenance policies. For new possibilities are opened up. As these tax concessions for special groups and needs increase in number, attention is inevitably directed to the pros and cons of substituting a nationally determined single payment for these many and often arbitrary concessions. We may expect this question to be asked with increasing frequency as the current rediscovery of poverty focuses attention on income deficiency (as opposed to income interruption which has been the major concern of public social policy in the last 30 years). For the ironical aspect of the present use of the tax system as a welfare instrument is that the greatest gain is secured by those in the highest tax brackets while those whose incomes are most deficient are often unable to take advantage of all the exemptions and deductions which are legally available.

Faced with a system in which a very large number of programs is in operation each with its own eligibility and benefit conditions, and where the differential treatment is increasingly difficult to rationalize; with different financing principles applied to the different measures some of which are also hard to justify; with the growth of often irrational financial advantages conferred by the tax system and finally with the increasing concern about income deficiency, it is

perhaps not surprising that there is a search for some simpler approach. Two proposals along these lines call for special attention. Both have been termed revolutionary, although only one is truly so.

The first is the so-called Negative Income Tax approach, recently popularized by Professor Milton Friedman,⁶ but familiar as an idea to students of social security and income distribution for many years.

Leaving aside the tax implications of the Negative Tax proposal including both the increased levies that would be required of the taxpayers and the treatment of income and capital not currently included in the income tax concept of taxable income, the major concern of the economist would presumably be with the effect of such a scheme on initiative. For up to the level of the guarantee there would be no incentive to earn.

Friedman has endeavored to meet this difficulty by providing for the payment of a fraction only of the income deficiency. But unless the fraction yields a sum that is sufficient for minimum security (a figure that could be assured only if the "breaking point" between taxpayers and tax-receivers is set relatively high) his proposal will not obviate the need for other public measures to provide minimum security. And if the fraction does yield a significant payment to the man with zero income, the problem of incentive is not eliminated. It is perhaps suggestive that Friedman's illustrations appear to envisage very small negative income taxes. Another approach is that used by New Zealand's and Australia's income-conditioned programs which, like our earned income OASDI retirement test, permit the recipient of the standard minimum guaranteed income to retain other income up to some specified amount.

Even more modest is the suggestion that the Negative Income tax should take the form of payment of the tax value of exemptions and deductions that an income-receiver is unable to claim because his income is too low or the number of his dependents, too large. Such a proposal has an appeal on the grounds of equity but is no answer to the problems of income interruption; the payments would be far too low. As a method of putting more income in the hands of large low income families it would make some contribution to the problem of

⁶ Milton Friedman, *Capitalism and Freedom*, Phoenix Books, University of Chicago Press, 1962, p. 192. See also, Edward L. Schwartz, in "A Way to End the Means Test," *Social Work*, July, 1964.

income-deficiency. But it is clearly inferior for this purpose to a universal children's allowance system.

All these uses of the Negative Income Tax, based as they would be on declarations of anticipated income, would involve awkward administrative problems when realized incomes, because of e.g., unemployment or sickness, fell below those anticipated. Quite apart from questions of the level of payments as compared to those available under current unemployment or disability insurance or workmen's compensation systems, it is doubtful whether even on grounds of administrative simplicity they would have much to commend them at least for short periods or occasional interruptions of income. The administrative problems would however be much less serious if the system was applied only to the long-term risks—old age, survivorship and permanent total disability.

The more revolutionary proposal for the payment of a social dividend or universal demogrant to all regardless of means,⁷ would avoid one type of discouragement to initiative found in the simpler forms of the negative income tax, namely that (as is now usually the case in our public assistance programs) every dollar earned merely serves to reduce by one dollar the publicly provided income. Above the guarantee the worthwhileness of earning would of course depend upon the structure of income tax rates. The additional revenues needed to finance the guarantee would presumably necessitate pretty heavy rates all along the income scale, but it seems likely that it would still be possible to offer some inducement to increase incomes above the guarantee. But like the negative income tax it too would still mean that the individual who was content to live upon the guarantee would be under no pressure to participate in production. Lady Rhys-Williams proposed to meet this problem by requiring employable persons to be willing to accept suitable work as an additional eligibility condition.

The Negative Income Tax is however, not truly revolutionary because in the last analysis it still relates the right to receive socially provided income to some concept of need. Essentially it is merely a device for replacing a highly individualized and offensively administered test of need with one that is more impersonal and which, being

⁷ See Lady Rhys-Williams' *Something to Look Forward to*, McDonald & Co. 1943) and elsewhere. A discussion of this and related proposals will be found in Alan T. Peacock, *The Economics of National Insurance*, London, Hodge, 1952, Chapter VII. A brief discussion appears in Margaret S. Gordon, *The Economics of Welfare Policies*, Columbia University Press, 1963, Chapter VI.

already applied to all income receivers in their capacity as taxpayers, is accepted as carrying with it no stigma. As such, it is a real step forward and it might well lead to adoption of a more liberal definition of need than that adopted by many of our public assistance agencies. But it would still leave the population divided into two obvious groups, those who are "poor" enough to qualify for the negative tax and the rest. Some people would still have to be differentiated from others on the basis of economic status.

The universal payment or guarantee, on the other hand, would have the advantage of treating all people equally. The question of the level of the guarantee would be of interest to all. It would not merely be a question of what was suitable for "the poor." It would eliminate the necessity of any eligibility test based on economic status, and avoid the awkward issue of what is and what is not "income" for Negative Income Tax purposes. It would escape the administrative difficulties associated with either the assurance of income to persons whose incomes in any one year prove to be less than estimated in the initial income declaration, or of collecting repayments in the event that actual income proved to be greater than estimated.

It is for these reasons that if we should ever contemplate a shift away from the present complicated structure of social security programs with their different and often offensive or arbitrary eligibility conditions and their varying benefit levels I hope we shall move towards the demogrant or income guarantee rather than some version of the Negative Income Tax.

Whether or not we shall take this step is another matter. The most crucial determinant will be the extent to which there is general acceptance of the concept of the national minimum with or without regional or other geographical cost of living adjustments. I may be unduly pessimistic but I am inclined to think we have not yet reached that stage, more especially in those parts of the country where racial prejudice is widespread. On the other hand, if incomes from participation in the productive process continue to rise, the feasibility of maintaining a sizable gap between income from earnings and income from the national guarantee will be greater. Above all, if automation should proceed faster than our ability to expand employment in the service and leisure-time "industries" or to redistribute the growing amount of compulsory leisure in a socially acceptable manner, I am sure that for both economic and social reasons we shall find the

demand for a guaranteed minimum income for all difficult to resist.

In the meantime one might at least wonder why we do not apply a modification of the universal guarantee in the form of a significant demogrant to two groups where dependence on publicly provided income is likely to be of long duration and where questions of initiative are less important, namely to the aged and the children.

It will be evident that I do not think that the solution, by 1975, is a single guaranteed minimum income and social service system. Even if, as I am inclined to hope, we might adopt the policy of the guaranteed minimum income regardless of the means of the recipient for the long period risks (those who for physical or policy reasons are deemed to be out of the labor market), I doubt if this would be the only public provision for income security for these groups. Some wage-related system, superimposed upon this minimum, is likely to be insisted on by the middle classes—among whom I group organized labor.

For the short period risks, namely the interruption of income of those in the productive age groups, the guaranteed minimum income would seem hardly appropriate. On the one hand a wage-related, rather than a uniform minimum, would seem to be called for, and on the other the necessity to determine either the involuntary nature of the unemployment or the fact of disability would involve additional eligibility conditions that would leave us with a system not too different from the typical social insurance system.

Finally, for some social risks the best solution does not seem to be an effort to pay each individual a cash sum large enough to cover all contingencies. The only ultimately satisfactory solution of the threat to security posed by medical bills is to make the provision of health services a free public good—like education. The same holds for training and retraining of the unemployed. And even if the worst fears of the effects of automation are realized, I see the guaranteed minimum income as perhaps a necessary part of, but not a sufficient solution to, the problem of widespread permanent unemployment. For I cannot believe it would be a healthy, or a viable, society if only a small portion of the potentially active population was involved in, and rewarded for, something called “work,” while the rest lived on the guarantee in idleness, even if it is called “leisure.”

SOCIAL SERVICES IN RELATION TO INCOME SECURITY: INTRODUCTORY NOTES

ALFRED J. KAHN
Columbia University

DEFINITIONS

The discussion requires some initial definitions. First, *social insurance*. Ida C. Merriam has noted in an international survey that:

“A basic need of individuals and families in a modern economy is the assurance of a continuing cash income during periods of sickness, disability, old age or unemployment or when the death of the worker leaves his wife and young children without income from earnings. Social insurance systems serve the essential function of organizing the flow of cash incomes to families in such circumstances. Social security programs may also provide special income supplements to families with children or provide assistance or relief to anyone who lacks sufficient income to live at an acceptable level. And . . . social insurance has served as a method of organizing the payment for health services . . .”¹

While this definition is in some senses incomplete, seeking as it does to account for cross-national differences, it serves to describe one, probably the major, pattern of income security relevant to our topic.² Mention should also be made of *public assistance* or the *assistances*: here cross-national definitions are even more difficult. In general, especially in this country, we refer as assistance to those forms of financial and related aid in which both the likelihood of eligibility and the amount of benefits are far less predictable than in social insurance because criteria are less objective, are often unknown to the individual to be helped, vary by jurisdiction and are subject to a considerable measure of administrative discretion.³ Assistance always involves a means/needs test of a rigorous sort; where insurance does (in some countries) the “test” covers only limited aspects of a program and tends to inherit the “rights” aura of the total social security enterprise.

¹ Ida C. Merriam, *Social Services Provided by Social Security Agencies, Members of the I.S.S.A.* (International Social Security Association, 1964, No. ISSA XV/V/I), p. 4.

² I here use the phrasing “social insurance” and “assistance” where some may prefer “social security” and “assistance” because in the United States both are covered by our social security legislation.

Eveline Burns has suggested the term *income conditioned pensions* to describe this latter form of income security, in which the law specifies payment of sums to qualified individuals, but in which income of the applicant is also a legally specified factor in determining how large a payment, if any, is to be made.⁴ In these terms, many social security systems have income conditioned pension features as well.

To this list one might also add (a) certain *veteran pensions*, meant to replace lost earning power during a period of service and (b) *work relief*, as a way of assuring income to unemployed persons.

This total list, again to quote Dr. Burns, might be seen as comprising the existing *income security* measures within the terms of reference of this paper: "those public measures which have as their object the assurance of a certain minimum of income to some or all members of the population."⁵ Current discussion suggests the possible future addition of certain minimum income guarantees which may or may not fit the definition of a social insurance measure—and may require the addition of another category to the income security list.

Now to turn to the other major variable relevant to this discussion: *social services*. Here, too, in the interests of brevity and certainly useful for present purposes, we may adopt Merriam's recent suggestions. The complexities of modern society ". . . have created a need for the organized provision for many aspects of life that in simpler societies were governed by custom or taken care of by the family." Included are measures to aid the helpless members of society, particularly institutional care, foster home care or adoption procedures. Even "normal" families may need such additional measures as day care, home helps, recreational facilities, neighborhood centers. Families in the disorganized or in the more normal categories at times require guidance in career choices, home management advice, referral to community services and personal assistance in matters of family relationships.⁶

The object of help or care may be the individual, family, small group or community. The emphasis is on *community provision* of guidance, aid, services, resources, counseling—all the *nonincome forms of assistance towards adequate functioning and enhancement of living* in an urbanized, industrial environment.⁷

³ Eveline M. Burns, *The American Social Security System* (New York: Houghton Mifflin Co., 1949), Ch. II.

⁴ *Ibid.*, pp. 40-41.

⁵ *Ibid.*, p. 6.

⁶ Merriam, *op. cit.*, p. 4.

THE QUESTION

What, then, is our question? Why discuss social services in relation to income security? To keep within the boundaries of this present, limited effort, our central focus will be on the United States, and the answer is quite clear. A major distinction has long been made between the social insurance programs and the assistances in their relationships to social services. The tendency has been for a wide range of social services, particularly individual guidance and casework, to be closely linked with the assistances (or to be sought as essential, even if not yet available) whereas few social services are linked with the insurances (except insofar as they are unavoidable, as in some employment services). What is more, the distinction has carried implicit or explicit assumptions about recipients which have been reenforced by this distinction. These assumptions are increasingly under challenge as the coverage of the insurances is increased and as social security, in fact, becomes less and less like private insurance. These assumptions become less tenable premises for program organization as new proposals for income security are advanced to assure almost universal involvement on some benefit level, even if one repays it in taxes.

To be more specific, an American "ideal type" model of a social insurance program posits a situation in which most people cover their risks (old age, illness, widowhood, etc.) by a combination of careful saving or contributions (perhaps matched by employer or government) to an actuarially sound scheme in which benefits reflect contributions and eligibility grow out of actuarial principles. People employed in enterprises providing such coverage and reliable enough to accumulate adequate equities in the system are, by definition, normal, adequate citizens. In a similar "ideal type" model, the assistances are for those unpredictable and unusual contingencies which anyone may confront—but seldom does—and for those individuals who are not reliable, skilled, steady or healthy enough to "buy" adequately into an insurance scheme. Because of this concept of the assistances, they are closely tied to social work investigation of eligibility and application of a highly individualized type of means test (in which the object of investigation is never clear as to all relevant criteria). Moreover, the assumption is that because of the inevitable presence of crisis or personal inadequacy a variety of social services in addition to the counseling must accompany the funds once they are made available. In fact, the suspicion of moral defect and personal inadequacy as

* Health services, a subject apart, requires separate policy consideration.

causes of the need is so great that there is implicit doubt that one should provide too much money until the social services are able to accomplish a degree of rehabilitation and reform. By that time, it is assumed, most cases will no longer require financial assistance.

This, of course, is an ideal type and, therefore, somewhat oversimplified phrasing but it serves present purposes. In historical perspective, the entire history of British and American Poor Law explains the tendency to associate assistance with social services, to assign to all social services some of the Poor Law stigma of the assistances, and to have all of this reenforced by major sectors of the social services in the ways in which they perceive of users. In reaction, except in relation to employment services, social insurance systems tend in the United States to avoid offering social services and seek to separate themselves from those services which concentrate on the needs of relief recipients. For example, family service agencies in this country, the heirs of the charity organization movement, were long conceived as partners or supplementers of public assistance programs; only in rare instances have they developed formal ties to social insurance operations.

As already suggested, much of this is upset as the social insurance system approaches universal coverage. For one thing, more and more individuals attain eligibility as a matter of public policy on the basis of short-term, token contributions. In some programs, employee contributions are limited. (In other countries, too, general revenue financing of social insurance is common, as it would become in the United States under some current proposals.) Minimum and maximum benefit standards—or flat rate grant systems—represent further departure from traditional actuarial policies. Expansion of beneficiary rights, especially for dependent children, reflects other than strict insurance principles.

The sum of all this is to change the social reality and the public image of the beneficiary in these programs. In fact, many of those currently covered in the expanded social insurance programs in the United States would probably be assistance recipients were these more “flexible” approaches to insurance not taken.

At the same time, the call for simplification of the means test and some system of flat grant budgeting in the assistances would lead the

⁸ Ellen Winston, “Implications of the AFDC Eligibility Review” *Welfare in Review*, July 1964, especially p. 5. Edward Schwartz, “A Way to End the Means Test,” *Social Work*, July 1964, pp. 3-12.

two programs even closer together.⁸ It may be that reasons of efficiency and economy will in this respect take us where public reevaluation of recipients is not yet prepared to go. The process would be further accelerated should the country enact some limited version of a children's allowance, a negative income tax or some other family benefit in the context of the poverty war.

Indeed, such measures would require active steps to separate the currently organized social services in public assistance from the income security measures as a first step in achieving an end to the archaic varieties of means tests now being applied. The "social worker" in public assistance currently, after all, is for the most part compelled to be snooper and vehicle of public censure, seldom able to free himself for much else. Only as the question of money is separated from the question of counseling and social services—at least at the eligibility level—and the eligibility criteria made objective and visible, would new income security measures be seen as "rights." And this would provoke the question of the ultimate relationship of income security measures and social services.

But the question also arises from another quarter. Relatively limited inspection of social security statistics in this country serves to demonstrate the degree to which insurance beneficiary lists contain large concentrations of individuals in serious need of social services. Personnel in the field confirm this fact. Note the following for example:

Over 10½ million old age insurance recipients now receive monthly checks and many of these need social services to sustain their ability to continue in the community, often without relatives nearby.

Close to 900,000 recipients of disability insurance receive monthly benefits—and many, by definition, require help and attention.

Over 2¾ million wives and husbands of old age and survivor insurance and disability insurance beneficiaries also receive grants and, while with spouses, often share the need for individualized services and social resources.

Over 2¾ million dependent children of beneficiaries in these categories also receive monthly payments. These children may be dependents of retired workers, survivors of deceased workers, dependents of disabled workers, disabled persons who are dependent sons and daughters of disabled, deceased and retired workers

and whose disability began before age 18. All of these very circumstances often signal the need for social services.

Over two million widows and widowers of covered workers and another half million of their parents, many of whom are of an age and status requiring help also receive monthly benefits.⁹

These large totals of individuals in high hazard circumstances and possibly requiring access to social services need surprise no one: by last report, 91.2 percent of those in paid employment in the United States were covered by the OASDI law. As far back as 1940, 64.5 percent of the labor force was covered.¹⁰

DIRECTIONS

Current tendencies in urban, industrialized states, particularly those which retain large free market and private enterprise components in their economies would seem to point to the following:

1 — Increasing commitment to *income security measures* at the “social insurance” rather than “public assistance” end of the continuum, to a point of universal coverage for major risks and assistance at some guaranteed minimum level of subsistence (although perhaps not above the current poverty line).

2 — Expanded development of those social services which are essential to meeting the social realities of our present industrialized-urbanized-suburbanized patterns of family and community living and which are in no sense considered to reflect individual illness, misfortune, inadequacy or problem. I have urged of late, as have others before, that these be defined as *social utilities*. Current illustrations might be day care, home helps, citizen advice bureaus, job guidance and retraining centers, play centers at which children may be dropped off while mothers do errands, public recreation facilities. One category of social utilities consists of services available for use as one wishes (a park, an advice bureau). A second category is available to those of a given status (a child of kindergarten age, a person of given physical condition).

3 — Expanded and improved counseling and guidance services available to those with specific individual needs, offered either as the consequence of individualized diagnosis or self-referral and specified eligibility. The range here might include—again, only to illustrate—

⁹ Table 4—Old age, survivors, and disability insurance: Monthly benefits in current-payment status . . . , *Social Security Bulletin*, November 1964, p. 24.

¹⁰ *Ibid.*, p. 24.

family counseling and child guidance treatment, vocational referral, probation, foster care, institutions, protective services to the aged or to young children. The overall term *case services* may serve to distinguish social utilities available by status at one's own initiative from the category here described of service available by individualized diagnosis and eligibility.

Both social utilities and case services may, of course, be offered as a right, in the same sense as are medical services under some private insurance or social security systems. They may be entirely free, may require uniform fees, may have fee scales related to income levels or may involve various combinations of these possibilities. One may predict the expansion, strengthening and increased availability on a rights basis (referring to justiciable rights) of these three categories of programs by reasonable extrapolation from tendencies everywhere today, with special reference to the last several years in the United States.

This does not necessarily answer completely the question of the mode of relationship of income security measures to the two categories of social services posited. Such a question may be formulated as relating to the boundaries between and among intervention systems. Some criteria for resolution have begun to emerge.

How should one decide, given the opportunity for evaluation of alternatives, whether to combine or to separate family and child welfare, school social service and child guidance and so on? These are boundaries questions. The answers given have serious consequences for the nature of the services and their effects on those who are served. I have suggested elsewhere that adequate conceptual analysis and resolution of a boundaries issue would seem to require attention to:

- *the public's view* of the social problem; disability or need being addressed;
- *the expert professional view* of the social problem; disability or need being addressed;
- the convergence of all of these into a *social decision* as to what the service is to accomplish;
- *available sanctions or socially defined leverage* for implementing decisions as to what the service is to accomplish;
- *the conceptualization of the intervention specific* and the availability of knowledge and skill as to how to translate it into the service sought. Also, *the extent to which the knowledge and skill are so different* as to demand a unique route of training and

induction, as well as specialized organization and even statutory support for their adequate development and implementation.¹¹

In this country we long separated most social service from the insurances and related them to the assistances because we wished to perpetuate "poor law" concepts of those in need and to reenforce "poor law" policies. On the assumption that new policy objectives are emerging, new possibilities unfold.

As income security programs attain universal coverage, beneficiary subgroups often contain large numbers of individuals in need of social services. However, the very fact of broad coverage and the movement from stigma-bearing forms of assistance (which I hypothesize) will make it necessary to offer services in universally acceptable fashion. At the same time the general push for social utilities and for case services as a right, part of the effort further to humanize our modern social environment, will also create pressure for universally acceptable services.

For many reasons, then, there will be question as to the utility of connecting social services to specific income measures. Yet some situations which may favor such ties do come to mind. Merriam found, for example, that of 98 ISSA members responding to her questionnaire, 73 (in 45 countries) had responsibility for one or more of 26 specified social services and that "the services most frequently provided or reported were those which are essential to the effective administration of particular social security benefits."¹² High on the list, therefore, were vocational rehabilitation services (provided by or paid for by 27 members), placement services, vocational training, vocational counseling.

One might round out this generalization with the suggestion that a country might wish to relate formally a social service to an income security measure where the former is essential to the administration of the benefit, *and where the bulk of the service is assigned to beneficiaries of the income measure*. If this latter condition does not obtain, the result might be wasteful fragmentation and artificially sustained specialization.

For example, some social security agencies provide specialized

¹¹ Alfred J. Kahn, "Planning and Practice Perspectives on the Boundaries of Community Psychiatry," a paper presented in June 1964 at the Conference on Community Psychiatry. Proceedings to be published by the University of Wisconsin Press, 1965.

¹² Merriam, *op. cit.*, "Summary" p. I.

placement and vocational counseling for disabled or handicapped persons. Where the bulk of such services are utilized by the beneficiaries, a close tie between the two or actual operation of the service by the income program assures efficient case finding, easy channeling, simplified eligibility (if applicable) and a decrease in the number of administrative contacts for people of limited mobility.

On the other hand, the very concept of social utility carries the notion of user as citizen, not as client or patient, broad and general availability at one's own initiative, widespread location and easy access, as well as large-scale development. To create for a social utility a special relationship to any one income security program is to separate it from others. (This is often the case with publicly financed day care in its relationship with public assistance, to the extent that it is developed in the United States. A social utility is needed, but a case service emerges.) To locate parallel programs in relation to different income security measures is probably to introduce inefficiencies which hamper the utility's expansion. (This would seem to be the case as homemakers and home helps enjoy special, but limited and fragmented, development in child welfare, in services to the aged and in medical care.)

Social utilities, then, should probably have development independent of income security programs on an administrative-operational level. This does not of course diminish the need for adequate publicization of availability of services through the income program or even the possibility, as in France, of some financing of the measures through social security funds.

Alvin Schorr has noted in a recent and as yet unpublished paper that "The 1948 Advisory Council on Social Security, impressed by the possibilities for saving money, proposed to pay the costs of rehabilitating disabled beneficiaries." The proposal was recently revived before the Subcommittee on the Administration of the Social Security Laws of the House Ways and Means Committee. Schorr reports that the Social Security Administration and Vocational Rehabilitation Administration are studying possible measures to finance rehabilitation out of social security funds. (Of course the question of what should be developed as case services and what as social utilities at a given point remains central in the social policy debate.)

Case services pose more complex choices. Given the principle already suggested, a limited number of such services would be tied to income measures. Most would not—unless other criteria also suggest

such ties. Here one recalls the "protective payment" group of cases in the assistances, those adults not able responsibly to receive and utilize grants. To assure their income security in the form of a monthly check in the mail is not necessarily to provide the expected standard of food, rental, clothing for their dependents. While we do not actually know the size of this group, since the carriers of poor law tend to see all or most assistance recipients as irresponsible in this sense, study of the numbers of such cases since the enactment of the permissive five percent level of protected payments under the 1962 Social Security Act Amendments will provide an estimate. It must certainly be well below five percent.

Here, then, is another small group for whom income and case services should be provided in a closely knit package *for protective purposes*—not to use the check as bait for social service usage, as it generally is now in the American assistances. In the move to separate the money question from the social services so as to undo our poor law tradition, many of us may hesitate to retain even this remnant. An astute observer of the development of the British National Assistance, projecting into the near future, commented to me in this regard: "The British had first to overcome the Poor Law and must now overcome the tradition of the Webbs."

But the basic direction seems clear: for most services, for most people, for most sectors, one should seek formal separation of income security, social utilities and case services. Indeed the decision for such separation would, for the first time, provide the prerequisite conditions for a general review of boundaries and channeling systems and for the development of case services reflecting current knowledge, skill and professional development.

Consideration of criteria for intervention systems such as those listed above have suggested to me the following categorization of several (but not all) of the major intervention systems for coping with maladjustment and difficulty. Each may encompass several subsystems:

— *Income maintenance*: assurance of the economic minimum through a variety of transfer payment devices (social insurance, assistance, etc.)

— *Courts, corrections*: to cope with behavior assumed to justify severe sanctions and, if necessary, deprivation of liberty (probation, correctional institutions, etc.)

— *Medical-clinical group*: medicine is the core discipline here

and there are interrelated subsystems for both physical medicine and psychiatry. (Needless to say the definition of medical is broad.)

— *General counseling-guidance-social services*: many programs to help those in difficulty, from child welfare to family guidance; may draw on psychiatry, medicine, education, etc., but drawing largely on social work and psychology and not based in medicine.¹³

The social services as referred to in the present paper are located in several of these groups and in other systems as well and it is desirable that there be the freedom to plan for them in relation to their own internal logic and the logic of the over-all intervention system, not handicapped by an unnecessary and even inappropriate forced ties to assistances or social insurance programs, while allowing such ties where logical in terms suggested above. This listing is not complete, of course, since there are services which do not deal with maladjustment and difficulty and which may be conceptualized in enhancement or preventive terms. The same principles would, however, appear to apply.

Modern society needs both income security and social service systems. Each must be well developed and soundly implemented. To the extent that any pattern of relationship hampers the development of either, it is undesirable. Generally, separation would seem to offer the potential for enhancing both—and is therefore here advanced as a general principle.

For those to whom these questions may seem to constitute an academic exercise one should note the present national commitment under recent federal and supporting state legislation to

- improve considerably the social services in the assistances
- coordinate child welfare services and the assistances
- expand and improve community psychiatric services.

At the same time, new social utilities are being developed and—given the high concentration of need—an expansion of social services to support the social insurance is inevitable. The issue then becomes one of whether or not there is to be coordination of planning among these several fields and national development of strategies for manpower deployment and organizational structuring. From this perspective alone this “boundary” question becomes a vital one in social welfare policy today.

¹³ Kahn, *op. cit.*

DISCUSSION

OSCAR A. ORNATI

New School for Social Research

The following aspects of our national experience of the last fifteen years (1947-1962) are crucial for this discussion :

FIRST, the risk of "abject poverty"¹—defined as yearly incomes below equivalents of \$2500 for family of four—of heads of family aged 65 and over has declined.

SECOND, the risk of abject poverty for male heads of families between the ages of 14 and 24 has increased significantly (in spite of a slight decrease in the relative size of this group).

THIRD, the risk of poverty for all other groups whose socio-demographic characteristics expose them to significant poverty-proneness has either increased or remained roughly unchanged from 1947 to 1960.

FOURTH, the risk of abject poverty for all affected individuals has remained relatively untouched by the cyclical fluctuations of the economy. For those living at or below levels of minimum subsistence expansion did not reduce their risk of poverty nor did economic contractions increase this risk by very much.

FIFTH, "the anti-poverty dollar," that proportion of national income expanded yearly, directly and indirectly, to mitigate and eradicate poverty, is large and has been growing.

SIXTH, the preventive portion of the "anti-poverty dollar"—i.e. the sum of private and public expenditures aimed at preventing poverty—has remained roughly constant.

SEVENTH and last, the income distribution, expressed in the classic quintile distribution, has remained roughly unchanged. If it has changed at all, there has been, particularly since 1953, a very slight increase in the concentration of income in the top 5% and in the first and second quintile.²

Conceptions of social welfare dominant in the United States distinguish between the *residual* and the *institutional* view. The first aims at bringing social welfare systems into play primarily when the normal structures—the labor market, the family—supplying income

¹ "Abject poverty" is defined at \$2500 in 1960 dollars, of yearly income for a family of four. This figure was arrived at by surveying 60 minimum needs budgets and is the midpoint of the dollar value of "minimum subsistence" budgets.

break down. The second view, the institutional, aims at making social welfare systems "the normal, 'first line' functions of modern industrial society." According to this view the clients of institutional welfare systems are *not* affected by any "abnormality" or peculiar personal marginality. The inability of the modern individual to provide for himself either in work or family setting so as to achieve self-fulfillment is viewed as the "normal" condition.³ Professor Kahn's paper rightly probes the boundaries of these conceptions. Beyond the conceptual overlaps lies, of course, practice. In American practice social work has combined the two.

Recent proposals for a guaranteed minimum annual income blend the residual and institutional approach by arguing that, because of automation, discrimination and weaponry, the "normal" situation is for the market to fail. Residual social welfare support so becomes institutional and institutionalized.

Matching these seven bits of data about contemporary poverty against current notions and the performance of existing social welfare systems, along with some added interpretations of contemporary poverty, leads us to note the following:

FIRST, Old Age and Survivors Disability Insurance (OASDI) and collateral contractual pension systems, truly *residual* approaches, when applied sufficiently widely *are* effective. Indeed the fate of America's senior citizens has improved.

SECOND, the fact that our residual welfare systems are highly interlinked with the length and level of individual labor market participation underlines how market failures—here indicated by the high proportion of young people who are either unemployed or out of the labor market—are not always rectified.

THIRD, the fact that cyclical changes do not appear to affect the condition of the poor and the fact that certain poverty-prone groups have today an almost exclusive monopoly on poverty underlines the extent to which the poor are an "underclass."⁴ Indeed, according to

³ For a more detailed presentation of the measure of the risk of poverty see Ornati, O. A., "Affluence and the Risk of Poverty" in *Social Research*, Autumn 1964, pp. 333-346. For the calculations see Ornati, O. A., et. al., *Poverty in an Affluent Society: A Report on a Study Conducted by the New School and the Twentieth Century Fund* (forthcoming publication of the Twentieth Century Fund).

⁴ Wilensky, H. L. and Lebaux, C. N., *Industrial Society and Social Welfare*, New York, Russell Sage Foundation, 1958, pp. 138-140.

⁵ Myrdal, G., *The Challenge to Affluence*, New York, Pantheon Books, 1963, p. 38.

our calculations, families of white males aged 25–34 with two children under 18, with more than 12 years of school and living in urban centers had, in 1960, a negative risk of poverty. This was not so before 1953.⁵ Being essentially outside the market society as producers, the abject poor are not supported by “residual” security schemes and insufficiently helped by our limited “institutional” welfare systems.

FOURTH, the failure in reducing poverty through the existing social security system—in its broadest sense—in spite of slowly increasing outlays, should come as no surprise as the system was not meant as a means of affecting a redistribution of income.⁶

But if it is generally understood that our social welfare system is not meant to be redistributive, in any other sense but to redistribute a worker’s income over periods of non-earning as well as earning, the extent to which the poor themselves pay for society’s effort to fight poverty is *not* understood. In our study of the sources of revenues going into the anti-poverty dollar we have found that a much larger proportion of the total tax burden is carried by those earning under \$4,000 per year than by any other income group. Here the tax burden is out of proportion to this group’s incidence in the population and defeats the very purpose of anti-poverty expenditures.⁷

From the work on poverty that has been recently published, from our own identification of poverty-linked characteristic and from contributions of the related disciplines, we have learned that what differentiates the poor—particularly those living at or below subsistence minima—is the lack of personal assets which produce income. Here our profession’s and our society’s recent concern with underdeveloped areas provides us with unpredicted byproducts and unexpected pay-offs. Earlier, studying the causes of lagging rates of economic growth, economists had been puzzled by rates of output greater than observed increases in measured capital investment. Now the solution to the puzzle seems to be in the contribution to economic growth of human assets. Having learned that the growth patterns of various societies reflect different rates of investment in human beings we conclude, in parallel fashion, that “in a high income economy such as ours different

⁵ Ornati, O. A. See note 2.

⁶ Altmeyer, A. J., “The Development and Status of Social Security in America” in *Labor, Management & Social Policy*, G. G. Somers ed., Madison, University of Wisconsin Press, 1963, p. 138.

⁷ Ornati, O. A., *Poverty in an Affluent Society*, A Report. . . .

rates of investment in human beings determine who in our society is or who is not poor.”⁸

If unplanned, inadequate investments in human capital, the personal assets which the individual needs to succeed in the affluent society, have created much unwanted poverty, deliberate, planned, differentiated investment in human beings ought to—provided, of course, a continued high rate of economic growth and employment—rectify the situation.

Indeed, primarily because of our reliance on local tax systems, we have tended, as a nation to spend less on health, education, housing, etc.,—all forms of investment in human beings—precisely where most was needed. The poorest states, counties and neighborhoods are also those in which least is spent precisely on those services most needed by the poor.

Talk of investment in human capital is relatively new. The idea is not. What is new is the terminology and the econometric method applied. Expansion of investment in human beings is, at the aggregate level, equivalent to an enlargement in the availability of social consumption funds. Indeed if the totals available for consumption are segregated, on the one hand, in terms of the private claims of individual consumers and, on the other hand, in terms of the joint requirements of society, we find that investment in human beings is no more than a more egalitarian distribution of the benefits of social infrastructures.⁹ What is significant about added expenditures on human beings and what is *not* the case with income guarantees, is that they produce future income streams that go beyond the multiplier effect.

The future size of the nation’s anti-poverty dollar—to the extent that it is a response to needs—will expand, or contract, according to whether it is made up primarily of supportive or of preventive expenditures. Indeed, assuming even small positive values for the yield of preventive expenditures and no expansion in the client populations assures one that anti-poverty expenditures will eventually be reducible. No such assumption can be made for income guarantees.

Serious problems of national welfare cannot be tackled by a single—no matter how sweeping—response. Annual minimum in-

⁸ Ornat, O. A. “Affluence and the Risk of Poverty” p. 344.

⁹ What is presented here does not differ significantly from the arguments recently expressed in the Soviets in justification of a new focussing on consumer needs.

come guarantees can be successful only if they are joined with other policy responses aimed at removing the causes of poverty. Surely a full employment policy and significant rates of economic growth are prerequisites in doing away with poverty. Surely income guarantees improve the conditions of the poor. Yet neither of these are enough. What is needed is a judicious mixture of personal and social reconstruction. The notion that human beings must be enriched by a series of expenditures meant to make them more able to participate must be joined to a revolution of attitudes, institutions, and administrative procedures. The "ports of entry" into the market society must be enlarged through changes in the social and administrative mechanisms which discriminate not only against the minorities, but also against the poor.

Poverty in America can be eliminated primarily through energetic action along the lines in which we are already working; education, training and retraining, civil rights, a universal old age and survivors insurance system, a national health insurance system—about which there is nothing un-American—slum abatement, and so on.

I hope that I have demonstrated, albeit briefly, that these policies are economically sound, as by preventing poverty they reduce the need and cost of support. That these policies are morally right I believe does not call for proof.

GASTON V. RIMLINGER

Rice University

The two papers we are considering here map out some of the possible roads that social security, including social services, may follow in the coming years. Both of our authors do this with great skill, an intimate knowledge of the development of social security in this country and abroad, and sharp insights into the issues and problems connected with this development. What I have to say will not contradict or dispute their observations and analysis. It will mainly complement what they have said by stressing different aspects. I come to essentially the same conclusions as Professor Burns on the road we ought to follow in the future.

The first point on which I would like to comment relates to the

shift in emphasis from equity to adequacy in social security policy and the growing acceptance of a national minimum. As Professor Burns indicates, this has been not merely an American phenomenon but a characteristic of the evolution of social security in most industrialized countries. However, I believe that there is an important difference between this country and countries like England with regard to acceptance of a national minimum. T. H. Marshall, the English sociologist, has pointed out that the modern concept of citizenship includes not only civic rights, acquired in England in the 18th century, and political rights, acquired in the 19th century, but also social rights, which are being acquired in the 20th century. In many countries, economic security and social services have become a basic social right of the citizen. Social rights are inevitably a matter of degree, and they are necessarily tied to qualifying conditions that are more restrictive than those required for other rights of the citizen.

Nevertheless, the idea of social rights implies that coverage of the security system should be universal with regard to individuals, comprehensive with regard to risks, and adequate and egalitarian with regard to benefits. A universally applied national minimum meets these criteria.

In the United States this kind of welfare state conception of economic security has not gained wide acceptance. That the individual should be protected as a matter of social, rather than personally earned right, flies in the face of the traditional belief that the economic vigor and vitality of the country are dependent on the maintenance of an institutional framework which is consistent with the ideals of individual self-help and self-reliance. As far as public support is concerned, the progress made in this country toward acceptance of a national minimum owes probably more to a sense of national shame regarding poverty rather than to a changed conviction about the rights of the citizen. Poverty used to be a sign only of individual failure, but today it has become a sign of community or even national failure. Americans react vigorously to this kind of failure. Certainly at the local level more progress seems often possible by exploiting a city's sensitivity to shameful publicity than by appealing to its sense of justice toward the poor. If this is so, it certainly supports Professor Burns' pessimism regarding the possibility of a guaranteed national minimum for all, regardless of individual circumstances. It also does not promise rapid advances toward the establishment of the "social

utilities" mentioned by Professor Kahn. Progress compelled by shame is still progress, but it has severe limitations.

This brings me to the second point I would like to explore, which is the structure of benefits. Professor Burns has restated with fresh persuasive power her case for egalitarian benefits. I would like to say a few words for more differentiated benefits.

The case for flat benefits, and for demogrants, can be based, as Professor Burns has shown, on simplicity of administration, on the inconsistencies of contribution-related benefits, and on consistency with the trend toward acceptance of a national minimum. One can also argue, as Beveridge did, that "in compulsory insurance all men should stand together on equal terms" and that restriction to a common minimum floor of protection preserves best the individual's freedom to manage his own income. Yet, in spite of these arguments, many will remain unconvinced of the desirability and suitability of a flat benefit system for the United States.

Granting that there has been a growing acceptance of the idea of a national minimum, whatever its motivation, we must not forget, when we look at this significant change, that there is an even stronger element of historical continuity in the country's commitment to a framework of economic institutions geared to individual incentive and initiative. To be sure, to some extent this commitment is more ideological than real, but it would be going too far to overlook its importance as a force shaping the future development of social legislation. If one goes along with the notion that an effective social security system should reflect the underlying aspirations of the people, one comes to the conclusion that uniform demogrants will not be suitable for the United States in the near future. This is quite apart from the often cited difficulties presented by a large country with great regional variations in standards of living. Racial prejudice, which Professor Burns mentions, would seem to be only one element making demogrants unacceptable in the United States.

Since the differential benefit structure in American old-age and survivors insurance was originally related to differential contributions, it might seem that the abandonment of the actuarial link between contributions and benefits should lead to the rejection of differential benefits. There is of course no logical necessity that dictates that we must replace the actuarial by the egalitarian principle. Differential benefits can be maintained for the sake of incentive. This is

the principle adopted in the Soviet Union and in West Germany, two countries with rather opposite economic systems. Germany has the oldest social security system in existence, and the Federal Republic is fully committed to a nearly universal and very comprehensive system of social protection. But in their thoroughgoing pension reform of 1957, the Germans reversed the trend toward flat benefits and substantially widened the spread between the lowest and the highest pensions payable. In the debate which preceded the reform there was much emphasis on the need to establish a clear connection between a man's record of lifetime earnings and work, and the level of his pension. The clear connection was thought to be necessary to make pensions consistent with the incentive system of a market economy.

To a certain extent the very affluence of society provides a case for differential benefits. Flat benefits and demogrants are almost necessarily low, minimal benefits, except perhaps in the case of children's allowances in countries seeking to use such benefits in order to achieve what the French call "demographic rejuvenation." In this instance children may seem to become a reasonably profitable cash crop. But in the usual case incentive considerations dictate that flat benefits and demogrants must be low. An affluent society, however, is not likely to be satisfied with low levels of protection. The view is gaining acceptance in some countries, especially in West Germany that the function of social security today is to provide more than merely a floor to keep people from falling into poverty, more than a national minimum. Underlying this view is the idea that the citizen is entitled to more than what is sufficient to ward off the more or less "objective" hardships of poverty, such as those caused by lack of adequate food and shelter. The citizen is to be protected against the "subjective" hardships of a severe drop in his economic and social status. This kind of protection is the declared aim in the new West German pension system, which seeks to maintain the relative economic status a pensioner reached during his working life. If protection against the subjective hardship of social *déclassement* is a valid objective, the benefit structure must necessarily be differentiated. One may argue that this approach merely continues into retirement the wage and salary inequalities achieved during working life, but this argument is relevant only to the extent that these inequalities were unjustified to begin with.

Professor Burns raises the question as to whether income guarantees above a certain minimum level can be justified in a compulsory system. I would not pretend to have a simple answer to this difficult question. It involves the whole relationship between public and private risk protection. The rapid growth of industrial pensions leaves doubt that most people desire and seek more than a minimum level of protection. As a result, many are subjected to private systems which for all practical purposes are just as compulsory as social security, but with benefits that are often much less certain. One may well be able to strike a blow for individual freedom, and for labor mobility, by extending the public and indirectly containing the private system of compulsion.

The question of flat versus differentiated contributions and benefits has implications also for the growth of benefit levels in relation to per capita real national income. The philosophy of the national minimum is an effective argument for adjusting benefits to rising living costs but not to rising real wages. It is easier to make a case for adjusting pensions to rising real wages if the pension is treated as some kind of return for economic contributions to society, although not an actuarial repayment for past financial contributions. Professor Wilfrid Schreiber of the University of Cologne, who is credited with an important role in the introduction of the present West German system of tying pensions to wages, supports his scheme with the argument that both contributions and pensions should be reckoned in terms of labor units, rather than monetary units. As he sees it, an individual accumulates a given number of labor units during his working life, based on years of work and average wage. The value of the labor unit is measured by the average wage level. If wages go up, the value of a pension stated in labor units will necessarily rise also.

In conclusion, let me emphasize not only the growing acceptance of a national minimum in many countries but also the growing demands for benefits well above the minimum. We have been more or less slipping toward flat benefits. I would like us to establish adequate minimum standards and a rationally differentiated benefit structure above the minimum. A fully developed system of social security should involve not only income maintenance measures but also measures designed to maintain and increase the individual's income capacity. The social utilities and case services mentioned by Professor Kahn play not only an important social role but are also a significant

factor in the upgrading of the national work force. Clearly, I do not believe that a single guaranteed minimum income and social service system is the answer. We need to rationalize our present system, not to abolish it.

MARGARET S. GORDON
University of California

The two main papers—and particularly Professor Burns' paper—give expression to the fact that, for the first time in three decades, serious consideration is being given to fundamental changes in our social security system. The impetus, of course, is coming from several directions—from proponents of an all-out attack on poverty, from thoughtful analysts of the evolution of our income maintenance policies like Professor Burns, and also from right wing groups that have never accepted the basic principles of social insurance.

Although I agree with Professor Burns that a gradual movement toward some type of minimum income guarantee may be desirable, I am not prepared to accept the notion that the "very success" of social insurance carries "within it the seeds of its own destruction." There is little evidence of such a trend in those European countries that have had social insurance programs providing wage-related benefits since the latter part of the nineteenth century. In fact, social insurance seems to be most deeply entrenched as the major approach to income maintenance in the countries with the longest experience with such programs. But it should be added that the principle of tripartite financing has long been accepted in many European social insurance programs, and thus the rising costs associated with maturing and liberalization of the schemes have been more broadly distributed than in this country.

Moreover, I am not convinced that we are traveling along a road that leads inexorably to virtually universal coverage, liberalized eligibility conditions, and generous benefits in our social insurance systems. True, in OASDI, to which Professor Burns' specific comments were confined, exclusions from coverage are now minimal and eligibility conditions are extremely liberal. But we are far indeed from the point at which we need worry about whether public policy should provide a "benefit equal to the same proportion of a worker's

previous earnings regardless of how high those earnings may be" or about whether the use of compulsion is "equally justified when the benefit assured is \$4,000 or \$5,000, as when it is \$1,500." The chief reason for this state of affairs, of course, is that, although the earnings ceiling has been raised a number of times, the increases have lagged far behind wage increases, and the ceiling is now considerably more restrictive than originally.

When we turn from OASDI to unemployment insurance, we find that there are still important gaps in coverage, that eligibility conditions have been tightened in certain respects and disqualification provisions made more severe, and that increases in maximum benefits have lagged behind wage increases. Although the state laws aim at providing benefits amounting to 50 per cent of earnings, restrictive maxima and other features have the effect of holding down average weekly benefits to about 35 per cent of average weekly earnings for the country as a whole. Benefit standards and a system of extended benefits for the long-term unemployed, along the lines of the proposals submitted to Congress by the Kennedy Administration in the spring of 1963, would go far toward strengthening the system. In my opinion, however, these proposals might meet less resistance from employers if at least the federal portion of the system's financing were shared among employers, employees, and general government revenues.

There are also serious weaknesses in our workmen's compensation laws and in our social insurance provisions for nonoccupational disability, which I shall not attempt to discuss. And we have not developed adequate solutions to the problem of distributing the burden of medical costs.

My main point is that I would attach high priority to eliminating the deficiencies in our social insurance legislation—perhaps higher priority, at least at present, than to any move into the unfamiliar territory of minimum income guarantees. Moreover, I hope that any minimum income guarantees eventually adopted will take the form of adjuncts to our social insurance system and will not fundamentally change the character of that system. Social insurance is still the best governmental method yet devised for providing a reasonably adequate level of income maintenance to those whose earning capacity has been interrupted or impaired without interfering seriously with incentives to work or to save.

If minimum income guarantees are to be considered, I agree with Professor Burns that the universal demogrant approach is superior

to the negative income tax approach. Her paper has briefly covered the inherent difficulties in the latter approach.

In her choice of a children's allowance system and a universal old-age pension system as the versions of the universal demogrant approach which she would advocate at present, Professor Burns wisely selected the two segments of the population least likely to participate in the labor force as the groups to benefit.

A universal old-age pension system would be a most effective antipoverty measure, particularly in the light of Locke Anderson's recent analysis, which shows that nearly a third of the families with incomes below \$3,000 in 1959 were headed by a man or woman aged 65 or more.¹ Unrelated individuals in the 65 and older bracket also represented a substantial share of individuals with sub-standard incomes. A universal old-age pension of, say \$50 a month—probably as large an amount as would be considered feasible as an adjunct to existing OASDI benefits—would bring many of these families and individuals above the poverty line and substantially reduce old-age assistance costs. If such a step were taken, however, it would be difficult to justify the present generous personal income tax exemptions for the aged, though full deductions for medical costs might well remain. Reduction of the differential tax exemption would help to ensure adequate contributions to the universal pension system by the higher income groups in the aged population and thus to forestall criticism of the payment of gratuities to elderly couples with sizable assets and little old ladies in mink coats. One way of holding down the costs of such a program and of directing it to a sector of the aged population that is particularly needy and unlikely to participate in the labor force would be to confine it to those aged 70 or more, as in Canada.

A children's allowance system would be far less feasible politically and not as justifiable economically in a country with as high a level of average earnings as the United States. Provision of even modest allowances to all children would be so costly as to hamper severely the expansion of other types of anti-poverty expenditures. An allowance of \$100 a year to every child under 18 would involve benefit expenditures of roughly \$6.7 billion. The net costs could, of course, be held down in various ways—by providing no allowance for the first child

¹ W. H. Locke Anderson, "Trickling Down: The Relationship Between Economic Growth and the Extent of Poverty Among American Families," *Quarterly Journal of Economics*, Vol. LXXVIII (November 1964), p. 519.

in the family, as in Britain, by limiting the number of allowances that would be permitted for any one family, by reducing the age limit, and by recouping part of the cost through reduced tax exemptions for dependents in families with more than a certain level of income. There might also be offsets in the form of reduced expenditures on certain existing programs.

A more limited type of program which would be much more feasible politically and which has much to commend it economically would be a scheme of universal stipends for students—limited perhaps to those over about 12 years of age. The stipend would be payable as long as the child remained in school or in higher education, up to a maximum age of perhaps 24 or 25, and thus would act as a deterrent to dropping out. As a parent, I can testify that teen-agers not only eat much more than young children but also require more money for clothing and incidentals. Furthermore, if the stipend did not become payable until age 13 or so, the objections of those who might fear that a children's allowance system would encourage more births, legitimate and illegitimate, would be largely removed. And yet such a system would not interfere with a parallel expansion of national scholarship programs, which I would also heartily recommend.

RICHARD A. LESTER

Princeton University

The discussion following the formal program dealt mainly with the issue of graded benefits for partial wage-loss replacement *versus* a program of a universal guaranteed minimum. It was pointed out that some kinds of needs, such as for children and the aged, are more adaptable to universal minimum grants than are other kinds of risks, such as unemployment, work injuries, and sickness, and that the American pattern of social insurance has been a wage-related system. With great popular support, the wage-related system is not likely to be abandoned or radically altered over the next decade.

The effects of different types of programs upon worker incentives and upon the development of supplementary private programs of companies and individuals were discussed. Also, the question of any tendency to separate the workforce into covered and noncovered and different categories within the covered group was considered.

Finally, it was pointed out that government is providing many welfare services without a means test, and in the future such free services for normal workers in the labor market will expand. They include child care, preliminary early education for children, testing, job counseling, and psychological aid in personal and family stability. Whether it is desirable for all government programs to be coordinated in terms of the individual worker and his family was briefly considered without any definite concensus.

Part III

**INDUSTRIAL RELATIONS
POLICIES OF AMERICAN
CORPORATIONS ABROAD**

THE UNDERDEVELOPED INDUSTRIAL RELATIONS OF U. S. CORPORATIONS IN UNDERDEVELOPED COUNTRIES¹

JOHN C. SHEARER

Carnegie Institute of Technology

I shall contend that in many important respects the industrial relations practiced by most U. S. firms in underdeveloped countries have been woefully inadequate, whether judged by U. S. standards or by those of the host countries. I shall further contend that the basic problem is the failure of most firms to establish sound and consistent industrial relations philosophies and policies to guide their operations in underdeveloped countries.

Fundamental difficulties confront U. S. companies in formulating and implementing sound industrial relations policies and practices abroad. They are due to basic incompatibilities between U. S. industrial relations, natural to the U. S. firm, and any given overseas environment, especially that of most underdeveloped countries. The limited exportability of U. S. industrial relations has been treated at the past two annual meetings of this Association.²

For U. S. firms operating abroad, the potential exportability of U. S. industrial relations is greater, simply because for them the U. S. industrial relations system is natural and does not constitute an "outside influence." U. S. companies operating abroad are much more favorably situated to export the best of our industrial relations than are any of the other export agents. These agents include public agencies, U. S. union-sponsored training and advisory programs, and U. S. educational efforts here or abroad, all of which attempt to influence the development of industrial relations systems in underdeveloped countries. The U. S. company is not in the position of advisor or outside influence. It has control of one vital aspect of industrial relations—company policies; to this extent, at least, it is in the position recommended by Myers of being able to influence "by example out

¹I am indebted to Frederick Harbison, Charles A. Myers and Myron L. Joseph for their helpful suggestions.

²See Charles A. Myers, "The American System of Industrial Relations: Is it Exportable?" *Proceedings of the Fifteenth Annual Meeting of the Industrial Relations Research Association* (1962), pp. 2-14, and John P. Windmuller, "Model Industrial Relations Systems," *Proceedings of the Sixteenth Annual Meeting of the Industrial Relations Research Association* (1963), pp. 60-75.

of the way our representatives act abroad, rather than by direct preaching."³

Unfortunately, the industrial relations record of U. S. companies in underdeveloped countries is marred by lack of purpose and by serious inconsistencies in practice. The industrial relations of many firms do not properly advance the firms' own interests and, therefore, hardly are worthy of emulation by the host countries.

My interest in this subject stems from my involvement in Latin America as a researcher with the Inter-University Study of Labor Problems in Economic Development, as an advisor to Latin American governments, and as an international civil servant for periods ranging from a few weeks to one and one-half years in five Latin American countries. Some of my observations are necessarily impressionistic. However, the findings of the last section of this paper are based upon my systematic investigation in Latin America of certain aspects of the industrial relations policies and practices of a wide variety of U. S. firms, especially those in manufacturing.⁴ I shall not comment on the very specialized and complex industrial relations problems of the operation of complete, isolated communities by some U. S. firms, mainly in extractive or agricultural activities.⁵

I suggest that my findings are relevant for other parts of the world because the Latin American republics incorporate the basic problems of most underdeveloped countries. Moreover, they constitute twenty distinct sets of circumstances ranging, for example, from that of Haiti to that of Argentina, which may well bracket the circumstances of underdeveloped countries throughout the world.

In many respects, U. S. firms in Latin America have been heavy contributors to modernization. In many countries, such as Mexico, Colombia, Brazil, Argentina and Peru, there are long histories of major and varied U. S. operations. In many host countries they represent the first, or the only, significant investment in many industries. The growth of U. S. direct private investment in Latin America, although very uneven, has, over the post-war period, been quite

³ Myers, *op. cit.*, p. 13.

⁴ John C. Shearer, *High-Level Manpower in Overseas Subsidiaries: Experience in Brazil and Mexico* (Princeton, N. J.: Industrial Relations Section, Princeton University, 1960).

⁵ See, for example, Wayne C. Taylor and John Lindeman, *The Creole Petroleum Corporation in Venezuela* (Washington: National Planning Association, 1955), Charles Morrow Wilson, *Empire in Green and Gold* (New York: Henry Holt, 1957) and Stacy May and Galo Plaza, *The United Fruit Company in Latin America* (Washington: National Planning Association, 1958).

impressive and has been characterized by an increasing relative emphasis on the manufacturing sector and a decreasing relative emphasis on extractive industries.⁶

U. S. firms have assumed a leadership role in Latin America. They have often revolutionized manufacturing, marketing and financial techniques.⁷ They have led in most aspects of industrial activity, but they have usually abdicated leadership in industrial relations.

The U. S. firm operating in an underdeveloped country faces formidable obstacles in devising and executing viable industrial relations policies. It faces a very different environment in which at least one of the other two main sets of Dunlop's "actors" in any industrial relations system⁸ has a significantly different ideology from that of the U. S. firm. This fact deprives the firm of the advantages of the fundamental consensus among the three sets of actors on which it bases its industrial relations in the U. S.⁹ Union ideologies in underdeveloped countries tend to be quite different from the Perlman concept of the job-centered U. S. labor movement.¹⁰ Government institutions and attitudes toward many aspects of industrial relations are far more interventionist, proprietary and all-encompassing than is our own public policy. Disputes, generally handled at home through

⁶ See Samuel Pizer and Frederick Cutler, *U. S. Investments in the Latin American Economy*, U. S. Department of Commerce, Office of Business Economics (Washington: U. S. Government Printing Office, 1957), and especially Table 2, p. 111. For the latest available data see Samuel Pizer and Frederick Cutler, "Foreign Investments in 1963-64," *Survey of Current Business*, Vol. 44, No. 8 (August 1964), pp. 8-14, and especially Table 2, p. 10.

⁷ See, for example, Committee for Economic Development, *Economic Development Abroad and the Role of American Foreign Investment* (New York: Committee for Economic Development, February 1956), Simon Rottenberg, *How United States Business Firms Promote Technological Progress* (Washington: National Planning Association, 1957), and National Planning Association, *United States Business Performance Abroad* (Washington: National Planning Association), a series of case studies which includes: *Sears, Roebuck de Mexico, S.A.* (May 1953), *Casa Grace in Peru* (November 1954), *The Creole Petroleum Corporation in Venezuela* (December 1955), *The United Fruit Company in Latin America* (June 1958), and *The General Electric Company in Brazil* (January 1961).

⁸ "The actors are: (1) a hierarchy of managers and their representatives in supervision, (2) a hierarchy of workers (nonmanagerial) and any spokesmen, and (3) specialized governmental agencies (and specialized private agencies created by the first two actors) concerned with workers, enterprises, and their relationships." John T. Dunlop, *Industrial Relations Systems* (New York: Henry Holt, 1958), p. 7.

⁹ Dunlop, *op. cit.*, pp. 16-17.

¹⁰ See, for example, Maurice F. Neufeld, "The Inevitability of Political Unionism in Underdeveloped countries: Italy the Exemplar," *Industrial and Labor Relations Review*, Vol. 13 (April 1960), pp. 363-386.

a negotiated, bipartite grievance procedure with voluntary arbitration as the last resort, go, instead, almost immediately into tripartite machinery in which the Labor Ministry or the labor courts exercise decisive influence. Detailed legislation covers many aspects of industrial relations including many fringe benefits and security provisions.

The U. S. company usually suffers from the stigma of its foreignness. It is often regarded as an intruder from a hostile culture. As such, it is almost automatically suspect. Does it not, after all, seek to make additional profits in a poor country for already rich North Americans?

What, then, is a valid industrial relations policy in the face of such handicaps? Industrial relations policies in the U. S. are designed mainly to improve the efficiency of organizations through constructive, integrated programs for recruiting, developing, motivating and utilizing their human resources. However, a major goal of industrial relations policies of the same firms in Latin America is to reduce their vulnerability by adopting the coloration of their environments. They want to be as inconspicuous as possible. They do not want to stand out as foreign or different. Unfortunately, such a policy often harms the long-term interests of the firm. It undertakes a defensive posture in its industrial relations that often sacrifices organizational efficiency to the futile pursuit of anonymity. It is almost impossible for a U. S. firm simply to merge with its overseas environment. Inevitably it will create its own special image which will have "foreign" as a major element. A more important concern is whether the rest of the image will be good or bad.

Despite the widespread desire to assume local coloration, for pragmatic reasons U. S. companies never adopt completely the much less sophisticated level of industrial relations characteristic of the host environments. The standard pattern is a mixture of imported and local practices. However, such a mixture often contains serious contradictions which preclude the development of sound industrial relations and interfere with both efficiency and the formation of a good image.

There are a number of areas where companies are faced with a clear choice between coloration and efficiency and have generally opted for the latter by following U. S. practices. This is particularly true in such areas as training where most U. S. firms are far in advance of their overseas neighbors. U. S.-type training programs are extensively

adapted to local needs, and local personnel are often sent to the U. S. for training—hardly a way for a company to remain inconspicuous.

The desire of most U. S. firms to upgrade their labor forces often runs directly counter to the prevailing local philosophy of keeping the working class as docile and subservient as possible. The following example is all too representative. When a U. S. friend of mine took over a Brazilian subsidiary of a major U. S. international company he was greatly distressed by the very low level of basic education of his employees. He instituted a company-sponsored literacy program which was enthusiastically received by the employees. It was barely begun when he was assailed by angry Brazilian employers at his club for “subversive actions” in undercutting employer interests. This manager continued to choose progress over coloration.

In human relations and attitudes toward workers, U. S. firms invariably import U. S. practices which are far more professional than those of their environments.¹¹ Their industrial relations decisions are usually much more objective and based on the merits of the circumstances rather than upon the class prejudices and intricate personal relationships which pervade Latin America, especially in the characteristic family enterprises.

The situation with respect to safety programs is quite mixed. I have seen U. S. operations abroad in which exemplary, U. S.-style safety programs produce commendable results. The Kennecott program at its El Teniente mine in Chile is internationally famous for its very low accident frequency and severity rates. I have seen others where there is no organized concern for safety, virtually no machine guarding, and where the accident rates are appalling. They give evidence of an attitude that I occasionally heard expressed as: “In this country a human eye is cheaper than a pair of safety goggles.”

Many useful, standard industrial relations tools are lamentably absent abroad. Procedures for describing and evaluating jobs are rare even though all firms studied use them routinely in the U. S. Firms pay little attention to the use of monetary incentive systems, non-monetary incentives, or promotion procedures as means to stimulate efficiency. Few firms have even considered the possibility of establishing or negotiating procedures, however informal, for the internal adjustment of disputes in order to avoid government involvement. The

¹¹ See, for example, William F. Whyte and Allan R. Holmberg, “Human Problems of U. S. Enterprise in Latin America,” *Human Organization*, Vol. 15, No. 3 (Fall, 1956), pp. 1-40.

U. S. companies merely sit back and complain bitterly about the inequities which result from the alleged anti-employer and anti-U. S. biases of the government agencies.

In labor relations U. S. companies tend to follow local practice: that is, they buy peace through regular bribery of union officials and government labor inspectors. Managers of a majority of thirty-nine Latin American subsidiaries that I studied informed me that such bribery was standard local practice and was essential to their peaceful labor relations. However, managers of some U. S. firms strongly resent this local practice and especially its adoption by their compatriots, and they refuse to conform for moral reasons and for the best long-run interest of their firms.

In wage policy most firms I studied conform happily to the prevailing local practice of paying only the legal minimum rates, or slightly above. This was true despite the fact that they are generally engaged in areas of greater profitability and growth than most local firms. The wages they pay are usually miserable. In many underdeveloped countries it is impossible for semi-skilled and even for many skilled industrial workers, working full time, to support a family at levels above those which characterized the terrible conditions of unskilled workers in the darkest days of England's Industrial Revolution. These conditions were eventually recognized as a national disgrace and as strongly prejudicial to England's future.

On the other hand, U. S. firms generally tolerate the very low levels of labor productivity characteristic of their overseas environments. It is not unusual for a firm to report that whereas one worker in its Latin American plants tends one machine, one worker in its U. S. plants tends three identical machines with much better quality output and considerably less spoilage.

Most U. S. firms could easily lift their employees from the abyss of near-starvation wages. A high wage policy need not reduce profits, as Robert Owen demonstrated 140 years ago in his Lanark mill. Organization, motivation, supervision and overall labor standards are generally very slack. A nearer approximation of U. S. management and industrial relations practices could raise labor productivity appreciably in most firms. A high wage policy could be an invaluable stimulus and management tool, as it was for Robert Owen. In most cases the demonstrated skills of U. S. management in the high-wage U. S. context could sustain considerably higher wage levels abroad

without any increase in unit labor costs. Since labor is supposedly "cheap"—often a dangerously misleading notion—U. S. companies have usually managed their overseas human resources very poorly.

Many managers contend that they face a backward bending supply curve of labor, that is, that any increase in wages would only increase absenteeism. Those few U. S. firms which have maintained wages higher than prevailing levels have not found this to be the case, and invariably they regard a high-wage policy as a basic feature in establishing an image as a force for progress.

In each subsidiary studied, those aspects of industrial relations most closely controlled by the home office are those that relate to the high-level manpower resources of the subsidiary. High-level manpower resources consist of those individuals who design, build and maintain organizations, who direct the work of others, or who utilize their professional, technical or other specialized skills in staff capacities.¹²

Every company realizes that probably the most important determinant of its overseas success controllable by the firm is its ability to build an efficient human organization. Operations in underdeveloped countries invariably involve a crucial consideration not relevant for domestic operations: the citizenship of key personnel. My investigation strongly suggests that in the vast majority of firms studied, ambiguous policies and contradictory implementation have seriously reduced efficiency and have greatly damaged images.

To investigate these matters I interviewed approximately 200 executives of 52 representative U. S. firms with significant foreign operations, concentrating on 23 of them and on their 39 subsidiaries in Brazil and Mexico. Subsequent exposure to other companies in other Latin American countries has convinced me of the general validity of my major findings.

Almost all home offices state a basic policy of "the maximum use of nationals consistent with the control and efficiency of the subsidiary." They regard this as the best way to adjust the subsidiary's actions and appearance to the overseas environment, and they are cognizant of the vastly greater costs of employing Americans in high-

¹² Shearer, *op. cit.*, p. 7. For a discussion of the functions and major occupational categories of high-level manpower, see Frederick Harbison and Charles A. Myers, *Management in the Industrial World* (New York: McGraw-Hill, 1959), pp. 8-13.

level posts.¹³ The tangible costs of merely sending a U. S. family to Brazil usually exceed \$30,000. Base salaries are usually 20 to 25 per cent higher than for comparable positions in the U. S. To this are added the myriad special overseas allowances for housing, children's education, home leaves, etc. My conservative estimate is that the recurrent, direct costs of employing Americans in high-level posts average at least four times the cost of employing comparable nationals.

Despite the much higher costs most subsidiaries rely heavily on Americans. Although they usually constitute only a small percentage of total employment, they dominate most organizations because they hold most of the top positions. The 39 subsidiaries studied employed 501 Americans, more than 85 per cent of whom were justified on the basis of the inability of the company to fill these posts with competent nationals.

The unvarying explanation was the great scarcity of qualified nationals. However, my investigation revealed a more fundamental problem: the characteristic company ineptness in recruiting, selecting, developing, motivating, utilizing and retaining competent nationals for their high-level posts.

Men well qualified for high-level positions in modern industry are scarce in any country. However, the scarcity confronting most firms I studied results less for tight labor markets than from their own inefficiency in finding and generating national manpower resources.

Because well trained talent is scarce, one would expect firms to seek it actively as they do at home through such mechanisms as college recruiting. For many years U. S. colleges and technical schools have been utilized as major sources of the raw material for high-level manpower. In Latin America, however, only an exceptional subsidiary conducts any college recruiting. The usual explanation is that college recruiting "isn't done very much here." I have discussed this matter with the presidents of several outstanding engineering and technical colleges in Latin America. Despite their encouragement of on-campus recruiting, very few firms, U. S. or local, have availed themselves of the opportunities. They prefer that the schools send candidates to the company for screening, at the students' expense. I regard this as an outstanding example of the failure of U. S. firms to apply to their overseas operations the imagination and attention which they have long applied to similar manpower problems at home.

¹³ *Op. cit.*, Chapter III, "The High Cost of Imported Manpower," pp. 38-50.

Another source of uniquely qualified nationals lies almost untapped, namely, the 13,000 Latin American students in U. S. colleges.¹⁴ The heaviest concentrations tend to be in precisely those areas of greatest interest to U. S. companies: engineering, sciences and management-related areas. Although nationals trained in the U. S. are widely regarded as ideal candidates, very few companies use their highly developed college recruiting machinery to locate them. Typically, recruiters of the very firms whose subsidiaries claim that they "can't find" good national talent, are unprepared to handle the applications of Latin Americans who present themselves for U. S. campus interviews.

The selection of nationals for high-level posts is generally done by the Americans abroad and is either a "seat-of-the-pants" operation, or one based vaguely on selection criteria borrowed without modification from the parent company. The American executive usually selects nationals who will best fit into the American dominated subsidiary. It is questionable whether this approach will secure those nationals who would be, in the long run, most valuable to the firm.

Subsidiaries of only three of the firms studied use systematic procedures for the identification, ahead of specific needs, of high-talent national manpower. Lacking manpower inventory and evaluation procedures, most companies in Brazil routinely dismiss almost all national employees shortly before they complete ten years service. In thus avoiding liabilities, imposed by law, for dismissing an employee with ten years service, companies voluntarily incur tremendous manpower losses.

All firms invest heavily in training nationals both abroad and in the U. S. The impressive array of programs of varied types and durations constitutes a major means of upgrading nationals in many firms. Unfortunately, the record is not nearly so good in developing nationals for key posts. Only the three companies which have definite identification and evaluation procedures for high-talent manpower have tangible programs to develop it for positions of great responsibility.

Despite often sizeable investments in the training of nationals, their efficient utilization and development are seriously impeded by the usual reluctance of Americans to entrust them with challenging responsibilities. The presence of Americans in most of the top jobs con-

¹⁴ Institute of International Education, *Open Doors* 1964, (New York: Institute of International Education, July 1964), Table 1, p. 18.

stitutes a low ceiling on opportunities for nationals, with consequent heavy losses of morale and effectiveness.

The results of such impediments are manifest in the very high quit rates by high-level nationals. The problem of promising nationals "running off" with the company's investment in them is one of the most pressing in overseas operations. With few exceptions firms reported losses soon after the completion of training programs of at least 25 per cent of participants. One subsidiary expects 25 to 50 percent losses after its regular three-year financial training programs. Another reported that all 10 nationals who received 18 months of sales training soon left. Still another stated that over a ten-year period it had retained only one-tenth of the nationals it had trained at great expense in the U. S.

The high loss rates are clearly related to the discrimination against nationals for top posts, the great differentials in compensation between Americans and nationals and the closure of opportunities because of the general disposition of overseas Americans to protect their jobs at any cost.

There is considerable evidence that the protection of their jobs by overseas Americans is the chief impediment to improvements in the quality of the subsidiaries' organizations. The ultimate responsibility rests not with the overseas Americans but with the typical home-office approach to the citizenship question. Most home offices insist on sending Americans abroad on a career basis under the assumption that they will always be more valuable than any available nationals. This assumption blinds firms to the strong possibility that heavy dependence on overseas Americans may injure rather than improve efficiency, especially through its effects on the development and utilization of nationals.

A few firms, four of the twenty-three I studied abroad, do things quite differently. They consider long-run dependence on Americans abroad as a disadvantage rather than a necessity. Their goal is completely national organizations abroad. The very few Americans they send abroad have no interest in protecting their overseas jobs. They serve in stop-gap and organization-building capacities only until they develop competent nationals. The performance of each American is judged by his effectiveness in working himself out of the job. These few firms find it far easier than do the others to recruit, motivate, develop and retain nationals of excellent quality, for they have re-

placed discrimination against them with unlimited opportunities.

My findings do not suggest that it would be best for all companies to eliminate all overseas Americans. Individual situations are too diverse to permit such a generalization. My findings do suggest that those few firms which do not assume the necessity for overseas Americans have obtained more optimal mixtures of domestic and imported manpower resources and, therefore, higher quality human organizations, than is possible with the approach of the vast majority of firms. Whereas the employment of Americans by these few firms is reliable evidence that they are needed and are worthy of their hire, their employment by the great majority of firms allows no such presumption.

No U. S. firm would state publically that the best nationals it could employ are worth but a fraction of the Americans it imports. Yet the actions of most firms testify to this conviction and support the widespread and damning view that most U. S. firms merely pretend to be interested in employing nationals in key posts.

In the management of their high-level human resources and in many other aspects of their industrial relations in Latin America, the majority of U. S. firms have failed to establish viable policies and practices. They flagrantly violate their professed desire to assume the local coloration by unjustifiably heavy use of Americans in key positions. The consequences are loss of efficiency and the creation of very negative images. In the futile pursuit of local coloration they sacrifice efficiency and further damage their images by conforming to some of the worst features of their local industrial relations environment and failing to export many constructive industrial relations practices from the U. S. In my opinion U. S. firms in underdeveloped countries would better serve their own interests and those of the host countries if they would adopt many more of the best U. S. industrial relations and management practices which would serve their interests far better than do their present haphazard patterns of industrial relations.

THE ROLE OF LABOR IN DEVELOPING COUNTRIES

GEORGE C. LODGE
Harvard University

INTRODUCTION

The American manager operating today in the countries of Asia, Africa or Latin America invariably finds himself, whether he likes it or not, involved in revolution. This revolution is marked by several forces:

1. The determined desire on the part of people in the developing world to increase rapidly industrial and agricultural production so that individual incomes may rise above the levels of today—less than \$100 per year in many countries—and so that there may be adequate food, housing, education and the other prerequisites for a good life.

2. The insistence on national independence and self-determination in all matters, political, social and economic. In this regard, there is the persistent gripe that for hundreds of years the industrialized nations of Europe and North America have plundered the poorer nations of Asia, Africa and Latin America, exploited their people, pillaged their natural resources, taken what they could and left little but poverty and ignorance behind.

3. As the rigid, traditional structures of semifeudal societies break down there is a consequent power vacuum which is especially severe in developing countries due to the general lack of organization in between the highly organized poles of power at the extreme right and left of the political spectrum. The coming to power of these middle organizations is perhaps the most pervasive and important force in economic and social development. The course which these organizations take is obviously of great significance.

4. International Communism offers to lead the revolution and to show the way to the fulfillment of these deep desires.

This widespread movement for basic change is a revolution broadly based and deeply felt among the masses of the underdeveloped countries who make up most of the world's population. Although frequently led by intellectuals, it is a revolution forced by working people, including, of course, peasants and farmers.

Thus it is that among the most important elements in the political,

economic, and social structure of the newly developing countries of Asia, Africa, and Latin America are the organizations which these workers have formed to help them pursue their objectives more vigorously and effectively. Thus it is that workers' organizations or trade unions have come to be of central and critical importance in the world struggle today. They are frequently the spearhead in the drive for freedom, independence, social justice, reform, education, and political liberty throughout the developing world.

The obscure trade unionist of today may well be the president or prime minister of tomorrow.¹ In many countries of Asia, Africa, and Latin America trade unions are one of the few organized forces in direct contact with the people and they are frequently among the most important influences on the people. They are often the most effective means for the expression of the people's determined desire for material improvement and political justice. They are primary targets for Communist subversion and control. And they are, at the same time, the first line of defense against communism and other forms of totalitarianism. In fact they have shown themselves in many countries to be the most alert and effective indigenous organizations in resisting tyranny of any sort. While in many parts of the world the economic importance of worker organizations may be slight, invariably their political potential is substantial.

LATIN AMERICA

Taking as an example Latin America today, we see labor's role being of central and primary importance economically, politically and socially. It is an integral part of the vast and inevitable revolution which is changing the region perhaps more rapidly than any region has ever been changed.

This revolution must be clearly distinguished from the coups or unorthodox changes in governmental leadership which have been so prevalent in the past. It reaches into every phase of life and work; it is inevitable and in its high purposes, desirable. The decisions now facing Latin America are invariably ones of choice concerning the direction in which the revolution proceeds, the particular ends it seeks, the priorities it gives to those ends and the degree to which it keeps

¹ Examples of national leaders who rose to power as leaders of workers' organizations include Betancourt in Venezuela, Lopez-Mateos in Mexico, Nkrumah in Ghana, Toure in Guinea, Mboya in Kenya, Bourguiba in Tunisia, and Adouh in the Congo.

its independence. Mexico plainly has made wise choices. Its revolution has succeeded. Cuba equally plainly has made unwise choices. Its revolution has been a failure and has lost its independence, at least for the time being. Venezuela appears to be making its way through a final stage in its revolution with real success. Brazil is on the verge of the critical stage. Its success quite obviously is of highest importance to our hemisphere.

The anatomy of revolution or change as we see it today in many Latin American countries is extremely complex and I do not pretend to special knowledge of it, but two years of research as the director of the Harvard Business School's project in the six countries of Central America has given me some thoughts. While I am sure that these thoughts are not very original, each time that a different mind puts them together the whole looks a little different. We see different facets of the whole. The light shines on them differently and we may see what was there but what we did not see before.

First let us look at the nature of social organization in a typical Latin American country. At the far right of the spectrum is a small, highly organized elite, usually representing a coalition of business and landowning interests and the military. At the far left is a small, articulate, radical group whose purpose is to overthrow the existing order. In between these two poles is a wide variety of forces which exert greater or lesser influence on the poles depending on the country. But it is fair to say that in between the poles there is relatively little social organization in the sense that we know it here in the United States. It is this lack of organization among 95% of the population that makes democracy so difficult to practice in Latin America. One need only think for a minute about the extraordinary role which the thousands of associations, leagues, clubs, interest and pressure groups play in the government of the United States to understand the difficulty of effecting balanced and responsive democracy without them.

The situation, however, is by no means static. The semifeudal system which for centuries provided order to Latin American society is rapidly dissolving. The intricate pattern of rights and obligations which tied the landowner to the peasant, the patron to his workers, which established the tienda as store, market, bank, loan agency and insurance company, and which was cradled in a rigid, hierarchical social structure, is breaking down. The old social system is proving inadequate to the economic and political needs of the people and their nations. The erection of a new system is, however, extremely difficult,

especially because the lingering rigidities of the old system make communication between the various levels of society almost impossible. For example, there are very few managers in Latin America—and here I use the word in its broadest sense including both the public and private sectors—who can talk to the campesino with mutual confidence and understanding. Given the fact that the motivation and organization of the campesino is an urgent prerequisite to making the revolution constructive, this is a serious problem. The fact that in many communities the Catholic Church is alone in its capacity to converse with the campesino in trust and confidence, gives the Church a role of obvious and paramount importance which, happily, in many areas it is taking up with zeal and effectiveness.

Thus we have societies, burdened with the rigidities of a social system which is recognized to be inadequate to the political and economic needs of the people, badly polarized and suffering from inadequate organization. A consequence is widespread confusion, ignorance and fear, which manifests itself in far-reaching problems of motivation. Take, for example, the matter of education, which is plainly central to development.

As part of our work in Central America to develop teaching material to train managers, we have felt it necessary to investigate fairly precisely and in detail what happens when radical change is introduced into a rigid and traditional society. Last summer we had the great good fortune of joining with Bishop Marcos McGrath and those who are working with him on a development program in Veraguas Province, Panama. This is an extremely poor area and a prime target for Communist infiltration. The Bishop has an ambitious plan for the introduction, among other things, of cooperatives and small industry. We were privileged to be in at the beginning of his efforts.

A primary problem in Veraguas is education. But the difficulty is not a shortage of schoolhouses and teachers. The difficulty is rather in persuading the campesino that his children need education. The Veraguas rice farmer has a hard time understanding why his son needs to know how to read and write if he is going to spend his life sticking a stick in the ground, putting a rice seed in the hole, harvesting the rice crop, which has already been largely mortgaged to the tienda, and doing all this on land that he doesn't own. Reading and writing for him is as superfluous as calculus would be for me. When,

however, 35 of these farmers banded together into the most elementary sort of credit cooperative to which they contributed something like 25 cents a month, and when they noticed that the only person who could add up the figures at the cooperative meetings was the village priest, then they quickly saw why their sons must learn arithmetic. This group of 35 not only saw to it that their children were on time for school, but they painted the schoolhouse, built an addition and searched the neighborhood to make sure that their children had the best teacher available. The point is that once these campesinos were properly motivated there was no way of stopping their children from being educated. They would have had school under a tree. Without the motivation, however, the most modern schoolhouse in the world with the highest paid teachers would not have produced education.

If you made a list of the social, political and economic problems of Latin America, you would find that first of all they make an interconnected and interrelated circle and that secondly in the last analysis they come down to being problems of either organization or motivation.

A variety of forces are competing to fill this organization-motivation vacuum. These include: the old elite; new industrialists, merchants and manufacturers; the Communists; various sorts of demagogues; the Church; various cooperative type organizations; and labor unions. The direction and results of the revolution will depend on what combination and balance of these and other forces prevail.

It is in this context that labor organizations are of such supreme importance to the future of Latin America. Their purpose and responsibility far transcends the welfare of their individual membership. While this must be primary, they are in a very real sense formers of a new political, social and economic system. They are integrators where there is little integration, communicators where there is little communication, motivators where there is little motivation, and organizers where there is confusion and chaos. They are the institutions best suited to ease the painful transition from traditional rural agricultural life to new urban, industrial life. It is their natural function to identify ever-increasing areas of mutuality of interest between management and labor, between the employer and the employee, and to break down the destructive myth that there is an irreconcilable conflict between the various classes in society. Perhaps most important, through organization workers and campesinos gain a realization

of their power and capacity in the community. With this comes a sense of their own worth and dignity, and a sense of hope for the future for themselves and their children. An important function of a union in Latin America today is to insure that this new found sense of power is not frustrated. Once gained it will not be lost. It will be vented in one direction or another. The Communist with his pie-in-the-sky, his quick solutions to complex problems, his guarantee of utopia, is a devilish but effective tempter to those who having tasted power find themselves unable to use it within the existing structure. It is hard to obtain the needed improvements in living and working conditions through the normal processes of collective bargaining. Many responsible leaders find it difficult to maintain membership loyalty for this reason. Therefore, these normal processes must be supplemented by new and imaginative forms of worker activity such as union housing programs, savings and loan associations and co-operatives of all sorts.

One need only look at some of the most effective examples of labor organization in the developing world to be convinced of the efficacy of this approach, which, while different from our practice in the U. S. today, is ideally suited to the many-sided role of unions in Latin America and elsewhere. To name but a few: SITRATERCO, the banana workers' federation in Honduras with its housing program sponsored and assisted by the American Institute for Free Labor Development; the trade unions of Tunisia, engaged in cooperatives of almost every conceivable sort; and, of course, the archtype of development labor organization, Histadrut in Israel.

MANAGEMENT

I would like to add a word about the other side of the coin—management—which is what we at the Harvard Business School are concerned with. For two years now we have been working to assist an enlightened and progressive group of managers in the six countries of Central America to start an institute for teaching and research into the problems of management in Latin America. This Institute is now born and is called the Central American Institute of Business Administration. It has the initials INCAE. The business community of Central America is now raising \$750,000 to build the school in Nicaragua. We had our first course for 45 top managers in Antigua, Guatemala, last summer. It lasted nearly six weeks and during this time the participants analyzed and discussed their own business

problems as we had identified and written them after some 450 interviews with Central American managers. A good deal of the time was spent on the problems of labor and social relations which I have touched on briefly in this paper. We will be giving another similar course in Panama this winter and more thereafter. At the same time we are training young Central Americans at Harvard to be teachers at the Institute when it goes into full operation, which I hope will be in 1967. It will then offer regular nine-month courses for young men who have finished their university training and are about to enter the field of management.

The importance of trained management to the processes of development is obvious. What is less obvious are the new types of training necessary to equip managers to deal effectively with the new patterns of industrial relations which are so vital a part of the changing environments. And the need is as great for Latin Americans as it is for Americans.

CENTRALIZED POLICY DIRECTION OF THE INDUSTRIAL RELATIONS FUNCTION IN AN INTERNATIONAL COMPANY

JOHN A. BELFORD

Massey-Ferguson Limited, Toronto, Canada

I. INTRODUCTION

I shall try in 15 minutes or so to give, as a basis for discussion, a snapshot view of Massey-Ferguson's approach to the centralized policy direction of industrial relations.

II. CORPORATE SETTING OF MASSEY-FERGUSON'S CENTRALIZED POLICY DIRECTION

To understand our approach to functional policy direction, it is necessary to appreciate the corporate setting. Massey-Ferguson is a truly international—or, if you like, multi-national—company. It is a world leader in farm equipment and industrial products with world-wide sales of between \$750 and \$800 million. Organizationally, it comprises a corporate management located in Toronto and operating units, which are integrated manufacturing and marketing entities in North America, United Kingdom, France, Germany, Italy, South Africa, Australia and Brazil. Total world-wide employment is approximately 44,000.

The general manager of each operating unit is responsible directly to the President. Corporate management comprises functional divisions—finance, marketing, manufacturing, personnel and industrial relations, engineering, public relations, planning and procurement and legal services—each headed by a senior corporate executive with world-wide staff responsibilities (except engineering, which has world-wide line responsibility). In general, then, the Corporate division heads have a staff responsibility in their relationship with the general manager and with their functional counterparts in each operating unit. There is no Vice President “foreign” or “overseas” operations.

Among other things, the Corporate staff is responsible to the President for the development of world-wide policy and its communication and interpretation to operating units; for the audit of operating performance; for service, advice and counsel to the President and operating units; and for participation in operating activities, as required.

Massey-Ferguson's commitment to truly international operations 7 years ago raised important questions about local operating autonomy and the role of central, or corporate, management in all functions, including personnel and industrial relations. It was quite clear that centralized administration of industrial relations in a world-wide enterprise was not feasible; but more importantly, even if it were, it was a basic point of our philosophy that it would not be as effective as decentralized executive management.

Whilst technical assistance and advice on industrial relations is theoretically practicable without world-wide policy, effective centralized direction, control and audit of performance cannot be real and valid without it.

Without basic corporate policy—a “grand design” for the enterprise as a whole—and consistent subsidiary functional policies, a truly integrated world-wide enterprise cannot be built. Apart from this general consideration, there are particularly compelling reasons for consistent industrial relations policies at all locations in the international enterprise. With the shrinkage of time and space by modern communication and transportation technology, it is important that the company should take a consistent position *on principle* in its relations with individual employees and with employee representatives at all locations. We cannot assume that the right hand will not know what the left hand is doing. Consistent and comprehensive policy avoids, for example, the company taking a strike in Coventry on an issue of principle conceded to a union in Detroit. I was in England a couple of years ago when a well-known North American based international company was struck on a union security issue. The company chose to take the strike rather than to concede officially that union membership was a condition of employment for a single recalcitrant employee. (No conscientious objection was involved.) While the British subsidiary of this company was suffering strike on this issue, a full union shop was a feature of their agreement in their Canadian subsidiary, a Taft-Hartley union shop was in effect in U. S. and a full closed shop was in effect in Australia.

III. DEFINITION OF POLICY

For our purposes in the I. R. function in Massey-Ferguson, the best expression of policy we have been able to devise is in terms of objectives and principles—objectives being the conditions we aim to achieve, and principles being the basic assumptions that will guide

management action directed to objectives. Policy, then, is a statement of objectives and principles. In functional policy (e.g., I. R.) objectives serve the basic policy of the corporation; and principles aim to distill the lessons of management and research experience as a guide to management action.

To be fully effective, the policy statement must meet certain standards which have been enumerated before. Among these are the following:

1. It must be applicable universally within the enterprise. In the international company it must be applicable in all countries.
2. It is in writing. Although it has been stated that if the policy is not in writing there is no policy, I concede that in many circumstances policies can be operative and, in substantial measure, effective without being in writing. However, the more complex and extensive the enterprise, the more important that its policy should be written. This is especially so in the international company.
3. It should be in broad terms permitting application to meet varying conditions and provide the framework for local tailor-made practices and programs. It should not inhibit innovation and experimentation.
4. It should be justifiable on an assessment of its contribution to the basic objectives of the enterprise.
5. It should be authorized by the highest authority in the corporation.
6. It must be regarded as inviolate so far as this is within the power of management.

IV. POLICY DEVELOPMENT

We have found that the best policy is developed with the active participation of operating personnel. This in no way diminishes the full accountability of the Corporate executives for sound policy development. But the participation of operations management brings to bear the experience, the expertise and the special insights of local management in a variety of countries; it provides the first step in the extremely difficult problem of communicating policy; and it serves to commit local management to, and identify them with, the policy position.

We have found that the technical problems in policy development

fall mainly into four areas: meaningful definitions; selectivity; distinction in the hierarchy of objectives; and differentiation between practice and procedure, on the one hand, and true points of policy on the other. I know of no way to develop these skills in an organization except by doing. One clear lesson we have learnt is that this is not a "one man job."

In our experience, the enumeration of policy objectives—although not without its tribulations—is a more straight-forward process than the codification of principles. Selecting objectives for functional policy is facilitated by applying a three-part test: will its achievement serve basic corporate objectives? Is it operationally meaningful, and not merely platitudinous? Can it be expressed as a durable purpose of management activity?

The codification of principles is more difficult. Here, as I have said, we are attempting to distill management and research experience. Ideally, the principles of a policy statement in the industrial relations field should epitomize the basic assumptions on which management operates. This, in itself, is demanding enough: and it is a process about which we still have much to learn. But more than this, we quite often find that no matter how well-founded and universally acceptable an assumption may be, there are environmental factors in one jurisdiction or another which make the related point of policy either inapplicable or inconsistent with another point of policy. For example, our Employee Benefit Policy provides that no feature of any employee benefit plan should be a disincentive to work. Our General Personnel Policy provides that personnel practices and programs (including benefits) should conform with public policy and employee and community values. There are some jurisdictions in which Massey-Ferguson operates where it is impossible to provide employee benefits that meet community standards and, at the same time, avoid creating a disincentive to work.

We have met this problem by introducing the principles in the policy statement with the following statement: "The basic principles underlying this policy are that objectives are best achieved when . . ." Within this context, a failure to invoke a principle is acceptable whenever it can be demonstrated that local conditions (e.g., the law) prevent its application or whenever local conditions make it inconsistent with another principle. When two principles conflict, it is the task of management to make its judgment on which principle should prevail.

V. THE RESULTS OF POLICY DIRECTION

Our experience with personnel and industrial relations policy in an international company convinces us in a number of ways that working to policy is good business. Policy orients operating management to defined objectives. It gives practical effect to the philosophy of management by objectives. I. R. policy provides operating management with a basis for consistency and integrity in its relation with employees, employee representatives and government agencies. At the same time it permits—indeed, it encourages—innovation and flexibility in practices. Contrary to the view of managers who have not worked to written policy, policy is not restrictive. Rather it serves to *free up* operating management by providing an authoritative framework within which to act promptly, confidently and decisively on problems as they arise. When policy is developed—as it should be—with the participation of operating management, it helps build a cohesive and coordinated management group spread through all the national locations. Finally, it provides a medium for control at the corporate and at the operating level—control in the sense of measuring results against a standard.

I should like to give an example of the liberating effect of policy. It's a simple one—not complex or very sophisticated; but it makes the point. Earlier this year we were involved in a union-management dispute in U. K. The British Government's policy of moving industry into "development areas" was directly affected. The issue was wage rates in a contemplated new plant in a development area. A failure to agree would cancel the move. Because of national policy implications, two major departments of the British Government became actively involved—the Board of Trade and the Department of Labour. Meetings of representatives of these departments with management and union officials were arranged. At one of these meetings, government representatives proposed arbitration. As our U. K. Director Personnel and Industrial Relations told me later, he didn't have to think twice to give the company reply; nor did he have to consult with his Managing Director or with the Corporate Vice President Personnel and Industrial Relations. He knew the policy: It is the policy of the company to settle rights disputes by arbitration; to settle interest disputes by negotiations or, failing that, by a trial of economic strength. The issue in dispute was interests. Our U. K. Director was freed up by the existence of policy. He was able immediately and confidently to state the position of the company; to know that he was

being backed by the highest level of authority in the Corporation ; and to know that his position was consistent with that of his colleagues in similar circumstances in any other part of the world. Not only was he able immediately to give the company reply ; but he was also able to give a full explanation of the *reasons* for the company's position. After all, he had participated in making the policy and he knew its logic and values base.

VI. CONDITIONS REQUISITE TO INTERNATIONAL POLICY DIRECTION

The task of developing policy for international application is more complex and difficult than the development of policy for a domestic company. And there is a question about the effectiveness of universal functional policy for an international company until it has reached a fairly advance stage of evolution towards a truly multi-national enterprise. I do not propose—and, indeed, am not qualified—to present a definitive list of criteria for the multi-national enterprise. I suspect, however, that as well as universal policy, such a list would include most of the following :

1. Its Corporate management is supra-national in the sense that a national viewpoint becomes anomalous or outmoded and there is no special responsibility with respect to operations in a particular country. (I would expect that in any truly supra-national corporate management, nationality is irrelevant to appointments within it.)
2. The operating manager in whatever country he may be located accepts fully his accountability to serve the interests of the world-wide enterprise.
3. Facilities world-wide are rationalized and integrated ; and multiple sourcing and commonality of design within product groups are operational.
4. Corporate management retains authority on all matters directly related to global strategy.
5. Senior management appointments at all locations are subject to Corporate management review and authorization.
6. Marketing programs in each location are an aspect of a global marketing strategy.

Furthermore, I do not think functional policy can provide an effective guide for operating management unless it is consistent with

the management philosophy and climate that pervades the total enterprise.

Nor will policy be effective in the international company if it is communicated merely by the distribution of the written document. The effective communication of policy is at least as demanding as the process of formulating policy. It is our experience that this cannot be effectively achieved without continuing personal contact between corporate and operating management in some depth in major operating problems. The most constructive step in policy communication takes place when operating and corporate management consult together about the application to an operational case—when a decision must be made. When that happens, corporate as well as operating management usually learns something more about policy.

SOME EMERGING TRENDS IN OVERSEAS INDUSTRIAL RELATIONS

GEORGE F. DICKOVER

Industrial Relations Counselors

In the postwar years we have seen an unprecedented economic development of Western society. The number of American firms with affiliates, branches, and subsidiaries abroad has more than doubled within the last ten years. There are now at least 3,000 companies with various types of holdings in foreign areas, and each year they produce, on foreign soil, more than \$35 billion worth of commodities. These companies employ more than 3 million people overseas, of whom only about one in every hundred is an American citizen.

For a great majority of U. S. companies, foreign operations are no longer the adjunct to domestic operations that they were formerly. Rather, they are an important element of the entire business operation. Foreign business accounts for half, or more, of the sales volume of many prominent U. S. companies, in many instances companies which only a few years ago had international sales that accounted for only 10-15 percent of their total sales volume.

As American industry has expanded operations abroad, it has generally chosen, at least in the initial stages, to fill the top management positions with United States citizens—expatriate employees. Obviously, the recruitment, placement, and other logistics associated with the movement of these management people in international business activities is not a simple matter, nor can personnel be dispersed in worldwide operations without careful attention being given to their own social and economic aspirations. Thus, in recent years American business has given considerable attention to those U. S. expatriates who are sent abroad, specifically with respect to compensation, allowances, and benefits for themselves and their families. The interesting fact is that although a pattern of allowances and other benefits has been developed by each company by dealing pragmatically with problems as they arose, company policies and practices, viewed on a worldwide basis, are surprisingly uniform and consistent.

In the preceding papers we have learned something about the personnel policies and practices followed by companies abroad, and the problems they have in dealing with their national employees in foreign operations. We learned much about labor relations in foreign

areas and we were made aware of the type of organization, or organizational structure, necessary to fulfill the industrial relations responsibility in an international company. Thus far, however, we have heard very little, or nothing, about the problems concerning Americans who work abroad for an industrial organization. Although the Americans who are sent abroad constitute a relatively small group in terms of the total number of employees in foreign operations, and are decreasing in number in individual companies, they are nonetheless an extremely critical group, since it is they who tend to fill managerial and directional positions. I propose now to discuss several of the problems of American expatriates sent abroad.

THE ROLE OF THE EXPATRIATE

Expatriates are generally selected and assigned to overseas positions because qualified nationals are not available. They are required, therefore, not only to perform their assigned jobs, but also to train the nationals of the country so that the latter ultimately can take over. In order to successfully train nationals, the expatriate needs a command of the foreign language, and he must be able to make effective use of certain fundamental training techniques. Much of his progress will depend upon his acceptance by the nationals of the country, the effectiveness of the leadership he provides, and the training job he performs.

The expatriate also carries substantial responsibility for promoting industrial and public relations as a representative of the company. His conduct, attitude, ability to get along with nationals—both employees and outsiders—and his efforts to promote social and economic progress and development which will be a credit to his employer are significant factors in the success of the company's industrial and public relations. Within his circle of contacts, the expatriate employee represents not only the company but, to a large extent, the United States as well.

Once the purpose and duties of an expatriate employee are detailed, it then becomes necessary to recruit and select persons suitable for overseas employment.

RECRUITING AND SELECTING EXPATRIATE EMPLOYEES

Recognizing that the recruitment of competent expatriates with the requisite capabilities is much more difficult than finding employees for similar domestic jobs, companies increasingly are exercising ex-

treme care, as well as using the most modern devices and procedures, in selecting the individual—and his family—to be sent abroad. Preferring, where possible, to use employees already indoctrinated in company policies and objectives, they are surveying their organizations for young people who show promise and who, because of previous experience abroad, family ties, foreign travel or education, are particularly interested in foreign assignment. Some companies canvass their entire organizations to locate such individuals; others have used articles in the company magazine and engaged in a wide variety of promotional activities in order to solicit applications from interested individuals. In the more progressive companies, selection is followed up with a program of orientation and indoctrination tailored specially for the overseas employee.

COMPENSATING THE AMERICAN EMPLOYEE ABROAD

The American going abroad will certainly expect to be treated as well as his counterpart who has remained at home. Thus, in considering compensation, benefits and other related practices, we must start with the assumption that the practices which are developed will be at least equally as attractive as the ones at home.

To be universally applicable, any method for determining expatriate compensation must be related to generally available and acceptable measures of living conditions, as well as to current indexes of costs. Among others, it must take account of local shelter, tax, educational, and medical conditions. It must adequately reflect the ratio of purchases made abroad to purchases made in the home country for use abroad. It must be extremely sensitive to changes in exchange rates. It must be applicable to individuals or to groups of employees, regardless of income level or family status. Finally, it must be simple and clear enough so that it can be readily and continually maintained, and explained to employees so that the results will be understood and accepted by them.

In order to meet these needs, U. S. industry has developed, and widely adopted, the "balance sheet" approach to expatriate compensation. This approach includes eight specific factors, as follows, which together comprise the total compensation of most American expatriate employees:

Pay Factors. (1) A base pay equivalent to what the company would pay for a comparable position in the United States. (2) An expatriation premium, or bonus, varying from country to country,

designed to attract and retain employees in foreign operations and related to specific environmental factors. These first two factors are additive and paid in every foreign country. They constitute *total* foreign compensation. (3) From the total of base pay and expatriation premium, a hypothetical income tax is deducted, equivalent to the amount of federal income tax the employee would pay on his base pay if he were to remain in the United States.

Allowance Factors. The following factors are possible allowances which are paid only if local conditions are such as to make a positive differential payment necessary. (If the foreign cost with respect to any of these factors is less than the United States cost, the saving to the employee may be deducted from the total of his payments abroad.) Following such a course means that the expatriate employee receives his base pay and an adequate premium for foreign service, but neither gains nor loses in his total foreign compensation as a result of cost of living, education, income tax or other costs which differ from those in the United States. (4) An income tax adjustment to reimburse the employee for any income tax paid on his earnings and allowances. (5) A shelter allowance, designed to compensate for the excess, if any, of shelter costs above those which the employee would normally incur in the United States. (6) A post allowance, to compensate for any excess living costs (excluding quarters) at the foreign location which are above normal living costs in the United States. (7) An education allowance, paid only to the employee with children in school abroad and designed to offset the extra cost of elementary education frequently incurred in foreign locations. (8) An adjustment factor, to offset the employee's gain from legally-required profit sharing or other benefits, the use of company-supplied automobiles or other facilities, and to offset the effect of the employee's loss from required contributions to government schemes under which he will not benefit.

I have reviewed, although in abbreviated fashion, the role, selection and compensation of the U. S. expatriate employee in order to emphasize the complexities inherent in dealing with what appears, ostensibly, to be a relatively simple aspect of international industrial relations, and also, to show that even these simple problems cannot be solved by the application or export of the usual domestic policy.

How much more intricate and challenging are the problems posed by the employment of national employees! Even fewer, if any, of our usual domestic policies may be applied directly to this group of

employees and the application will, of necessity, vary from country to country.

Finally, we turn to the challenging problems posed by the employment of "third-country" nationals (otherwise known as "international expatriates" or, to use the British term, "cross-posted regionals"). In this truly international group of professional managers and technicians, ever-increasing in importance and numbers, we find represented many different cultures, nationalities, religions and races. What they all have in common, however, in addition to superior business and technical skills, is a broad and deep understanding of local social customs and business practices in various parts of the world. Neither the locally-developed policies for nationals, nor the U. S.-developed-and-oriented policies for U. S. expatriates will fit the needs and demands of this group. Still another and different policy approach is required. This group of international professional managers and technicians, principally employed in the large, truly international, companies, form a cadre of management people with their own supranational or supracultural needs and demands. This group, drawn from various countries and cultures, may quite quickly bring about still further change in the policies and practices now applied to either U. S. expatriates or the international expatriate group.

CHANGING CONDITIONS AND EMERGING PRINCIPLES

The single most important and most constant factor in international operations is change, and nowhere is this more evident and critical than in the area of industrial relations. With the emergence of so many new countries, there seems to be no end to, or indeed no way to keep up with, the constant changes and problems which arise. And yet, in one way or another, sooner or later, we must face these problems if we are to continue to expand in the international field. Among these many problems are those of nationalism, oppressive or restrictive social legislation, and advancing technology. Increasingly, this latter problem clashes head on, especially in the lesser-developed economies, with the national need for maximum employment and income.

To illustrate, in simplest terms, another of the problem areas, we might look briefly at the question of the composition of the workforce in any given operation. All questions of relative wage rates and costs being put aside, we still have such questions to face as: To what degree shall nationals be used in the operation? Will "third-country

nationals" be acceptable if top positions cannot be filled by nationals? If "third-country nationals" are acceptable, which nationalities are acceptable and which are not? Can Cubans be used? Are Americans preferred to British, or Dutch, or French? What local political pressures are there for employment of particular individuals or groups? What will benefit costs be in the operation? What will public reaction be to certain employment policies?

Finally, let me indicate some of the fundamental principles that I think are beginning to emerge as a result of the experience gained in meeting these problems.

1. The company must aid the country to improve its own standard of living and contribute to its economic development and stability.

2. Employee relations policies and programs must be related to the social, legislative, economic, and cultural patterns existing at a given time in the specific country or region in which the company is operating.

3. Neither the company nor its employees can afford to become involved in local politics; all local laws must be observed both in the letter and the spirit.

4. Overseas operations must be staffed at all levels with qualified nationals, as fully and as rapidly as possible.

5. Employee relations policies affecting national employees must be subject only to the most generalized standards and statements of objectives of top management of the corporate organization.

6. Policies governing U. S. expatriate employees and "third-country nationals" must be coordinated and centralized by the corporate organization.

7. Employee relations values must be considered along with all other values and risks in determining the extent of ownership and management control of any particular foreign operation.

8. Every action and every decision must increase the probability that the company will be allowed to continue its operation in the host country.

DISCUSSION

EVERETT M. KASSALOW

University of Wisconsin

It is a pleasure to discuss four such interesting and well written papers. If my comments are largely critical in character, please excuse this on the grounds that time and space are limited. I do urge all of you who are interested in any aspect of this subject to read the papers themselves.

Let me begin with Mr. Belford whose prescription for an over-all company policy guide to particular company plant industrial relations problems abroad worries me a bit. The very examples he cites suggest the need for much greater flexibility than appears to be the rule under his unified policy approach. Thus, he is critical of an American company whose subsidiary in Coventry, England, was caught in a strike over a demand for union security, after it had already granted a union shop to a union in Detroit.

As it happens in the United States, generally, and with that Detroit union in particular, the union shop is the normal order of the day in collective agreements covering this particular industry. On the other hand, the formal union shop, or any very formal union security clause which management officially helps to administer is still quite exceptional in England, and management, in this case, may have been well advised to resist something which it had long ago granted in Detroit.

Of course the union in England may well have been able to exploit the fact that the company had already conceded in Detroit what was being demanded in Coventry. But if this same union wanted a \$2.25 an hour rate for sweepers in Coventry, should that, too, have been conceded because it was paid under the contracts negotiated by the Detroit union? I suspect the answer here would be that wage rates can't be subject to central policy. By the same token I would contend that most phases of industrial relations must be guided by prevailing national institutional conditions and efforts at too much central, international company-wide policy in this field will lead to trouble, trouble which may go beyond mere company boundaries and stir up political forces.

Take a second case cited by Mr. Belford. He describes the successful resistance against the efforts of two major British Departments and the unions to induce his company to arbitrate the matter of new

wage rates to be paid in a new plant in a so-called development or depressed area (which presumably was receiving some special government assistance). Company policy, Mr. Belford tells us, was clear and universal. It will settle disputes over rights by arbitration (grievances arising out of an already operating contract), but not disputes over interest (issues pertaining to the terms of a new contract). This, as you know, is the general practice in Canada and the U. S. The company rule was applied here, and the British were successfully resisted.

Now as it happens, after more than one hundred years of evolution, unions, management and government in Britain have come to accept and to develop an industrial relations system under which disputes about rights are rarely arbitrated, but where disputes over interests are often arbitrated.

The British may be all wrong, measured by some universal yard stick; but that's the way they do things, and certainly their labor peace record, if that's one standard to measure by, is as good as ours.

Just how long and just how many American corporations can or should operate their industrial relations programs in direct opposition to what may be a deeply ingrained principle or practice in a given foreign country—and particularly one which is as "developed" in the industrial relations sense as we are!

If I read Mr. Dickover correctly, he seems to be recommending a kind of flexibility and adaptation which is in conflict with the rigidity that seems implicit in Mr. Belford's central policy approach to industrial relations, disclaimers to the contrary.

Mr. Shearer's well reasoned and well documented paper evokes very little critical comment from me. I must say, however, the vision of U. S. employers abroad in the role of Robert Owen at New Lanark seems a bit strained. One can hope for this, but perhaps should not count too heavily upon it.

I should like to insert one comment of my own about U. S. corporations' industrial relations policies abroad—this based on observations in Western Europe, where after all, so much of our real industrial plant investment is. I find that wages and benefits offered in U. S. subsidiary plants often compare very favorably with those in the foreign countries in which they operate.

On the other hand, adaptation to institutional practices often leaves something to be desired. One automobile-appliance manufacturer in France some years ago got into difficulty because he failed to comply

with national practices when he came to make a layoff. The notion that the layoff had to be discussed well in advance with the Ministry of Labor and others was something this company wouldn't swallow readily, on the basis of its U. S. experience.

A large electronics, computer manufacturer has had a friction-full experience as it resists union recognition in countries like the United Kingdom where recognition is almost automatic via association agreements in some industries. In the United Kingdom this company seemed to expect its union to make a formal election kind of effort to obtain recognition in a new plant—even though things aren't done that way.

A great deal of bargaining in Western Europe is done via trade associations, and American corporations with their more individualistic and competitive traditions often don't adapt to this too well, in the industrial relations field.

Let me now turn to the stimulating paper by George Lodge which projects a very central role for trade unions and trade union leaders in the struggle for development, modernism, freedom, etc. Now trade unions undoubtedly can be, and one is tempted to add, ought to be, key leadership forces in the struggle for modernization and certainly for freedom in the developing countries. It is really difficult to believe that any state can pass through the take-off into modernism and remain or become democratic without the presence of trade unions (and other intermediate, plural types of association which are so crucial to democratic development) to bring the wage and salary earners into genuine participation in industrial life.

Whether or not this is happening, or just what the role of unions is in the developing countries, at the moment, however, is unhappily something else again. In Latin America, for example, most unions contrary to the hopes of many are as yet tending to play a satellite role at best. Such seems to be the case in Mexico for example, where there even seems to be a tendency for the unions to be quite isolated from the truly poverty stricken rural masses. Indeed, the experience in Mexico and earlier in Cuba, under Bastista, seems to suggest that some unions can perform their job of looking after their members' wages and working conditions to some fair extent, get caught up as part of the new "establishment" and neglect the broader aspects of social, economic and political democratization. In many other countries they are just plain weak.

Mr. Lodge cites the cases of Mboya, Touré, Adoula and others

in Africa to argue that the trade union leader of yesterday or today may be the rational country leader of tomorrow. Unfortunately, however, in many of their cases (Guinea and Ghana among those cited by Mr. Lodge) the coming of national independence and takeover by the new native political leaders more often seems to signal the end of free trade unionism and its democratizing role as we should like it to be.

All the votes aren't in by a long count, but as of now the evidence is not running strongly Mr. Lodge's way, on the role of trade unions in the new societies. This does not mean, however, that we in our aid programs, in our international trade union work, and in our exchange and training programs should not exert our pressures on behalf of encouraging the development of legitimate trade unionism as a force to aid democratic development.

WINSTON OBERG

Michigan State University

I should like to comment approvingly on two policy recommendations made by Dr. Shearer, critically on two premises of the Lodge paper, and skeptically on the operational significance of the policy approach outlined by Mr. Belford. I omit comment on the very thoughtful Dickover paper, not solely because I received my copy only this morning but also because, if the Shearer recommendation with respect to the use of nationals rather than American executives is followed as I believe it should be, most of the Dickover paper will become obsolete.

The assigned topic is "Do American corporations follow American industrial relations policies abroad?" The implication seems to be that corporations both *can* and *should* export U. S. industrial relations policies—an implication challenged in passing by several of today's speakers and criticized at length by Professor Myers in his presidential address before this Association two years ago.¹ More appropriately, the question should perhaps have been phrased, "*Which* American industrial relations policies are applicable abroad?" Or,

¹ Charles A. Myers, "The American System of Industrial Relations: Is It Exportable?" *Proceedings of the Fifteenth Annual Meeting of the Industrial Relations Research Association*, December, 1962. pp. 2-14. See especially p. 12.

perhaps even, "*What's wrong* with the industrial relations policies of American firms abroad and what can be done to improve them?"

THE SHEARER PAPER

It is this last question to which John Shearer appears to have addressed himself. I found what he had to say both insightful and persuasive, possibly in part because his study includes Brazil where I spent two years.² I would like to underline approvingly two of his policy recommendations:

- (1) low-wage and related labor relations policies followed by U. S. firms in underdeveloped countries should be critically reexamined.
- (2) instead of paying only lip-service to a policy of replacing American executives with nationals in overseas subsidiaries, U. S. firms should seriously attempt to follow that policy—even in the underdeveloped countries.

(1) It is conceivable the policy of "going native" with respect to wage rates and labor practices—including, in Brazil, the policy of firing employees before they acquire ten years of service in order to avoid the provisions of the tenure law—can be supported by economic arguments. Politically, however, the policy is open to serious challenge. Mollenhoff, in a recent tour of Africa, found that Communist propaganda had convinced people U. S. capitalism in its native habitat was heartless and socially irresponsible:

In travel through 19 African countries . . . I found a consistent distortion of the picture of the American economic system. It was a picture of business leaders paying low wages, working employees long hours and firing with no regard for the employees.³

The success of Communist propaganda should hardly be surprising if U. S. firms operating in these countries consistently adopt the unenlightened and even predatory policies of local capitalists. Unless U.S. firms deliberately determine to pioneer in the introduction of progressive pay and labor policies, even at the risk of disapproval of local business groups and at some economic cost, they can hardly expect political leaders in these poorer countries to believe in the

²I spent 1959-1961 as Visiting Professor of Business Administration at the University of Rio Grande do Sul in Porto Alegre, Brazil.

³Clark R. Mollenhoff, "What United States Labor and Management Can Contribute Abroad" *Labor Law Journal*, July, 1962. p. 520.

possibility of so-called "enlightened capitalism" as a viable alternative either to the status quo or to some form of socialism.

(2) The policy, followed by most firms in the Shearer study, of employing only Americans in top management positions is—in many countries—economically and politically questionable. It is *economically suspect* because, as Shearer points out, salary and other costs are higher, the caliber of man sent overseas is often inferior to that available in the country, and ignorance of the local language and customs is usually an added handicap for the imported executive. It is *politically questionable* because it acerbates anti-foreign and in particular anti-American feelings so common in underdeveloped nations.

The seriousness of this feeling was pointed up recently when I undertook a group interview with 15 visiting Latin American student leaders. I wanted their reactions to U. S. firms operating in the eleven Central and South American countries which they represented.⁴ They listed some 22 complaints including many of the common criticisms: U. S. firms aren't genuinely interested in Latin American development, exploit irreplaceable natural resources, take exorbitant profits out of already impoverished countries, bribe local officials, and put political pressure on local governments either directly or through the U. S. State Department. However, the most frequent complaint, concurred in by 14 of the student leaders, was simply that U. S. businessmen exhibit an attitude of superiority!

How was this manifest? In many ways: by a failure to try to learn the language, an insistence on living in an American or Anglo-American ghetto, a policy of paying nationals lower salaries than Americans for the same job, and by a refusal to allow nationals to advance within the company.

The practice of reserving top jobs for Americans clearly communicates a lack of confidence in the ability or loyalty of national employees and implies a much-resented attitude of superiority on the part of Americans. If, as Shearer argues, outstanding executive talent is available in these countries,⁵ a policy of "Americans only" in the executive suite is dangerously short-sighted.

THE LODGE PAPER

The paper by Lodge argues a different thesis: U. S. businessmen should support the social revolution going on in the developing coun-

⁴ The interview was taped at Michigan State University, October 29, 1962.

tries. By supporting unions as instruments of this revolution, U. S. businessmen may be able to influence the direction this revolution takes.

At least two of the premises on which the thesis is based need closer study:

- (1) that these revolutions are made or "forced" by the masses.
- (2) that unions in underdeveloped countries both *can* and *should* be powerful, independent influences.

(1) According to Lodge, nationalist revolutions going on around the world are "forced" by the working people, including of course, peasants and farmers." This view conflicts with historical evidence that the masses or "working people" not only rarely revolt but in fact may even fail to support revolutions made by others on their behalf.⁶ Far from being forces for change, they tend to be passive, apathetic, apolitical. Mass support appears to be neither a sufficient nor even a necessary condition for successful revolt. When conditions are right, the masses may be willing to follow the Oxford-educated Mboyas or the Ivy League trained Nkrumahs, or the librarian-professors turned politician like Mexico's Lopes-Mateos who use the working people to help them achieve their own political objectives. But to claim that the working class produced or "forced" the revolutions or reform movements led by these men is to re-write history.

(2) Lodge's plea for support of unions in developing countries is based on the belief that unions are, in fact, independent initiators of social change, and on the belief that the goals of union activity in such countries will harmonize with the humanitarian's goal of social change and economic progress. Neither belief is buttressed by evidence. The fact seems to be that unions in developing countries tend to be creatures rather than creators of the political leadership. Neufeld's gloomy analysis suggests unions in "impoverished nations"

⁶ I would strongly agree with Shearer as far as Brazil is concerned. Michigan State University has, since 1954, worked with the Getulio Vargas Foundation in Brazil on an AID-sponsored program to develop business schools and courses. From this work developed the first business school in Latin America—the Sao Paulo Business school. In addition degree programs in business were developed at the universities of Bahia and of Rio Grande do Sul. In my work in Brazil I came to know and respect more than a hundred Brazilian executives. Some were working under American executives who were a good deal less impressive.

⁹ See, for example, Garibaldi's complaints about the failure of Italian peasants to support his revolutionary efforts in Maurice F. Neufeld, "The Inevitability of Political Unionism in Underdeveloped Countries: Italy, the Exemplar" *Industrial and Labor Relations Review* April, 1960 pp. 363-386.

almost inevitably become agencies for political repression and control in the hands of authoritarian political leaders.⁷

Moreover, even if unions in these countries were to achieve independent power there is no assurance this power would be used wisely or constructively. In fact, the experience of a colleague of mine in Nigeria led him recently to make the following sober comment :

One of the haunting and preying queries is whether or not trade unions are luxuries which only a society with a high standard of living can adequately support. It may be a barrier to growth, therefore, to foster such institutions, even though that in itself may be heresy.⁸

While I do not wish to advocate heresy, I would at least enter a plea for an objective assessment of the actual and potential contribution of labor movements and labor organizations *as they exist in the developing countries*, and not as they exist elsewhere.

THE BELFORD PAPER

Mr. Belford discusses American (to be more precise, Canadian) industrial relations policies developed and reportedly applied on a world-wide basis by a "supra-national" firm. He contends not only that universally applicable industrial relations policies, objectives, and principles exist and can be discovered, but that universal policies are indispensable if a multi-national firm wants to practice "decentralized executive management" coupled with "centralized direction, control and audit of performance."

Unfortunately for his thesis, the examples he provides of industrial relations policies actually developed by his Company prove to be somewhat less than convincing. The first two—the Employee Benefit Policy and the General Personnel Policy—tend to conflict, as Belford himself pointed out. Where they do, local management has to "make its judgment on which principle should prevail." An associate of mine used to say, "When you have two bosses, you don't really have any boss." He meant that by playing one off against the other you could develop an area of relatively free action for yourself. My reaction to

⁷ *Ibid.* See also, Maurice F. Neufeld, "The Italian Past and the Future of Impoverished Nations" *Labor Law Journal* July, 1962 pp. 548-555.

⁸ John P. Henderson, "Wage Negotiation and Legislation in Nigeria" a paper presented to a Michigan State University faculty symposium, December 9, 1964, p. 2.

these two policies is similar. When two policies tend to conflict, as these do, you don't really have any policy since the local manager is not bound very tightly by either.

The third example is "the policy of the company to settle rights disputes by arbitration or, failing that, by a trial of economic strength." It fares little better under scrutiny. The illustration used—a refusal, on policy grounds, to allow a dispute over wage rates to go to arbitration in the United Kingdom—is particularly unfortunate since Belford's company also operates in Australia. If memory serves, disputes over wage rates in Australia *must* be taken to a commonwealth court for arbitration. It is hard therefore to see how the example cited demonstrates the feasibility or even the existence of a world-wide or even company-wide policy.

I have, on occasion, expressed doubt that universal management principles exist.⁹ I now confess to similar doubt that useful universal or "world-wide" industrial relations policies exist—even policies developed for a single firm. A situational or "institutional" approach to policy development would appear to offer greater promise.

⁹ Winston Oberg, "Cross-cultural Perspectives on Management Principles" *Journal of the Academy of Management* June, 1963 pp. 129-143.

Part IV

**INDUSTRIAL RELATIONS IN 1975--
TRADE UNIONS**

THE SOURCES FOR FUTURE GROWTH AND DECLINE IN AMERICAN TRADE UNIONS

JOEL SEIDMAN
University of Chicago

Almost a decade has passed since the merger of the AFL and CIO ended twenty years of division in the ranks of the American labor movement, bringing with it the promise of an end to raiding, the hope that competing unions would voluntarily merge, the expectation that vast organizational drives would be launched, and the granting of increased power to the Federation to stamp out communism and corruption, protect the rights of members, and end racial discrimination. It will be the objects of this paper (1) to appraise the effectiveness of the unionism of today in organizing and in collective bargaining, and (2) to examine the factors that have hindered its progress, both those beyond and those under union control.

UNION EFFECTIVENESS

How is the effectiveness of unionism to be measured? Among the many possible devices would be the volume of union membership, along with its direction and rate of change; the volume of fresh organizing effort, and the success attending it; the loyalty of the membership; the volume and success of collective bargaining; and the influence of the labor movement on government policy and in the community at large.

Membership Trends

The Bureau of Labor Statistics, which periodically reports on the membership of national and international unions based in the United States, shows that the peak membership, excluding the approximately one million members who live in Canada, occurred in 1956, when 17,490,000 were enrolled. After that time, except for a moderate gain from 1958 to 1959, the number slipped steadily until 1961, when the figure stood at 16,303,000. The year of 1962, the most recent for which BLS has published data, witnessed a recovery to 16,586,000 due in large part to an increase in unionism in the federal service.¹ To

¹ United States Department of Labor, Bureau of Labor Statistics, *Directory of National and International Labor Unions in the United States, 1963*. Bull. No. 1395, 1964, p. 47.

these figures must be added 450,000 workers who belong to unaffiliated local unions. This past August the AFL-CIO reported that its membership growth was continuing, with the first half of 1964 showing a net gain of 274,000 over the corresponding period of 1963.

In terms proportionate to the labor force, the slippage is even greater, from 24.8 per cent in 1956 to 22.2 per cent in 1962. In percentage terms, relative to the civilian labor force, the American labor movement reached its peak in 1953, at 25.2 per cent, while its losses have been counterbalanced roughly by its gains since 1945. For almost two decades, relative to the civilian labor force, the expansion of American union membership has been arrested, and for the last decade the trend has been downward.²

If one looks at the success of first organizing efforts, as evidenced by results of NLRB elections, one sees a steady slippage in the past dozen years. The unions won 72 per cent of the 6,866 elections conducted in 1952, receiving 75 per cent of the votes cast, and did approximately as well the following year, when 77 per cent of the votes favored unions and 71 per cent of the elections were won by them. From 1954 through 1959, however, union victories ranged between 61 and 67 per cent; and in 1960 the percentage dropped to 59 and in the following year to 56. For each of the last two years it has stood again at 59. The percentage of pro-union votes has followed a roughly parallel course, dropping from 70 per cent or higher in the 1952-55 period to between 60 and 65 per cent in each of the five following years and to 59 per cent in 1961. The record for 1962 and 1963 showed a moderate improvement, to 62 and 61 per cent, respectively.

Loyalty of Members

While it is harder to appraise the attitudes of those who are already members, since payment of monthly dues is usually assured by a security clause and since attendance at meetings is but a poor indicator of degree of support, it seems clear that disaffection, where it has occurred, has not often gone to the point of desiring elimination of the union. The provisions of the Taft-Hartley Act for decertification of the bargaining agency provide the most authoritative evidence on this point. The number of such elections is small—fewer than 160 in

² See also two articles by Irving Bernstein, "The Growth of American Unions," *American Economic Review*, Vol. 44 (June, 1954), pp. 301-18; and "The Growth of American Unions, 1945-1960," *Labor History*, Vol. 2 (Spring 1961), pp. 131-57.

each year before 1959 and ranging from 216 to 285 in each year since. Yet these figures are to be compared to the 2,500 to 5,000 new certifications won by unions in each recent year, on top of the tens of thousands of certifications made earlier. The bargaining units in which decertification has been sought have tended to be small ones, moreover, with an average of only 69 valid ballots cast in each election, though approximately 90 percent of the eligibles have voted. Though two-thirds of the elections have resulted in decertifications, just over half of the votes have been cast in favor of continued union representation. Surely the conclusion must be that workers, once they experience union representation, overwhelmingly wish it continued, with a relatively small number of exceptions found, primarily in very small units.

Another type of evidence was provided by the 46,000 polls limited to the union shop issue that the NLRB conducted under the provisions of the Taft-Hartley Act between 1947 and 1951. The union shop was authorized in 97 per cent of the elections, with five and one-half million of the six and one-half million eligible voters casting valid ballots, and five million of these, or 77 per cent of the eligible voters, favoring the union shop.³

Collective Bargaining Effectiveness

Far from being under attack for failing to advance wages sufficiently, unions have rather been criticized for raising wages too rapidly, with resulting pressure on the level of prices. The study five years ago by Albert Rees of patterns of wages, prices, and productivity showed that average money earnings in manufacturing, together with employer's wage supplements such as social security and welfare payments, had risen from 44.1 cents per hour in 1933, which might be taken roughly as the year in which collective bargaining began in most manufacturing industries and revived in others, to \$2.24 in 1957. Translated into real wages in 1957 dollars, the increase was from 95.9 cents in 1933 to \$2.24 in 1957, a rise of 234 per cent.⁴ Meanwhile the output per manhour in manufacturing rose by 187 per cent. While other factors played a part, it seems likely that unions

³ *Sixteenth Annual Report of the National Labor Relations Board for the Fiscal Year Ended June 30, 1951* (Washington, D. C.: U. S. Government Printing Office, 1952), p. 301.

⁴ Albert Rees, "Patterns of Wages, Prices and Productivity," in Charles A. Myers, ed., *Wages, Prices, Profits and Productivity*. (New York: American Assembly, Columbia University, 1959), p. 15.

were largely responsible for this tendency of real wages to rise faster than productivity. The recent automobile settlement, in which the wage cost was estimated to rise from 4.5 to 4.7 per cent annually, despite the appeals of the Council of Economic Advisers and other high Administration figures to remain within the 3.2 per cent average productivity rise of recent years, is continued evidence of a like policy and like effectiveness.

If one turns to fringe benefits, one discerns no lack either of ingenuity or of determination in the development of a host of benefits, ranging from health and welfare funds to supplementary unemployment benefits, and from sabbatical vacations to plans for sharing in profits or in savings of costs. Emphasis has shifted in recent years from increases in monetary wages to the achievement of the greatest possible job or income security.⁵ The growing use of study committees for non-crisis bargaining is evidence that new techniques are developing within the framework of collective bargaining, and the recent call by the United Steelworkers for a guaranteed job and income for a worker's entire life in the steel industry shows that unions have not exhausted their ability to devise new bargaining objectives.

Influence on Government Policy

If the passage of legislation is the key test, labor influence has been relatively weak at the national level, as is shown by the passage of the Taft-Hartley Act, bitterly opposed by the entire labor movement, and the inclusion in the Labor-Management Reporting and Disclosure Act of many provisions thought unwise by most labor leaders. At the state level, labor's legislative strength in many of the industrialized states is offset by its weakness in the less urbanized states of the southern, southwestern, and western portions of the country, as is evidenced by the passage in many of these states of right-to-work laws over the vigorous opposition of the labor movement. The public disposition, as shown by the legislation referred to above, is to reform unionism and curtail its power rather than to seek its elimination.

On the other hand, much of the legislation in which the labor movement has a strong interest, from retraining programs or housing

⁵ See my "The Union Agenda for Security," *Monthly Labor Review*, Vol. 86 (June 1963) pp. 636-44.

to help for depressed areas, is likely to be passed, along with minimum wage amendments, social security law changes, and other measures. The list of issues pending in Congress and in the state legislatures on which the labor movement exerts some influence is very long indeed, embracing a large percentage of the social and economic problems confronting the country. With regard to most of these issues, however, labor represents but one political force among many that seek to influence legislative action.

This raises the question whether labor's political strength could be more effectively deployed by a change in its basic strategy, which is to operate as a pressure group within the Democratic Party. Labor leaders such as Walter Reuther have talked in past years about the possible formation of a labor party; and still another pattern of action is provided in New York by the Liberal Party, made up of the needle trades unionists and others, whose 250,000 to 400,000 votes often play a balance-of-power role in that state. In assessing the relative effectiveness of these forms of political action, one must remember that unions represent a minority group whose percentage has shrunk in recent years, and whose members, while predominantly Democratic, represent other political views as well. It is highly questionable whether any other political policy would advance union legislative aims more than labor's operation as a pressure group within the Democratic Party has done.

FACTORS BEYOND UNION CONTROL

This assessment of union effectiveness reveals both strengths and weaknesses. To what extent are the elements of weakness due to forces beyond union control, and to what extent to failures or inadequacies within the labor movement itself? This section of the paper will focus attention on a number of adverse factors in the present-day environment, beyond the control of the labor movement.

Technological Advance

Probably the most fundamental factor is technological advance, with automation as the extreme case, that is eroding the base of union membership in a wide variety of industries. While the advancing technology affects white collar as well as blue collar workers, for the union movement the effect on blue collar workers is the more important. Unions in steel, automobiles, railroading, coal mining, meat packing, and many other industries have lost membership, not

because of any decline of worker interest in unionism, but because of reductions in the number of blue collar workers employed in their industries. While other types of work will in turn be needed as the direct or indirect results of automation, most of these workers, because of skill, working conditions, or physical location, are not likely to respond to the appeals of unionism as readily as those who are being displaced.

Automation affects the bargaining power of unions in still other ways. Automatic equipment in industries such as oil refineries and telephone communication makes it possible for companies, with the aid of supervisors and others outside the bargaining units, to maintain production or service despite strikes by union members. Union bargaining strength is also affected adversely by unemployment, which has been fluctuating between five and five and one-half per cent of the labor force, and which can be traced, among other causes, to technological innovation and to insufficient demand.

Labor Force Changes

Year by year the number of white collar workers has been growing, until they outnumber the blue collar workers in the economy; and white collar workers, for psychological and other reasons, are more difficult to interest in unions, despite some measure of union success in white collar, technical, and professional areas. Unionism is powerful in the entertainment industry, and has achieved varying degrees of success among newspaper writers, sales people, clerical workers, government employees, and other groups of white collar workers. Teachers are now winning bargaining rights in many areas, and federal employees are joining unions in response to President Kennedy's executive order of 1962. Yet not more than two and one-half million white collar workers are union members, out of a potential white collar membership of perhaps 20,000,000 or even more.

Another long-range trend is the growing proportion of women in the labor force, now at about one-third. Women have helped to build unions, as in the garment trades, in telephones, and in teaching. Yet it remains true that women are more difficult to organize than men, because of a primary orientation toward family and home-making rather than the work place.

Changes in Management and Government Policy

To the labor movement's problems caused by impersonal factors

such as automation and shifts in the composition of the labor force must be added changes in the policy of management and of government. Personnel practices of non-union firms have improved enormously with the expansion of unionism, partly because unions drew attention to the human relations aspects of production and partly because of an effort to forestall unionization. Many non-union establishments follow the practice of matching union gains in their industries. Along with generous compensation policies go training of the supervisory staff in human relations problems and provision of some system of handling whatever grievances may arise. Workers employed in establishments following such policies simply do not have the dissatisfactions that led to the ready pro-union attitudes in years past.

Management has an advantage in many non-union establishments for still other reasons. Early union drives concentrated on large plants and on the major centers of each industry, leaving small and scattered plants, many of them in small towns or in the more remote centers of the country, in the non-union column. Even if these plants presented no other problems, they would be relatively difficult and expensive to organize. But small plants, in addition, permit a closer relationship between management and employees. The special problems of organizing in the South, and in predominantly rural areas, complicate the problems facing unions, and afford management a better opportunity to defeat organizing efforts.

Government policy has also intensified some of the problems confronting labor, notably by permitting employers far greater latitude in communications with workers during pre-election campaigns than was once thought proper. While in part the question concerns the constitutionally guaranteed right of speech, in part it involves the determination of the proper boundary line between the right to speak and the right not to listen, and between the right to speak and the obligation not to coerce. The captive audience issue, like the prediction that unionization might cause the plant to lose business and therefore reduce employment, or even shut down, are in an area where a relatively minor shift in government policy can have a substantial impact on the ability of management to resist an organizing drive. Federal restrictions on organizational picketing and secondary boycotts have also hampered union organizing efforts, though there is a widespread feeling, which many students of industrial relations share,

that the use of such tactics should properly be banned by public policy.

FACTORS UNDER UNION CONTROL

Yet the evidence suggests that unions have also contributed to the difficulties that confront them, by outmoded structure, by inadequate organizing efforts, and by faulty internal practices. At a time when established skills are rapidly being made obsolete by technological advance, and when many corporations are crossing industry lines in order to diversify their products, the number of very small national unions remains very large. BLS's recently issued *Directory of National and International Labor Unions in the United States, 1963* lists 181 organizations, only 44 of which have memberships in excess of 100,000. Of the remainder, 27 are credited with between 50,000 and 100,000, 26 are between 25,000 and 50,000, and 80 are under 25,000, the remaining four having returned no membership figures. The 80 with membership below 25,000 each included 14 with fewer than 1,000 each. Though some small unions have substantial bargaining power—as witness the Air Line Pilots, with 16,650 members—for the most part this proliferation of small national unions makes little sense in relationship to the organizing and collective bargaining problems of today.

The BLS *Directory* lists 36 unions in transportation; 22 in federal, state, and local government; 20 in metals, machinery, and equipment; 16 in clothing, textiles, and leather products; 16 in contract construction; 13 in food, beverages, and tobacco; 11 in printing and publishing; and 10 in stone, clay, and glass. Merging of unions into broad industry groupings such as these would eliminate a large percentage of jurisdictional disputes, release funds and energies for organizing efforts, and greatly simplify the structure of collective bargaining.

Still another structural problem that calls for reexamination concerns the relationship between the national unions and the federation. The AFL-CIO, though armed with more power than the AFL had ever possessed, is less centralized than was the CIO, for reasons peculiar to the history of each federation. Yet it would be strange if the growth of a complex society and an integrated economy did not also call for more power in the hands of the labor federation. Few would argue that the AFL-CIO has made vigorous use of the powers conferred upon it at the time of the merger with respect to such areas

as organizing, ethical practices, and civil rights. The vast drives that were confidently expected, as in the white collar field and in the South, were never launched, primarily because the national unions could not resolve their jurisdictional claims; after a brave start in the area of ethical practices, the Federation has been content, with the passage of the Reporting and Disclosure Act, to leave policing to the federal government; and with regard to civil rights the Federation, while seeking to persuade, has made little attempt to use its authority.

The above comments are not meant to suggest that union organizing efforts have either been entirely lacking or entirely ineffective. The AFL-CIO reports that its affiliates, in the first eight years after the merger, organized establishments with some two million employees, though the net membership gain was small and in percentage terms there was a decline.⁶ After long delays and many hesitations a coordinated organizing drive was finally launched in the Los Angeles area, which brought in 46,000 members in a two-year period. Similar coordinated organizing drives are under way elsewhere, as in the Baltimore-Washington area.

Faulty Internal Practices

Shortcomings in union internal practices have been so widely publicized by Congressional investigations and commented upon by so many private investigators,⁷ including some who were deeply sympathetic to organized labor, that there is no need to rehearse this evidence here. It is enough to say that corruption has led to the expulsion of several unions, including the powerful Teamsters, from the AFL-CIO; that a New York-New Jersey governmental agency has been created to police various aspects of New York harbor operations; and that the Labor-Management Reporting and Disclosure Act of 1959 has sought both to prevent improper financial practices and to assure observance of reasonable standards of union democracy.

Federal regulation, while improving current behavior and offering some assurance against a return to past abuses, cannot eradicate the image of unionism, widely disseminated by the Congressional hearings, as permeated with corrupt and dictatorial practices. If the spontaneous enthusiasm of blue collar workers in the 1930's for

⁶ *American Federationist*, Vol. 70 (December 1963), p. 21.

⁷ See, for example, studies by Clyde Summers, Sumner H. Slichter, Philip Taft, Benjamin Aaron, Clark Kerr, Seymour M. Lipset, Harold Seidman, Leo Bromwich, and Horace B. Davis, and the American Civil Liberties Union's pamphlet, *Democracy in Labor Unions*.

unionism is tempered today, this is surely one of the contributing factors, as it is also an obstacle to the recruitment of white collar and professional workers. Nor is the public image of unionism helped by such factors as the high salaries of many national union heads, the widespread refusal to admit the legitimacy of internal political organization, or the general failure to set up impartial systems of judicial review in disciplinary cases. Public review boards established by such unions as the UAW and the Upholsterers go a long way to restore confidence in the impartiality of union justice.

Still another area of internal union practice involves the treatment of minorities, particularly Negroes and Puerto Ricans. While the industrial unions, on the whole, have dealt fairly with such minorities, some of the craft unions have treated them as second-class citizens or even barred them from membership. Conflicts between Negro organizations and craft unions over admission of minority group members to apprenticeship programs have caused some loss of union enthusiasm among Negroes.

PROSPECTS FOR THE FUTURE

Is the labor movement likely to gain in membership and bargaining effectiveness in the years ahead, or continue the secular decline in numbers, at least relative to the labor force, and be forced into a more and more defensive posture in collective bargaining? Or, to put the issue into more policy-oriented terms, are there changes that the labor movement should make in order to increase its effectiveness? Some changes in three important areas—national union structure, relations between the national unions and the federation, and internal union practices—would seem warranted.

Yet there is no assurance that changes in these areas would cause either rapid membership growth or increased collective bargaining effectiveness. The economic, social, and legal framework within which the labor movement operates handicaps unionism in a number of important respects, as we have seen. In collective bargaining, the main business of the labor movement, the record seems much more impressive. There are many who would criticize union bargaining policy for too much emphasis upon outmoded rules or for resisting technological advance too strongly; but this is a criticism, not of weakness, but of the use to which strength is put. Probably the most disturbing factor, from the point of view of the labor move-

ment's prospects for membership growth, is that its strength is largely concentrated in the declining sectors of the economy, whether these are identified by the nature of the work, the type of industry, or the geographical area.

Yet union growth, throughout its history in this country, has tended to come in spurts, associated with such factors as reviving prosperity, war, resentment against poor personnel practices, or the passage of favorable labor legislation. At times in the past the labor movement has seemed to hold far less promise than it does today, only to become revitalized by an influx of new members. It would be rash to try to predict the time or the extent of the next upsurge; but it would be equally rash, in view of labor history, to assert that we have seen the last of the great membership advances of the American labor movement.

DISCUSSION

LLOYD ULMAN

University of California

The viability of an institution like the trade union movement, which requires a significant amount of public support, depends on the extent to which it is regarded as increasing the common good as well as on the numerical or strategic importance of its own constituency. Decline in the latter (due in considerable part to the corrosive influence of continuing economic forces) has stimulated efforts to develop new bases of affiliation, although with indifferent success to date. However, these comments, while not irrelevant to the organizing problem, will be largely confined to the more nebulous but also, in the long run, the more important determinant of institutional success—the union movement's ability to discharge some functions which are widely recognized as beneficial to the entire community, or at least to a segment thereof much broader than its own base of membership.

Well before the American unions received substantial public support in the form of exceptional legal protection, they claimed to advance important ethical, political, and economic objectives of the wider community. The labor movement was widely regarded, even by those who believed its efforts to be misguided, as the spokesman for the economic underdogs—the poor and the disadvantaged. It was approved as the instrument for extending the concept of equal justice under a set of specified laws to a market place in which the uncertain forces of competition had provided no assurance against petty tyranny. Politically, trade unionism offered itself as an alternative to doctrinaire and even possibly traitorous radicalism, claiming the ability to secure their social objectives without weakening the basic institutions of American capitalism. On the contrary, it was urged that unionism served as a socially salubrious counterweight to the political and economic influence wielded by monopolistic enterprise. Indeed, the countervailing role of unionism was offered as an alternative to one of the most unpalatable varieties of American economic puritanism—an unrelentingly enforced and pervasively applied policy of antitrust. To the owners and managers of large-scale enterprise, the alternative was presumably preferable once they were satisfied that the need for choice existed. The public also had much

to gain; union pressure on costs in large-scale sectors could provide an alternative to competition as a stimulus to managerial efficiency in the product and capital markets and thus, in effect, ensure maximum exploitation of economies of scale. Finally, the aggregate effect of union wage policies has been defended as socially beneficent: by diverting cash from the idle rich and their idle corporate treasuries, unions, it is argued, have tended to increase purchasing power and employment.

The foregoing constitute some of the most important historic bases underlying the trade unionists' claim to public esteem and protection. It is apparent that most of them have by now become rather seriously weakened. Thus, the claim to speak and work for the underdog is greatly weakened, partly because most of the underdogs are not union members and parties to effective collective bargaining arrangements and partly because the political arm of the labor movement, which has indeed been extended in their defense, has been so much weaker than the bargaining arm. (Unionists of course may point to their own loss of underdog status as evidence of the effectiveness of collective bargaining where it has become institutionalized; and they may also point to the great economic and social barriers to organizing the lowest income sectors of the labor force. These arguments, however, merely underscore the serious limitations of collective bargaining to date as a broad social instrument of distributive equity.)

The defense of American unionism as an alternative to proletarian radicalism, once of great importance, has also lost most of its force. Postwar international developments, new standards of affluence, old standards of selfishness, and increased employer sophistication have combined to replace the dynamite stick with the free ride as the most realistic alternative to the dues button.

Postwar economic developments—especially rapidly rising wage incomes combined with persistent over-all unemployment at relatively high levels, changing patterns of consumer demand, and possibly accelerating rates of technological change—have reinforced the most economically conservative tendencies of American unionists and have correspondingly weakened their claim to public support for a net positive contribution to economic efficiency. By and large, the national unions still maintain a tradition of receptiveness to increasing productivity as the source of bargaining gains. Nevertheless, the growth in local restiveness, and its translation into political tension at all

levels of union government, is disturbing evidence of a shift in the balance of power between the forces of economic conservatism and of economic liberalism within the unions, however much this political activity may be reassuring on other counts.

Finally, the purchasing power argument has suffered depreciation in recent times. This is not due to any recent decline in professional esteem; thanks to Keynes the underconsumptionist part of this theory probably gained a greater degree of acceptance (although rigorously qualified) than it had ever enjoyed before; and in more recent years, even the redistributive elements of the purchasing power theory have received a measure of serious academic consideration.¹ But ironically it was the Keynesians and not the classicists who meted out the heaviest damage, for the former demonstrated the existence of a set of public policies which could increase purchasing power without prior redistribution of income in favor of wages and, above all, without prior increase in marginal costs. Still more important, acceptance in toto of a theory which holds that money wage increases in periods of unemployment raise employment and output tends powerfully to persuade that negotiated wage increases in periods of full employment help to generate inflation.

Against these shortcomings must be offset some solid contributions and, as I shall presently suggest, the emergence of a communal need for a kind of public service which the trade union movement should be well qualified to supply but which it would have to supply on a much larger scale than ever before. Perhaps these contributions are mainly of a "second best" variety in the broad sense that useful results are achieved in the context of things as they are and given the existence of conceptually superior but impracticable alternatives. Thus the purchasing power defense of wage increases cannot be dismissed as long as fiscal, monetary, and manpower policies are not sufficiently

¹ See M. Bronfenbrenner, "A Contribution to the Aggregative Theory of Wages," *Journal of Political Economy* (December 1956), 459-469; S. Weintraub, "A Macro-economic Theory of Wages," *American Economic Review* (December 1956), 842-846; J. R. Meyer, "Wage, Price and National Income Relationships in Light of Recent Findings on the Behavior of Large Business Corporations," in Philip D. Bradley (ed.), *The Public State in Union Power* (Charlottesville: University of Virginia Press, 1959); S. H. Slichter, "Labor Costs and Prices," in *Wages, Prices, Profits, and Productivity*, Joint Economic Committee, Staff Report on Employment, Growth, and Price Levels, pp. 171-177; Jaroslav Vanek, "The Labor Market, Technology, and Stability in the Keynesian Model," *Kyklos*, XVI (January 1963), 111-122; and Lloyd Ulman, "Unionism and Collective Bargaining in the Modern Period," in Seymour E. Harris (ed.), *American Economic History* (New York: McGraw-Hill, 1961), pp. 457-458.

vigorous to secure a more reasonable approximation to full employment. Similarly, however disappointing the union movement's efforts in support of the underprivileged have been, those efforts have certainly been more than perfunctory; and, by and large, they have probably been consistently greater and more effective than those exerted by any of the relatively privileged groups in the community. Again, diminution of the role of competitor to proletarian radicalism is outweighed by the unions' impressive success in extending the rule of law to the industrial labor market. For the latter is important not only in its own right, but also because it furnishes a striking demonstration of the adaptability and flexibility of the country's economic institutions—a property denied by puristic radicals on both wings. Finally, the unions' claim to effectiveness as a bargaining counterweight is also probably accepted and endorsed by the general public—but excluding most professional opinion—as a second-best device; on the other hand, the public reaction to labor's political activities is more disapproving.

And yet it is in the political arena, I suggest, where the public good now requires greater effort and more sophisticated contributions by the union movement. The set of economic policy alternatives under consideration at the federal level has become sufficiently complex and the political determinants of policy making at that level are sufficiently novel to require far more active and informed private review and debate than has ever been offered in this country.

To deal effectively with a novel set of economic problems, President Kennedy called for an end to outmoded thinking—or “mythology,” as he called it—and he personally engaged in a head-on encounter with that ancient monster, the Balanced Budget. But other targets were relics not of the Old Guard but of the New Deal. The New Deal's objective of full employment of course won acceptance in principle as did its tradition of purposeful governmental intervention to achieve important economic aims. But its economic egalitarianism was rejected as an inferior policy instrument and, indeed, fresh merit was discovered in the pre-Keynesian virtue of Thrift, rechristened Growth. Even the automatic stabilizers—long regarded as the New Deal's most solid claim to fiscal immortality—have come under cool scrutiny for their postwar role in stabilizing the economy against upswings. And last, the late President (at a White House conference in the spring of 1962) called on union and management

representatives to discard their tradition-hallowed clichés of thought and action and support the more rational approaches suggested by the cool technocrats corralled by his administration. As in the days of FDR and HST, the unions were offered a position of partnership, but this one was to be shared to a greater extent with management and it was to be a rather silent partnership.

In fact the unions have, for the most part, been quite silent partners—whether silently ignoring wage policies or silently acquiescing in other policies. This is not necessarily to deny the merit or efficiency of many of the unchallenged policies. However, in view of the new and greatly unbalanced political configuration in the country, what is urgently required is not silent partnership but intelligent, constructive, and eloquent criticism. This is the new task to which the union movement should devote itself, for two reasons.

In the first place, the new policies suggest problems which clearly fall in the traditional domain of the labor movement. As examples, consider the following: alternative ways of dealing with balance of payments problems; the relative merits of public and of private investment; the relative merits of manpower training and of public expenditure programs tailored to the capabilities of the unemployed adult population; ways of adapting unemployment compensation to the requirements of economic efficiency; the concept of a socially optimum rate of technological change; the evidence in favor of—and against—increasing the social propensity to save; alternatives to factor and personal income redistribution as devices to increase the propensity to save, including incentives to concentrate collective bargaining energies on deferred-payment devices; reconsideration of price stability as an objective in its own right in the light of its cost in terms of target levels of unemployment and of government intervention in wage and price determination; alternative incomes policies which might minimize nonoperationality, on the one hand, and government intervention, on the other.

The second reason why the trade union movement should devote itself increasingly to this type of political activity is that, by so doing, it would be taking a long step toward its own revitalization as a public-service institution. It would function far more effectively as the champion of the unfortunate and disadvantaged—and increase the probability of the effectiveness of a newly announced national economic objective, the elimination of poverty. And it would genuinely

strengthen its role as a social counterweight—not only to big business, but to big government as well—and at a time when such a counterweight is urgently required.

The transition from silent partnership to amicable independence will indeed imply reorientation and, doubtless as a result, some structural change. I do not imply that labor's thinkers and spokesmen have not addressed themselves independently and imaginatively to problems such as those raised above. The union movement can take pride in excellent work of a corps of highly competent and highly respected economists. But the corps is too small; the staff of economists and of other social technicians must be greatly augmented. More important, their influence within the movement must be augmented; as a new generation of national labor leaders emerges, it must shed the anti-intellectualism and conservatism of many in the present generation and it must lay much greater emphasis on its public policy positions and pronouncements. If the leaders do so, their views will carry much greater weight in the community (and will help to minimize the frequently agonizing indecision over the advisability of standing up to politicians upon whom one has lavished moral and financial support). But they will only be able to do so if they also devote energy and resources to the education and sophistication of the membership from whom they derive their own strength and authority. What the union movement needs is more and better R and D—policy research and membership development.

JULIUS REZLER

Loyola University

Whenever one gets discouraged by the present, he usually turns either to the glorious past or to the promising future for solace. On the basis of the facts enumerated by Professor Seidman a little while ago, who could deny that the present state of the American trade unions does not look too rosy. Perhaps this is the reason why this panel examines whether a strong federation would not result in a brighter future for the labor movement?

Changes in the structure of the Federation is a rather timely issue as several students of the labor movement have recently expressed their views on this subject. Two conflicting schools of thought

concerning reforms in the Federation have emerged in current publications.

Barkin and Raskin have advocated further centralization. Raskin feels that there is a need for a breakthrough in organizing techniques, however, "the chance for success will be very slim if the AFL-CIO cannot play in the implementation of such techniques the same dynamic role that was filled by the CIO . . .".¹ Barkin is even more emphatic in his demand for a stronger federation. He contends that in order to revitalize the labor movement, the present "confederation of unions will have to be converted into a stronger federation with more authority to initiate changes and act on behalf of the total movement."²

Other labor experts, however, prescribe the panacea of decentralization for the purpose of achieving the same goal: the revitalization of the labor movement. In the opinion of Professor Butler, this process will be promoted by the eventual formation of a separate federation in order to accommodate the organization of office workers.³ Paul Jacobs, one of the disillusioned union intellectuals, even suggests dissolving the merged AFL-CIO and consolidating the national unions along the natural lines of work. Accordingly, he advocates separate federations for unions in the building trades, in the printing industry, and in manufacturing and transportation.⁴

The basic question is that, of the suggested reforms, which one has the highest probability, i.e., which one would be accepted by the national unions in the industrial relations environment of the seventies? Certain tentative answers may be offered in the knowledge of the conditioned reflexes with which national unions have traditionally reacted to centralizing tendencies, as well as on the basis of some emerging trends.

In my opinion, the following developments could act as centrifugal forces and would seriously hinder efforts toward centralization. First, the emergence of independently-minded white collar unions eventually

¹ A. H. Raskin, "AFL-CIO: A Confederation or Federation? Which Road for the Future?" *The Annals of the American Academy*, Vol. 350 (Nov. 1963), p. 43.

² Solomon Barkin, "The Road to the Future: A Trade Union Commission for Self-Analysis," *The Annals of the American Academy*, Vol. 350 (Nov. 1963), p. 147.

³ A. D. Butler, "*Labor Economics and Institutions*," (New York: Macmillan, 1961), p. 580.

⁴ Paul Jacobs, "*Old Before its Time: Collective Bargaining at 28*," (Santa Barbara, Calif.: Center for the Study of Democratic Institutions, 1963), pp. 33-34.

forming their separate federation. Second, the evolution of fewer and more highly centralized national unions as foreseen by Levine and Karsh.⁵ The stronger and larger the component units the broader autonomy they demand from their federated organization. Third, a similar situation could develop if, under the impact of automation, industrial unions would become weaker and the craft and semi-craft unions would remain relatively strong. The latter traditionally claim broader autonomy. Fourth, a conflict of interest could develop between those unions which are going to be affected by automation and the ones which are not. It is possible that such unresolved differences might considerably weaken the unity of the labor movement. Finally, the present trade union mentality still does not favor a strong federation. Only a minority of the union presidents polled recently by Barkin and Blum believe "that if unions are to grow the AFL-CIO must be given more centralized authority over organizing."⁶

Next, let me turn to those possible developments which would further the cause of a strong federation. I am convinced that the large majority of the national unions would accept the authority of a strong central body only if the labor movement would have to face an emergency situation which would threaten its very existence. Such situation could result from one or both of the following two developments. First, legislative or administrative actions of the government which would restrict the organizational freedom of unions or would seriously interfere with their bargaining functions. Second, if the course of decline recently experienced by the labor movement could not be reversed and would further weaken labor organizations.

Which of the previous developments that might affect organized labor in the next ten years will prevail: the ones promoting a strong federation or the ones working against it? Although Professor Stieber warned us that "on the basis of past performance, predictions regarding the future should be regarded with a measure of scepticism,"⁷ I take my chance of being wrong ten years hence.

In my opinion, the developments which would create an emergency situation for the labor movement and thereby make room for a strong federation, appear likely to occur in the seventies. First, adverse

⁵ S. B. Levine and Bernard Karsh, "Industrial Relations in the Next Generation," *The Quarterly Review of Economics and Business*, (February, 1961), p. 22.

⁶ Solomon Barkin and A. A. Blum, "What's to be Done for Labor? The Trade Unionists' Answer," *Labor Law Journal*, Vol. 15 (March, 1964), p. 181.

⁷ "U. S. Industrial Relations: The Next Twenty Years," Jack Stieber, ed., (East Lansing, Mich.: Michigan State Univ. Press, 1958), p. 1.

legislative intervention in vital union functions is not improbable at all. The monopoly issue has been hanging like the sword of Damocles over the head of the labor movement. In recent sessions of the Congress several bills were proposed to extend the coverage of anti-trust laws over labor organizations. Also, continuation of a legislative trend which has increasingly limited the use of economic weapons by unions should seriously be considered. Ever since the passage of Taft-Hartley, it has been difficult not to notice the intention of the Congress to limit concerted actions of unions by which they support their bargaining demands. Taft-Hartley and Title VII of Landrum-Griffin have already outlawed almost all forms of secondary boycott and considerably restricted picketing. If public opinion and the government would come to the conclusion that economic growth and prosperity are endangered by strikes such as the recent ones in the automobile and railroad industries, mounting pressure would be exerted on Congress to outlaw or limit the use of the strike weapon.

The Federal Government is also urged to control directly or indirectly the determination of wages by administrative action because of inflationary pressure. Such action would create another situation to which organized labor would probably react with unity. Butler is convinced that a government restriction of wage increases "may induce a realignment in the union power hierarchy with more authority placed in the hands of the Federation."⁸

Those who would doubt the possibility of such legislative and administrative actions in view of the most recent election which has considerably increased the number of pro-labor congressmen, should keep the lessons of the 1958 elections in mind. In that year too, many congressmen were elected with the support of organized labor. Nevertheless, they could not withstand the pressure of a public enraged by the disclosures of the McClellan Committee which demanded and got Landrum-Griffin in 1959. A similar situation might easily develop if strikes in a few key industries would interrupt economic prosperity.

The American labor movement will be further weakened by the effects of a presently enfolding trend which manifests itself in the decreasing needs of workers for unions. Major organizations usually emerge to satisfy certain needs of social groups. Labor unions were created by workers to improve their terms of employment, to protect them against arbitrary treatment, and to promote their economic

⁸ Butler, *op. cit.*, p. 584.

security. If these needs would become satisfied, the *raison d'être* for unions would no longer exist.

It is my conviction that the most urgent needs of workers have already been satisfied by unions themselves, and the remaining needs will increasingly be fulfilled by the government and management. It sounds paradoxical, but the success of unions appears to be self-defeating. Lester noticed that "by past successes . . . unions have reduced their opportunities for making new gains for the membership."⁹ This suggests that the law of diminishing return is valid in industrial relations, too.

Of course, there are still certain industries and regions in the U. S. where unions have not yet succeeded in achieving their objectives. In these areas, unions might still grow till they fulfilled their task, unless some environmental factors will continue to arrest their growth. But even if unions will not have fulfilled their task, their existence will be increasingly threatened by the attempts of government and management to either replace union functions in satisfying the needs of workers or to eliminate altogether the needs for which unions came into existence.

It is apparent that various branches of the Federal government are willing and ready to play an increasing role in determining the terms of employment. If the government would further limit the strike weapon, as is quite possible, it will have to replace unions in the determination of employment terms, as unions will no longer be able to bargain from strength.

But the systematic efforts of employers to recognize and satisfy the needs of their employees is probably the greatest threat against the existence of unions. Corporations led by advanced management no longer try to keep unions out of their plants by the traditional methods of union busting. During my study of industrial relations at the Du Pont complex, it was revealing to observe the systematic policies of this company aimed at satisfying the basic needs of their employees, and thereby making unions no longer necessary. The success of its policy is amply indicated by the fact that none of the 25 Du Pont plants constructed after WW II are unionized.¹⁰ An increasing number of companies pursue personnel policies similar to those which proved to be successful at Du Pont. This trend will eventually contract

⁹ R. A. Lester, "*Economics of Labor*," (New York: Macmillan, 1964), p. 601.

¹⁰ Julius Rezler, "Labor Organization at Du Pont: A Study in Independent Local Unionism," *Labor History*, Vol. 4 (Spring 1963), pp. 187-89.

the organizational basis of unionism and may create such an emergency situation in which unions would pool their resources and put them at the disposal of a strong federation.

Summarizing my comments, it sounds paradoxical, but in the USA, a strong centralized federation appears probable only in the case of a considerably weakened labor movement.

MELVIN ROTHBAUM

Council of Economic Advisers

While many arguments can be made for a stronger central union federation, such a change is neither a necessary nor a propitious solution to the problems facing the American labor movement. First, to the extent that the suggestion stems from a sense of crisis about changes in the external environment, the problem has been exaggerated. The opportunities for labor organization in 1975, even in traditionally organized industries and occupations, will be far greater than is usually realized. Second, many current union problems can be dealt with through rationalization of operating procedures within the present structure and by the development of new relationships with other organizations. Both of these points are analyzed below.

Finally, on a purely practical level, the timing is bad. With local union restiveness already straining the solidarity of national unions, centralization at the Federation level is an unlikely course to pursue.

THE EXTERNAL ENVIRONMENT IN 1975

Pessimism about future union strength and growth derives mainly from the belief that changes in technology and market demand will result in a labor force whose occupational and industrial composition will be less favorable to union organization. The long-run situation outlined by Professor Seidman is correct. Manning complements will be weighted more heavily toward white collar workers, and service-producing industries will be growing much faster than goods-producing industries. But these relative shifts should not blind us to the absolute size of the labor force components in 1975.

Between 1960 and 1975 there will be a projected employment increase of five million workers in goods-producing industries, for a

total of 25 million workers.¹ Successful organization of this group alone would result in a 7 to 8 million increase in union membership, and a union movement that comprised over one-third of the non-agricultural wage and salary workers, as compared to less than 30 percent today. On an occupational basis, organization of all the skilled and semiskilled blue collar workers in the 1975 labor force would yield a union movement of more than 25 million members.

Obviously these arbitrary groupings of the 1975 labor force estimates have no analytical meaning. But they do indicate the tremendous potential among industries and occupations in which the union movement has already experienced considerable success. Gains may also be expected among more rapidly growing parts of the labor force. Some problems relating to professional and technical workers are dealt with below. In addition, women and part-time workers will form an increasing proportion of the labor force. As Professor Seidman has pointed out, they are more difficult to organize. But it may be worth noting that if the labor movement should stigmatize them as secondary wage earners destroying job opportunities for full-time male workers, an objectively unfavorable situation may well become actively hostile.

RATIONALIZATION OF UNION FUNCTIONS

Rationalization of union operations is an alternative to structural change. We know too little about the economics of a union as an organization. What is the cost of performing specific functions for groups of different size and with varying degrees of geographic dispersion? The problem is complicated by the joint costs arising from the utilization of most personnel and facilities to perform several functions. If costs are hazy, the measurement of benefits may be even more so. The organization or retention of one group of members may be far more valuable, for economic and psychological reasons, than another group of equal size. Nevertheless an expansion of functional accounting methods and some approach to a cost-benefit analysis of alternative programs would be a clear gain.

More obvious are the benefits that can accrue from a more rational servicing of geographically dispersed local units. Professor Seidman has pointed out that organization in the future may have to deal with

¹All labor force estimates are from the U. S. Bureau of Labor Statistics, "Employment Projections, by Industry and Occupation, 1960-1975," Special Labor Force Report No. 28.

smaller and more scattered locals. Technological change may well whittle down the average employment in individual factories, warehouses, and other units. Cooperative interunion relationships at the city and state level could bring lower costs and better services than exist today. Certainly there is more room for joint use of facilities and technical services. There is little reason why the labor movement cannot develop an internal consulting service for industrial engineering, health and welfare programs, and legal and actuarial services.

This could well be the function of reorganized and revitalized Federation units at the state and local level, as distinguished from greater centralization at the national level. Whether the services and facilities were provided as part of the regular state and local federated activity, or whether they were put on a user-fee basis, the prospects for lower costs and more and better services should be considerable. Current joint activities among unions in other areas, including bargaining and organizing, already point toward ways of rationalizing the organizational economics of the union movement as an alternative to structural change.

RELATIONSHIP WITH OTHER ORGANIZATIONS

The labor movement is distinguished by its catholicity—the range of social and economic viewpoints, and the diversity of approaches to union structure and collective bargaining that it embraces. The paste that binds this all together, that defines who is “in” and who is not, is an occasionally redefined concept of legitimacy. As the occupational composition of the labor force shifts toward such white collar groups as technical and professional workers, what will be the attitude of the American labor movement? Will it aid and encourage professional organizations that take a more militant approach toward improving their employment conditions? Or will an insistence on the traditional union card result in lack of interest or even active competition for membership? Is there room for a group of friendly but independent allies?

These questions involve difficult decisions, including the possibility of a *de facto* redefinition of the labor movement. But the answers will go to the heart of union strength in the coming years. For as the white collar labor force grows, the effective exercise of union power may well depend on the availability of a strong and friendly organization of white collar workers.

CONCLUSION

My conclusions, then are these: (1) The future is not so dark as to require any crisis action in the form of structural change; and greater centralization of power in the Federation, to the extent that it would be useful in its own right, is not "in the cards" in the near future. (2) The basic organizing, bargaining, and servicing problems of the union movement require a more efficient use of its resources. This can be done in part by rationalization of internal operations, and partly by greater interunion cooperation within the current structure—although some merger of parallel organizations would probably be desirable. These activities could be advanced by service-oriented State and local affiliates of the Federation. (3) Relationships with "outside" organizations may be as important as internal relationships. There is no obvious answer to the question of what will be the best collective bargaining complex for 1975. It may be that external alliances will be a more effective means of maintaining and expanding union influence than attempts to directly organize certain white collar groups.

MITCHELL SVIRIDOFF

Community Progress, Inc.

I agree with Professor Seidman: the high hopes occasioned by the merger of A.F. of L. and the C.I.O. ten years ago have not been realized. Whether in the fields of membership loyalty and growth, political effectiveness, public acceptance, internal reform or civil rights, the achievements have fallen far short of the spirit and resolutions of the convention. Only in terms of collective bargaining—the purely economic objective—is the record impressive.

We ought to understand, however, that no social movement can long sustain a high rate of growth and internal dynamism. A social movement either dies because of its inability to adjust to the realities (the Populist or Socialist movements), or it loses vitality in the process of adjusting.

Realists describe the relative quiescence of the present-day labor movement as the inevitable result of maturing; idealists deplore it as a surrender to the forces of evil—a sellout. Somewhere in between

are the realistic-idealists who have little patience with hand-wringing and agonizing and are eager to move on to the next phase of social reform—whatever its auspice. They accept the thirty-year old movement for what it is: substantially successful, reasonably prosperous and more than a little fat around the middle. But they know that while it is not and cannot ever be again the passionate, hungry dreamer of its youth, it does have considerable latent vitality and there are things which can be done to make it a more effective, if not the primary, force for constructive social change.

Having set this problem in focus for myself, at least, what are the specific things which should be done by the labor movement to recover a substantial measure of its former vitality? And, second, where are the new, significant forces for social reform and what should be the relationship between organized labor and these forces?

In answer to the former question, I would suggest the following areas of priority.

First: The AFL-CIO must be given the authority and power to require that affiliates adhere to the fundamental purposes and goals of the federation. Granted that absolute power is neither feasible nor desirable. Granted that an increase in centralized authority flies in the face of A.F. of L. tradition. And granted, even, that such strengthened authority could lead to the defection of some important unions. A smaller federation which can come to the American people with clean hands on the issues of civil rights, internal corruption and external control (whether of the left or right) will be stronger in the long run than one which pleads its case solely in terms of tradition or, worse yet, invokes the tired argument that one cannot expect the labor movement to rise above the general ethical level of the broader society. (This latter argument would be convincing only if the AFL-CIO were prepared to take its place unashamed with the C of C, the NAM or the AMA—organizations which make no pretense to social reform.) Granted, finally, that an increase in central authority is more easily asked for than accomplished, the point is that a federation which remains powerless to deal internally with flagrant violations in these critical and acutely sensitive areas of policy is equally powerless to deal with external manifestations of these same evils. And it is this very powerlessness, internal and external, that has led to disenchantment on the part of many of Labor's most valuable one-time allies.

Second: The Federation must find a way to deal with the chaotic splintering of clearly defined jurisdictions among a multitude of weak unions. This change, too, would seem to violate the sacrosanct tradition of voluntarism. But Professor Seidman is right to challenge the tradition by juxtaposing AFL looseness and lack of centralized authority against a "complex society and an integrated economy, bringing with it a flow of power from the states to the federal government. . . ."

Third: The Federation must undertake a major effort, in the style of the CIO of the 30's, to organize among the new-growth sectors in the economy. If it is not prepared to make a major change in its approach to the organization of the white collar worker, it should at least turn its attention to those expanding sectors characterized by low wages and inferior working conditions—that is primarily—though not exclusively—the service and public sectors: the hospitals, the culinary trades, the hotels, the new tourist industries, the laundries and dry cleaning establishments and, in public employment, public works, parks sanitation and maintenance. Such organizational drives take more than resolution rhetoric and more than public pronouncements of good intentions. They take a large investment of money and manpower. And they take the ability to appeal to the young and to the minority group workers who make up such a large percentage of employees in these occupations. This brings me to the second question: What should be the relationship between organized labor and the new forces for social reform?

The major domestic problems of this decade are clearly racial discrimination, poverty amidst plenty and youth unemployment. These, of course, are aggravated by the technological revolution.

Both in terms of national economic policy and collective bargaining, the labor movement has dealt effectively, even creatively, with the technological revolution. Its active leadership in the development and support of a national public policy promoting economic growth and full employment, and its ability to use the collective bargaining process to find new ways to cushion the shock of technological change, represent major achievements.

But it has not done nearly as well with the problems of race, poverty and youth unemployment. A social reform movement ignores these problems at its peril.

Let me make it clear. I do not intend this to be a sweeping indict-

ment. Some sectors of the AFL-CIO have done better than others. The IUD and the UAW, have a superb record in these areas. The Building Trades and the Plumbers, as examples on the other hand, leave much to be desired.

I acknowledge the obvious problem here. Craft unionism has inherent restrictive and elitist tendencies. Membership cannot be offered on a wholesale basis if a balance of supply and demand conducive to the economic advancement of the incumbent membership is to be preserved. Hence the rigidity, even the discriminatory aspects of entrance policies, not to speak of apprentice standards. But surely even the craft unions can do better—as some, indeed, have.

The important thing is that unless the Federation is prepared to be left behind by history, it has got to do a lot better. It has to begin to lead and not simply respond. And it has to lead at the local union level as well as in the areas of national legislative policy.

A meaningful alliance with the civil rights movement, reinforced by positive steps to improve employment opportunities for minority and young workers in the organized industries; an aggressive effort to improve wages and conditions in the unorganized sectors, and an active involvement in the whole range of anti-poverty programs would serve at least three purposes:

1. It would help restore the public image of the AFL-CIO as a movement for social justice and help it win new friends as well as win back old.
2. It would improve its ability to recruit among the large numbers of Negro, Puerto Rican and young workers who make up such a large part of the unorganized sectors of the economy.
3. It would strengthen the AFL-CIO economically and politically.

Finally, and perhaps most important, it would be good for Labor's soul. It would do more to reinvigorate the movement with its lost vitality than all the yearnings and exhortations for "that old spirit" multiplied a thousand times.

Part V

**EVALUATION OF NATIONAL
MANPOWER POLICIES**

RETRAINING PROGRAMS—AT HOME AND ABROAD

MARGARET S. GORDON
University of California, Berkeley

INTRODUCTION

When Congress adopted the Manpower Development and Training Act of 1962, it was authorizing a type of government program which had been in effect in most Western European countries throughout the postwar period. Provisions for the retraining of the unemployed were also included in the Area Redevelopment Act of 1961, the Trade Expansion Act of 1962, and, more recently, in the Economic Opportunity Act of 1964.

What lessons, if any, can be learned from European experience with government retraining programs that may be of value in the development of our own retraining policies? This paper is based on a study designed to answer this question and conducted over the course of the last two years. My research included field work in Belgium, France, West Germany, Italy, The Netherlands, Sweden, and the United Kingdom.¹

The term "retraining" will be used as a convenient catchall for programs which may actually include: (a) vocational training for unskilled adults, (b) retraining for persons with an obsolescent skill, and (c) refresher or further training courses for those whose skills have become rusty or require adaptation to technological change. My study has not been concerned with traditional vocational training programs for young people, nor with employer-sponsored on-the-job training, except insofar as such training has been subsidized by public agencies as part of a policy of combatting unemployment.

POSTWAR DEVELOPMENT OF EUROPEAN RETRAINING

European retraining programs for the unemployed have gone through a process of evolution during the postwar period. They were originally designed (1) to increase the employability of the un-

¹The study was conducted under contract with the Office of Manpower, Automation, and Training, U. S. Department of Labor, but it is also part of a large-scale research program on unemployment being conducted at the Institute of Industrial Relations, University of California, Berkeley, under a grant from the Ford Foundation. The full report on this study, entitled *Retraining and Labor Market Adjustment in Western Europe*, will be published by OMAT early in 1965.

employed, (2) to facilitate the return of war veterans to civilian employment, and (3) to relieve expected shortages of skilled labor in the postwar reconstruction period.

Everywhere it was anticipated that there would be unemployment problems from time to time, at least in recession periods, and toward the end of the War or early in the postwar period many European countries adopted full employment policies. However, as American economists are now well aware, unemployment has ceased to be much of a problem in most of Western Europe since about 1955, and some countries, such as France and Sweden, have largely escaped an unemployment problem throughout the postwar period. Whether this happy state of affairs will continue is, of course, debatable and, fortunately, beyond the scope of this paper.

In the tight labor markets which have generally prevailed in Western Europe in the last ten years or so, the need for retraining programs to increase the employability of the unemployed has markedly diminished. Nevertheless, government retraining programs have remained in effect and in some countries have been expanded.

The emphasis on rapid growth in Western Europe has had much to do with the desire to expand retraining and other labor market adjustment policies. Particularly where the labor force is increasing slowly or not at all, rapid growth tends to be dependent to a considerable extent on achieving a high rate of increase in productivity. The Swedes have been particularly effective in articulating the superiority of emphasis on labor market adjustment policies rather than reliance on the "expansion-hampering and inflationary method of changing wage differentials," in order to induce the necessary occupational and geographic shifts to encourage the most effective use of the labor force.² Moreover, under the influence of the reduction of trade barriers occurring in the Common Market and the Outer Seven, keeping pace in the growth and productivity race has come to be regarded as essential for economic survival.

Clearly, however, there is a basic dilemma involved in an attempt to expand retraining in a tight labor market, stemming from the drying up of the supply of retrainable unemployed persons. But appropriate measures can be developed to induce employed persons to enter retraining programs, and trainees may also be drawn from the ranks of the under-employed, married women, young men emerg-

² Gösta Rehn and Erik Lundberg, "Employment and Welfare: Some Swedish Issues," *Industrial Relations*, Vol. II (February 1963), p. 6.

ing from military training, the disabled, and seasonal workers. Much of the training for the building trades, in fact, is conducted in the winter when construction activity is slack.

The policy changes which have been adopted to meet these changing conditions have included liberalization of eligibility requirements, greater variety in course offerings and in the duration of courses, increases in training allowances, and greater emphasis on policies designed to encourage retraining for workers *threatened* with labor displacement. Some of the changes, moreover, have been deliberately designed to encourage training for such occupations as technician, engineering aide, and draftsman, in which acute shortages have developed under the impact of technological change.

Thus there are significant differences between European and American retraining policies, which are associated with the contrasting labor market settings in which the programs are being conducted. This has complicated my search for lessons to be drawn from European experience. Nevertheless, I believe that we have much to learn from European experience with retraining, and it is to my findings in this regard that I now turn.

A PERMANENT RETRAINING PROGRAM

The most important lesson to be drawn from an examination of the postwar development of retraining programs in Western Europe is that government retraining programs have come to be viewed as a permanent instrument of manpower policy, as valuable in a period of full employment as in a period of unemployment. I believe we should move toward official acceptance of this view of retraining in the United States and that we should not wait until the Manpower Development and Training Act is about to expire (in mid-1966) before reaching this decision. There is increasing agreement among labor market experts that we shall have a difficult residual problem of structural unemployment even if we succeed in reducing the overall unemployment rate to four per cent or below. Moreover, retraining should properly be looked upon as a method of encouraging adaptation to structural changes in employment, *whether or not* those changes are accompanied by any appreciable unemployment problem. And it should hardly be necessary to add that we can expect a continuation of structural changes in employment for many decades to come.

In addition, it should be abundantly clear that the job of eliminat-

ing the problem of an abysmally low level of education from sectors of our adult labor force is not going to be accomplished in a few short years or even, perhaps, in a whole generation. Many of the children who are growing up in urban slum areas or in backward rural areas today will contribute their share to a problem of inadequate preparation for the labor market a decade or two hence. And labor displacement is hardly likely to disappear. Indeed, it could well become more serious, particularly if automation in the office begins to result in a more difficult problem of displacement of white-collar workers, along with continuation of the more familiar problem of displacement of blue-collar workers.

The development of a large retraining program requires expansion of the number of vocational training instructors and, particularly in the case of special programs for disadvantaged groups, the training of counsellors and other types of personnel equipped to deal with such groups. In many situations, it requires the acquisition of specialized equipment and the rental, purchase, or construction of buildings to house training classes. In the light of these needs it is scarcely surprising that our MDTA program was slow to get under way in the first year or two. Examination of the European experience certainly seems to suggest that we would have been far better off if we had developed this type of program earlier in the postwar period. Moreover, once we have an adequate staff and facilities for a large-scale retraining program, it would seem a great mistake to discontinue their use.

THE ROLE OF RETRAINING IN INDUSTRY

Some may argue that, in periods of relatively full employment, employers can be relied on to provide all the training and retraining required, and thus there is no need for a permanent government program. Very briefly, I believe there are three main reasons why employer-sponsored training will not suffice.

In the first place, it is primarily the large firms that provide training, and, at least until very recently, there has been very little employer-sponsored retraining.

Secondly, we are not likely to do away altogether with recessions in the future, and it has been apparent in the last few recessions that a good many workers who are laid off during the downswing, especially from firms experiencing rapid increases in productivity, are not rehired in the recovery period. To the extent that such cases can be

identified reasonably promptly, government retraining can be made available for the individuals concerned during the recession or the early part of the upswing, when opportunities for other jobs are limited. Then, when the recovery is well under way, these retrained workers are likely to stand a good chance of being placed in the type of work for which they have been trained.

Thirdly, the workers who will be hired and trained by employers are those who can meet employer selection standards. Not only is discrimination on the basis of age, race, and sex unlikely to disappear altogether, but there are many unemployed persons who are not hired because of poor performance on aptitude tests, poor grooming, or other individual problems. Those who are subject to discrimination may in some cases be placed more readily if they have received appropriate training, and at least some types of government retraining courses can be designed to provide practice in taking aptitude tests, suggestions on applying for jobs, and the like.

Undoubtedly we should continue to provide for a certain amount of subsidized on-the-job training under MDTA and other programs, particularly where highly specialized equipment is needed. But European experience does not suggest that this approach will remove the need for public institutional retraining. Various types of provisions for subsidized employer-sponsored retraining are found in all the countries included in my study, but there is a good deal of evidence that many employers are reluctant to participate in this type of program. The subsidies may not be large enough to overcome employer resistance to getting involved in government "red tape," and firms often prefer to recruit workers through a variety of channels rather than commit themselves to hiring unemployed workers through the public employment service for the sake of receiving a training or retraining subsidy. When the subsidy is designed to encourage firms to provide retraining for their own employees who are threatened with permanent layoff, employers frequently prefer to remain free to dismiss groups of workers as they choose rather than become involved in a program under which the government may be in a position to influence their manpower decisions. The Swedish Employers' Confederation has successfully resisted extension of eligibility for retraining allowances to employed workers and the payment of subsidies for retraining in situations of threatened redundancy (except in areas with special unemployment problems) because of fears that such policies would lead to

increasing interference by the National Labor Market Board with their manpower decisions.³

Nevertheless, one of the most interesting trends in manpower policy in Western Europe is increasing concern with devising policies to deal with redundancy. The Swedish "early warning" system, under which employers' organizations have voluntarily entered into agreements with the National Labor Market Board to give advance notice of impending layoffs has been much publicized in this country. The program of adjustment assistance in the European Coal and Steel Community has also received a good deal of attention. But some of the national programs aimed at providing subsidized retraining, relocation, adjustment assistance, early retirement benefits, and other types of aid in situations of labor displacement are less well known. Probably the most interesting legislation of this type is the French law of December 18, 1963, establishing the National Employment Fund. Its interest lies particularly in its attempt to provide for collaboration among government agencies, employers, unions, and the private collectively bargained unemployment insurance system in meeting such situations in local communities.⁴

These policies deserve careful study and consideration in the United States, although European experience in this area tends to be more recent and less adequately reported than the experience with government retraining programs.

THE RELATIVE ROLE OF RETRAINING

There is much debate going on in the United States over the relative role of retraining versus other methods of combatting unemployment—a debate which is, of course, associated with the controversy over whether our unemployment problem is attributable primarily to structural changes or to a deficiency of aggregate demand.⁵ In Western Europe retraining has played a significant, but distinctly minor, role in combatting unemployment. As comparative studies like those

³ Gunnar Lindström, *Report on the Swedish Labour-market Policy*, The OECD Employers' Seminar, April 14-17, 1964 (Stockholm: The Swedish Employers' Confederation, mimeographed, 1964). Similar views were also expressed by representatives of the Employers' Confederation whom I interviewed in Stockholm in September 1963.

⁴ "Le Fonds national de l'emploi," *Revue française du Travail*, Vol. 17 (October-December 1963), pp. 3-13.

⁵ For further discussion of this debate see Margaret S. Gordon, "U. S. Manpower and Employment Policy—A Review Essay," *Monthly Labor Review*, Vol. 87 (November 1964), pp. 1314-1321.

of Maddison and Lamfalussy show, national economic policies aimed at maintaining a high and expanding level of aggregate demand, along with the mutually stimulating effects of expanding markets for exports, have been mainly responsible for European success in maintaining full employment and achieving rapid growth.⁶ Even in those situations involving a prolonged problem of heavy unemployment—in Belgium, Italy, and West Germany, particularly in the early 1950's—underlying economic factors and policy measures aimed at stimulating demand largely accounted for the decline in the unemployment rate, although manpower policies played a role. And, among manpower policies, such measures as the resettlement of the expelled and refugees in West Germany, public works in Belgium, and a combination of public works and assisted emigration in Italy tended to play a more important role than retraining.

Moreover, the number of workers involved in European government retraining programs has generally been quite small, although efforts are currently being made in a number of countries to expand the scope of these programs.⁷ The country which has had the greatest success in bringing about a sharp increase in enrollment in recent years is Sweden, where the present policy of the government aims at retraining 35,000 workers, or about one per cent of the labor force, every year. The latest available statistics indicate that this goal is being approached although it has not yet been reached. In the United States, one per cent of the labor force would amount to some 700,000 to 750,000 workers, or a vastly greater number than the 103,000 trainees who were admitted to MDTA training in 1963.⁸

EFFICIENCY VERSUS BROADER SOCIAL OBJECTIVES

Comparison of retraining policies in Western Europe reveals marked contrasts between those countries in which efficiency appears to be the predominant objective—France and The Netherlands—and those countries which have placed at least *some* emphasis on broader social objectives—West Germany and Sweden. (Belgium, Italy, and the United Kingdom are not quite so clearly classifiable.)

In the countries which appear to emphasize efficiency, policies are

⁶ Angus Maddison, *Economic Growth in the West* (New York: Twentieth Century Fund, 1964); and A. Lamfalussy, *The United Kingdom and the Six* (Homewood, Ill.: Richard D. Irwin, 1963).

⁷ For statistical data on enrollment, see my *Retraining and Labor Market Adjustment in Western Europe*, Tables 3.1 and 3.2.

⁸ *Manpower Report of the President*, Transmitted to the Congress March 1964 (Washington, D. C.: U. S. Government Printing Office, 1964), p. 252.

geared to selecting young and highly qualified male trainees, training largely for occupations in which labor shortages are most acute, achieving a high rate of placement, and thereby, presumably, making a maximum contribution to increasing productivity. In West Germany and Sweden, on the other hand, at least some degree of emphasis is placed on providing retraining opportunities for women, as well as older persons and other relatively disadvantaged groups.

The choice between these two types of policies clearly involves the problem of the relative values attached to conflicting social and economic goals. Some of the differences in policy, moreover, appear to be associated with variations in the pattern of differentials in unemployment rates by age and sex, as well as differences in the availability of various types of income maintenance programs for displaced older persons.

In the MDTA program, the emphasis was largely on efficiency in the sense defined above in the first year or so of the program. More recently, however, there has been a gradual shift toward at least some degree of emphasis on developing training programs especially designed to meet the needs of the more disadvantaged among the unemployed—a shift which was encouraged by the 1963 MDTA amendments.

Both in this country and abroad, there has been a tendency to measure the efficiency of retraining programs in terms of the rate of placement of trainees immediately or within a very short time after the completion of training. European countries whose programs emphasize efficiency achieve placement rates of the order of 90 to 100 per cent, whereas the overall placement rate in Sweden is about 80 per cent, and in West Germany about 80-90 per cent, with lower rates prevailing for some of the more disadvantaged groups. In the United States, with its higher unemployment rate, 70 per cent of those who completed training during 1963 were employed by the end of the year—88 per cent of them in training-related jobs.⁹

There are, however, alternative methods of measuring efficiency, some of which are beginning to be applied by American economists in studies using various techniques of cost-benefit analysis.¹⁰ The rela-

⁹ *Manpower Research and Training Under the Manpower Development and Training Act*, Report of the Secretary of Labor Transmitted to the Congress March 1964 (Washington, D. C.: U. S. Government Printing Office, 1964), p. 33.

¹⁰ A group of studies, some of which use such techniques, is being carried out under the general direction of Professor Gerald G. Somers of the University of Wisconsin.

tive gains in earnings of those completing training over a period of months or years, for example, as compared with the earnings experience of control groups of unemployed workers who did not participate in training programs, can be measured for trainees of varying age, sex, and other characteristics, completing different types of programs. Such data should eventually be extremely helpful as a guide to decisions with respect to the relative emphasis to be placed on training for the most highly qualified versus the more disadvantaged among the unemployed, although they should not be the only factor in such decisions.

In the meantime, acceptance of retraining as a permanent instrument of manpower policy should enable us to distinguish more clearly between short-run and long-run objectives of retraining programs.

OTHER ASPECTS OF RETRAINING

There are a number of other aspects of retraining programs which are considered at some length in the full report on my study but which will have to be discussed extremely briefly here.

When I undertook this project, I hoped to develop useful suggestions from European experience on the occupations for which workers should be retrained. I soon concluded that the contrast in labor market settings was so great that data relating to the occupations for which workers were being retrained in Europe could, in general, provide very little guidance in relation to American programs. It is clear, however, that where emphasis is placed on granting a good deal of responsibility to local employment offices in the initial formulation of training proposals, as in West Germany and Sweden, a much greater variety of course offerings appears to result than in countries where the planning of retraining programs is more centralized. In this respect, our procedures seem generally sound, but the long delays involved in review procedures in the MDTA program are a decided disadvantage. In West Germany, a *Landesarbeitsamt* (state labor office) has authority for final approval of retraining proposals except where the program will cut across several *Länder* or where unusual costs are involved, while in Sweden the county labor boards must seek approval of the National Labor Market Board *only* in the case of new courses, but not for continuation of courses that are already being given. As experience with our MDTA program develops, I believe we should seriously consider granting greater autonomy to state agencies, particularly if Congress carries out its intention of requiring matching state funds

after the middle of 1965. Moreover, our present practices may over-emphasize identification of labor shortages in local communities and under-emphasize regional and national occupational trends.

There are many other issues relating to the geographical aspects of retraining programs on which European experience sheds interesting light. The whole question of the relationship between retraining, relocation, and regional economic policies deserves careful consideration. Suffice it to say here that there has been a decided trend toward increasing emphasis on policies aimed at moving the job to the worker rather than moving the worker to the job in Western European countries during the course of the postwar period. Relocation allowances are available in most countries, but governments have come increasingly to recognize, among other things, that out-migration from depressed or underdeveloped regions tends to be selective and that those who remain in such areas are frequently not the individuals best equipped to combat a cumulative process of economic deterioration or a condition of stagnation. Regional economic policies have come to place increasing emphasis on regional *planning* and, in some cases, on the selection of growth zones *within* depressed or underdeveloped regions, for programs of intensified development measures. Such an approach would appear to increase the likelihood that unemployed or underemployed workers living in such regions, and reluctant to leave them, might be provided with retraining and re-employment opportunities within the region.

In this connection, it is particularly interesting to note that Sweden, which has placed more emphasis on liberal relocation allowances than any other country in recent years, and has resisted adoption of a vigorous program of regional economic development, has recently taken steps toward inauguration of a large-scale program of development in the North.¹¹ A 1962 follow-up survey of persons who had received relocation allowances, which showed, among other things, that 40 per cent of those who had been granted such assistance in October 1959 had moved back to their home counties by the end of 1961,¹² may have played a role in the government's decision.

Finally, the training allowances available under our MDTA and ARA programs are seriously inadequate by European standards, if the relationship between allowances and prevailing wage rates is used as

¹¹ *New York Times*, September 13, 1964.

¹² Data supplied by the Swedish National Labor Market Board.

the basis of comparison. Since our training allowances are geared to unemployment insurance benefits, which average only about 35 per cent of earnings for the country as a whole, adoption of more adequate unemployment benefit standards would result in a corresponding increase in training allowances.

CONCLUSIONS

The main thesis of this paper has been concerned with the need for adoption of a permanent government retraining program in the United States. Such a step would be consistent with the growing realization that we should move toward a permanent and continuous program of manpower policies. Nevertheless, as I have argued elsewhere, we must be careful not to put too many of our eggs into the basket of retraining, lest we fail to provide enough jobs for those who have been retrained.¹³ At a time when cutbacks are taking place in defense spending, the case for increased government spending on job creation and anti-poverty programs is exceedingly strong.

¹³ Gordon, "U. S. Manpower and Employment Policy—A Review Essay."

AREA REDEVELOPMENT PROGRAMS AT HOME AND ABROAD

WILLIAM H. MIERNYK
University of Colorado

I

The United States is a relative newcomer in regional development and area redevelopment. There were well established programs in Great Britain and most of the countries of western Europe when the Area Redevelopment Act was signed by President Kennedy on May 1, 1961. This lag reflects the different attitudes toward "full employment" found in western Europe and the United States, and the basic conservatism of our policy makers.¹ In general, social legislation in this country has lagged about a generation behind that of the advanced nations of western Europe. Our slowness in adopting an area redevelopment program was also due in part to attitudes which were widely held, until recently, about the efficacy of the market mechanism for solving problems of structural imbalance. Most conservatives have argued—and many continue to argue—that if we could eliminate imperfections in the market (by which they usually mean the effects of trade unions and minimum wage legislation), pockets of unemployment would be eliminated. And until recently it was a popular liberal view that persistent, localized unemployment would be greatly reduced, or perhaps eliminated, if we were able to maintain an adequate level of aggregate demand. There is evidence that attitudes have been changing on the liberal side. It is now rather generally recognized that something must be done in addition to maintaining an adequate level of aggregate demand if unemployment in this country is to be reduced to a tolerable level.

The British and western Europeans have long recognized that aggregative measures alone will not minimize unemployment because of the immobility of workers in some localities. On this I would like to quote briefly from an article in the London *Economist*: "One of the chief difficulties in the way of rectifying many of our social mischiefs

¹ For an interesting commentary on the differences in attitudes on the two sides of the Atlantic see R. A. Gordon, "Some Comments on Employment Policy in Europe and the United States," *Lessons From Foreign Labor Market Policies*, Vol. 4 of Selected Readings in Employment and Manpower, Subcommittee on Employment and Manpower, Committee on Labor and Public Welfare, United States Senate (Washington: U. S. Government Printing Office, 1964), pp. 1585-1588.

and anomalies rises from the want of pliability and flexibility . . . many years ago there was great distress in Buckinghamshire owing to the superabundance of labour. At the same time there was considerable embarrassment in Lancashire owing to the deficiency of labour. Work-people were a positive burden to the one county, and a positive want in the other . . . something of the same incapacity and inertia is operating now to prevent that equalisation of wages and population in several districts which would be a common gain to all. In spite of national schools, in spite of cheap newspapers, in spite of penetrating railways, in spite of spreading habits of locomotion . . . labourers do not flow from one place to the other as they should . . .” This quotation is from an article in the London *Economist* of April 19, 1862.²

Great Britain and most western European countries have pursued expansionary fiscal policies since the end of World War II, and this is the major reason that they have maintained remarkably low unemployment rates.³ They have also recognized, however, that where there is localized unemployment it is necessary in some cases to “take work to the workers” to reduce the residual unemployment which is not affected by aggregative measures. Thus regional development and area redevelopment programs have made an important contribution to effective full employment in Great Britain and the nations of western Europe.⁴

“In general, regional policy plays a larger role in rich countries like the United Kingdom, the Netherlands and the Scandinavian countries than in the Mediterranean countries, except for Italy and Yugoslavia in recent years. Yet the regional differences are larger in the latter countries than in the former. The extent of Government activity clearly depends not only on the degree of poverty and the numbers affected, but also on the means available to overcome the difficulties.”⁵

² Reprinted in *The Economist* (April 21, 1962), p. 230.

³ For an international comparison of unemployment rates see the President's Committee to Appraise Employment and Unemployment Statistics, *Measuring Employment and Unemployment* (Washington: U. S. Government Printing Office, 1962), pp. 233-270.

⁴ The details of area and regional programs in selected countries are presented in two excellent forthcoming books. These are: Frederic Meyers (ed.), *Area Redevelopment Policies in Britain and the Countries of the Common Market*, a report prepared for the Area Redevelopment Administration; and L. H. Klaassen, *Guidelines for Programmes for Area Economic and Social Redevelopment*, a report prepared for the O.E.C.D.

⁵ *Economic Survey of Europe in 1954* (Geneva: United Nations, 1955), p. 160.

II

In the introductory section a distinction has been made between regional development and area redevelopment programs. It is important to distinguish between these two, because they deal with different types of unemployment problems. "In some cases the high level of unemployment is due to the fact that the old-established industries in a particular region are in structural decline and new ones have not been started . . . In these regions the unemployed are often skilled workers, but in kinds of work for which the demand is low. The other type of region where there is unemployment is that in which the process of industrialization has been lagging . . . and where, with stagnating or declining manpower requirements in agriculture and other primary industries, employment opportunities cannot be found for a population whose natural rate of growth is often higher than the national average."⁶

Unemployment in redevelopment areas is highly concentrated in mining communities and industrial cities. Unemployment in development regions is much more diffused geographically. Indeed, *underemployment* is often as much of a problem as unemployment in the underdeveloped regions of generally prosperous countries.

There is another important difference between depressed industrial areas and underdeveloped regions. There is often a substantial investment of social capital in the former while this is much less true of the latter. There is nothing sacred about any particular piece of real estate, whether it be large or small. But it often makes good economic sense to "bring work to the workers" if the latter are already living in cities which have schools, hospitals, sewer systems, and the other amenities of modern living, while it makes equally good sense to encourage outmigration from a region where the basic problem is one of redundancy of agricultural workers or of workers engaged in other primary occupations.

The distinction between regional development and area redevelopment is more than academic. Typically, the same criteria cannot be used to determine the need for aid to the two types of areas. The causes of unemployment (or underemployment) are not the same, and different tools might be required to minimize residual unemployment in the two cases. It is possible to overwork this distinction, but the issue can be sharpened by arguing that the problems of redevelopment are

⁶ *Economic Survey of Europe in 1955* (Geneva: United Nations, 1956), p. 149.

more nearly alike from country to country than are the problems of regional development and area redevelopment within a country.

Most of the relevant programs in western Europe are more concerned with regional development than with area redevelopment.⁷ The British program is the classic example of area *redevelopment*. On the continent, the programs of France, the Federal Republic of Germany, Italy, the Scandinavian countries, and the Netherlands, are all strongly oriented toward regional development. Like the continental programs, that of northern Ireland is also primarily concerned with development.

An effort to classify the British and European programs into the two types mentioned above is not without its hazards. It is worthwhile, however, since these programs are to be compared with the area redevelopment program of the United States, and this distinction will then be of significance. Although most of the continental programs are concerned with regional development, some are also concerned with the redevelopment of textile and mining areas which have experienced declining employment since the end of World War II. This is the case in countries with large industrial centers such as Belgium, western Germany and Sweden. In Sweden, assistance to depressed industrial areas is limited to those "with a single or dominant type of industry subject to fluctuations in business activity."⁸ The Federal Republic of Germany provides aid to a number of types of areas, including industrial areas, but the problem in this country is clearly *sui generis*.⁹ At first there were problems of localized un-

⁷ Much of what follows is based upon: Ellen M. Bussey, "Aid to Labor Surplus Areas in Great Britain, Belgium, the Federal Republic of Germany, and Sweden," *Foreign Labor Information*: U. S. Department of Labor, Bureau of Labor Statistics (May 1960); Bussey, "Assistance to Labor Surplus Areas in Europe," *Monthly Labor Review* (U. S. Department of Labor, Bureau of Labor Statistics, June 1960), pp. 569-576; *Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe*, Materials prepared for the Joint Economic Committee, Congress of the United States, 86th Congress, 2nd Session (Washington: U. S. Government Printing Office, 1960); *Readings in Unemployment*, prepared for the Special Committee on Unemployment Problems, United States Senate, 86th Congress, 2d Session (Washington: U. S. Government Printing Office, 1960), pp. 1652-1699; *Lessons From Foreign Labor Market Policies*, Vol. 4 of Selected Readings in Unemployment and Manpower, Subcommittee on Employment and Manpower of the Committee on Labor and Public Welfare, United States Senate, 88th Congress, 2d Session (Washington: U. S. Government Printing Office, 1964).

⁸ *Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe*, *op. cit.*, table opposite page 13.

⁹ "There is no law in the Federal Republic of Germany which prescribes programs for assistance to labor surplus areas. The assistance program requires the annual approval of Parliament . . . at the time that the budget for it is appropriated." Ellen M. Bussey, "Assistance to Labor Surplus Areas in Europe," *op. cit.*, p. 574.

employment as the result of wartime damage. But even after general recovery was under way, some areas experienced high rates of unemployment because of the disruption to market areas caused by the split between East and West Germany. In Denmark virtually all of the country except Copenhagen is eligible for regional assistance, and unemployment is not the major criterion upon which eligibility for aid is based. In France and northern Ireland the regional programs are designed to assist underdeveloped rural areas. All of Italy south of Rome, including the offshore islands, is under the jurisdiction of the Cassa per il Mezzogiorno which is "a special authority created in 1950 to finance and execute extraordinary public works for the development of southern Italy."¹⁰ The criteria in Norway, Sweden and the Netherlands also deal in the main with underdeveloped rural areas.¹¹ Even Luxemburg—a country of about 1,000 square miles—consists of two regions, one of which is underdeveloped.¹²

Reference to the criteria used to determine eligibility for government assistance supports the distinction that has been made in this paper between area redevelopment and regional development programs. The British program, and to a lesser extent the programs of Belgium, Sweden and western Germany, resemble parts of the area redevelopment program of the United States. The others mentioned in this paper bear a much closer resemblance to some aspects of the Economic Opportunity Act of 1964, and the proposed regional program for Appalachia.

III

The major development and redevelopment tools employed by Great Britain and the countries of western Europe are: loans, grants, tax incentives, site improvement, the construction of buildings, and in a few cases negative controls (through licensing) on the location

¹⁰ *Economic Survey of Europe in 1954, op. cit.*, p. 162.

¹¹ *Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe, op. cit.*, table opposite page 13; "Unemployment in Depressed Areas," *International Labour Review* (July 1956), reprinted in *Readings in Unemployment, op. cit.*, pp. 1664-1668, and D. P. I. O. Stornebring, "Development Areas in The Netherlands," *idem*, pp. 168-1674. The underdeveloped regions of the Scandinavian countries are shown on a map which appears on the last page of *Report on Western Europe*, The Chase Manhattan Bank (No. 25, August-September, 1963).

¹² For a discussion of regional policy in Luxemburg see the chapter by L. H. Klaassen on "Regional Policy in the Benelux Countries," in the forthcoming volume *Area Redevelopment Policies in Britain and the Countries of the Common Market* edited by Frederic Meyers.

of new industrial buildings. Because of wide variations from country to country in the specific uses of these tools it is difficult to summarize them.¹³ The general approach to regional problems in each of the countries discussed in this paper is indicated by Table 1, however. This table also shows the criteria used to determine eligibility for aid, and the general orientation of the regional programs. Some of the major provisions of the Area Redevelopment Act in this country are included for comparative purposes.

It is interesting to note that despite the postwar trend toward democratic socialism in Britain and many of the nations of western Europe, there has been no effort to shift nationalized industries into development or redevelopment areas in most countries. Industrial buildings are erected by the government in Great Britain and northern Ireland, but these are often subsequently leased or sold to private tenants. An outstanding example of direct government participation in regional development, although a rare one, is the steel mill constructed by the government at Luleå in northern Sweden. This mill was set up to promote industrial development in an export-dependent region.¹⁴ In general, the British and western European approaches to regional development and area redevelopment have been to provide subsidies, tax inducements, and favorable financial terms to private firms willing to locate facilities in the development areas. In this respect they are similar to the more recent area redevelopment efforts of the United States.

IV

Space considerations preclude detailed discussion of the area redevelopment program in the United States.¹⁵ A few specifics will have to be mentioned, however, if the ARA is to be compared with area and regional programs in the United Kingdom and western Europe. Those portions of the Area Redevelopment Act which deal with aid to the larger depressed industrial and mining areas are similar to many provisions of the British Local Employment Act of

¹³ An excellent summary for Great Britain and seven of the European countries is given in the Joint Economic Committee's *Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe*, *op. cit.*, table opposite page 13.

¹⁴ *Economic Survey of Europe in 1954*, *op. cit.*, p. 163.

¹⁵ For a complete discussion see Sar A. Levitan, *Federal Aid to Depressed Areas* (Baltimore: The Johns Hopkins Press, 1964). A compact description and evaluation is given by Robert J. Wrigley, Jr. in "Area Redevelopment Programs for Economic Growth," *Journal of the American Institute of Planners* (XXX, November 1964), pp. 287-295.

TABLE 1
REGIONAL DEVELOPMENT AND AREA REDEVELOPMENT
PROGRAMS IN SELECTED COUNTRIES

	United States	Belgium	Denmark	Finland	France	Germany (FR)	Great Britain	Italy	Netherlands	Northern Ireland	Norway	Sweden
<i>Type of Program:</i>												
Regional development	x	x	x	x	x	x		x	x	x	x	x
Area redevelopment	x	x				x	x					x
<i>Criteria for Eligibility:</i>												
Unemployment	x ^a	x				x	x					
Low income	x ^a					x						
Development lag ^b		x	x	x	x	x		x	x	x	x	x
<i>Building Construction:</i>												
Licensing of private buildings							x		x		x	
Government constructed plants							x			x		x
<i>Financial Development Tools:</i>												
Loan guarantees		x		na ^c								x
Direct government loans	x		x	na	x	x	x	x	x		x	x
Grants for private construction		x		na	x		x	x		x	na	
Grants for public facilities	x		x	na		x	x	x	x	x	na	
Tax incentives ^d		x	o	na	x	x		x	o	o	x	

Sources of data: *Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe* (Joint Economic Committee, 1960); *Readings in Unemployment* (Special Committee on Unemployment Problems, 1960); *Foreign Labor Information* (U. S. Department of Labor, Bureau of Labor Statistics, May 1960); *Economic Survey of Europe in 1954* (United Nations, 1955).

Notes: ^aLimited to designated areas which have submitted an acceptable Overall Economic Development Plan.

^bIncludes underemployment, lag in industrial development, declining population, and excessive dependence on a single or dominant type of activity.

^cna indicates information not available.

^dx = central government, and o = local government tax incentives.

1960 as amended. There is one major difference, however, and this should be emphasized. The administrators of ARA have no authority to control the location of industry through licensing procedures as does the British Board of Trade which administers the redevelopment program in the United Kingdom. Furthermore, ARA is not limited to the redevelopment of large depressed mining and industrial areas. It must also be concerned with very small labor market areas—that is, those with fewer than 15,000 in the work force—which have experienced substantial and persistent unemployment. If the Area Redevelopment Act had stopped with the designation of these two types of areas its eligibility provisions would be similar to those of the British Local Employment Act. In addition, however, the ARA is responsible for development activities in low income rural areas and Indian reservations. Thus ARA is expected to be a combination of the British Board of Trade, but without the administrative authority of the latter, and the Italian Cassa per il Mezzogiorno.

Because of the liberal criteria of the ARA, there were 1,053 areas eligible for assistance as of June 30, 1964, and this represented a decline of 51 from the total of 1,104 areas which had been designated up to that time. While there are variations in the boundaries of designated areas, the rural areas in particular tend to follow county lines, and since these are designated on the basis of low income rather than unemployment, substantial parts of the rural South, the rural Southwest, and all of Appalachia are eligible for designation under ARA.¹⁶ To accomplish the job of redeveloping the nation's depressed industrial and mining areas, and at the same time to stimulate economic growth in almost a third of the nation's rural areas, ARA was given a total budget authorization of \$375 million, and not all of this amount was actually appropriated.¹⁷ By the end of September 1964, the original \$100 million authorization for industrial and commercial loans to rural areas had been exhausted.¹⁸ And since Congress had failed to act on legislation authorizing new appropriations, an important part of ARA's activities have been halted at least temporarily.

In an earlier section it was noted that area and regional programs

¹⁶See Levitan, *Federal Aid to Depressed Areas, op. cit.*, map opposite page 78.

¹⁷An annual appropriation of \$4.5 million was also authorized for research and technical assistance.

¹⁸*Redevelopment* (U. S. Department of Commerce, Area Redevelopment Administration, October 1964), p. 1.

have contributed to low unemployment rates in Britain and a number of western European countries. What impact has ARA had on unemployment in the United States? Again, space considerations preclude a detailed discussion, but some summary statements can be made based upon a recent ARA staff report.¹⁹ As of June 30, 1964, ARA had invested \$273 million in 1,604 projects, and this was expected to lead to an estimated 70,000 new jobs. This by itself tells us little. It is significant, however, that while the national unemployment rate dropped from 6.8 percent in 1958 to 5.7 percent in 1963, in 61 of the 114 areas designated by ARA as of June 1961, the average unemployment rate dropped from 13.2 to 7.5 percent.²⁰ While not all of this decline can be attributed to ARA activities, it seems evident that ARA has had a measurable impact on unemployment in some of the nation's most severely depressed areas.

It is also evident that ARA by itself cannot be a major factor in reducing the level of unemployment in the nation. This was not the intent of the framers of area development legislation. Like its European counterparts, ARA was intended as a device for reducing *residual* unemployment, and it has made a start in this direction. There was some evidence of disenchantment with ARA in the last session of Congress, however, and this was due in part to exaggerated expectations about what ARA could accomplish. If ARA had been able to concentrate on the nation's larger and most-severely depressed industrial and mining areas its record of accomplishment to date might be far more impressive. But we do have a problem of unemployment and underemployment in smaller industrial areas and in many of the nation's rural counties. The major difficulty is that ARA cannot be all things to all men.

The situation is changing, however, and in a way which should increase the effectiveness of ARA. The Office of Economic Opportunity, with its larger budget, should supplement ARA's activities in rural areas. And a special program for Appalachia is high on the proposed legislative calendar for the next session of Congress. The chances for a continued and strengthened program under ARA were also im-

¹⁹ *The First Three Years of the Area Redevelopment Program*, A Staff Report Prepared for the National Public Advisory Committee on Area Redevelopment (Washington: U. S. Department of Commerce, Area Redevelopment Administration, September 1, 1964).

²⁰ *Ibid.*, p. 39. Comparable data were not available for 45 of the areas, and the remaining eight had been terminated because they no longer met the criteria for eligibility.

proved by the events of last November 3rd. While one can only speculate about what might happen in terms of forthcoming legislation, it appears that we are moving toward a more comprehensive program of government assistance to depressed areas and underdeveloped regions. The European experience suggests that such a program can do much to minimize persistent localized unemployment.

DISCUSSION

SAR A. LEVITAN

The W. E. Upjohn Institute for Employment Research

Professor Miernyk's credentials to speak on area redevelopment are impressive. Shortly after the present area redevelopment program was proposed, Miernyk prepared the first study on depressed areas in the United States. He has subsequently testified before congressional committees and helped mold the present legislation; and he has continued to help shape the program as a consultant to the Area Redevelopment Administration. His compact paper is a product of extensive research in depressed area problems in the United States and in Western Europe.

But the function of a discussant is not to praise. His job description requires that he offer critical observations. I agree with Miernyk's observation that an area redevelopment program is needed now and will be even more timely if and when we ever reach that increasingly illusive full employment economy. We differ, however, on the interpretation and appraisal of the current depressed area program and the direction which it should take in the future.

The suggestion that area redevelopment is a new concept in the United States and that we lag by several decades developments in other countries is true only in a formal sense. We have had regional economic development planning for decades, though we may not have called it by that name. It is true that most of our federal infrastructure projects were not the result of extensive planning by economists and may have been based more upon pork-barrel formulas rather than cost-benefit analysis.

We have had ample examples of regional development plans, though we usually give them another name. TVA is not the only example of such programs and one of these plans is right in Bill's back yard. His address is Boulder, Colorado.

There is nothing unique about our regional economic development programs. We frequently do the right things under disguised names. For example, federal support of education, inadequate as it is, is sold as part of the defense program or as aid to impacted areas. But the dollars that are allocated for support of education do the same job as if they were labeled exactly what they are, aid to education.

Turning to the present federal program to aid depressed areas, I believe Miernyk does not do full justice to the conservative position on this controversial program. It is true that when Senator Paul H.

Douglas proposed the area redevelopment program, Senator Barry Goldwater dismissed the idea as "a phobia afflicting certain politicians and pseudo-liberal leftwing theorizers, who would substitute for our free enterprise system the awful specter of the planned super state." But, as we found out last month, the Senator from Arizona did not speak for all conservatives. Some of them opposed the Douglas program, not because it implied the rejection of free market operations as far as depressed areas are concerned. These conservatives questioned the effectiveness of the tools proposed by the liberals. For example, some conservatives challenged the trenchancy of subsidized long-term loans as a potential effective tool to rehabilitate depressed areas and proposed instead rapid tax amortization for firms expanding or locating in depressed areas. I am not aware of any conclusive or even persuasive evidence that would indicate that the road chosen by the sponsors of the Area Redevelopment Act was superior to the one that was rejected.

Miernyk's distinction between a regional and a local approach to area redevelopment is useful, but I believe it needs sharpening. The regional approach had merit for Italy when nearly half the country, south of Rome, was a relatively underdeveloped area compared with the highly industrialized northern part of Italy. In this case, regional development of the infrastructure was essential before an industrial program for southern Italy could be undertaken. In more recent years, the Italian southern program has concentrated upon the development of industrial growth points in the south. Germany, as Miernyk states, designated areas eligible to receive assistance on a regional as well as community basis, but the tools provided under the German depressed area program were oriented toward local programs and were very similar to the ones provided under our own depressed area program. In the United States the situation is somewhere in the middle between the Italian and German conditions. The infrastructure of most depressed areas is adequately developed. These areas need incentives to attract jobs and the function of an appropriate and adequate depressed area program is to provide the necessary carrots. The outstanding exception to this generalization is, of course, Appalachia for which a special infrastructure program is now on the Administration's top priority list and is likely to be enacted within the next few months. Appalachia is not the only area for which a regional program would be in order and legislation is now being considered that might make provision to fill this need.

Miernyk's discussion of ARA accomplishments to date raises more questions than it answers. He asserts that ARA investment of \$273 million in depressed areas has led to an estimated 70,000 new jobs, or nearly a \$4,000 investment per job. Serious doubts have been raised about these statistics. As a rule of thumb, ARA maximum loans account for about 40 percent of the cost of a project. The data would therefore suggest that total investment per job in ARA-backed projects amounted to \$10,000. These figures are obviously way below average investment per job and cast doubt on the techniques used by ARA to report job generation statistics, which are based on projections of employment by ARA customers one year after the completion of the project. Even if we assume that prospective employment data by the applicants are correct—and this is a generous assumption—it is incorrect to state that the 70,000 jobs were actually created by mid-1964. A significant proportion of the projects for which ARA had approved loans had not actually been completed and no workers had been hired. Some projects have gone sour and the anticipated employment has not materialized. At best, it can be stated safely that not more than half of ARA job creations claimed by Miernyk were actually in effect by mid-1964.

Therefore, Miernyk's assertion "that ARA has had a measurable impact on employment in some of the nation's most severely depressed areas" is only wishful thinking. It is quite true that unemployment in ARA-designated areas has dropped significantly since 1961 but this fact is almost completely unrelated to ARA activities. It indicates that ARA has designated many areas where cyclical unemployment in 1961 was high and that this situation had improved with the general recovery during the following two years. At the end of 1963, officials of the Area Redevelopment Administration claimed that ARA had created about 25,000 to 30,000 jobs throughout the United States, and nobody has seriously accused ARA spokesmen for underestimating the accomplishments of the agency. While I do not have the exact statistics, only about one-third of the total jobs created by ARA projects were in the 114 areas discussed by Miernyk. Total unemployment in these areas has declined by 187,000 between 1961 and 1963. The most generous estimate could not attribute more than a twelfth of the total decline in unemployment to new hirings by ARA-backed projects.

The reason I dwell in some detail on these data is my concern with public policy implications that they suggest. The Area Re-

development Act is due to expire by the end of this fiscal year, unless Congress acts to renew the legislation. Miernyk's assertions about ARA accomplishments, if taken at face value, argue the revision of the present law. Why change a good thing? It is my belief that federal aid to depressed areas should be continued and that the present legislation should be improved and strengthened.

JOSEPH S. ZEISEL

I do not think the dual nature of the Manpower Development and Training Act came through as clearly in Dr. Gordon's paper as it might. MDTA is called a training *and* retraining program very deliberately, and here lies the crux of one of the major differences between the purpose of the American program and most European retraining programs. We have in common with the Nations of Western Europe several objectives in our training program: providing retraining to those workers whose skills have been rendered obsolete by industrial growth and at the same time easing shortages of skilled manpower where they may exist.

The major emphasis of training programs in the full employment economies of Western Europe has been very largely to ease skilled manpower shortages and to some extent offset the impact of technological change. With our economy at substantially less than full employment, our emphasis, as Dr. Gordon points out, has been much more that of making the unemployed worker more employable. But our problem in this area is not alone related to providing retraining to the structurally or even cyclically unemployed. A program of upgrading of skills through training and retraining for adults is essential in the United States because we have *not* had in common with many nations of Western Europe an adequate structure for providing the *initial* formal vocational training to the labor force.

We know very little about how American workers achieve their training; what we do know suggests that it comes largely through informal routes. Some support for this assumption is provided by a survey undertaken for OMAT by the BLS in 1963. More than two-thirds of the workers questioned indicated that they had no formal training for their current job, but rather that they had picked it up on the job, casually, from friends, etc. Even in the construction trades where formal apprenticeship is general, only about 4 out of 10 craftsmen said that they had taken a formal training program.

Our 5-percent unemployment rate is high, we have had 7 years of it; it is a serious challenge to both aggregative and manpower policies. But even more serious is what it implies in the burden of unemployment carried by certain groups. We face in the United States a continuing problem of serious unemployment differentials—between Negroes and whites, the young and the more mature, the educated and uneducated, the trained and untrained. The numbers are sufficiently well known. One other thing we know—that the unemployment differentials can to a significant extent be identified with and correlated with differentials in education and training. Obviously, all of the factors which cause the unemployment differentials cannot be wiped out by MDTA—and certainly not by the program at its current size. But we already have evidence that much can be accomplished by training.

The unemployment experience of those with the combined disabilities of little education and lack of training provides some evidence of the value of training. In the survey I referred to above, among men with less than an elementary school education, those with formal training had an unemployment rate almost half the rate of those who had no training (3.7 vs. 6.7 percent).

In this sense alone, a case can be made for a larger, more effective, and continuing training program to compensate for our original failure to provide the education and training needed by workers if they are to be reasonably successful in avoiding frequent and persistent unemployment during their work careers. If past experience is any guide, the return to 4-percent unemployment will not alone wipe out our unemployment problems. The overall unemployment rate was 4.2 percent in 1956, but nonwhite workers had an unemployment rate of 8 percent, unskilled laborers had an unemployment rate of 8 percent, and teenage workers an unemployment rate of 10 percent.

Admittedly, during its early period, the data from MDTA programs indicated insufficient concentration on these disadvantaged groups. But, amendments to the legislation were drafted and passed in December 1963 which provided expanded youth participation in training programs by lowering the age of those eligible for training from 19 to 17 and permitting up to 25 percent of all those receiving training allowances to be youths aged 17 through 21 (instead of the previous 5-percent limit). In addition, to help qualify the poorly educated for occupational training, the MDTA was amended to pro-

vide for basic educational training in such subjects as reading, writing, language skills and arithmetic.

This then, is a social and economic objective for MDTA that has little to do with any increase in structural unemployment or inadequate aggregate demand. It is to provide the basis for workers to compete on a more equal basis in the job market. We sincerely hope that more effective programs of education and vocational training that are now being developed will reduce the differential burden of unemployment in the future, but until they do, a program such as the MDTA will be an essential element of public social as well as economic policy.

I would like to comment on Dr. Gordon's reference to the need for "balance" between manpower programs and programs to stimulate job creation. This seems to me to imply a dichotomy between the two and to *overemphasize* the traditional programs for stimulating aggregate demand at the expense of manpower programs. I think some mention should be made of the value of a combination of these two objectives—that is, the job stimulating effects of manpower programs. We should recognize that MDTA and other manpower programs can have a significant effect in generating jobs in the economy—the income maintenance effect of training allowances, the impact of purchases of training equipment and facilities, etc. A minimum program of training of about 1 percent of the labor force annually, at current rates, would involve expenditure of about \$1 billion a year. I think as good a case can be made for \$1 billion invested in training as for \$1 billion, let us say for roads or bridges—in fact possibly a better case.

One additional comment. There has been some pressure recently for selective reduction of the minimum wage as a means for stimulating employment of low productivity groups. I would much rather see the same end accomplished through raising the marginal product of the worker by training and education, and maintain as high a social minimum as possible.

In summary, Dr. Gordon's paper is interesting, and remarkably comprehensive. I, with her, look forward to the availability of quantitative measures of efficiency and social benefit which are being developed here for the MDTA program. It is most unfortunate that Dr. Gordon was unable to find this kind of quantitative measure of the effectiveness and efficiency of European programs; until data from our own program become available, they would be a useful proxy.

Part VI

**INDUSTRIAL RELATIONS IN 1975--
COLLECTIVE BARGAINING**

IS THE AMERICAN COLLECTIVE BARGAINING SYSTEM OBSOLETE?*

NATHAN FEINSINGER
University of Wisconsin

At the outset, may I say that I am stumped by my inability to answer the following questions: (1) How can collective bargaining be deemed obsolete unless there is something better in existence, or on the horizon, to take its place? (2) How can it be obsolete when it has never been tested, or explored to its outer limits, or when it fails to solve problems which it was not designed to handle?

The statutory process of collective bargaining in America has been described as based on the "philosophy of bargaining as worked out in the labor movement in the United States."** This is not entirely an accurate description; for example, before 1926, our American trade unions did not recognize compliance with the "majority rule" as a prerequisite to a demand for "recognition." We can accept the description as adequate, however, for the purposes of this discussion.

Beginning in 1926, Congress has repeatedly endorsed collective bargaining as the process best suited to achieve certain long range goals, including the following: (1) to aid the individual worker to pool his economic strength with that of other workers so as to improve his wages and working conditions, (2) to insure the right of organized labor to joint participation with management in the determination of wages, hours and the like, and (3) to maintain industrial peace to the fullest extent possible in a democratic society, characterized by a free economy. So far as I know, no responsible group has advocated a new or different approach to these objectives, at least one which Congress would be likely to adopt as a general rule. The so-called compulsory arbitration resolution which Congress adopted to stave off a railroad strike seems, at this time, only an exception to the rule, based on special circumstances and leaving no permanent scars on the tissue of collective bargaining generally.

One cannot speak with assurance about the status of collective bargaining without more particulars. In the building trades, for

* We are indebted to the Chairman of this session, David L. Cole, and to David W. Burke of the President's Advisory Committee on Labor-Management Policy for preparing the summary of the discussion in this session.

** *Order of Railroad Telegraphers vs. Railway Express Agency*, 321 U.S. 342, 346 (1944).

example, collective bargaining continues to receive wide acceptance. On the other hand, in certain industries or geographical areas, some employers are still fighting to stave off collective bargaining and, when that is no longer legally permissible, to limit their acceptance to minimum compliance with the letter of the law. Closely allied is the so-called General Electric strategy. The first step in that strategy is for the employer, after listening to the union's demands, to come up with a "package proposal" representing its best judgment as to what would be most fair to all parties concerned, including its stockholders, customers, employes and the public. This "package" is placed on the bargaining table by the employer with a "take it or leave it" ultimatum, making it clear that the company will not change its position despite a strike or threat of a strike, except in a clear case of error, for example, where the union can show a change in the facts on which the employer relied at the time the "package" was being prepared, and explaining that "everything we think we should do is in the proposal and we would look ridiculous if we changed now." Such a strategy is likely to be used only by an employer who enjoys a considerable economic superiority over the union. Unless the strategy is merely a bargaining "gambit" or represents a case of "hard bargaining," it is difficult to reconcile it with the concept of joint determination; indeed, it would reduce the union's status to that of a supplicant. Under such circumstances, the only thing surprising about the recent decision of the National Labor Relations Board declaring that the strategy did not meet the requirements of good faith collective bargaining, is that anyone should be surprised by the decision.

I do not believe that the health of the American collective bargaining system will be undermined or even seriously affected by tactics such as those above described, even if ultimately held by the courts to be legal. Indeed, I doubt whether any decision of the National Labor Relations Board defining collective bargaining has an appreciable effect on the parties whose bargaining is firmly established. As a matter of fact, those parties rarely appear before the Board or the courts, and then only for some special purpose such as obtaining a legal determination of such questions as the validity of an "agency shop agreement" in a particular state having a "right to work" law.

In addition to differentiations between levels of collective bargaining, there are also differentiations between collective bargaining

in a routine form and what I might call "creative bargaining." As time goes on, there is increased recognition of the great flexibility and latitude which the collective bargaining process affords the parties in their efforts to fashion a settlement, or a means of settlement, tailored to their particular needs and desires. In that category, I would put (1) the General Motors-UAW formula, under which employes are guaranteed "a real wage" that is, one not subject to the vicissitudes of the Consumer's Price Index, and assured, as a quid pro quo for not resisting the introduction of labor-saving machinery, that they will share in the benefits of increased productivity, in the form of an "annual improvement factor"; (2) the work of the bipartite "human relations committee" in the basic steel industry; (3) the work of the tripartite committee established by Kaiser and the United Steelworkers of America, in developing a formula designed to share the fruits of increased productivity among stockholders, workers and the general public, and a formula for settling disputes without the necessity of a strike; and (4) the Armour "study committee," designed to anticipate and cushion the impact of plant closings or curtailment of the work force, as a result of automation.

Along with such innovations as those mentioned above, there appears to be a continuing search for improvement in the procedure or form of collective bargaining, under such names as "preventive bargaining," "year-round bargaining," and the like. In some instances, the procedures contemplate the assistance of a third party neutral, in a form ranging from simple observation, to mediation, recommendations, and possibly arbitration. As long as such procedures are voluntary, they may be properly characterized as a part of the collective bargaining process itself. There are indications that it is the strike, rather than the collective bargaining process, that is tending to become obsolete.

The criteria by which to determine wage adjustments continue to be somewhat fuzzy. The temptation for either side to urge those criteria which suit its purpose at the particular moment is obvious. With the possible exception of cost of living adjustments, the criterion which seems to have most general acceptance in wage negotiations is "increased productivity." The usefulness of this criterion received a great impetus when it was formalized by the President's Council of Economic Advisors. This is not to say that recent wage adjustments have always conformed to that criterion,—the unions seem to regard it as a "floor" rather than a criterion,—it nevertheless

is receiving increasing acceptance as a starting point, at least, for wage negotiations.

There are interesting developments in the field of collective bargaining between government and public employees, at both the federal and state level. As a general rule, strikes of government employes are prohibited, despite the claim that the "right to strike" is considered an essential part of the judicial collective bargaining process. There is a good deal of experimentation going on currently as to how to fill the gap in public bargaining.

Finally, I think that some of us are inclined, from time to time, to expect too much of the collective bargaining system. I have heard it said that the problem of disemployment resulting from the problem of automation is not that we have too few jobs, but too many people. That may be so, but the collective bargaining process is hardly the proper means with which to handle the population explosion. In the same vein, it is a great deal to ask of a union leader that he agree to a reduction in the work force which his union represents, even for the reward of being called a "labor statesman" as the result of automation. What is needed here is some kind of "face saver," as the recent railroad settlement disclosed.

In summary, collective bargaining in America is not obsolete. What may be on the way to obsolescence is the strike, at least in major industries. The so-called failures of collective bargaining seem to fall into two categories; (1) in which the process is looked to for the resolution of problems which it was never designed to handle, and (2) in which the parties themselves have not sufficient imagination to take advantage of the potential of the bargaining process.

DISCUSSION

B. C. ROBERTS

The significance of the topic of today's meeting concerning the obsolescence of collective bargaining is that this very same question is being asked in other countries in varying degrees. For example, in the emerging nations I think it is fair to state that the institution of collective bargaining is held in disregard, this disregard springs mainly from its strong capitalistic or free enterprise overtones. In many European countries it has been found necessary to contain collective bargaining within the general framework of a national incomes policy. It appears that in these countries a consensus has been reached that the outcome of "free" collective bargaining is not, in most cases, in the best interest of all. Thus an effort is underway to preserve those benefits apparent in the collective bargaining system, but within a setting that recognizes that collective bargaining, in and by itself, is not a device that promotes general economic equity and cannot be relied upon for purposes of economic stability.

In my own country we are in a transitory state from a completely free or "laissez-faire" form of collective bargaining to a situation where there has been an agreement that the public interest must be asserted and a structure must be developed to insure that the public interest is asserted and heeded. This refutation of laissez-faire collective bargaining is, I would judge, quite widely accepted by all parties.

In Great Britain we have experienced wages, salaries, dividends and other income rising at a faster rate of growth than that of the real output of the economy and, as everybody knows by now, our balance of payments is extremely precarious. In the face of this persistent problem we have decided to limit the exercise of free collective bargaining. Moreover, I am convinced that opinion will remain strongly in support of this policy since the public in Britain will not stand for the levels of unemployment that are tolerated in the United States.

As I have said the trade unions have gone along with this general thesis but they have strongly stated, and it has been recognized, that a national policy cannot deal with wages alone. Rather, if there is to be any national policy it must be a total incomes policy and that is the direction in which the British government is now moving.

It goes without saying that the establishment of a national incomes policy brings with it a great many problems, not the least of which are the inequities that exist between sectors of the economy when wages are geared to productivity, or the problem of 'wage drift' which is so frequently found in European situations marked by a scarcity of labor. However, the government is determined to proceed with this policy and expects to establish a general wage-price review board.

This review board, which is to be tripartite in nature, is being planned to sit in review of major wage and price changes. The Review Board is not to be armed with legal powers, but if persuasion does not work, the Board will be given power to impose sanctions. Of course this procedure in and of itself raises problems of equity since the review board could not possibly be expected to review every single wage or price change in an economy as diversified and complex as that of Great Britain. It is possible that eventually some form of compulsory arbitration will be reintroduced.

I think it is fair to say that if labor, management, and the government in the United Kingdom cannot carry out the contemplated incomes policy, and the only alternative is higher unemployment in order to maintain stability in our domestic economy and thus preserve our balance of payments position, you will see a stronger effort to regulate income in Great Britain than currently exists. I am convinced that the people will choose this course rather than abandon their desire to maintain full employment.

As to the view in the United States that collective bargaining is working quite well, my only comment would be that collective bargaining is working well here because you have opted to choose a higher level of unemployment than we could now possibly tolerate.

On the question of strikes, I must say that while I am in sympathy with the views of George Shultz, and accept that large industrial disputes may be unavoidable in your country, we have found in the United Kingdom, due mainly to the structure of our economy, that we simply cannot afford major strikes. The knock-down-drag-out dispute is, I think, coming to be regarded as a totally irrational way of settling industrial disputes and not in keeping with the tone of the type of society we wish to develop.

It doesn't follow from these remarks that there is a strong body of opinion that would like to see the right to strike abandoned, it is rather that the exercise of the right to strike raised the political

question of its control so that the cost to the community does not exceed the benefits derived by unions or employers.

GEORGE SCHULTZ

I agree with Nate Feinsinger that collective bargaining is vastly underrated as an ongoing institution. Collective bargaining on the whole works well and has a great deal more flexibility than some critics think. At the same time, some people get tremendously impatient with the system.

To me, the troubles that face collective bargaining today do not result from any built-in obsolescence but flow from the fact that in many instances the government and the public are too squeamish about the presence, or threatened presence, of conflict and the play of power. As far as I am concerned, collective bargaining would be headed more towards obsolescence if occasionally we did not see strikes or conflict, for collective bargaining is built upon the realization that people may at times disagree. Indeed its strength derives from the fact that it allows people to disagree. Power and power centers are a fact of life, and conflict can often be productive—we must not be squeamish in the face of these realities.

My view of the GE case is different from Mr. Feinsinger's. I view the strategy employed by the Company, for which it has recently been found guilty of an unfair labor practice, as a technique of bargaining. Among other things, we see here an age-old "ploy" of putting oneself in an irretrievable position and daring your adversary to knock you off this stance. If the union in this case could not knock the management from its position, that is a problem that belongs to the union. It is certainly not a problem which should be handled under the question of whether or not two well established bargaining partners are bargaining with one another within a context of good faith. So on this point I would say that collective bargaining isn't in trouble—the bothersome thing is the attitudes of many people toward it.

On another note, I agree with Nate that we do have a tendency to cite general economic problems and then point the finger at collective bargaining for failing to solve these problems. In my mind this

is a two-fold trap for, as it has often been stated, many people are too ambitious in what they expect collective bargaining to accomplish. But I would also suggest that an opposite extreme to expecting collective bargaining to solve all problems is sometimes seen: disillusion leads some not to be ambitious enough with the bargaining process, they don't experiment enough to see just what it can do to handle many problems.

What I am suggesting is while we do not want to overload collective bargaining with problems that it was not designed to handle, it is just as risky to back away from it completely and to look to other devices, such as the government or new legislation, to take care of problems that could properly be solved by an imaginative use of the system of collective bargaining.

FREDERICK HARBISON

I listened with great interest to the remarks of our distinguished colleague, Mr. Roberts. It may well be that collective bargaining is obsolete or refuted everywhere else in the world but that is not the case here in the United States. Here, I believe, collective bargaining is essential to our survival as a free nation. And I am in full agreement with Nate Feinsinger's point that nothing can be obsolete except in the presence of something better.

The American system of collective bargaining is rooted in our nation's concept of private enterprise. To uproot or drastically change the processes of collective bargaining is to uproot and drastically change our enterprise system, a system that has characteristics which are considered all important in the larger sense to democracy and individual freedom.

Under free enterprise in this country, we value, for example, the sovereignty of the establishment; we value the process of decentralized decision making for the freedom it gives and the opportunity for the participation of many; and we enjoy the benefits that result from the fact that the free enterprise system works best when it is in a real bind, that is, when we are realizing the greatest amount of competition.

We are attached to these characteristics of our economic system

and it is only logical that we should thus be attached to a procedural relationship between employers and employees that strengthens the same characteristics. Thus we have a strong commitment in this country to the existence of private unions, and we applaud the fact that they are free and sovereign organizations. We recognize that with a free labor movement, operating through our form of collective bargaining, there exists the greatest amount of decentralized decision making in the modern world.

I think it is also fair to say that the United States labor movement is the only labor movement in the world that has a real ideology. Labor in this country wants more, it wants protection for the workers, it wants a voice in regulating the working conditions under which individuals pass their working life in both large and small economic establishments. Also, a great many benefits stem from the pressure of free labor unions on management. Management is at its best when it is working in response to pressure.

The interaction of the enterprise system and the system of free collective bargaining has led to some fine results in this country—as witnessed by the fact that the conditions of work of employees are better than any other country of the world, the level of pay is unmatched anywhere else in the world, and the dignity which is afforded the worker in our economy has been and continues to be outstanding. To a large extent, collective bargaining can be considered responsible for this development in America, and even where collective bargaining does not exist, the very fear of unions has been an incentive to many unorganized firms to improve conditions of employment and to pay more attention to good human relationships. What kind of “grade” could we give to collective bargaining in the U.S.A.?

1. *As to strikes*—As we know, the hope of the Wagner Act was that the very presence of strong trade unions would reduce disputes and turmoil, not provoke them. I think that collective bargaining has lessened turmoil and I guess I would thus give it a passing “C” grade in this regard.
2. *As to the economic impact of collective bargaining*—I would have to give out a low grade here. I think it is hard for anybody to argue that collective bargaining is economically beneficial. But here the impact of unions and collective bargaining have been minimal. They have affected only slightly the level and structure of wages and the introduction of new technology.

3. *As to the area of human dignity and freedom*—Here collective bargaining should receive an “A.” Before the introduction of our system of collective bargaining, very little attention was paid to the rights and dignity of employees, and here without question collective bargaining has had its most constructive impact.
4. *As to strengthening the free enterprise system*—I would give collective bargaining an “A,” for in this country it has been instrumental in making the free enterprise system acceptable to workers by humanizing the labor market.

In summary, my quick evaluation of collective bargaining in the United States is: 2 A's in important areas, a C in a relatively important area, and a marginal failure in the economic sphere. On balance, therefore, collective bargaining clearly passes as a very constructive force in American society.

GENERAL DISCUSSION

Question—Mr. Feinsinger stated that he does not believe that collective bargaining is obsolete. The term collective bargaining, however, is a general concept and conceals a variety of collective bargaining procedures and systems that operate within our country. My question is—would he consider the system of collective bargaining on the railroads as obsolete?

Mr. Feinsinger—I think it is well for us to remember that the Railway Labor Act was the first successful attempt at installing collective bargaining in any industry. This was agreed legislation and was rather sophisticated for its time. As we know in later years airlines were placed under the mantle of this legislation even though their approach to bargaining was and remains significantly different from that of the railways.

I would answer that collective bargaining itself may not be obsolete in this industry but that the form of bargaining induced by the presence of the Railway Labor Act is certainly difficult to defend. In the first place, I can see no reason why the Railway Labor Act should not be amended to include all forms of transportation—railroads, airlines, trucking and maritime. I recognize however that before there could be inclusion of other industries under the RLA, there would

have to be some drastic legal reforms to eliminate the foot-dragging procedures that the current legislation appears to encourage. The basic assumption demonstrated by experience under this act is that there will be a settlement if you hang on long enough and drag out the procedures sufficiently.

I would suggest, therefore, that some thought be given to establishing an expert committee to study the Railway Labor Act for both inclusion of other forms of transportation and reform of the law in light of past experience and current knowledge.

Question—Admittedly my question is more a comment on the NLRB—G. E. decision. I think it is important to note, especially in the light of Professor Shultz's remarks, that G.E. was not attacked for a state of mind but for a policy urged on other companies; a policy of all out militancy, not of bargaining. As I recall the Wagner Act, the intent was to place a restraint upon such militancy and the resultant disputes. But the G.E. approach, which appears to be supported by Dean Shultz was one that directed energies towards dispute.

Mr. Shultz—I seem to run into a considerable amount of trouble, especially as Dean of a graduate school of business, whenever I express my views on the role of strikes in collective bargaining.

I want to say quite clearly that I do not advocate strikes. On the other hand, we must realize that if we foreclose the possibility of strikes or severely restrain their use, we are making a basic change in the total collective bargaining situation and even, perhaps, in our traditional view of the free enterprise economy. If the right to strike exists and is present in a bargaining situation it seems to me only clear that the parties must expect it to be used now and then; and my message is that those who are involved in such situations, or we who observe such situations, should not be too squeamish about the presence and use of this power.

Thus, as I have stated earlier, if G.E. in this situation had the power to use the bargaining strategy that it did, then we must expect it to use that power. It is unrealistic for us to expect parties to behave in a fashion not in keeping with the power that they have in any bargaining situation.

Question—I have in effect two questions. Professor Harbison gave low grades to collective bargaining in the area of its economic effects; I wondered to what extent he would attribute some of this low grade to the problems created by technological change?

Also, Mr. Roberts says that in his country there has been a realization that big strikes are too costly to suffer; I wonder if he feels that strikes may be too costly in this country too?

Mr. Harbison—Why I gave a failing grade to collective bargaining in the economic area can perhaps be best explained by my saying that I would have given it an A if it had made a positive contribution to economic growth, productivity, etc. It cannot have an A grade or even a passing grade primarily because the function of trade unions is not to make management more efficient or to increase the profit of the firm. Unions have as their main function the protection of the interests of the workers. Now it goes without saying that individual unions have in some situations been economically beneficial to individual firms, but, in general, trade unions in this country, acting through collective bargaining, have not in my view made a positive contribution in the economic area. A positive contribution that unions could make that immediately springs to mind would be to make it possible for companies to introduce improvements with the consent of employees through equitable adjustment procedures.

Mr. Roberts—I think that it is important to point out, before we get too excited about views in my country towards the strike, that here in the United States there are greater restrictions on the right to strike than in the United Kingdom. In my country, anyone can strike, even government employees with the sole exception of police. However, I think it is also important to note that in my country, as a result of the structure of collective bargaining, we could suffer a major strike in our electric utilities that would in fact result in a national stoppage of all industries depending upon electricity and would have disastrous effects upon our economy and eventually upon our balance of payments. Hence, we see a much larger cost associated with major strikes in our country than in the United States.

Moreover, we have found in the United Kingdom that the threat of major shutdowns has been sufficient to bring upon us wage increases greater than the economy could support, and we have found that when one industry breaks through in a bargaining situation, the inflationary potential may be so pronounced that, given our special problems, we are in real economic trouble.

Mr. Cole—I am told that at the end of these sessions the Chairman is supposed to sum up the discussion. I don't wish to do that but I do have some thoughts that I would like to introduce.

Considering strikes, it is only meaningful to discuss the right to

strike in relation to our total economic and social context. I would say that in this country the right to strike as we now understand it will be retained, but it will be retained only if the parties that have this power to strike or to induce a strike behave with discretion, for there is always the possibility of strong political reaction to the indiscrete usage of this right. I think there are too many examples of disputes causing great inconvenience to the public that are clearly considered to be unnecessary by the public, thus causing strong reactions in many quarters. It causes the public to ask if there isn't a better way to solve disagreements between employers and employees in lieu of the indiscriminate use of right to strike.

Along this line I believe that in reviewing the Kaiser agreement we will find over time that the procedures established in that dispute for breaking a deadlock will prove to be the most important aspect of the entire plan. Again, in New York City, the New York Transit procedures that have been established have been very successful insofar as they have practically assured the public that there will not be a strike.

Other examples of procedures that have been established to guard against the indiscriminate use of the strike can be found in the airline industry between the pilots and the companies, or in the ILGWU-Bobby Brooks agreement. In my opinion more of these devices are needed if we wish to retain the right to strike and not get ourselves involved in legislation that would dilute that right.

Mr. Feinsinger—I have two other comments that I would like to make before the session closes. One has to do with opportunism and the other with generalizations.

It seems to me that collective bargaining can suffer from what I call opportunism, and the perfect example of this is the case involving jurisdictional disputes between the AFL-CIO organizations of school teachers and those other "non-collective bargaining" organizations such as the National Education Association. The AFL-CIO, as we know, has a long history of supporting the concept of exclusive representation as a keystone in the collective bargaining process. However, it seems unfortunate to me that when they find an organization outside of the House of Labor, such as the National Education Association (and this organization is showing some success in maintaining its hold over teachers), organized labor begins to argue against exclusive representation and for a concept of proportional

representation. To me this is acting against principles long established and is blatant opportunism.

I think it was well stated here today that perhaps we are too prone to generalize in our discussions of collective bargaining in this country. We should realize that there are different levels of collective bargaining and different approaches by the parties in using the law available to them or in using the techniques and strategy they have developed over time. We should therefore avoid the trap of generalization when discussing collective bargaining and realize that at different levels of bargaining there are different degrees of success; in many instances there are barriers to workable bargaining that don't exist elsewhere. I think our hope for the future is a greater use of voluntary agencies or boards to help parties over their individual and peculiar problems wherever they exist and whenever the parties want such assistance.

Part VII

**MANPOWER AND WELFARE
PROGRAMS: BENEFIT-COST
ANALYSIS**

A BENEFIT-COST ANALYSIS OF MANPOWER RETRAINING

GERALD G. SOMERS

University of Wisconsin

and

ERNST W. STROMSDORFER

University of Tennessee

INTRODUCTION

Government-sponsored retraining of the unemployed may be viewed as the major development in U. S. labor market policies of the 1960's. In addition to recently-enacted state and local programs, retraining has been assigned a central role in such federal legislation as the Area Redevelopment Act (ARA) (1961), the Manpower Development and Training Act (MDTA) (1962), the Trade Expansion Act (1962), amendments to the vocational education system and to the MDTA (1963), and the Economic Opportunity Act of 1964.

In view of the hundreds of millions of dollars now being allocated to these retraining programs, an evaluation of the investment is timely. While recognizing the political, social and psychological benefits which may result from training the unemployed, this paper stresses questions which are more familiar to the economist: What are the gains in employment and earnings relative to the direct costs and opportunity costs of retraining? How do trainees fare in comparison with nontrainees? How long does it take the trainee and society to recoup the cost of retraining? What are the returns on the retraining investment?

Some Methodological Considerations

Although extensive national data on ARA and MDTA trainees have been published, such data do not lend themselves to the detailed evaluation called for here. National data on the employment experience of trainees are classified by personal characteristics and other variables, but no basis is provided for comparisons with control groups of nontrainees; nor is information available on the income of the trainees before, during, or after their training.

Because of these limitations in the national data, primary em-

phasis in this paper is placed on our surveys of trainees and non-trainees in West Virginia.¹ Five groups of workers were interviewed in 1962 and were followed up by mail questionnaires and additional interviews in 1963 and 1964. These groups were composed of (a) 501 trainees who took ARA courses or Area Vocational Training Program (AVP) courses set up for training the unemployed under West Virginia state legislation; (b) 233 "dropouts" who withdrew from their courses before completion; (c) 65 who did not report for training after having been accepted (DNR's); (d) 127 "rejects" whose applications for training were not accepted; and (e) 453 "non-trainees" selected by random methods from those in the local employment service files. The nontrainees, our basic control group, were workers who did not apply for training even though they had experienced unemployment immediately prior to that time when most of the trainees entered their courses.

The respondents were located in three areas typical of depressed employment conditions in West Virginia; Charleston-Huntington, an urban-industrial area; McDowell County, predominantly coal-mining; and Harrison-Monongalia Counties, a mixed mining, industrial and agricultural area. All trainees in selected courses in these areas were interviewed. The courses were typical of course offerings in West Virginia and the national retraining programs. They included auto repair, construction trades, electrical maintenance, machine tool operators, riveters, welders; and for women, nurses aides, typists-stenographers and waitresses.

In analyzing the employment gains of the trainees, comparisons were made with each of the four other groups of respondents. In determining the monetary gains of the trainees, the nontrainees were used as the control group. In particular, the opportunity costs incurred during training and the gains in income attributable to retraining were derived from comparisons with the income of the nontrainees during and after the training period.

¹ The surveys were conducted under a grant from the Ford Foundation for an evaluation of retraining in West Virginia and a number of other areas. The detailed methodology and findings are reported in Gerald G. Somers, ed., *Retraining the Unemployed: Case Studies of the Current Experience*, to be published shortly by the University of Wisconsin Press. As is indicated by the authorship of particular chapters in this volume, Professors Harold A. Gibbard and Glen C. Cain participated fully in the analysis of the West Virginia data. They are not to be held responsible, however, for any errors in this summary report. We are also indebted to Graeme McKechnie for his able research assistance.

At the outset, a few major limitations should be noted:

(1) The samples are small, cover only particular courses in a few selected areas of the country, and in a few instances are insufficient to provide meaningful results within cross-classifications even for these areas.

(2) Because of the nature of the selection of the control groups, they cannot be said to have the same personal characteristics as the trainees. Although the direction of bias is clear in the case of the "rejects," it is not so clear in comparisons with "dropouts," DNR's and nontrainees. Some of these workers lacked ambition and motivation, but others left that their qualifications and opportunities were good enough to make training unnecessary. At any rate, an effort is made to control for some of these personal differences in the analyses which follow.

(3) There are advantages and disadvantages in the use of the nontrainees' experience as a basis for determining the opportunity cost of training and as a basis for determining the income gain derived by the trainees from their training. The obvious alternative would be to base these calculations on comparisons with the earnings experience of the trainees themselves prior to their courses. This would reduce the disadvantages resulting from the differing personal characteristics of the trainees and the nontrainees. But our analyses have indicated that the average prior earnings of the trainees vary markedly with the time period selected. Many worked in high-paying coal mining occupations for years before the period of unemployment which induced them to enroll for training. During the period of unemployment just prior to their training, on the other hand, the earnings (other than government payments) of these workers were zero or close to zero. Moreover, changes occurred in the labor market situation in the years following completion of their courses. These changes would obscure the advantages derived from training if the calculation were based on a comparison of the trainees' pretraining and post-training experience.

(4) Since the trainees and nontrainees may have been competing for scarce jobs in the post-training period, gains derived by the trainees may have been at the expense of the nontrainees. It was not possible to determine the degree of such interdependence. To the extent that it occurred, the benefits enjoyed by the trainees may not constitute a net employment gain for society as a whole.

(5) Finally, it has not been possible to distinguish the effects of the specialized skill acquired in the training course from other advantages derived from completion of the course. Even when they were not hired in occupations for which they were trained, the training may have had a crucial influence on the trainees' future employment success. They gained some versatility, and many employers preferred them because these workers had demonstrated sufficient ambition and sense of discipline to enter and complete a training course. Therefore, the following discussion is couched in terms of the benefits of the overall training experience rather than the benefits derived from the acquisition of a particular skill.

THE BENEFITS OF RETRAINING

The Gains in Employment

National reports on the achievements of ARA and MDTA retraining place almost exclusive stress on the gains in employment. These reports indicate that between 70 and 75 per cent of the institutional trainees have found jobs, almost all in training-related occupations. Since almost 90 per cent of the MDTA trainees were fully unemployed just prior to their training, and over 40 per cent had been unemployed for more than 15 weeks, MDTA officials naturally take pride in this accomplishment. Moreover, virtually all of the workers placed in on-the-job training under MDTA auspices, have been employed.²

Although it may be presumed that training played an important role in the employment success of these workers, definitive proof of such a role is lacking in the national reports. We know that the trainees were younger and better-educated than the average of the unemployed,³ and a study of MDTA placements in 1963 indicates that the post-training employment rate declined progressively with increasing age and greater length of previous unemployment.⁴ Furthermore, the national data provide no time-period analysis and no comparisons with nontrainee control groups.

² Data provided by the U. S. Department of Labor, Bureau of Employment Security. See also, *Manpower Research and Training under the M.D.T.A.* A Report by the Secretary of Labor, Washington, March 1964, pp. 33, 51, 168.

³ *Ibid.*, pp. 19-21.

⁴ Data provided by U. S. Department of Labor, Bureau of Employment Security. The national data are discussed in greater detail in Somers, "Retraining: A Evaluation of Gains and Costs," Conference on Unemployment Research, Boulder, Colorado, June 1964, to be published by John Wiley & Sons in 1965.

A lengthier follow-up and comparisons with control groups have been incorporated in analyses of the more limited West Virginia sample. Efforts to isolate the employment effects of the retraining variable have also been made in cross-classifications within common age, sex, education and previous-unemployment categories; and by means of regression analysis including these and other variables.⁵

Some of the principal findings on the effects of retraining on employment in the West Virginia surveys are as follows:

(1) In the summer of 1962, 60 per cent of the "trainees" were employed, compared with 56 per cent of the "dropouts" and approximately one-third of the rejects, DNR's and nontrainees.

(2) One year later, employment rates had increased for all groups, with a trainee employment rate of about 71 per cent and a continued, albeit narrower, gap between trainees and the nontrainees, rejects and DNR's.

(3) About 12 per cent of those who had completed training were not in the labor force in the summer of 1962. The proportion was roughly similar among nontrainees, rejects and DNR's. In all groups, women had much higher rates of labor force withdrawal than men.

(4) In both 1962 and 1963, the trainees had a higher rate of employment than nontrainees, rejects and DNR's in the same age category, in the same education category, and in the same previous-labor-force-experience category (including labor-force status and length of unemployment).

These findings of a consistent employment advantage of trainees over "similarly-situated" control groups are buttressed by regression analysis. To give a further indication of the impact of retraining on employment success after training, the five training statuses were introduced as the final variable in a regression in which we had previously controlled for the impact of age, sex, race, education and a variety of other socio-demographic variables. The dependent variable

⁵ Detailed tabulations on the employment effects of retaining in West Virginia are included in the chapter by Gibbard and Somers in *Retraining the Unemployed, op cit.* Copies of these tables and detailed tables pertaining to the earnings-cost analysis can be obtained by writing to Retraining Research Project, Department of Economics, University of Wisconsin, Madison 53706.

was the per cent of time employed in the 12 month period following the end of training.⁶

As is shown in Table I, the worker's "Training Status" (that is, position as a "Trainee," Dropout, "DNR," "Reject" or "Non-trainee") is the second most significant variable in explaining post-training employment success.

In addition to training status, the only other variable groups

Table I: Impact of Socio-Economic and Retraining Variables Upon the Per Cent of Time Employed in the 12-Month Period Following the End of Retraining

n = 1065 $\bar{R}^2 = .1605^{**}$ Std. Error = 47.58 Constant = 62.88 (8.11)

Variable ¹	F-Statistic
1) Age	2.10
2) Sex	1.72
3) Race	2.41
4) Education	2.44
5) Marital Status	0.24
6) Labor Force Experience Prior to Retraining	17.25**
7) Regular Occupation	2.11*
8) Labor Market Area	2.94*
9) Previous Training ²	1.18
10) Mobility of Respondent ³	2.95
11) Year Training Ended ⁴	1.48
12) Quarter Training Ended ⁴	0.30
13) Training Status ⁵	10.85**

* = Significant at .05 level

** = Significant at .01 level

¹ The breakdown of the variables into sub-sets is omitted in this table.

² The presence or absence of formal training at any time prior to the ARA or AVP training period.

³ Distance between address in Summer 1962 and Summer 1963.

⁴ Year or quarter the ARA or AVP training ended (for those who completed training only).

⁵ Trainee, Dropout, Reject, Did Not Report, or Nontrainee for ARA or AVP training.

⁶ The independent variables in this study are all of a binary nature. That is, they assume a value of *one* or *zero*, depending on whether or not a respondent falls into a particular category in question. The dependent variable is the per cent of time employed in the 12 month period following the end of the retraining period. Thus, the range of this variable is constrained between the limits of 0 and 100. One must bear both these facts in mind when interpreting the tests of significance.

significant at a .05 level of significance or above are "Previous Labor Force Experience" (including length of unemployment just prior to training), "Regular Occupation" (skill category of customary occupation prior to training), and "Labor Market Area" (one of the three areas in West Virginia indicated on p. 2)

It is understandable that the trainee's pre-training labor force and employment status would be a significant predictor of his post-training employment experience. The pretraining status reflects the composite of his characteristics and labor market qualifications. As noted above, however, trainees have greater employment success in comparison with nontrainees in each of the prior labor force categories. Thus, in many cases retraining has helped workers to escape a lengthy history of previous unemployment.

Training Status, when introduced as the last variable in the regression, increases \bar{R}^2 by 3.23 percentage points, or 25 per cent, after the intervening influence of the other socio-economic variables had been included. In the 12 month time span following retraining the trainees were employed 64.14 per cent of the one-year period or 7.6 months on the average. The nontrainees were employed an average of only 4.7 months.⁷ Thus, we see that, in the West Virginia sample trainees had a significantly greater employment success than the nontrainee control groups.

*The Gain in Earnings*⁸

Since government-sponsored retraining was primarily prompted by excessive unemployment, it is understandable that the employment effects of retraining have considerable political significance and that government reports give major emphasis to employment gains. But economists are equally concerned with the effects on earnings. Comparison of the trainees earnings with those of nontrainees reveal that the trainees experienced significant gains.

Three different post-training time periods were used to measure the average monthly gains or losses in earnings of white workers who completed their training in 1962. First, an 18 month period following the quarter in which training ended in 1962 was used to

⁷ The partial regression coefficients and their standard errors (in parentheses) for the four training statuses are as follows: dropout, -5.10 (4.94); rejects, -27.66 (6.62); did not report, -20.80 (7.56); and, nontrainees, -28.83 (6.62).

⁸ Income from unemployment compensation, public assistance and other government sources is not included in this section, but these social payments are considered in the discussion of costs and returns in following sections.

maximize the number of observations for a single time period. Next, the maximum time period, available after the end of retraining—18, 21, or 24 months depending on the quarter in which training ended—was used to maximize the length of time in which the impact of retraining could be felt. Finally, an estimation was made of earnings differentials in the first quarter of 1964, the last quarter for which data were available at the time of writing. In this period, the greatest time lapse after retraining permitted observation of the labor force experience of our sample following the transition, readjustment and, in some cases, migration of the trainees.

As is seen in Table II, male trainees earned substantially more per month than nontrainees in each of the estimation periods; and societal estimates were higher than individual estimates. Societal estimates were also higher for females, but the advantage of female trainees over nontrainees was relatively small. Given the 18 month post-training estimation period, the average monthly gain of the male trainees over their nontrainee counterparts was \$61 based on individual concepts and \$69 based on societal concepts. For the same period, the average monthly gain is only eight dollars per month for females, given individual measurement concepts, and \$15 based on societal concepts.⁹

COSTS AND RETURNS

As has been noted in the discussion of methodological considerations, the differential in post-training earnings enjoyed by the trainees, like their advantage in employment, cannot all be attributed to their retraining. However, given the controls attempted in this survey, it is reasonable to assume that their retraining played some significant role in providing the noted advantages of trainees relative to nontrainees. Based on this assumption, it is instructive to relate income gains to training costs and estimate returns on the retraining investment.

Costs of Retraining

Generalizations concerning training costs are hazardous because of the wide variations in costs depending on the sponsoring agency, length of course, occupational content, training facilities, trainee

⁹ For greater detail on methods and findings on earnings and costs, see the paper by Glen G. Cain and Ernst W. Stromsdorfer, "An Economic Evaluation of Government Retraining of the Unemployed in West Virginia," in *Retraining the Unemployed: Case Studies of the Current Experience*, *op. cit.*

Table II: Average Monthly Differential in Earnings of Trainees vis-a-vis Nontrainees for Selected Time Periods After the End of Training, Individual and Societal Estimation

(in dollars)

Sex	18 Month Post-Training Period		Maximum Post-Training Period ¹		Quarter, 1964 First	
	Individual ² Estimation	Societal ³ Estimation	Individual Estimation	Societal Estimation	Individual Estimation	Societal Estimation
Male Trainee N=164 Nontrainee N=188	61	69	65	76	74	94
Female Trainee N=95 Nontrainee N=60	8	15	6	11	0	11

¹ This figure is a weighted average for three groups, those having a maximum of 18, 21 and 24 months post-training labor market experience.

² Net of taxes. Assumes those workers who voluntarily leave the labor force earn in imputed income during that time as much as they earned on the average in that job immediately preceding the time when they voluntarily left the labor force.

³ Includes federal income taxes but no state taxes or Social Security. Zero earnings are imputed for that time when a worker is voluntarily out of the labor force.

qualifications, provision of allowances, and concepts concerning opportunity costs. The average cost per trainee reported for those in institutional programs of the MDTA is \$1300. For those in on-the-job training programs, the per-trainee cost is approximately one fourth that amount. These include the direct costs of instruction and facilities as well as training allowances; but they exclude opportunity costs.¹⁰

The direct training costs and training allowances in the West Virginia ARA and AVP programs were considerably lower than those under MDTA. The courses were generally of shorter duration. Training allowances for ARA trainees, based on average state unemployment compensation, were lower than the national average; and no provisions for training allowances were included in the state AVP training. For the trainees included in the benefit-cost analysis, the average direct costs and training allowances for men totalled \$502

¹⁰ *Manpower Research and Training, op cit.*, pp. 16, 48 and 165.

and for women, \$428. These costs were incurred by society rather than by the trainees.

The opportunity costs of retraining—the income foregone during the training course—are less readily determined. Yet, these are the most important costs for the individual trainee. As has been noted above, the determination of the amount the trainees *could have* earned during their training period is based on the earnings of a comparable group (in age, sex, race and education) of nontrainees.

For society, during the period of the survey, the total opportunity costs for males were estimated to be \$274 and for females, \$122, bringing total training costs to an average of \$776 for each male trainee and \$550 for each female trainee. The *private* costs to the individual trainee represent only opportunity costs, including imputed earnings for voluntary not-in-the-labor-force status. The private costs averaged \$300 for males and \$145 for females.

The Pay-Back Period

Table III relates gains in market earnings (see Table II) to the costs of training by means of an average pay-back period expressed in months. The pay-back period is the length of time required for the differential gains in post-training earnings to offset the total costs of retraining. Generally speaking, the estimated pay-back periods are short. They are shorter for the individual than for society, and much shorter for males than for females. For males, given the 18 month post-training estimation period, we have a pay-back period of 4.9 months based on individual concepts and 11.2 months based on societal concepts. For females, the figures are 18.1 and 36.2 months, respectively. Also, the pay-back period gets shorter for males and longer for females as time periods further removed from the end of training are used to measure earnings differentials. Only for females does the pay-back period exceed the earnings-estimation periods, thereby calling for the assumption that the earnings advantage enjoyed during the estimation period continues unchanged until the conclusion of the pay-back period.

Net Expected Capital Value Increases

Assuming a continuance of the trainee's earnings differential for the rest of his working life, it is possible to appraise the investment in training in terms of its contribution to the increase in the worker's capital value. Here, average monthly earnings gains along with data

Table III: Average Pay-Back Period in Months for Trainees¹

Benefit Estimation Periods	Individual			Society		
	Average Pay-Back Period in Months			Average Pay-Back Period in Months		
	Male	Female	Average	Male	Female	Average
18 Month Post-Training Period	4.9	18.1	5.8	11.2	10.2	8.3
Maximum Post-Training Period	4.6	24.2	5.6	10.2	50.0	13.3
First Quarter, 1964, Period	4.1	²	5.2	8.3	50.0	10.9

¹ The pay-back period represents the total costs divided by total monthly benefits for the group in question.

² Zero earnings benefits, implying that the investment costs will never be recouped.

on changes in post-training social income are related to costs and the training period by means of a chosen rate of discount, thus estimating the present value of the net stream of future benefits to the trainee.¹¹

The net expected capital increases are consistently greater for societal vis-a-vis individual estimation concepts. For the 18 month post-training estimation period the net average expected life-time capital increase for each trainee is \$3,150, given a four per cent discount rate, and assuming a zero growth rate in average annual earnings. Under societal concepts, the corresponding figure is \$6,640—about twice as great. The total gains for the members of our sample are \$815,800 and \$1,720,700 for the respective individual and societal concepts. But at the ten per cent discount rate the gains are much more modest, and, effectively, are cut in half. Given the 18 month

¹¹ The formula used is

$$V = \sum_{k=a}^{\infty} \frac{E_k}{(1+r)^k}$$

where,

V = the capital value; a , the average age at the beginning of training; E , the net earnings differential of trainees over nontrainees; and, r , the selected rate of discount.

estimation period and assuming a ten per cent discount rate and zero growth rate, the average net expected life-time capital increase is \$1,600 and \$3,230 for the respective individual and societal concepts. However, if we assume a two per cent growth rate the values are increased by about 20 to 25 per cent in every case. For instance, the total expected life-time gains at the four per cent discount using societal concepts increase from \$1,720,700 to \$2,327,500 while the average increases from \$6,640 to \$8,990 per worker over his lifetime.

Given the same initial outlay and discount rate, this type of evaluation of the returns to training is useful in comparing retraining with other alternative investments in labor markets or in evaluating other types of training.¹²

CONCLUSIONS

Government-sponsored retraining of the unemployed began to emerge as a foremost Federal labor market policy in 1961. The infancy of the programs makes evaluation difficult, but the formative years are also the most important for an objective appraisal. The ARA and AVP programs in West Virginia, which are evaluated in this paper, were among the first to be initiated in the current move to retraining in the United States.

The West Virginia surveys indicate that the trainees enjoyed notable advantages in employment and earnings relative to "comparable" nontrainees. This was especially true for males, and less so for females. For the average male trainee, the costs of retraining were quickly repaid in increased earnings; and high capital values and rates of return followed the retraining investment—for the trainee and for society.

¹² An alternative investment evaluation can be adopted by calculating an internal rate of return on the retraining investment. A derived formula for the rate of return is

$$r = \sqrt[t]{1 + \frac{E}{C}} - 1,$$

where t is the number of months of retraining, E is the net average monthly earnings differential received by the trainees (assumed constant in the future), and C is the average cost per month during training. Using the average earnings differential of the trainees during the two years following the end of their training, the estimated social rate of return is 105.6% for male trainees and 24.0% for females. For additional details see Cain and Stromsdorfer, *op. cit.* The formula for r is taken from Jacob Mincer, "On-the-Job Training: Costs, Returns, and Some Implications," *Journal of Political Economy*, Supplement, LXX, No. 5, Part 2, October, 1962.

Three obvious questions arise: First, can the post-training benefits enjoyed by the trainees be wholly attributed to their retraining? Since the control groups of nontrainees were not identical with the trainees and since special efforts were often made to place the trainees, other, non-training factors undoubtedly intervened. The limitations of the survey have been discussed in detail. However, careful efforts have been made to control for these other variables whenever possible; and the preponderance of various types of evidence pointing in the same direction leads to the view that the retraining experience played an important role in the relative post-training success of the experimental group.

Second, can the favorable West Virginia experience be generalized for the nation as a whole, for the MDTA and other programs? Because of the peculiarities of the West Virginia situation, there are obvious hazards involved. At the same time, the background of the trainees was similar to that of many other displaced and unemployed workers; and the courses studied were typical of those established elsewhere. If the training costs were unusually low, so were the employment opportunities unusually meager in the depressed West Virginia communities. Certainly, there is little evidence in national data or studies in other areas which would lead to the conclusion that the favorable West Virginia experience was unique.¹³

Finally, is retraining of the unemployed a sound social investment? In view of the small number of trainees relative to the number of unemployed in West Virginia and the nation as a whole, it is clear that retraining is only a partial answer to the problem of unemployment.¹⁴ But individual trainees have obviously benefited economically from retraining, quite aside from any social and psychological gain. Additions have been made to the nation's skills and income. Even if it could be shown that retrained workers merely find employment that might otherwise go to the untrained, there are important political, economic, cultural and social values in the demonstration that individual workers can gain through retraining.

The dollars-and-cents focus of this evaluation has been necessarily limited; but even within this narrow framework, there is evidence

¹³ See, for example, the case studies of retraining programs in Connecticut, Illinois, Massachusetts, Michigan, Pennsylvania, and Tennessee, in *Retraining the Unemployed . . . op. cit.*

that the benefit and potential benefits of manpower retraining substantially outweigh the costs.

¹⁴ Only 43,684 workers had completed ARA and MDTA training by January, 1964, at a time when there were 4,300,000 unemployed. Data provided by the U. S. Department of Labor, Bureau of Employment Security, and *Manpower Research and Retraining, op. cit.*, p. 33.

BENEFIT-COST ANALYSIS OF SOCIAL WELFARE PROGRAMS *

JOHN STUART MACDONALD

Joint Center for Urban Studies of M.I.T. and Harvard University

The proximate purpose of this paper is to indicate the principles of cost-benefit analysis which might be prescribed for social welfare project evaluation. Cost-benefit analysis seeks *optimization* of resource allocation by *reconciling maximization* of benefits with *minimization* of costs.

The term social is commonly used in a variety of ways. In the main, economics treats "social" value as value from a collective standpoint, for example, the value of consequent national income.¹ In this sense, "social" value is over and above the value gained (or lost) by a particular firm or body within a country or community. Under this rubric come investments in human capital insofar as they serve economic development. This paper concentrates on another meaning coming from outside economics, namely that social value is value which cannot be fully expressed in financial terms. The United Nations, among others, has promoted discussions of social development as distinct from economic development.² Social development in the present paper means raising the basic components of the level of living measured by the more or less standard indexes of health, education, employment, working conditions, housing, food and nutrition, and clothing. Achievements in housing or working conditions are valuable in themselves, and are not to be completely reduced to financial equivalents or to human capital. Thus the components of social development are not synonymous with Social Welfare Functions, although they may coincide in certain cases. There is more to

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¹ The term national income will be used indiscriminately here, whether it refers to a nation, or a subdivision such as a region or a local community.

² United Nations, *International Definition and Measurement of Levels of Living*. New York, 1957. *European Expert Group on Problems and Methods of Social Planning*. Dubrovnik, 4-11 November 1963.

social development than its contribution to economic growth.³ Project evaluation will be considered from three standpoints in unison: First, the effect of a project on the financial surplus of its own firm; second, the effect of the project on national income and collective economic growth, including its indirect contribution via the formation of human capital; third, the effect of the project on social development insofar as the particular social development indexes cannot simply be translated into financial terms. Needless to say, projects have rarely been evaluated simultaneously from the social development standpoint, from the national income standpoint, and from the particular firm's standpoint.

This paper takes the position that *all* projects could be appraised from the above-mentioned three-tiered socio-economic cost-benefit standpoint. Industrial or commercial projects could be appraised in terms of their effect on the finances of their parent organization; social development projects could be appraised in terms of their effect on the finances of the parent organization; both kinds of projects could be subjected to the national income test; and both kinds of projects could also be appraised for their effect on the indexes of social development.

We wish to suggest the possibilities of applying the basic elements of cost-benefit analysis in the unfamiliar field of social development.

(1) *Clear Criteria of Effectiveness.* It is not rare to find social development projects which have no other explicit justification than that they are good in some unspecified moral sense. This is *not* to say that 'sacred cow' projects are really ineffective. But clear criteria of effectiveness could be introduced into decision making without swinging the balance of decision away from political and moral considerations. For example, a vague policy calling for better health cannot become operational unless it is lined up, at least by implication, against such criteria as years of life expectancy, the infant mortality rate, the various disease-or accident-case fatality rates, morbidity indexes, or other measures. Again, the criteria of a policy for better housing might be floor space per average family, number of persons

³ A third outstanding conception of social equates the term with the cultural and institutional domain of sociology and anthropology. The anthropological and sociological approach to social value is widespread in some branches of development economics, focussing on the part played by social organization and cultural institutions in impeding or facilitating effective economic behavior.

per room or proportion of dwellings with inside toilets.⁴ Criteria of effectiveness can serve to improve the benefits brought by a project which has been approved for reasons that are wrong according to the cost-benefit view. Since decision makers often do little more than prescribe the general direction of their social development projects, a cost benefit analyst has a great deal of latitude in designing actual operations, including the translation of vague slogans into sharp criteria.

(2) *Comparison of alternatives.* Within limits, financial analysis of the costs and benefits of a particular project gives the decision maker a fair idea of the project's priority *without* making analyses of all alternative projects. Once cost-benefit analysis goes beyond the financial balance sheet, however, such a simple index as a high proportion of profits may be eclipsed by large increases (or decreases) in national income, or by large increases (or decreases) in social development indexes. So socio-economic cost-benefit analysis necessitates much more extensive examination of alternative projects. One cannot rely on the market to sort alternative projects into some semblance of priority as far as social development components are concerned. Moreover, social development projects are generally more segregated one from the other than are industrial and commercial projects. Governments' economic development policies are always more coherent than their social development policies. The usual fragmentation of social development decision making into separate provinces—health, housing, education, support for the elderly, and so forth—discourages appraisal of alternative projects belonging to separate administrative compartments. For example, better health can be achieved by improving personal income, preventive medicine, curative medicine, public health, nutrition, hygiene through formal or informal education, or housing. Typically these alternative avenues lie in separate jurisdictions, so that their substitutability, complementarity and supplementarity are obscured.

(3) *Hierarchies of Sub-Projects and Stages of Suboptimization.* Suboptimization is essentially optimization within limits, that is, it is acceptance of higher, more abstract goals as given, while concentrating scrutiny on alternative solutions at lower, less abstract levels. Ideally, cost-benefit analysis calls for appraisals of all alternatives.

⁴ The axiom that social development components can indeed be quantified is examined very briefly at the end of the paper.

This means examination of the substitutability of goals as well as the substitutability of means. In real life, however, not all ultimate goals are interchangeable. In any case, some goals are politically sacred. A common reaction to these limitations is to resort to the requirements approach, thereby simply deriving sub-projects and their staging from the given high goals, without comparing possible combinations and permutations of sub-projects on the same level. City planning and education-manpower planning are usually derived "downwards" by inference without consideration of alternatives at each stage. Yet, at each level of a project or hierarchy of projects, there is a potential range of alternative solutions involving substitution among various lesser goals which are in turn the means toward the accepted higher values.

(4) *Time Streams of Costs and Benefits over the life of the Project.* Social development projects are frequently couched in terms of capital-output ratios, payback periods or other short-term cost-benefit indexes. As in industrial and commercial projects, these truncated indexes can be extremely deceptive because they do not cover the entire life of a project. Generally, the conventional capital-output ratio and the payback period are poor guides to social development decisions.⁵ The conventional capital-output ratio ignores recurrent expenses for salaries and wages, operating costs and maintenance, which are often high in health, education, housing and other social development projects. In any case, the conventional bookkeepers' distinction between capital and other costs is usually inconsistent or irrelevant as far as development decisions are concerned, because bookkeeping is framed in terms of legal claims such as taxation and property, *not* effectiveness. The short-term view tends to underrate the importance of the many kinds of social development project which yield long-term benefits after a heavy investment period, for example, the erection of an apartment block, or the complete interruption of the malaria cycle with residual DDT, in the space of a fiscal year. Time streams of costs and benefits for a contributory old-age pension scheme will bear little relation to each other during the first decades if the population's age pyramid is normal; the discrepancy between inputs and outputs is likely to be greater from year to year in an unemployment relief fund. If non-financial costs and benefits are taken into account,

⁵ In particular circumstances, it is true, short-term indexes of recoupment such as the payback period are advisable. This is so when uncertainty over the long run is great, or when rapid development from a low level is urgent.

the time streams on each side of the balance sheet may be very irregular indeed.

(5) *Shadow Prices and Opportunity Costs.* Owing to the compartmentalization of the various avenues of social development, there are serious market imperfections and great immobility of resources in this field. Consequently, opportunity costs are of great importance in social development project evaluation. Education-manpower planning now typically takes account of the income foregone by students who remain at their studies after reaching working age, but other applications of opportunity costing are almost completely unknown to social development projects.

Labour's shadow price is especially important for employment policy, including choices between labour intensity and capital intensity. Unemployed labour will cost money if it is put to work. In the midst of unemployment, a particular project may be unable to bear the cost of its wages, although it could render a surplus from its other inputs. When unemployment is widespread, however, labour's opportunity cost is near zero, so its shadow price is well below the prevailing wages of those workers who are actually employed. So government subsidization of the wage bills of employment-creating projects is justified, if these projects are advantageous in other respects.

By contrast, skilled labour often has a shadow price above its prevailing earnings because its wages are fixed lower than a smoothly working labour market would allow. School teacher's salaries are not uncommonly depressed below their shadow price, while skilled medical personnel's salaries are exaggerated above their shadow price. When skilled labour is underpaid, skills may not be used to their best advantage, so their shadow prices should be calculated in terms of their fullest employment, not their present underemployment. When race or caste barriers or peonage depress the wages of the lower social strata, their shadow price is the wage which would be fetched if there were fairly free social mobility. Then, from the standpoint of the commonweal, a project employing oppressed labour at a discriminatory wage should be charged more than it actually pays in wages.

Shadow pricing might also provide some of the answers to the pricing of natural monopolies. Several common types of social development project are unrewarding except on a large scale, for example, metropolitan water supplies, metropolitan mass transportation,

modern hospitals, and universities. In an underdeveloped country, a new project of this massive sort has such a drastic effect on the situation and the market that the new prices and social development indexes will not grow out of the old. Moreover, such a project may be the first of its kind, and have no previous prices at all. Another application of shadow pricing is in transfer prices. Many social development prices are massive and therefore consist of two or more semi-autonomous sub-projects which are closely intertwined. For example, a public network of clinics or a public school system has central services—a supply depot and a directorate—which do not sell to each other or to the various branches.

(6) *Primary Indirect Costs and Benefits.* Using national income and the commonweal as measuring rod of a project's costs and benefits means that the analyst must go beyond the project's conventional jurisdictions to examine its effects on its immediate suppliers, processors, employees, distributors and customers. Some projects in *themselves* bring very little or nothing at all to the national income and the collective interest, but generate considerable net gain through associated projects. Of course, a project may turn a profit within its own sphere of accountability, *but* burden other projects, its employees or its customers with net costs. So a new factory or a high density agricultural scheme in a sparsely populated area should be evaluated in terms of the costs and benefits involved in the new town which will arise to serve the greater concentration of population. One of the most systematic procedures for taking primary indirect costs and benefits into account has evolved around water resource programmes in the United States. For example, water resource projects in depressed areas are evaluated in terms of the indirect costs and benefits for the neighbouring populations, for the other projects within the district, and for its immediate suppliers and distributors outside the district.⁶ Of course, the scope of indirect costs and benefits is relative to the organizational context of the project in question. If interlocking projects are integrated "vertically" or "horizontally" under a single agency or corporation, then primary indirect costs and benefits lie outside such a vast complex. If interlocking projects are not under a single authority, then their interrelations come under the regular definition of primary indirect costs and benefits. So the

⁶U. S. Department of Commerce, Area Redevelopment Administration. "Determination of Area Redevelopment Benefits from Water Resources Projects." Washington, March 1964.

distinction between primary and secondary effects cannot be taken too strictly. For one of the cost-benefit analyst's tasks is to propose better arrangements for dividing responsibility and recoupability among organizations.

(7) *Secondary Costs and Benefits.* Social development projects regularly generate secondary costs and benefits whereby other kinds of projects, including those with no immediate connection, reap advantage through external economies of scale. (Of course, a project may bring external diseconomies too). In a sparsely populated district, the raising of population density by an intensive irrigation project or an industrial estate can be beneficial for such social development projects as clinics or schools simply because it is easier to serve an agglomerated settlement. Projects typically have opportunity costs in their secondary spheres of influence, as well as on the primary indirect level. Expanding metropolitan areas devour both their recreation space and the truck gardens and dairies which provide their fresh milk and vegetables. So low-density housing in suburbia foregoes these benefits.

(8) *Rates of Interest for Future Inputs and Outputs.* The value of the resources available to a project cannot be taken into account unless a rate of interest can be attached. If all projects are to be appraised on the three levels being proposed here—specific financial gain, collective financial welfare, social development components of the level of living—then there is a serious question whether different rates of interest have to be established for each level of socio-economic cost-benefit analysis. The risks on each level are probably quite different, as a rule. Apparently this kind of question has not been asked in the social development field.

(9) *Non-linear Relations between Inputs and Outputs.* The correlation over time between inputs and outputs is curvilinear or discontinuous more often than not. Economies of scale, diseconomies of scale, and elasticity of demand need to be anticipated. For example, although cities generally are easier to serve with schools, domestic electricity, potable water, sewerage, and so forth, than are sparse rural settlements, the relations among costs and benefits of public utilities, on one hand, and the density and sprawl of a city, on the other hand, are certainly not linear. Moreover, such social development projects as city planning and education-manpower planning frequently ignore the fact that increased supply will tend to decrease

the value of the service in question, unless a countervailing effect is brought to bear on demand too. For example, some manpower-education analysts are wont to calculate the skills required from the education and training system solely on the basis of the positions created by technological evolution, without regard to the competition for the scarce resources which their plans are supposed to muster. But it does not necessarily follow that teachers or technicians will still be so valuable when they are no longer in short supply. Teachers might fetch a greater income if demand were stimulated by a public relations campaign in favour of more education, or if more and better teaching brought rising productivity and higher national income from which teachers could take a larger slice.

(10) *The Distinction between Average Cost and Incremental Cost.* Social development project's accounts are usually not drawn up to show costs at the margin. Yet it is marginal cost which should swing decisions between alternative projects, including the alternative of doing nothing.⁷

One of the main arguments brought against socio-economic cost-benefit analysis is that social development is intangible or unquantifiable. This stems from a misunderstanding of the subject matter of economics, which does not deal with tangibles at all. The problem

⁷ For examples of socio-economic cost-benefit analysis, see: C. D. Foster and M. E. Beesley, "Estimating the social benefits of constructing an underground railway in London (with Discussion)." *Journal of the Royal Statistical Society, Series A (General)* Vol. 126, Part 1, 1963.

International Institute for Land Reclamation and Improvement. *An Assessment of Investments in Land Reclamation: A Study from the Point of View of the National Economy.* Wageningen, 1960.

Nathaniel Lichfield, *Cost-Benefit Analysis in Urban Redevelopment.* Real Estate Research Program, Institute of Business and Economic Research, Berkeley, 1962.

Commonwealth of Massachusetts, Mass Transportation Commission. *Demonstration Project Report* Nos. 5 and 6. Boston, 22 November 1963 and 10 April 1964, respectively.

E. E. Pyatt and P. P. Rogers, "On estimating benefit-cost ratios for water supply investments." *American Journal of Public Health*, Vol. 52, 10 October 1962, pp. 1729-1742.

For the last of a long line of directives on United States water resource project evaluation, see:

U. S. Department of Commerce, *op. cit.* March 1964.

U. S. Senate Document 97. "Policies, Standards, and Procedures in Formulation, Evaluation and Review of Plans for Use and Development of Water and Related Land Services." President's Water Resource Council. 87th Congress, 29 May 1962.

U. S. Agency for International Development, Office of Engineering. "Benefit-Cost Evaluations as Applied to Aid-Financed Water or Related Land Use Projects," *Supplement No. 1 to Feasibility Studies, Economic and Technical Soundness Analysis, Capital Projects.* 31 May 1963.

lies not in questions of intangibility or quantifiability, but in the use of commensurable units. Contrary to common opinion, the components of social development can be measured—for example, hospital beds per 1000 population, trained teachers per 100 children of school age, unemployment rates, average number of minutes spent travelling to and from work each day, percentage of dwellings with piped water. While the mainstream of economics deals almost exclusively with a single preference scale, decisions in real life are usually made in terms of two or more discrete preference scales simultaneously. So socio-economic cost-benefit analysis is not asking for the impossible, although multi-dimensional decision-making is still very little understood.

SUMMARY CONCLUSION

The discussion has not gone beyond micro-analysis. It is debatable whether cost-benefit analysis can serve aggregative planning. For cost-benefit analysis usually involves comparison of the effects of the proposed activity *in context*, and the context *without* the project. It is doubtful that cost-benefit analysis can be used on vast projects that disrupt the antecedent situation.⁸

This paper insists that social development is more than another investment in economic growth via human resources. The human capital aspect of social development is nonetheless important in its own right, that is, on level 2, national income and collective economics.

In proposing a third level of analysis in terms of social development indexes, the discussion implies two key questions: Can social development indexes in the future be discounted back to the present? Can social development indexes and their interrelations be conceived as primary indirect and secondary costs and benefits, as financial flows are?

⁸ For proposed schemes of cost-benefit analysis on the macro-level, see:

W. Edward Cushen, "A National Management Worksheet: An Aid to Strategic Planning." Canadian Operations Research Society and Operations Research Society of America Joint Conference. Montreal, 27 May 1964 (unpublished).

Michael Kaser, "The Analysis of Costs and Benefits of Social Programs." United Nations. *op. cit.* 4-11 November, 1963.

CAPITAL-OUTPUT ANALYSIS OF HOUSING PROGRAMS FOR DEVELOPING NATIONS

LELAND S. BURNS

University of California, Los Angeles

Housing is one of several unwanted step-children in many contemporary programs of economic development. Its justification as a component of development programs is based on grounds of social necessity or political expediency, or as an essential for shelter to accompany industrial development. The social argument is generally supported by a list of evils attendant to conditions of overcrowding or dilapidation to which market forces fail to respond. Such conditions, it is also argued, are fertile grounds for breeding political ferment and civil strife. Pricing the social and political costs and risks is a difficult task often leading to results of doubtful validity. Development planners aware of these methodological problems are likely to reconcile housing as an ingredient of an overhead program justified in terms of social welfare or "need" rather than on the basis of strictly economic criteria.

To date, the application of traditional tools of investment scheduling, such as capital-output ratios, have accorded social overhead projects, such as housing programs, low positions in development schemes. With a high capital-output ratio estimated (for the U. S.) at 7.1, housing can scarcely compete for limited capital resources with alternative ratios running as low as 3.2 for railroad transportation and 1.6 for iron mining.¹ As a consequence, heavy industry and basic overhead projects in transport and power, for example, and other alternatives yielding quicker and more readily measured pay-offs have pre-empted the high ranks on investment priority lists. In this context, capital allocations to residential construction have been

¹ Robert N. Grosse, "The Structure of Capital," in Wassily Leontief and others, *Studies in the Structure of the American Economy* (New York: Oxford University Press, 1953), Table 8, pp. 220-221. The relative distribution of gross capital formation between wealthier and poorer nations indicates the emphasis on primary industry in nations in the early stages of development. According to estimates by Kuznets, the proportion allocated to agriculture, forestry, and fishing industries during the 1950's averaged 25.8 percent for the poorest nations compared to 7.8 percent for the richest. In contrast, the shares in housing averaged 13.9 and 21.5 percent respectively. Simon Kuznets, "Quantitative Aspects of the Economic Growth of Nations: V. Capital Formation Proportions: International Comparisons for Recent Years," *Economic Development and Cultural Change*, Vol. VIII, No. 4, Part II (July 1960).

based on the need for worker housing merely as a necessary element of industrial growth, rather than one recognized as contributing of itself to growth.

This paper outlines a framework structured on economic criteria for allocating capital to housing and considers the effects of housing investment on income and output, employment, prices, the balance of payments, and sub-national migration.² Many questions are raised by implication and few are answered explicitly, yet the considerations outlined are the sort that must be taken into account in systematic planning for the growth and development of emerging nations. A major study structured on these questions has been initiated recently and hopefully will yield results of relevance to planners charged with responsibility for making efficient capital allocation decisions.³ The framework proposes reclassifying housing as a tool for economic development rather than as a political or social welfare target.

Several initial assumptions are in order. First, maximum increase in real income over time is set as the primary target of economic development. Second, the direct returns generated from investment in housing are chiefly in the form of interest charges and rents, actual and imputed. Third, to facilitate the development of the rationale proposed in this paper, the capital-output ratio for housing is assumed to remain constant regardless of the investment decision. Finally, it must be assumed that capital resources are available for investment in limited quantity, and that an increase in investment in any one sector is at the expense of another.

Considering housing as a tool for economic growth and development, rather than as a target strictly of social or political policy,

² Early attempts at formulating such a rationale are apparent in papers by Leo Grebler and Max F. Millikan published in Burnham Kelly (ed.), *Housing and Economic Development*, Report of a Conference Sponsored at the Massachusetts Institute of Technology by the Albert Farwell Bemis Foundation on April 30 and May 1 and 2, 1953 (Cambridge: The Massachusetts Institute of Technology, 1955), processed. More recent efforts at spelling out the rationale in greater detail are Leo H. Klaassen and Leland S. Burns, "The Position of Housing in National Economic and Social Policy," *Capital Formation for Housing in Latin America* (Washington: The Pan American Union, 1963); and Leo Grebler, "The Role of Housing and Community Facilities in Economic Development," *United States Papers Prepared for the United Nations Conference on the Application of Science and Technology for the Benefit of the Less Developed Areas* (Washington: U. S. Government Printing Office, 1963). Vol. VII. Portions of this paper are based on the substance of the last two references.

³ This study is sponsored by the Agency for International Development under contract with the Real Estate Research Program, Graduate School of Business Administration, University of California, Los Angeles.

requires tracing through the linkages between improvements in the quality of housing and hypothesized increases in national income or product. Specifically called for is empirical testing of an important hypothesis: investment in housing contributes to economic growth by increasing productivity through improved living conditions. The precise linkages between the investment and output are subtle and complex, but may be reduced to two interrelated basics: the physiological and psychological response to a changed living environment.

Clear and ample evidence is available of the association between inferior housing and the incidence of disease, malnutrition, and other medical ills.⁴ Although it is uncertain whether poor housing is a causal or a reinforcing factor for poor health and disease, as well as for social disorder and disorganization, the correlations are impressively high and positive.⁵ Because most studies of these relationships have been confined to the more developed nations, extrapolations to emerging areas may be unjustified. Yet it may also be argued that with the decidedly inferior housing conditions prevailing in the poorer nations, the correlations between similar indices are even more compelling. Further, a small improvement in housing quality may elicit a greater response than an identical improvement in a wealthier country. Investment in new residential construction which raises housing standards on balance not only lowers many of the social costs of providing public services, but also reduces absenteeism and by so doing generates greater productive capacity in the labor force.

While it is abundantly clear that reduced absenteeism leads to increased output under conditions of full employment, the case is less clear where unemployment and underemployment are the rule. In the latter instance, which is typical for labor in underdeveloped

⁴The most detailed study for the United States is Daniel Wilner, Rosabelle Price Walkley, Thomas C. Pinkerton, and Matthew Tayback, *The Housing Environment and Family Life: A Longitudinal Study of the Effects of Housing on Morbidity and Mental Health* (Baltimore: The Johns Hopkins Press, 1962); for an extensive review of relevant literature, see Alvin L. Schorr, *Slums and Social Insecurity: An Appraisal of the Effectiveness of Housing Policies in Helping to Eliminate Poverty in the United States*, Research Report No. 1 (Washington: Division of Research and Statistics, Social Security Administration, U. S. Department of Health, Education, and Welfare, 1963).

⁵There is also the inescapable possibility that bad housing conditions partially result from the social ills themselves. However, in attempting to determine causal direction for the same relationships. Myrdal has asserted that "Any common sense evaluation will tell us that the causation, in part goes from poor housing to bad moral, mental and physical health," Gunnar Myrdal, *The American Dilemma* (New York: Harper & Bros., 1944), Vol. 1, p. 1290.

countries, it may be reasoned that the unemployed will be hired to replace hours lost from absenteeism without impairing output. However, the substitution of newly-hired labor requiring training and tooling-up time is less productive than keeping the trained labor forces on the job. Consequently, the "trade-off" is not equal and the case for providing housing as a retardant to absenteeism is strengthened. The same reasoning applies to the provision of permanent residential accommodations for a labor force accustomed to returning periodically to family homes separated by considerable distance from the work site. If such "pilgrimages" are temporally random, the labor force can be augmented accordingly. If not, then the provision of company housing offers a possibility for increasing temporal permanence and reducing the costs associated with an unstable labor force.

The second linkage is the psychological connection between output and living conditions. Again, a substantial literature has emerged demonstrating the effect on worker productivity of various types of living environments (at home and at work).⁶ This reaction is evidenced by higher morale, improved work discipline, and increased ambition, all of which translate into increased output on the job. To the extent that better housing improves living conditions, thence employee attitudes, the benefits may be traced back to the cost of the housing program.

If the benefits attributed to housing are more than illusory, then the benefits in effect accrue to the economy in general rather than to housing in particular. More precisely, by increasing output, housing investment reduces the capital-output ratio of the economy's non-housing sector.⁷ This logic, taken with the initial set of assumptions, leads to a theoretical decision rule governing the allocation of capital between housing and all other sectors. Investment in housing is justified so long as the additions to output it generates exceed additions attributable to all other investments taken in the aggregate. The optimal division of capital occurs at the point where the marginal contribution of housing investments to total income equals the decrease in contribution of the non-housing sector resulting from an in-

⁶ For example, Schorr, *Ibid.* For one of several reviews of the extensive literature on parallels between output and working conditions, see J. A. C. Brown, *The Social Psychology of Industry* (Baltimore: Penguin Books, 1954).

⁷ A convenient term embracing all industries other than housing.

cremental investment in housing.⁸ This rule recasts housing in an economic framework where a high capital-output ratio alone does not relegate it to a necessarily inferior position in the competition for scarce capital.

The implementation of this decision rule assumes that the optimal distribution of capital between housing and non-housing is determined by relative impacts on income or product. At least two other effects are immediately relevant to national economic targets, the impacts on the level of prices and the balance of payments. While each is difficult to discuss in general terms due to unique circumstances in individual countries, issues can be raised to elicit responses for guiding policy.

The investment mix between housing and non-housing will bear differently on price levels depending on resource endowments. Relative scarcities in terms of sufficiently skilled labor for the construction sector, or of building materials of the proper type, will exert pressure on price levels. As a rule, the residential construction industry in many underdeveloped countries utilizes relatively low skills where transfers from other types of employment are accomplished with comparative ease and without requiring the payment of necessarily higher than average wages. "Self-help housing," for instance, involves inputs of labor with only minimal skills. Inventories also indicate that indigenous materials, often of a very primitive nature, can be mobilized cheaply for house building.⁹ Still the finding that residential construction is inflationary relative to non-housing, calls for imposing a restriction on the decision rule. Such a constraint would operate to modify the optimal mix according to the inflationary pressures created by the mix as well as the amount of inflation tolerated.

Balance of payments considerations are closely allied. Two possible impacts are relevant. It seems probable that materials requirements for house construction may create demands for imports in excess of exports resulting in a loss of scarce foreign exchange, a situation which may be tolerable in the short run but hardly over an extended period. Such losses would not occur where indigenous materials

⁸ The decision rule, and the model from which it springs, is delineated more precisely in Klaassen and Burns, *op. cit.*, Mathematical Appendix.

⁹ Walter D. Harris, Hans A. Hossé, and Associates, *Housing in Peru* (Washington: Pan American Union, 1963), Chapter IV; and Marcia N. Koth, Julio A. Silva, and Albert G. H. Dietz, *Housing in Latin America* (Cambridge: Massachusetts Institute of Technology, 1964), Section II, Chapter 3.

were available in adequate supply and form to satisfy domestic demands, and in the absence of exports of building materials the effect would be neutral. An important exception must be noted, however. Even with a neutral direct impact on the payments balance, it may be argued that by displacing funds that otherwise might be invested in export industries, house construction operates counter to a favorable trade balance. On the positive side, housing intended for employees in export-oriented industries, or built to attract additional employment to these activities, would make an indirect contribution to a favorable balance.

The balance of payments and price level restrictions are not independent. A "tolerable" level of price increases must take account of secondary effects on the demand for exports. From domestic price increases follow deteriorating trade positions (*ceteris paribus*) as domestic production fares less well in the competition for world trade shares. Consequently, alternative investments must be reckoned in terms of the world response, as well as domestic reaction, to increased prices.

Again, such considerations depend on a variety of forces which differ in nature among countries. Such forces as the demand elasticities of exports and their share in the national economy, relative endowments of resources and their substitutability, the power of instruments of monetary and fiscal policy for regulating activity selectively and across-the-board, and the price and magnitude of capital transfers into the nation, are among these unique characteristics. Consequently, generalization is dangerous but the enunciation of cautious principles would seem to be in order.

While the major distributional problem concerns the division of investment between housing and non-housing, other distributional considerations are no less relevant. These questions relate to housing for whom and where. Distributional considerations affecting the location of new housing and the nature of its occupancy may rest on objectives other than strictly economic, but still highly interdependent with primary economic targets.

Experience in countries with more centralized economies has demonstrated the power of housing for attracting labor into particularly "critical" occupations. In similar fashion, with productivity changes the major criterion, occupancy priorities for new quarters may be predicated on labor-capital ratios, with first preference as-

signed where the proportion is highest and changes in productivity are measured most readily. Similar rules may govern workers employed in export industries in order to stimulate the growth of foreign trade. Still other criteria may also influence the arrangement of occupancy schedules.

The distribution of housing among a nation's regions has important implications for rates of urbanization and industrialization, and their counterparts, the mobility of labor and capital. The problems associated with burgeoning primate cities growing as a result of rural-urban migration are well documented.¹⁰ Programs calling for spatial decentralization of new housing and community facilities can serve to encourage stability and discourage urbanization as well as reduce the inefficiencies of congestion and the higher social and economic costs of cities expanded beyond optimal size.

In the same context, housing may provide incentive for the decentralization of industry, a goal pursued in the regional development programs of many developed and underdeveloped countries. Providing more adequate shelter in less urbanized places may attract industry as well as rechannel the migration of labor. A complementary policy for housing would facilitate the realization of new towns in areas evidencing economic potential. One potential would be a labor pool qualified for employment by industries seeking locations for new plants at diversified points.

Space limitations have precluded an intensive discussion of the points alluded to briefly in this paper, or even an enumeration of the many other components of decisions concerning housing investment. For example: the productivity of the house-building industry itself, the impact of new residential construction on tax bases, home ownership as a device for stimulating a reservoir of savings, the role of financial institutions in financing housing, and the price distribution of housing among income groups. Further alternatives to the criterion of productivity or to the assumed target of maximum economic growth have been omitted. The chosen mandate has been the formulation of an analytical structure for placing housing within the context of a nation's economic life.

In sum, the framework proposed here for analyzing the position of housing in economic development asserts the need for an examina-

¹⁰ For one such analysis of many, see Philip M. Hauser (ed.), *Urbanization in Latin America* (Paris: UNESCO, 1961).

tion of the relative productivity of housing as one investment alternative in a spectrum of many. In strict terms, housing is warranted when it makes a measurable contribution to output in excess of alternate investments. Such a contribution is measured by the change in alternative output rates attributable to an investment in new residential construction. Making the necessary measurements for developing this framework is a formidable task indeed,¹¹ but one that must be undertaken if housing is to make its bid for capital resources on the basis of economic criteria.

¹¹ To isolate housing effects, considerable discretion is being exercised in the choice of test sites for testing the hypothesis central to the study cited in footnote 3. Consideration is limited to non-urban areas of underdeveloped countries. Further, the site must include an industry, preferably with a high labor component and little or no factor substitution over time, located in an area where a fairly substantial improvement has been made in the quality of housing, but with minimal other investment. Time-series data on output per worker would be used to compare before and after effects attributable to the housing investment. Alternatively, two separate but proximate sites could be selected for cross-sectional measurements. In this less desirable case, the areas should be highly homogeneous, particularly with respect to the nature of employment, but diverse in terms of housing quality.

DISCUSSION

JUANITA M. KREPS

Duke University

The notion that social value cannot be fully expressed in financial terms probably needs to be stressed only among economists, who more or less agree on entering the profession not to be confused by the real world. But to economists in general and to cost-benefit analysts in particular, Mr. MacDonald's definition of social development as the process of "raising the basic components of the level of living measured by the . . . indexes of health, education, employment, working conditions, housing, food, nutrition and clothing," and his insistence that improvements in these components "are valuable in themselves and are not to be reduced to financial equivalents or to human capital," suggest a new and important approach to research in this area.

For some time now we have needed to explore this thesis that there is more to social development than its contributions to economic growth. Cost-benefit analysis, which attempts to provide criteria for the optimum allocation of resources, has contributed to the formulation of techniques and to the accumulation of data for comparing alternative projects. The Somers-Stromsdorfer paper is an excellent case in point. In their search for a measure of the gains in employment and earnings attributable to retraining, and the relation of these gains to the direct and opportunity costs involved, the authors provide both methodology and data for evaluating one type of educational program. The fact that retraining has become one of our major tools for combatting unemployment lends great interest to the questions with which the authors are dealing.

Consider for the moment the major conclusions reached in this paper. Trainees enjoyed significantly better employment records and earnings records than nontrainees. For the male trainee, the costs of retraining were quickly offset by higher earnings, and high capital values and rates of return followed the investment in retraining. Within the financial framework of the study, therefore, "the benefits of manpower retraining substantially outweigh the costs." Having found that benefits are greater than costs, the authors raise these questions: One, can the benefits be wholly attributed to their retraining? Two, does the West Virginia experience typify other retraining programs? And three, is retraining of the unemployed a sound social investment?

The first two of these questions arise from the limitations of the

data available on the control group and on retraining experience elsewhere in the nation. Given enough experiments under MDTA and other programs (and sufficient patience on the part of Mr. Somers and Mr. Stromsdorfer), these questions can be satisfactorily answered under the rubric of the dollars-and-cents approach. The third issue, however—the issue of whether retraining of the unemployed is a sound social investment—is a more meaningful question when placed within the framework of social development, as defined by Mr. MacDonald. Because if the authors mean by “a sound social investment” one in which returns are great relative to costs, they have found an affirmative answer. On the other hand, if they mean to indicate that soundness refers partially at least to some cultural and social values beyond the strict financial comparison, they have established no basis for making the judgment.

Nor were they attempting to do so, of course. They provide a quantitative basis for comparing, tentatively, at least, the returns on a given investment in retraining with the returns on a comparable investment in alternative projects. If similar analyses of alternative social investments are available, it is then possible to make the maximizing choice—maximization in this case being the achievement of the highest possible return in individual or social income, or both. Thus, in terms of Mr. MacDonald’s proposal for a three-tiered evaluation, conclusions could be reached regarding the first two levels, *i.e.*, the financial reward to the individual and the effect on national income. It is on the tricky third tier—“the effect of the project on social development insofar as the particular social development indexes cannot be translated into financial terms”—that we need to direct further attention.

It is perfectly possible that a project’s socio-economic value, established by the MacDonald indexes, would call for a reversal of the conclusion reached on the basis of the strict monetary cost-benefit analysis. Suppose, for example, that Project A (retraining) was expected to yield a higher financial return per dollar of investment than Project B (vocational education and counseling for high school dropouts). Suppose, further, that the cultural advantages embodied in the latter program (reduction in juvenile delinquency, development of appreciation of work, desirable influence on mobility) appeared, nevertheless, to give Project B priority. The fact that there exists no handy index for measuring the advantages of the latter project does not make it less important to choose correctly; it only makes it more

difficult to do so. But these difficulties are not insurmountable, surely. What is involved, Mr. MacDonald argues, is not a question of intangibility or quantifiability, but a question of commensurate units. And our problem is to identify "the cluster of preference scales that await decision."

One is tempted to take the easy way out, and suggest that we simply assign a dollar value to each preference, and thereby give the various projects some order of priority. But this would not obviate two major problems involved in arraying social development projects: one, the difficulty of agreeing on the relative merits of a series of programs and two, our inability to rely on the market mechanism to order social development projects in the socially most desirable way.

It cannot be argued that the development of indexes for measuring improvements in the level of human welfare will save us from having to make the first of these two decisions. Some value, albeit in part nonmonetary, must be attached to a reduction in poverty, as compared with the value imputed to, say, a reduction in illiteracy. But it can be argued that the use of several indexes (employment, health, education; or, the components of these indexes—skill and working conditions, food and nutrition, etc.) to estimate the relative merits of the alternative programs would throw more light on the nature of the choice than a straight financial appraisal of costs and benefits.

As for the value the market place puts on social development projects, and the ordering of such projects by this mechanism, little can be said except that they are in fact social projects precisely because the free market does not allocate enough resources to their use to meet public needs. What "free" market would price public school teachers' services in accordance with the social need for this particular brand of endurance? One is reminded of Keynes' mild comment that "There is no clear evidence from experience that the investment policy which is socially advantageous coincides with that which is most profitable."

Decisions to invest in housing are likely to be made, according to Mr. Burns, simply on the basis that such investments improve the social welfare; housing cannot usually compete with alternative projects having much lower capital-output ratios. But the choice between housing and alternative investments is not properly made on the basis of comparative capital-output ratios because housing investment, which increases worker productivity, reduces the capital-output ratio in the economy's nonhousing sector. Investment in housing is therefore

justified "so long as the additions to output it generates exceed additions attributable to all other investments taken in the aggregate."

In addition to this measure of the impact of housing on income or product, Mr. Burns enumerates other important criteria which must be taken into account: the investment's effect on prices and on the balance of payments, and a range of questions concerning the distribution of housing geographically and among the population. These related considerations may loom quite large in the investment decision, as the author clearly recognizes; in fact, it seems altogether possible, one, that housing's contribution to increased product may not be its major claim for priority of funds, and two, that even if on the basis of this contribution, a housing investment is preferred, other factors may still give priority to some alternative need.

Two research approaches are suggested. Mr. Burns would develop a framework by which housing (and other) investment decisions are ordered primarily on the basis of their comparative contributions to national product. Mr. MacDonald argues that an improvement in an index of human welfare (better housing, for example) has a value beyond its contribution to economic growth. The problem is not so much to measure the effect of better housing on income, but rather to learn to order investments on the basis of multiple criteria of effectiveness, only one of these criteria being increased income. Each author, incidentally, notes that his method of analysis presents a "formidable task."

Agreed. Moreover, there is common ground in recognizing the need for measuring the effect of alternative projects on the level of income, whether or not this effect is the sole basis for decision-making. One can admire the cold beauty that attends accurate dollar measurement, of course, without being comfortable in a world that reduces all things to dollar terms. "The first essential for economists," concludes Joan Robinson in her recent *Economic Philosophy*, "is to combat, not foster, the ideology which pretends that values which can be measured in terms of money are the only ones that ought to count."

SELMA MUSHKIN

George Washington University

It is the task of a reviewer to view with concern the straying of the author; I do not propose to be an exception.

Mr. MacDonald sets out, as his proximate purpose, to indicate the principles of cost-benefit analysis for social welfare project evaluation. He proposes that all projects be tested by a three-tiered socio-economic cost-benefit evaluation, namely (a) the net profit return to the finances of "the parent organization," (b) their effect on national income, and (c) the effect on "social development" by assessing the changes in indexes of levels of living. At this beginning stage of research on cost-benefit analysis, we impair the work by broadening its context to include on the one hand measurement of the national product consequences of alternative public decisions, and on the other the effect of social development in such non-financial terms as hospital facilities or floor space per average family. Rather the emphasis more appropriately should be placed at this time on a more rigorous definition of cost-benefit analysis, on the specific range of decisions which such analysis can improve, and on ways of measurement.

There runs through the paper the distinction between economic and social, meaning a distinction between industrial development and social welfare programs such as housing, education, labor exchanges, etc. It is a combination of people and things for the most part that determines a nation's output, and it is the changes in quantities and qualities of people and of things that determine its growth path. Distinction between social projects and economic projects shifts the emphasis away from the complementarities of technology, human skills, and worker motivation. Advances in economic theory have yielded a better understanding than we have had earlier of the contribution of education, health, and housing to economic growth. To draw lines between social programs and economic programs, as Mr. MacDonald does, takes us backwards. Economic progress, especially in the less developed countries of the world, requires a combination of programs directed toward improving both the quality of people and of production techniques. The questions that we raise about specific projects differ depending upon the conceptual framework from which we proceed. If we accept the notion that social programs are directed towards social objectives and that economic projects have expansion of industry as their defined purpose, the calibre of a work force becomes a given in evaluating an economic project, and we raise questions only about alternative types of plants and alternative production techniques. If, however, we think in terms of the quality of the work force as a component of the economic program, then the pertinent

question becomes: will resources devoted to training or preventive health measures yield a greater output or lower costs than alternative uses of a project's resources; or in what combination should resources be devoted to machinery, to fertilizer, and to improving the capacity of a people to work?

Assessment of the contribution of alternative programs or program packages to economic growth poses an allied but different set of measurement problems than does cost-benefit analysis. We are concerned in economic growth measures with output in national product or income terms without necessarily assessing inputs. There may be overlapping measurement issues, for example, in the determination of the amount of capital created (on a cost or capitalized yield basis), and of the relative rates of return on this capital, but assessment of the incremental increase in national income attributable to education, or to a reduction of discriminatory practices in employment, or to a change in hours of work, is by and large a different kind of program appraisal. Mr. Burns' paper makes this difference very clear.

Measurement of levels of living poses still another set of questions. The net income consequences of a health program may on balance be zero. The increased population and enhanced physical capital requirements to maintain a given capital-worker ratio may just balance the gains in output from enhanced worker productivity and motivation to work. Per capita income in terms of our standard measures may be the same after the launching of a public health program as it was before; the welfare of the people may be enhanced, however, if they are healthier than they were before. Use of the health index component of levels of living—the customary hospital bed facilities and physicians per 10,000 population—improves our grasp on the problem not at all. The informational base is not adequate in many of the developing countries to yield a meaningful index of level of living. All this discussion is not relevant to cost-benefit analysis but is made so by the concepts included in Mr. MacDonald's paper.

Cost-benefit analysis is essentially a tool for budgetary determination; it is a way to improve the basis of decision making by systematically examining many of the factors that enter into these decisions. Systematic examination of cost and of benefit components can provide a better yardstick for such decisions as: (1) Shall we spend more for functional program A or program B; (2) What are the least-cost alternatives; are they achieved better through methods

x, y or z for carrying out the objectives of program A; (3) What are the least-cost alternatives of site choices in pursuing methods x, y or z to meet the objectives of program A or B; (4) What are the net returns from an incremental addition to expenditures for program A or method x. For example, there are various methods of meeting the objective of elevating the skills and work capacity of the existing labor force. Opportunity for retraining can be made a universal offering, or it can be restricted to the unemployed or the undereducated. Income for trainees can be maintained in full, or in part, through social insurance protection against the risk of educational obsolescence; or partial payments can be scaled to unemployment benefits. Targets for reeducation can be set at 1 percent of the labor force or at some higher or lower percentage. This is the type of x, y, z, method problem that can be costed and valued as benefits to the economy and the individual.

If the cost-benefit tool is to be forged so that it can be applied more generally in budget decisions, costs and benefits must be measurable. The primary task of those concerned with improving the basis for public decision making is to bring within the range of measurement the varied costs and the variety of benefits, much of which has heretofore been labeled unmeasurable. This requires a fuller identification of costs including positive or negative costs incurred in related programs—for example, the reduction of crime through improved recreation, the higher costs of policing through expansion of a highway program, the reduction in unemployment benefits by training, etc. It also requires an identification of benefits to the multiple classes of beneficiaries of a single public program. Ways must be invented to quantify these amounts. The inventive exercise, in many instances, necessitates the evaluation of a human life, a problem of evaluation that is not restricted to the so-called social programs but extends as well to costing and benefit evaluation in highway projects, selection of plant and machinery design, airport facilities, and other projects where safety is a factor.

Precise measurement over the whole range of costs and especially of benefits is not, for the time being, a feasible goal. Perhaps some of the costs and returns will continue to elude us. We can be content, however, with approximate measurement if the approximations mark a step forward in providing better yardsticks for decision making. If the unmeasurable, for example, is reduced to some minimum and

we marshal the facts about the direction of these unmeasurable items, we can provide a better basis for judgment as to what possible consequences would follow from the factors that have not been measured.

A 1963 conference of the Brookings Institution underscored a variety of measurement problems encountered in applying cost-benefit analysis in widely differing program contexts, excluding, by design, the familiar water resources case. The proceedings of this meeting are edited by Robert Dorfman and should be available shortly. I commend it to those interested in the application of benefit-costing.

There are many threads in Mr. MacDonald's paper; I shall pick one for comment before concluding. Cost benefit analysis does not necessarily require a long run appraisal. Costs and benefits can be compared annually, that is the costs involved in a single year can be tested against the gains in that year. In a discussion of methodology for measuring costs and benefits of eradicating specific diseases, Mr. Francis Collings and I proposed the use of single year figures. Long range evaluations that call for determining the present value of net gains into the future introduce uncertainties that in some instances are not warranted and even become a barrier to effective application. For example, the gains from chemotherapy research in controlling mental illness are likely to be in billions within a single year; that is, the dollar value of the product of the added workers, added work time, and added work capacity would sum to billions of dollars if mental illness were controlled. Development costs in research are more likely to be in millions of dollars even over the whole span of the development program. A hundred-fold yield does not warrant introducing such uncertainties as the projection of marginal earning forty years ahead and the selection of an appropriate discount rate. Such economic consideration aside, for programs in which costs tend to be small and gains large even in a single year evaluation, the figures for the present value of future gains are so huge as to go beyond the range of political believability. Acceptance of the cost benefit figures, however, is critical to achieving an extended use of cost-benefit analysis.

BENSON SOFFER

Committee for Economic Development

These remarks reflect only my own positions and not those of the Committee for Economic Development. The CED has maintained a

responsible humanitarian position on manpower as well as other programs because it tries to stand for all good things—even for benefit-cost analysis when and where the state of the art makes it valid and practicable. I presume we all want to use benefit-cost analysis sooner and more generally for guiding multi-billion dollar investment in social welfare and manpower programs.

There is little with which to quarrel in what the authors say, but much of their caution comes at a high cost and produces no tangible benefit.¹

All social welfare programs involve income redistributions which our papers ignored. President Johnson defines recent program objective as “turning tax eaters into tax payers.” Congress has now decided to invest heavily in the “disadvantaged.” To reduce the category of dependent outsiders we shall have to redesign our housing, education, relief, health and other programs. The specific program targets (increased “levels of living”) are intermediate not genuine objectives.

Somers and Stromsdorfer have made a pioneer and timely contribution. Even under adverse circumstances, the short retraining courses under the A.R.A. program succeeded in assisting many unemployed. But, the authors have not shown that this specific program was the optimal one, or *one* of the set of optimal programs. I have stronger doubts than they have about the quality and nature of their data.² Also the rate of returns they derived seems excessively large and subject to high uncertainty discounts because of difficulties specific to the peculiar labor force and employment structure of declining areas.³

The very high returns to retraining investment may be illusory. In this case, the gains in employment of those completing training is almost matched by those who started, but got a job before com-

¹ There was little in MacDonald's paper which helped to resolve the check-list of problems he presented. MacDonald has not fully examined the economic content of his “third tier.” Recent social welfare issues in the United States have a vital economic component; e.g., when to use relief vs. rehabilitation, sheltered employment and public works versus income maintenance.

² At any moment of time there are very large random disturbances in cross section data. Erroneous responses on interviews further magnify the inexplicable variation and destroy confidence in what is apparently “explained.”

³ One doubts the permanence of some of the “vacancies” filled through a training subsidy in high turnover jobs in a tertiary industry of a declining area. It is even doubtful that some of those which might be permanent are economic vacancies when they offer wages far below prevailing levels and the supply price of labor. Such “training opportunities” also often attracted women who the authors admit had a loose attachment to the labor force. Consequently frequent retraining is needed to fill high turnover, low productivity jobs.

pleting it. This suggests to me that some returns to retraining is a combination of (a) a long-term return to unmeasured greater investment in basic education and transferable skills attained early in one's career; (b) a removal of some imperfections of the labor market, primarily ignorance of an individual's merit and prejudice against the group with which he is identified.

The consistently higher societal than private returns indicates a justification for complementary "overhead" public investment in encouraging retraining of those lacking incentive or opportunity to upgrade and adapt their skills. Whether it suggests more, or just better managed, public investment is still open. New systems may need supporting to fill gaps; e.g., in the capital market to permit individuals to finance investment in their own future increased earning power.

A particular manpower program should always be analyzed against a benefit-cost study of its best feasible alternatives for attaining the same objective. Retraining is compared here with "doing nothing special," which is surely not the best alternative for West Virginia's unemployed. Conceptually at least, the authors should have faced squarely the problems of conflicts between long and short term benefits, and the interrelationships among the various sectors of the job market. For example, in the long-term, more ambitious training programs may "pay off" both for the more and less qualified individuals. The expedient "quickie" retraining which matches good men and mediocre jobs in a distressed area may intensify the handicaps of the disadvantaged there. Stromsdorfer has shown elsewhere that such able workers can be profitably retrained for very skilled jobs. Thus future growth will be sacrificed if workers as they age are "locked" into a low skilled career.

As we reach full employment, much greater returns result from a widespread upgrading and updating of skills. Of course, most of this can and will be done without Federal government finance. But government will still have a vital role in a concerted attack on adult functional illiteracy, remedial education, and entry job skills for the younger disadvantaged. On the same reasoning our effort must go where considerable room for improvement exists in the organization of our maze of highly imperfect job markets. However, even more fundamental is releasing artificially idled or misused resources. The tax cut and Civil Rights laws have been of very great benefit and have soaked up much unemployment at no cost.

The crucial area for progress in benefit-cost analysis of manpower programs is the systematic and comprehensive gathering of the proper kind of data in greater detail and accuracy. Interview data on which we now rely are of poor quality, and for the future we should start developing more data from objective records which can now be readily stored, searched and analyzed by computer.

Moreover we must extend the use of longitudinal data. The continuous work histories of the Social Security system and other personnel records, and the Project Talent cohort of school youths represent the kind of person-centered series which can become the backbone of detailed, comprehensive benefit-cost studies. Studies must embrace potential alternative adjustment patterns which recognize the subtlety and complexity of individual behavior. These will be far superior to either insufficiently detailed cross section studies on which we now rely or the scattered case studies of individual project experience.

Many valuable experiments are generated by our decentralized society: most of our knowledge will now be retested. This knowledge would be increasingly useful if not permitted to disappear. Indeed, the splicing together of all these data with the longitudinal data should make it possible to forecast needs. Then we can manage our investment in educational and training institutions efficiently and adapt them to upcoming needs.

Detailed, objective, operational information has now become critical for proper benefit-cost analysis. Such information is equally crucial in developing voluntary, effective coordination of the many manpower and social welfare programs involving the "Establishments" of our decentralized society. The essential knowledge is there and it will grow in use as needed. We now have the advanced information-processing technology. The test of the good faith of these "Establishments" is that they join systems that pool and interchange this information.⁴ The potential gains should induce needed changes in these practices which have prevented realization of our social objectives; recognition of individual merit and providing all with the opportunity to be equal.

The economist or the benefit-cost practitioner using economic

⁴Of course, government should participate and should help finance a labor market intelligence network. Government could defray added private costs of providing data used for general research only. Users could be charged out-of-pocket costs of specific data they request.

analysis on these new programs has the task of providing genuine enlightenment in making the major policy decisions. The challenge to our good faith, sense of responsibility, and integrity is that we take on these difficult tasks while we insist on the closest possible approach to validity and relevance in our work.

Part VIII

**INDUSTRIAL RELATIONS IN 1975--
MANPOWER POLICIES**

CRITICAL ISSUES IN AMERICAN MANPOWER POLICY AND PRACTICE

FREDERICK HARBISON*
Princeton University

I

The manpower policy issue is currently a subject of growing interest, lively debate, and widespread confusion. Some people have argued for a "positive" or "active" labor market program; others call for a "comprehensive" employment and manpower policy; and many stress the importance of a logically integrated or "cohesive" strategy of human resource development. These are not the same. It is one thing to have active manpower programs, but quite another to evolve a general manpower policy which is both comprehensive and cohesive.

Let us start by defining the legitimate jurisdiction of manpower policy if there was to be one. Essentially, it would deal with the relationship between man and work. In the broadest terms, it would be concerned with the *development*, *maintenance*, and *utilization* of actual and potential members of the labor force.

The *development* of manpower is the process of man's acquisition of skills, knowledge, and capacities for work. For example, vocational education is obviously an instrument of manpower development. But general education is even more important. It is true, as educators and humanists rightly assert, that the broad purpose of education is to prepare people for life rather than simply for employment. Man does not live by bread alone. Yet, as Confucius is reported to have said, "It is not easy to find a man who has studied for three years without aiming at pay." Thus, to the extent that general education is necessary for and oriented toward preparation for gainful activity, it is a central concern of manpower policy. Beyond education, manpower is also developed in the course of employment as persons acquire skill, knowledge and experience through formal or informal training-on-the-job.

The *maintenance* of manpower is the process of preservation and continuous renewal of man's capacities for work. It could also be thought of as continuous development of manpower. For example, a major objective of unemployment compensation is to maintain a person while he is seeking new employment. The purpose of rehabilitation

* I am indebted to Mr. Arnold Nemore for assistance and ideas in preparation of this paper.

programs is to restore the capacity for work. The preservation and improvement of health is also important in maintaining the capacity for work. Retraining programs are designed primarily to maintain the ability of persons to participate in the labor force in the face of rapid changes in jobs and required skills. In this age of sweeping innovation, the productivity of the labor force must be maintained by continuous retraining, education, and renewal of human skills and knowledge.

The *utilization* of manpower is the process of matching men and work in accordance with their level of development. Even under conditions of near-full employment, the matching process is imperfect. For example, scientists and engineers may perform tasks which are beneath their knowledge and skills. Unemployment may persist in some localities while vacancies exist in others. Discrimination may favor certain groups in employment. Persons with high potential may not advance as rapidly in an enterprise as their capabilities would permit. Whether because of inadequate information, insufficient mobility, discrimination or lack of proper incentives, manpower may be and often is used inefficiently. Manpower policy, therefore, is concerned with *improving the utilization* of human resources. It encompasses measures such as the provision of employment and placement services, efficient managerial practices, labor market information, counseling, encouragement of mobility, and the use of incentives to attract persons into useful and productive activities.

A *comprehensive* manpower policy would encompass all programs or activities directly related to the *development, maintenance, and utilization* of the labor force, and a *cohesive* manpower policy would call for a logical and consistent strategy to guide all activity along these lines. This would be a large order. It would require the coordination and integration of thousands of policy-makers—private employers, local school boards, community action groups, state education, labor and welfare departments, a wide-ranging group of federal government agencies and institutions, as well as the federal, state, and local governments as direct employers of manpower. In a pluralistic society characterized by decentralized decision-making, manpower policy is almost everybody's business.

To most people, the very idea of a comprehensive manpower policy of any kind is confusing and disturbing. Manpower policy is viewed simply as a derivative of other policies. Some equate it with employment and assume that if aggregate demand is sufficiently high, unem-

ployment and hence the manpower problem will vanish, provided that some measures are taken to eliminate skill bottlenecks. Or, in order to promote economic progress, it may be necessary to find ways and means of making manpower more productive. The displacement of workers through automation raises the question of training and retraining. In order to wipe out poverty, it may be necessary to provide special kinds of education for disadvantaged persons in general and youth in particular. If it is important to step up scientific research, it follows that attention should be given to the production and better utilization of scientific and engineering personnel. There is thus a manpower dimension in most economic, social and political policies. But manpower, as such, is seldom the central focus of concern.

II

The question before us today is how to *organize an effort* to build a manpower policy. There are several ways of looking at this problem. For example, should manpower policy be Labor Department-wide, Federal Government-wide, or nation-wide?

A Labor Department-wide policy would be the easiest to construct. The core would be the strengthening and expansion of the U. S. Employment Service as a placement and manpower information system, as well as a provider of related services such as testing, counseling, and assistance to enterprises in the manpower management field. It would be flanked by the services of the Bureaus of Apprenticeship, Labor Statistics, and Labor Standards. It would be concerned under MDTA with providing training programs and training pay for the unemployed and those in danger of losing their jobs because of automation, import competition, and other reasons. With proper leadership, personnel and financial resources, the Labor Department might develop a cohesive manpower policy and program in a limited field. It would be responsible for the collection, interpretation and dissemination of manpower information, including the issuance of the annual manpower report of the President and the Secretary of Labor. Its principal area of concern would be matching men and jobs, i.e., with improving the utilization of manpower.

A Labor Department manpower policy, however, would be only peripherally concerned with the development of manpower, since education policy as well as manpower training programs of employers (both public and private) would be beyond its legitimate jurisdiction. (It could become more concerned with manpower development, of

course, if all federal activities in vocational education were transferred to the Department of Labor.) But it would have little to do with high-level manpower such as engineers and scientists, teachers, doctors, and other professional personnel. And the major decisions on the manpower aspects of the War on Poverty and various area redevelopment programs, for example, would lie beyond its reach.

Would it not be better to have a national manpower policy, or more precisely a Federal Government-wide policy? The underlying assumption here is that many different federal agencies and departments are concerned with pieces of manpower policy, some of which are consciously formulated and many of which are simply the indirect consequences of decisions made in other areas. The Federal Government is the nation's largest employer, with $2\frac{1}{2}$ million employees in civilian activities and another $2\frac{1}{2}$ million in the armed forces. It is becoming increasingly active in providing aid for general and higher education (supporting students, training and upgrading teachers, strengthening curriculum, purchasing equipment, building facilities, etc.). Its impact on the utilization of scientific and engineering manpower is particularly pronounced, since about two-thirds of the nation's research and development is federally financed.

More recently, the Federal Government has plunged into new areas. Under the Area Redevelopment Act and the Manpower Development and Training Act it now finances a variety of training programs for the unemployed. The Vocational Education Act of 1963 greatly expanded its involvement in technical training at the sub-college level. The new act authorizes federal expenditures for all types of occupational training, including business and office occupations, up to but not including professional occupations or those normally requiring a college degree. The so-called "War-on-Poverty" Act, which is administered by a new Federal Office of Economic Opportunity, contains a large package of manpower development measures. There is the Job Corps which is intended to develop youth for employment. There are work training programs for unemployed youngsters who are either in school or out of school. There are to be community action programs designed to assist the poor in employment, job training, health, vocational rehabilitation, adult education, and many other areas. Finally, there is the newly established Automation Commission which will be concerned with the consequences of technological change on labor demand, employment and unemploy-

ment. It is important to note that these new programs are to be administered not by one, but by several different federal agencies.

Inevitably, therefore, the Government is the maker of key decisions affecting the development, utilization, and maintenance of manpower which significantly influence, and in some cases determine, whole chains of decisions by private enterprises, state and local governments, school boards, universities, and other non-profit institutions. The logic of a national manpower policy would be to plan and control the *aggregate impact* of manpower activities of the Federal establishment.

In this model, the Labor Department would be only one of several important policy-makers. The Office of Education, the Office of Economic Opportunity, the National Science Foundation, the Civil Service Commission, the Department of Defense, and many other agencies would share in the policy-making process. Could their far-flung activities be coordinated?

One suggestion is to create a Directorate of Manpower in the Executive Office of the President. This new authority would have the power to coordinate all activities relating to manpower policy in the various federal agencies. This would require leadership of considerable stature as well as a sizeable staff of manpower specialists. In some respects, it would be a return to the idea of the War Manpower Commission during World War II. However, there are few supporters of this proposal as a peacetime solution. It would require new legislation, and it would almost certainly encounter overwhelming internal resistance. For example, those agencies concerned with scientific and engineering manpower are not anxious to have a coordinating authority within the Executive Office which might obstruct direct contact with the President. The same is true of the Office of Economic Opportunity and the Civil Service Commission. The Office of Education is hoping to have its own inter-agency committee on education policy, and the Labor Department certainly wants no super-manpower authority to review its actions and programs. Moreover, Congress is more concerned with particular manpower programs than in general manpower policy. It has shown interest in such things as training programs, expanded vocational education, attacks on poverty, an examination of automation, and programs for distressed areas. And, even those who are the strongest advocates of a comprehensive manpower policy (i.e., the Clark Committee group in the Senate) do not advocate the creation of a new manpower authority.

Another proposal, also without much enthusiastic support, is the establishment of a Council of Manpower Advisors with responsibilities in the manpower field parallel to those of the Council of Economic Advisors in economic affairs. Such a council would study or appraise the activities of various agencies, but it would not need to coordinate their activities. Its function would be limited to suggesting policy, but it would have no responsibility for its implementation. A simpler proposal might be to extend the functions of the present Council of Economic Advisors to include the appraisal and coordination of manpower policies. This would not require new legislation. However, the C.E.A. has been concerned, quite rightly, with general economic policy. Manpower policy, to be sure, must be related to general economic policy, but it encompasses an entirely different range of problems and requires the services of quite different professional experts. Perhaps little would be gained by mixing the two at this time.

For the time being all of these proposals have been brushed aside. Instead, there was created in April 1964 a President's Committee on Manpower. Its membership includes the major agencies concerned with manpower, and its chairman is the Secretary of Labor. Its purpose is to foster a *cooperative effort by Federal agencies* to appraise the impact of their manpower activities, to assist in preparation of the President's annual manpower statement, and to make proposals for solving manpower problems. Its sub-committees are concerned, among other things, with the methodology of manpower assessments, manpower development, manpower maintenance through training, and labor market operation. It may be able to make the President's Manpower Report a kind of consolidated statement on manpower rather than just a report on those aspects which are the concern of the Department of Labor. But, inter-agency committees without specific programs or large funds to administer often wither for lack of commitment and a clear sense of common purpose. In this respect, it is as yet much too early to judge the present or future effectiveness of the President's Committee on Manpower.

A Federal Government-wide manpower policy, in concept at least, has many advantages. It would be more comprehensive than a Labor Department policy. The idea of building a strategy for coordination of all federal activities affecting manpower is sound. But there is no strong desire on the part of Federal agencies to press for it. Each is concerned with or responsible for particular pieces of manpower policy,

and each is anxious to retain its initiative for action within its own sphere of influence. A "war on poverty" or a program to expand vocational education has appeal to voters. But manpower coordination, as such, has no constituency.

The third concept would be a nation-wide manpower policy. It would evolve from a nation-wide consensus on broad goals for the development, utilization, and maintenance of the country's manpower. It might stem from a national awareness of the need for a massive program for improvement and expansion of education and training to close the gap between the present level of development of the labor force and the high educational requirements of our rapidly modernizing society. It would recognize the necessity for building a more flexible, adaptable and mobile labor force in order to match men and jobs. It would assume that continuous training, retraining, and education are required to adequately maintain and utilize the nation's human resources. And it would identify the areas of responsibility of federal, state, and local governments, private employers, labor organizations, school boards, and community action groups in implementing manpower policy.

A nation-wide manpower policy can evolve only from a nation-wide understanding of manpower problems and a feeling of commitment to doing something about them. We may be moving in this direction. There is a growing feeling that a manpower revolution is underway, posing problems which are incapable of solution simply by accelerating economic growth and increasing aggregate demand. This revolution is in part the consequence of distortions caused by automation and rapid technical change which are altering the skill requirements of the labor force. It stems also from an unprecedented influx of youth into the labor market, coupled with the tendency of more married women to seek and hold jobs. One manifestation of this revolution is a rate of unemployment which persistently lingers above 5 percent in a period of record-breaking prosperity. All of these things are generating an awareness that the nation is faced with serious manpower problems and that something must be done to solve them. Yet, it would be incorrect to assume that there is now any general consensus on a comprehensive and cohesive manpower policy.

III

It is doubtful whether a new coordinating authority could build any kind of a manpower policy—either Labor Department-wide, Fed-

eral Government-wide, or nation-wide. In looking ahead for the next decade, it is obvious that a manpower policy, if it evolves at all, will be a sort of aggregated product of decisions and actions taken in a number of critical problem areas. Let me briefly identify seven of them.

The first relates to aggregate demand. To what levels can unemployment be reduced by monetary and fiscal measures, without incurring skill bottlenecks which will generate inflationary forces? Is three or four percent a reasonable goal, or must we settle for about five? And under varying assumptions what part of the job must be achieved by measures aimed at better development, maintenance and utilization of manpower?

The second and most spectacular is automation. It is eliminating jobs and distorting skill requirements. As previously suggested, it is one of the major causes of the manpower revolution, and it will have a profound impact on education and training policies. Some people even predict that it will "liberate" a large proportion of the labor force from work. Fortunately, the period of excitement and alarm is coming to an end, as energies are devoted to more systematic study of the problem. But, answers need to be found for major questions: What industries are most likely, or least likely, to be affected by automation? What kinds of jobs are most likely to be eliminated? In what fields will automation actually create new employment opportunities? Will the expected expansion of the so-called "knowledge industries" provide as many new jobs as those eliminated in the automated industries? And what will be the respective "skill-mixes" in such industries?

The third problem area is the expansion and improvement of general education. Today the economy seems to have an almost insatiable appetite for highly-educated manpower—for scientists, engineers, teachers, doctors, managers, counselors, and a wide variety of technicians and sub-professional personnel. To some extent, the supply of such high-level manpower creates its own demand, as well as a demand for supporting personnel. At the other extreme, the economy is rejecting those with less than a good high school education. Many people argue, therefore, that in relation to the country's present and expected levels of economic and technological development, the labor force is underdeveloped. In other words, the gap between education and employability is widening because the education system fails to keep pace with changes in the world of work. What then are the appropriate remedies? Is a massive, across-the-board increase in educa-

tion necessary to adequately develop the nation's manpower? Should free public education include post-high school education, either in technical institutions or in college, for two or three years, so that fourteen or fifteen years of education is available to all at public expense? Or, should the expansion and improvement of education be more selective, giving priority, as J. Kenneth Galbraith suggests, to improving sub-standard schools in the poorest and most disadvantaged areas? Should more resources be devoted to identification of the gifted and education for excellence? What are the appropriate means of financing programs of expansion and improvement of education? And how will the required teaching personnel be developed? Unlike most other industries, education becomes more labor intensive as it modernizes. Teacher-student ratios rise; new courses are added; remedial programs and counseling are expanded; and more time is allocated to research. In education, therefore, the critical problem will be the shortage of qualified persons rather than manpower surpluses. Thus, all programs for expansion and improvement of education have manpower implications, and most must be justified, in part at least, by manpower considerations.

A fourth problem area is the role of training and retraining. Almost all prescriptions for manpower problems contain training as the active ingredient. Congress has been liberal in providing funds for this purpose. In addition to MDTA, there is the sizeable expansion of funds for vocational education. Training lies at the heart of the Economic Opportunity Act. There is, however, uncertainty about the relationship between general education, training, and employment. And there is confusion about how responsibility for training should be shared. In preparation of persons for various categories of occupations, what is the appropriate mix, and the relative opportunity costs of general education, vocational training, and on-the-job development? Should retraining programs be organized primarily for the unemployed, or should a retraining system be an integral part of in-service development and maintenance of all employed working forces? To what extent should employing institutions, both public and private, be responsible for training and retraining? What incentives are appropriate to encourage private industry to assume a larger share of the burden of training and retraining? Under MDTA and the Vocational Education Act, there are funds for research and experimentation with various kinds of training. But there is need also to examine the *basic assumptions*

of the respective roles of general education, vocational training, and in-service development in preparing people for productive participation in the labor force.

A fifth problem area is mobility. There is general agreement that the labor force of the future must be more flexible and adaptable. But what kinds of mobility are required, and how can they be developed? The first is occupational. Within limits, many persons may have to change their occupations from time to time. The second is geographical. Most persons may have to live in several different places during their working lifetime. The third is internal, or movement within the establishment. This implies that persons must be prepared to move upwards or sideways within the career pathways which an employing establishment (either public or private) may provide. And the fourth is intellectual. This requires an attitude of acceptance of change and a willingness to prepare for new kinds of employment. These questions then arise: Under what conditions is geographical mobility desirable, and how can it be encouraged? What are the respective roles of general education and training in developing intellectual mobility? To what extent is continuous education and retraining necessary for occupational mobility? Under what circumstances should mobility be discouraged rather than encouraged? The state of knowledge in this field is quite undeveloped; there is a plethora of opinion, but as yet no solid information upon which to base policy.

A sixth critical area is "job creation" or "job tailoring" for the unskilled. Even under the most favorable conditions of aggregate demand, the problem of finding employment for certain kinds of unskilled labor is likely to persist. In 1960, nearly three-fifths of the adult population (25 years of age and older) had less than a high school education. It may be practically impossible to update the skills of most of today's poorly educated older workers. There will always be youngsters unable to complete high school. And there are mentally and physically handicapped persons who need work. The purpose of a job creation program would be to use disadvantaged groups, unlikely to be otherwise employed, for performance of useful and necessary work, unlikely to be otherwise performed. The types of work most frequently discussed include conservation and reforestation; rehabilitation of rundown buildings, streets and parks; services for private households such as building maintenance, gardening and housecleaning; and assistants in hospitals, schools and playgrounds.

Various community action groups, with the encouragement of the Office of Economic Opportunity, are embarking upon job creation programs, and already serious questions have arisen: Can useful and important work be identified which might not otherwise be performed and which would be suitable for disadvantaged persons in combination with measures to increase their literacy and skills? In a "job creation" program, what should be the role of private employers, the Employment Service, local, state and federal governments, and private community organizations? Should private enterprise be subsidized to employ and train disadvantaged groups, and if so, what specific arrangements should be made? How can problems such as wage determination, property ownership, or finding the necessary cadre of skilled and supervisory personnel be handled? Is it desirable to place youngsters on jobs which are only temporary and which may be "blind alleys"? What combinations of education and work experience are most appropriate for different categories of disadvantaged persons?

A final problem area is the role of the Employment Service. This over-burdened, understaffed, and widely maligned organization inevitably must play a key role in implementation of any kind of manpower policy. To be sure, it reaches through its placement, counseling and testing services only a small proportion of the labor force. Most employers prefer to hire directly than through the Service. Private employment agencies have been vigorous if not unscrupulous in attacking it. Yet, the Employment Service is the primary source of information on local labor markets. It is burdened with handling problems which private enterprise is either unable or unwilling to tackle—employment of migratory farm workers, selection of trainees under MDTA, establishment of employment centers for disadvantaged youth, job placement in connection with poverty programs, and many others. Schools and colleges expect the Employment Service to provide information about existing jobs and to make forecasts of future employment opportunities. In many cases, the Service is expected not only to perform functions but to provide leadership for community action programs, to combat poverty, to attract new industry, or to eliminate discrimination in employment. Certainly, the Employment Service needs to be strengthened, but at the same time its central functions must be reexamined. These questions, in particular, are worthy of consideration: Is the primary mission of the Service to make referrals and placements, or is it rather to *facilitate* the placement process by

providing information, counseling, testing and other services? What additional powers, if any, must be given the Employment Service to make it more effective as a collector, analyzer and distributor of labor market information? What changes in organization, staff, and financial support would be necessary to enable the Service adequately to perform its principal functions as they might be redefined?

IV

There are other important problem areas in the manpower field, and I hope that the discussants will mention some of them. In all, however, there are questions for which there are as yet few answers. There is thus little basis for a clear-cut policy in any of these areas. As long as we don't know which way to move in any of these areas, why should we set up a new Federal Manpower Authority to coordinate confusion? At this stage, I think that we need new ideas rather than new masterpieces of organizational architecture.

Fortunately, a substantial amount of money and effort is now being poured into manpower research. Congress has been generous in providing funds for research on training under MDTA, as well as on all aspects of vocational education. Money is available for experimental and demonstration projects in the poverty field. There is a torrent of funds from many sources for research on various aspects of automation. Education at all levels is now being studied as never before. In the next ten years, we are certain to have active manpower research, even if we are unable to construct an active manpower policy. This research is bound to extend the frontiers of knowledge and to suggest more definitive courses for action.

Research on particular problems in critical areas, however, will develop policy in pieces. In order to have a comprehensive and cohesive manpower policy, the pieces must be fitted together. And this can be achieved only by unifying ideas. Therefore, some effort must be devoted to integrative thinking about manpower policy in addition to research on critical manpower problems. Here lies a real challenge.

Instead of a new Federal Authority, I suggest that there should be a small group of manpower planners committed to developing some unifying ideas. Starting from the premise that an active, comprehensive and cohesive policy of developing, maintaining, and utilizing human resources is an end in itself, this group should attempt to come forth

with concepts for integrating our expanding knowledge about manpower into a logical and meaningful structure. Its terms of reference should not be limited to evolving a manpower policy for the government; they should include an attempt to lay the foundations for a nation-wide consensus on manpower policy. The group might be constituted as a government-sponsored task force, a non-government planning organization, or some other combination of public and private interests.

This manpower policy planning group should be composed of both "thinkers" and "doers." Its membership might include persons from the academic and research community, private enterprise, organized labor, as well as government personnel. With the help of a small staff, it should operate as a task force rather than an advisory committee, and its members should devote considerable time not only to reviewing research in the manpower field, but to writing position papers as well. It should be a policy-oriented idea group, and it should be receptive to new thinking and new research findings as well as closely related to on-going operations in the manpower field.

The formation of such a manpower policy planning group would indeed be considered a rather modest and unspectacular approach toward solution of such a mammoth problem. It might even escape notice for a few years. And perhaps because of this, this approach might in the end bring the greatest returns!

The manpower policy planning group could maintain close contact with agencies such as the Department of Labor, the Office of Economic Opportunity, the National Science Foundation, and the President's Committee on Manpower. It could explore systematically with industry and labor appropriate measures for securing more responsible involvement of the private sector in manpower policy-making. And it could feed ideas to Congress. It might even engage in the now fashionable exercise of model building.

In closing, let us give this manpower planning group a first assignment, and it is a wild one: Build a "model" of the labor force in 1965, setting forth manpower demand by major occupational categories, and making assumptions about the extent of automation and growth rates of the economy. For this model, construct targets for expansion and improvement of general education at all levels. Design a system of continuous education and training for all members of the working forces, in which employers, individuals, communities, as well as state

and federal governments would share responsibility. Provide for maximum flexibility of the labor force through a variety of mobility-promoting measures. Create a pool of unskilled jobs with bright futures for that proportion of the labor force expected to be disadvantaged. Invent a scheme for matching men and jobs based upon gatherable information and utilization of both private and public efforts to facilitate the process of placement and transfer. Determine the costs of all this in terms of GNP and availability of strategic manpower, and work out a plan for raising the necessary funds. Then, after this is finished, construct another model or series of models using alternate assumptions and measures. It is just possible that some unifying ideas could emerge from such an exercise!

DISCUSSION

GARTH L. MANGUM

President's Committee on Manpower

An agreed upon definition of manpower policy is probably both impossible and irrelevant. What we pursue is not a definition but a set of goals relative to the employment of human beings and upon these there is already a broad consensus:

1. Provision of employment opportunities for all who choose to offer their services in jobs which reflect an optimum combination of free occupational choice, full utilization of each individual's highest skill potential and allocation of available manpower resources in accordance with socially established priorities.

2. Provision of education and training opportunities capable of full development of each individual's productive potential.

3. The matching of men and jobs with a minimum of lost income and production.

THE ACCOMPLISHMENTS OF MANPOWER GOALS

The question addressed in this session is not the nature of these goals but the mechanism for their accomplishment. "Is some type of centralized federal manpower authority needed?"

Fortunately, considering the state of our collective wisdom, public policy is only marginally involved in the accomplishment of manpower goals. Regardless of government action, jobs are available for most people who want them; most people obtain a reasonable amount of education; most people make reasonable vocational choices; most people become reasonably skilled at their jobs; the labor market manages somehow to match most men and most jobs over time, space and occupations and usually manages to get those jobs done which society considers most important.

But this can be said about any of our economic goals. Our manpower goals, in part by their nature and in part because of our increasing sensitivity to human distress, require more public participation than many other economic decisions.

Federal fiscal and monetary policies determine these vital increments of total spending, public and private, which spell the difference between high and low unemployment. Our public education system bears major responsibility for the employability of the labor force.

The federal government is directly responsible for the employment of 12 percent of the labor force and two-thirds of some scarce skills. On humanitarian grounds the government cannot escape responsibility for the 14 million who experienced unemployment last year, the 9 million families with inadequate incomes, the millions who live in depressed areas, the millions of undereducated, and the new entrants to the labor force, the older workers, the victims of discrimination and other disadvantages in the competition for employment.

However, these manpower responsibilities bear at no specific point. Our government is as pluralistic as the society it serves. Time and space will not allow exploration of all of the nuances involved in the development of consensus in the country at large, Federal-State relationships and the delicate balance within the Congress and between the legislative and executive branches. The making within the executive branch of policy in pursuit of manpower goals, is complicated enough by itself. The level of employment is affected by decisions of the Council of Economic Advisers, the Bureau of the Budget, the Federal Reserve Board, the Treasury and the spending requests of every department. Education is supposedly the bailiwick of the Office of Education but the Green Report demonstrates that few agencies are uninvolved. Training as a general function is shared by HEW and Labor, though substantial but unmeasured responsibilities exist in other departments, notably Defense. The list could be multiplied.

With this divisive approach, rough edges and frictions are inevitable. Practitioners of the fiscal arts serenely project a four percent real growth rate (a substantial increase over long run trends) into a future promising a 1.7 percent annual labor force growth and a 3 to 3.5 percent increase in output per man hour. Even though aggregative measures have effectively reduced unemployment to 5 percent with relatively stable prices, some of a more structural persuasion are convinced that aggregate demand can make no further contribution to the reduction of unemployment. The philosophy that tax cuts are the normal approach to demand increases while "expenditure increases must be justified on individual merit" is too often accepted without adequate recognition of the basic allocation decision between the private and public sectors involved in the statement.

No ready forum exists for matching the inventory of unmet public needs with the inventory of unused manpower. Manpower authorities

are beginning to recognize the need for tailoring some jobs to the limitations of those with serious competitive disadvantages in the labor market but spread of this philosophy is slow. With compartmentalized packaging, it is difficult to view as a single integrated system, the appropriate relationship between general education, vocational education and on-the-job training. It has taken crises of shortage and displacement to bring administrators of programs which are heavy users rather than servers of manpower to a recognition of the manpower implications of their decisions. Yet the absence of a shortage of, for instance, scientists and engineers does not make their allocation between the private and public sectors and within the public sector less important.

These are examples, by no means exhaustive, of the pressures which have led to the search for a mechanism to coordinate manpower policy. This does not suggest a federal manpower authority. Some manpower policy decisions are made directly by agencies responsible for manpower programs. For these there is need of a strong central manpower administration. This is being developed within the Labor Department. Other manpower policy decisions are derivative from the primary responsibilities of manpower-users and educators. Here the best we can hope is that the manpower implications of decisions will be considered along with other aspects of cost benefit calculations. The President's Committee on Manpower was created primarily to encourage the latter. It has been in existence only six months. The initial experience encourages both hope and modesty of expectation.

Thus far, my remarks have paralleled Professor Habison's and registered general agreement without specific comment. I close with specific reference to his proposal for a multi-party "manpower policy planning group." In accord with the general tenor of my previous comments, I mingle endorsement with a plea for modest expectations. Consensus in the political arena is contributed to, but not made by, such a group. Ultimately, consensus is reached by power as the President recommends and a Congressional majority approves. The manpower policy task force—call it what you will—can best serve by feeding a government hungry for but not bereft of ideas through direct contact between the academic "thinkers" and the government "doers." The making of consensus is the role of politicians.

In endorsing this proposal I issue one warning. The process should

and will work both ways. In eight months of hearings before the Senate Employment and Manpower Subcommittee, I found my academic friends more adept in describing problems than proposing solutions. They find their mettle tested in competition with government people who are constantly forced to seek practical answers.

SUMMARY

I have attempted to make five points :

1. The specification of manpower policy goals is more important than the definition of terms and drawing of boundaries.

2. The goals of manpower policy can be summed up under the headings of job creation, manpower development and matching men and jobs.

3. These goals, like most others in our economy are satisfactorily accomplished for most people through the private decision-making process. Public participation is marginal but that margin is the difference between satisfactory and unsatisfactory performance.

4. There is need for coordination in making manpower policy within a diverse and pluralistic government but one should juggle both hope and scepticism about its accomplishment.

5. An effective device is needed to merge the efforts of thinkers, doers and guardians of the facts. Government needs ideas. Academia must be pressed for answers as well as questions. Within government there is a tendency to consider those whose feet are planted in the data as unimaginative and to seek advice from those unencumbered by the facts. Triangles do not commonly make for happy marriages but in this case I find a little polygamy desirable.

NAT GOLDFINGER

AFL-CIO Department of Research

The proliferation of an increasing number of manpower activities by the government is even more confusing than Professor Harbison indicates. Not only has there been a proliferation of government programs and the involvement of varying government agencies, but the key role of the Employment Service and its inherent federal-state structure means that the activities are further split into 50 different operating arms—often with differing policy emphases and direction.

In attempting to get at some of our manpower problems since early 1961, we have thus far created a network of confusion.

In an ideal sense, we should have developed a comprehensive series of integrated manpower programs—all under one roof. Whether or not it is desirable, I do not think a perfectly neat, national manpower policy is feasible in the near future, if ever. So we are left with a need for coordination.

The President's Committee on Manpower offers the possibility of such coordination. If it does not work, it seems to me that it should be replaced, but the idea of coordination should be encouraged and not killed off.

For that reason, I believe that Senator Clark is to be congratulated for his broad-scale probe into the manpower problems of the nation and for his prodding on the need for a comprehensive, integrated and active national manpower policy. However, in a pluralistic society, covering an economy of continental size and diversity, we will probably always have some degree of irrationality and lack of neatness in organizational structure. But it is time that we begin to coordinate these proliferating federal efforts—not for the sake of bureaucratic neatness, but for the sake of developing an effective, national policy, rather than a vast series of varying and sometimes conflicting local-market oriented efforts.

The following are some brief comments on the substance of manpower policy, as I see it:

1. The basic prerequisite of a national manpower effort is a full employment policy. Despite the progress of the past 4 years, we still do not have a firm government commitment to full employment and a national policy to achieve and sustain full employment. We do not even have a definition of full employment in the context of the American labor market and a commitment to strategies for its attainment. So the very keystone of a national manpower policy is still missing. Without this keystone, one can have only a vague idea of how the proliferating manpower efforts can best be fitted together.

2. Similarly, we have lacked the commitment and the will to give some broad, rational direction to the various pieces of manpower efforts. For example, population statistics give us a fair idea of future trends on the side of labor supply. But most of us have preferred to ignore what we know about these trends; merely examine most of the academic and business forecasts for 1965 and the way labor market

issues are shoved to the side or even ignored. And in terms of government policy we have done very little, if anything, about what we already know of the probable growth of the labor supply in 1965.

At the end of World War II, with the anticipated return of the GIs to civilian life, we adopted the GI Bill, in advance. The GI Bill reduced the sudden influx into the labor force of huge numbers of people, and, at the same time, upgraded the educational and skill levels of the population. In the 1950s and early 1960s, we did nothing, in advance, to adjust to the sharp rise of the labor force which we know will occur in the next several years and then flatten out in the latter half of the 1960s at the higher level.

Or, let us look for a moment at the impact of technology. With all the talk about manpower policy—and all the government funds spent on manpower research—the government has not yet even begun, to my knowledge, to put together a continuing technological forecast, which could give us an approximate idea of trends and insights on the developments of applied technology and their anticipated impact on labor and skill requirements in the next 3, 5 and 10 years. Without such a continuing technological forecasting effort—with continuing revisions to improve the accuracy of the estimates—our training, retraining and vocational education efforts are flying blind. And to an increasing degree, I believe that the people towards whom these programs are directed have at least a suspicion that they are often being offered training for jobs that may well be displaced in the near-future, or jobs that are low-paid, dead-ends.

Most of the gentlemen from the government agencies tell us that such technological forecasting is impossible. The engineers, however, tell us it is feasible, without doubt. I prefer to believe the engineers, at least until a serious effort has been made.

3. Embedded in the area of manpower policy is the political issue of federal-state relationships. Without an effective, nation-wide employment service, a national manpower policy is most difficult, if not impossible, to achieve. But our federally-financed public employment service is run by the states—so that we have 50 public employment services of varying effectiveness and caliber, rather than one national service or even a nation-wide, coordinated service.

We simply blind ourselves to an essential factor in the manpower problem, if we ignore this basic political issue. It may be impolitic to suggest vigorous federal standards for the federally-financed, but

state-operated, employment service, at a time when some of our friends are proposing that the federal government should engage in tax collecting for the states, with no federal standards or federal conditions. But the issue of federal-state relationships is a crucial one and, it seems to me, without an increased federal role—at least with adequate federal standards for the employment service—a national manpower policy is hardly possible.

4. Income maintenance, in my opinion, has a direct relationship to manpower policy, although it is frequently shunted aside. By income maintenance, I mean not only unemployment insurance and social security benefits, but training allowances, statutory minimum wages and at least some thinking about new forms of transfer payments, such as the possibility of family allowances. To me, income maintenance should be considered part and parcel of manpower policy, not only in terms of labor mobility, but in terms of the satisfaction of the needs and wants of American families. Manpower policy is simply irrelevant if it is not rooted in an attempt to meet the needs and desires of people.

5. A developing national manpower policy that points ahead to the next quarter of a century and more must include some consideration, at present, of the impact of the technological revolution on the changing nature of work—the relationship of work to non-work—while providing adequate income levels for American families. We, who are in this room at present, are not producing anything nor contributing to the production of any goods and services at the moment—objectively speaking, we are all unemployed or engaged in non-work, except that most of us are on a payroll. There may be people outside looking in on us who would claim—probably with quite a degree of veracity—that we are goofing off and engaged in featherbedding. But featherbedding is what the other fellow does, never what we ourselves do. It is time that we thought this whole issue through, in terms of the impact of the technological revolution on the increasing availability—real and potential—of leisure time and the relationship that one has to a payroll.

What I am suggesting is that a manpower policy in the mid-1960s must consider the reduction of working time during a person's life and the emotionally-loaded issue that has gone by the name of featherbedding, when we don't approve of it, or golf at the club or an

afternoon at an IRRA Meeting, while on the payroll, when we are directly involved.

In conclusion, I do not think that our major need in the United States is the creation of a new think-tank on the subject of manpower policy. The crying need is to do something about it.

FRANK H. CASSELL

Inland Steel Company

Professor Harbison's paper makes two points which especially attracted my interest: first, his appeal that "we need new ideas rather than new masterpieces of organizational structure" and second, his suggestion that there should be "a small group of manpower planners committed to developing some new unifying ideas."

He points out that "a manpower revolution is under way, posing problems which are incapable of solution simply by accelerating economic growth and increasing aggregate demand." Presumably to better understand this revolution and to search for solutions to a persisting five percent national unemployment rate, Dr. Harbison proposes the building of a "model" of the labor force in 1965 complete with targets, organization and programs designed to reach the targets.

Suppose for purposes of gaining perspective, that in addition to a 1965 labor force model, we were to take a look at an area such as Chicago with a current unemployment rate of less than three percent to learn what we can about the manpower revolution and unemployment in a local community.

It is quickly apparent that something is absorbing the labor supply, and that something is a broadly-based high level of business activity. Retraining programs, though important, are too few in number to have materially reduced unemployment. There has been no sudden spurt in new industries or in new government contracts.

High-talent manpower is increasingly scarce and recruiting is world-wide. Manpower bottlenecks in research and development are occurring. The wage level of these people is rising faster than that of organized workers.

Forty-four months after the beginning of the current economic upswing hiring standards have begun to drop from high school gradu-

ation to two years of high school to the passing of simple literacy tests. Jobs for the dropouts are beginning to show up and MDTA graduates are now finding jobs with greater ease.

Employers who want to preserve their high school graduation standards, or keep an educational balance in their workforces recruit as far East as New York, as far West as the Rocky Mountains, as far South as the border states, and in every small town and hamlet in the Midwest.

Negroes with college training are eagerly sought out not only to comply with the law but because companies genuinely need talented and educated people. Here, however, employer preference for technically-trained college graduates operates more restrictively against the Negro than the white because so few Negroes are currently being trained in the hard sciences, in engineering and in the graduate business schools.

Negro high school graduates, especially girls with office skills, are also in high demand; as in the case of college-trained Negroes, employment seems to be restricted by the desire of employers for especially talented Negroes with backgrounds that closely resemble those of whites.

Despite these optimistic trends, Negro unemployment rates remain high.

New Negro mobility problems have been uncovered. These result from the simultaneous suburbanization of industry and the containment of Negroes into ghettos. This results in many Negroes being unable to take advantage of job opportunities because of lack of efficient, contra-directional public or private transportation facilities between the inner city and the outer suburban ring.

Pressure of technological change and automation upon the individual is lessened because more job alternatives exist for him both within and without the company. Lower qualifications of the labor supply have caused both training and retraining and such programs are more effective because they have a clear purpose.

The re-entry problem back into industry is considerably eased and this makes retraining a more feasible undertaking.

This limited sketch of a labor market suggests the possibility of the construction of models by region and by varying levels of economic activity to cast light on the merits of the long-standing debate between the structural and the demand theorists on unemployment.

Also suggested is an eighth possible problem area to add to the seven enumerated by Professor Harbison, which would include consideration of attitudes of individuals and society which influence the development of manpower policy. A few of these considerations are described below:

1. With the labeling of manpower policy, whether it be "positive," "active," "comprehensive," or "cohesive" manpower policy, the implication gets through to the ordinary citizen that someone is proposing a wise, governing body to decide about jobs and careers for people in accordance with some master plan. This is likely to be disturbing to people at the grass roots because the planners will appear to be too remote from the local community and too manipulative.
2. Though formally as a nation we are committed to full employment as a goal, many people including some political leaders fear inflation more than unemployment. This together with widely-held beliefs that the individual is responsible for what happens to him, good or bad, hinders the development of full employment policies. This includes a reluctance to commit money to the prevention and remedy of unemployment which might contribute to inflation.
3. Parents who say they want better education for their children often vote against bond issues to improve the local schools. In some cities, school bond issues are voted down because of an impasse over integration or segregation in the schools.
4. People often say they want the educational system responsive to the changing occupational mix. However, though there is a demonstrated need for technical institute trained manpower, educational planners continue to develop junior colleges which either feed people into a senior college or dump them into the job market undereducated and unskilled. This status concept of schooling is thus an important contributor to underemployment and perhaps to later occupational obsolescence too.
5. Similarly, the ambitions of parents and the orientation of some educators cause a view of vocational education not as a great opportunity in a technological age nor as an important contribution to the nation's skill resources but rather as second-class schooling for the slow students.
6. Physical access to the job depends upon where the individual

- lives and where the job is located. Community attitudes against open occupancy often keep the Negro from a job. Employers sometimes locate their plants with a white labor force in mind.
7. Progress up the job ladder for the Negro still depends largely upon the attitudes of whites in positions of leadership. It seems likely that if we want to achieve full employment of the Negro we shall have to reassess our views about compensatory job opportunity.
 8. Job obsolescence is related to loss of job and skill and to the inability of the individual to adapt to a new job, to changed skills, and to different conditions. While reasons for difficulty in adapting are often situational, much more thought needs to be given to the capacities of individuals in our workforce to adapt to change. If occupational adaptability should turn out to require continuous job upgrading during a person's work life, how many can improve adaptability through retraining? Can any significant proportion of the workforce be persuaded to prepare in advance for possible future obsolescence? Is mathematical ability so scarce that many workers cannot really learn needed mathematical skills?
 9. Inefficient operation of the labor market and a paucity of labor market information available to job seekers are generally considered as contributing factors to unemployment. But suppose such information were available in usable form, would it get communicated to potential job seekers such as the young people in high school? Are our educators in close enough touch with the world of work to be effective transmitters of such information? Are we willing to pay the cost of employing adequate numbers of trained and competent vocational guidance people to help the labor market operate efficiently? Are our educators and their school boards sufficiently sophisticated as to not be misled into changing the curriculum to follow every whim of the job market? Or is such information likely to lead to excessive vocationalism in the curriculum?
 10. Early warning systems and machinery for reporting job openings have been given wide publicity, but so far the attitudes of employers do not give promise that these measures will meet with early success even if technical problems are overcome. Nor is there much evidence that early warning sys-

tems cause workers to more realistically assess their prospective job situation.

11. Practically everyone who talks about organizational success says that it takes able and trained people to bring this about. Yet little taste is shown for advance planning for the development of such talent. In business, manpower planning, if it exists at all, is usually a derivative of other planning, tacked on at the end when it is suddenly realized that it takes trained people to man the newly purchased facilities. Management inexperience with corporate manpower planning will not be helpful in securing acceptance of the infinitely more complex concept of national manpower planning.
12. Automation and machine technology are often cited as the most important factors among the causes of unemployment. It is suggested that this is a limiting concept, limiting to our understanding of change and limiting in the models we construct as we search for solutions to unemployment. Methods and procedures of management are often more responsible for impact on the size and mix of the workforce than the introduction of machines. Our fascination with automation may keep us from appreciating the perhaps greater changes resulting from man's development of technique and method to achieve precision and economy in the operation of the organization.
13. The large northern city has been peculiarly affected by immigration of large numbers of people, mostly non-white from rural areas, especially the South, together with high rates of population growth among people at the bottom of the economic ladder. Many of these people are new to twentieth century urban life. Many believe it is the role of the schools to speed this process of adjustment. Many educators resist this role. Taxpayers resent the extra costs to provide catch-up education.
14. Finally, the anti-poverty program and other measures taken to eliminate unemployment must contend with a tendency toward apathy and in some cases the hostility of an affluent society largely out of contact with the unemployed. These people are most often isolated either in the rural areas or in the city ghettos. Decision makers who ride the commuter trains have little or no opportunity to learn about these con-

ditions and develop attitudes and understandings needed to produce solutions.

These are some of the attitudes which may influence the development of effective manpower policy. Examination and understanding of these attitudes may be some of the work which Professor Harbison's task force could undertake.

Despite concerns over planning I would endorse Professor Harbison's proposal to establish a manpower policy planning group with the recommendation that it be tied more intimately to the grass roots through vertical as well as horizontal organization of task forces. Finally, I would raise a question as to whether our knowledge is enough or our wisdom sufficiently great to produce broad solutions based upon consistent or coherent theories. I rather think that we shall find ourselves pushed into tackling simultaneously a whole range of problems for which our experience has not prepared us. In the process, hopefully, we will learn and thereby contribute to the development of manpower policy.

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GEORGE P. SHULTZ

University of Chicago

Professor Harbison has demonstrated over the years of this Association's existence a fine sensitivity to the emerging areas for fruitful work, an ability to distinguish the important issues involved, and a great capacity for bird-dogging essential information. In this paper he again performs up to expectations—with a comprehensive discussion providing a role for everyone, even the discussants. After describing the legitimate jurisdiction of manpower policy, reviewing the ways in which the effort may be organized, recommending his chosen instrument, identifying seven key problem areas, raising thirty-six questions and providing two sentences ended with exclamations, he suggests, "There are other important problem areas in the manpower field, and I hope that the discussants will mention some of them."

My plan is to ignore his advice to the discussants and follow his advice as to the identity of key issues and the importance of organiz-

ing concepts. In particular, my comments will take up the following points:

1. The importance of working at broadly consistent programs and processes for manpower adjustments rather than at plans for the end point of the adjustment process ;
2. In this connection, in response to Professor Harbison's call for "unifying ideas," I propose that the "labor market" be reinstated to full membership in the manpower field ;
3. His organizational prescription of a small, probably self-appointed, mixed private-public group devoted to the search for integrating concepts and providing at least some constituency for the problem of coordination seems to me a sound one ; but
4. This is no alternative to a real effort by the Federal Government to deliver on the promise of its newly-created "President's Committee on Manpower" as a coordinator of and conscience for the Government's actions and programs ; and
5. The need is great for emphasis on administrative energy at the working level, where individual companies, unions, community resources, and people must ultimately take action if anything constructive is to happen.

PLANS VS. PROCESSES

At every turn these days we hear of the need for more research to identify the shape of the future, including the composition of demand for labor, so as to plan appropriately for the predicted, if not the promised land. We would all like to know more about the future and, no doubt, some headway is possible along these lines. Indeed, if there were not so much current emphasis on this point, I would probably echo dutifully the call for such research. But, it seems to me, the current emphasis, and the hopes thereby conjured up, far exceed the reality that can be attained. Worse, if emphasis equals allocation of resources, it may direct attention away from areas of more fruitful work. In addition, this emphasis carries the threat of over-programming for a future that may well turn out to be of quite a different shape than that predicted.

Professor Harbison is therefore to be commended, in my view, for designating as "key," programs and processes within which manpower problems may be solved. I attach particular importance to his combination of solid general education with maintenance of high levels of demand, more directed and short-term retraining programs, the need

for work on mobility and on a first-class Employment Service. Here we have a set of programs and processes that facilitate adjustment and encourage the generation and use of innovations.

It may be said that these ideas are not new—and therefore not interesting. Indeed, Professor Harbison himself seems to have a fascination for the “bold imaginative program.” Perhaps, however, his old combination can take on new life by an energetic search for operating answers to the many questions he raises about each component part. To me at least, these particulars are areas that challenge imagination and call for strong effort.

THE LABOR MARKET

Word has filtered out, to Chicago of all places, that the Secretary of Labor—a Chicagoan whom all in the profession admire and respect so deeply—has cast these words into limbo. Certainly it is well to emphasize that we talk here of human beings whose dignity, importance, and aspirations far transcend the grubby search for a higher material standard of life. Nevertheless, in thought about manpower problems and in the design of programs and processes for manpower development and adjustment, it is fatal to overlook the play of market forces and the opportunities for improvement that can stem from improved operation of the labor market. It may well be, in fact, that some of our current problems results from overemphasis on the legal, sociological, and psychological aspects of labor problems at the expense of the economic. It should come as no surprise, for example, that firms under strong competitive pressures will look energetically for ways to cut costs and that, with the price of labor rising, some of the ways will involve reductions in manpower per unit of output. Nor should it be surprising that high fringe costs per employee lead to spreading that overhead by overtime work in preference to added employees.

Similarly, the idea of the labor market is a powerful one, one that surely must be a centerpiece in the unifying concepts for which Professor Harbison calls. Intellectually, it provides essential links to other markets in the system. Practically, it provides an avenue to operating reality. Indeed, the idea is the source of most of Professor Harbison's questions and for his emphasis on such matters as mobility, information, and the quality of the labor supply necessary if it is to be employed at current or higher prices.

ORGANIZING A CONSTITUENCY FOR COORDINATION

The arguments advanced by Professor Harbison against any expectation of a supra manpower agency, though sometimes disconcerting, have the ring of reality to them. When put forward by such a skilled bird-dogger in the bureaucracy, they are virtually unassailable. It must be noted, however, that the Council of Economic Advisers has had and today holds employment problems high on its agenda. For example, strong intellectual contributions have emanated from the Council in recent years on the subjects of structural unemployment and of technological change. The fact that some members of the industrial relations community have disagreed with some of the positions taken does not diminish the fact of the Council's concern. Of course, the Council has not and should not, in my view, take an active operating role in manpower programs.

Neither should the "think" group proposed by Professor Harbison, at least not in its direct activities. But the role of a small group—a sort of constituency for coordination—can be an important one, and this idea deserves a trial. The need for "a strategy of coordination" is strong and is not limited to federal activities. Any reasonable articulation of manpower processes must reach not only across the federal level but in depth to the state and local levels and make contact with the problems encountered by workers and managers in particular establishments and labor markets. As an incidental point, just to avoid misunderstanding, coordination, at least as I think of it, is not synonymous with control but rather implies attention to inconsistencies and efforts to think through which programs and processes are likely to be most helpful in what kind of circumstances.

For Professor Harbison's "think" group to be really productive, it must include in its membership, as he suggests, people who are in contact with the nuts and bolts of manpower programs and who can speak from field experience. The reason is that the detail and the problems of implementation are such an important part of successful manpower policies. Thus, it seems to me, the group as a group should have no operating responsibilities to draw its attention away from "coordination" and "consistency," but individual members of the group should be able to bring to it a broad range of experience with the practical problems of putting general ideas into operation.

FEDERAL RESPONSIBILITIES

One such general idea is that of coordination of Federal Govern-

ment actions and programs, as proposed for the President's Committee on Manpower. It is one thing, however, to have the idea or even appoint a Committee. It is quite another to make the idea work in detail, so that it carries through to an impact on events. Professor Harbison has outlined many of the questions that must be answered if this Committee is to be an operating reality, and it remains to be seen how successfully these questions will be answered. There is no doubt that deep challenges are posed to many important agencies. It may well be that the key here, as suggested more broadly at the outset and by the types of tasks being undertaken by its sub-committees, lies less in developing detailed plans and more in perfecting essential processes and gaining acceptance for them. In any case, the Government is on the hook to "show" as well as "tell," and we will watch for the outcome with interest if not bated breath.

THE IMPORTANCE OF ADMINISTRATION

There is much discussion throughout the country of manpower problems, of unemployment and displacement, of labor shortages, of education, training, and mobility. For the most part, this discussion is cast in terms of broad national issues and public programs have been evolved to deal with large numbers of people. Some are well developed, while others are still in the experimental stage. Private programs too are emerging in response to special needs. In each case, it seems, the programs go through a process of trial and error, success and disappointment. Surely, there is much to be learned, and Professor Harbison has indeed posed many good questions.

Yet at this point the outline of an approach to the manpower area is becoming more visible. The problem, in my view, is not so much one of bold new ideas or even of large sums of money, though clearly substantial resources are needed and are becoming available.

But it is essential to recognize now that big programs only mean something when translated into terms that fit particular situations and are helpful to individuals. This is in large part a task that challenges our talents for administration. Certainly, it is at this level that the unifying concepts for which Professor Harbison calls meet the test of reality. Indeed, the process of energetic administration on the project level can itself create unifying concepts by adapting skillfully the overall program to a particular area and set of problems.

The scope of any individual project is usually small in relation

to the scope of the long-run national problem, and small details lack the glamor of the sweeping generalization. Nevertheless, a necessary condition for successful manpower programs lies in our ability to get them administered with energy and with a spirit of experimentation. For it takes much energy to escape the dead hand of nationally-imposed routines and to commit the time and patience necessary to work with the individual people for whom the programs are ultimately designed.

"One" is not a large number in comparison with a statistical aggregate about unemployment. When it comes to the administration, and even the conception, of the sorts of manpower policies under review here, however, the willingness to work with people one at a time is essential. As an organizing concept in the design of manpower programs then, we must seek a method of administration that yields a subtle combination of energy and patience applied at the local level.

SEYMOUR BRANDWEIN
U.S. Department of Labor

I will not try to formulate a new definition of manpower goals nor dig into any of the many policy issues noted by Professor Harbison's paper. There is a temptation to say it is easier to sketch problems or to state an idea than it is to run a program or to win Congressional and State financial support of an idea, but that would be ungracious and largely irrelevant.

Some complimentary words are in order on the Harbison presentation, and then I want to try to add a bit of perspective ordinarily missing from sessions such as these and not quite presented by his paper.

The Harbison paper is commendably, sensibly and usefully far-ranging. It does point up quite well that many and quite diverse problems and institutions are involved in shaping any comprehensive manpower policy.

I would underline particularly, and really emphasize more, his comment that evolution of more effective overall manpower policy requires the development of keener national understanding and concern about manpower problems, and the spread of a feeling of

commitment to tackling such problems through major rather than merely token or exploratory efforts. I think as he does that there is now substantial movement in this direction.

His comments on a new central Federal authority on manpower matters are also most perceptive and sound. None of the alternative proposals for a new Federal authority which he listed, and knocked down, would provide a magical shortcut to a workable comprehensive manpower policy.

But while dismissing organizational tinkering as a substantive current solution, I do not think greater attention is required to how the Federal-State structure functions in many vital manpower areas. New organizational forms are very much needed also in public-private relationships and to link many agencies at the local and regional level which traditionally have gone on largely separate paths.

And this leads to the several points I want to emphasize, not because Harbison's paper is at fault, but because much of the other discussion at these meetings has failed to take them into account. These comments go, not to broad issues, but simply to attitude and atmosphere. They are rather obvious points, but perhaps for that reason are rarely articulated and are consistently ignored.

This country in just the past 3 or 4 years has initiated or notably started to strengthen a series of major programs bearing on manpower needs—for occupational training, vocational education, higher education, area redevelopment, juvenile delinquency control, minimum wage improvement, most recently the anti-poverty campaign, and others. A great many patently experimental projects are being encouraged and financed by such programs. The beginnings of enlarged investment in manpower research have also been undertaken.

Yet the characteristic reactions of much too many commentators fall in several disturbing categories: One is an almost exclusive emphasis on the limitations of each program, which pretty much ignores the actual and potential contributions. It's fashionable, for example, in the case of training for unemployed workers under the Manpower Act, to comment knowingly "heck, that isn't *the* solution to the unemployment problem—they train only the best and leave the rest," "it doesn't train for really high-skills jobs," "why, they've reached only a couple of hundred thousand," or in other ways give this program the back of the hand for not meeting all needs.

Other reactions stress sophisticatedly that the new programs are

a compound of confusion, chaos, lack of coordination, absence of clear-cut policy, and failure to this or that, or characterize a program on the basis of less than startling success in one project or another.

At the same time, and often from the same people, a clarion call goes out for new ideas, bold innovational efforts, and departures from conventional methods.

Beyond question there's much to warrant these types of critical reactions, but some needed perspective is obviously missing much too often. In fact, each of the newer programs is small in scale, and is indeed merely experimental, in terms of any over-all solution.

What is labeled chaos is also often ferment, the early percolating out of which broader, more firmly based programs be built, out of which we will more knowledgeably be able to judge how much of which types of programs should be run by whom.

Meanwhile, programs which do genuinely seek to explore new methods often have to be jerrybuilt. They lack the neatness, orderliness and comfort of established methods.

New programs also inevitably will encounter rebuffs; you cannot try new approaches and go through a learning and testing process without some flops.

I'm not endorsing flops or administrative disarray; I am stressing the need to develop an atmosphere in which an unsuccessful project can be examined dispassionately, and a success need not be overdramatized. Let's face it: If candor is a threat to an experimental program, you lose much of the learning potential, reduce the dissemination of information on reasons for mistakes, and maximize the need for repetition of mistakes so everyone can learn for himself how not to do it.

Without belaboring this any further, let me add a related note from my vantagepoint as a relatively new government bureaucrat involved in both manpower policy and program development. I have found no shortage of consultative, liaison, advisory, and coordinating mechanisms. Although preoccupation with them may often be quite necessary, my naivete has been penetrated slowly by an awareness that some who call for coordination want to coordinate it their way rather than coordinate it my way—and that a good structure is one in which your organization plays a central role while a poor structure is one in which your role is peripheral. I make this facetious comment to underscore an observation which Harbison has put much more judiciously than I could: "An interagency committee—

and I would add any organization—without specific programs or large funds to administer them often wither for lack of commitment or clear sense of common purpose.”

The critical gap at the moment is not in planning or unifying mechanisms. Indeed, we are now running the danger that the proliferation of such mechanisms is draining excessively the time and energies of competent personnel who are already in too short supply.

It is the lack of such personnel which is the most troublesome current drag on progress. There is a severe shortage of persons and agencies, public and private, research and operating, who can undertake responsibility for the detail of innovative programs, who can review such efforts with high objectivity, articulate the lessons, and shape the perspectives needed for national follow-through.

But let me close on a positive note. We *are* seeing new blood and brains flowing into the field—and transfer and invigoration of old blood has also picked up.

And, although the process often is frustrating and friction-laden, there is a steadily broadening interchange, communication, and awareness of the significance and scope of the manpower field—and many public and private agencies with traditionally parochial interests are being enticed and prodded into widening their interests, upgrading their attention to manpower concerns, and revamping their programs. I look forward to the rest of the discussion here to help steer that ferment and momentum in constructive directions.

Part IX

**LABOR PARTICIPATION
IN MANAGEMENT**

THE PROSPECTS OF FORMAL UNION- MANAGEMENT COOPERATION

MELVILLE DALTON

University of California, Los Angeles

Students have developed a mountainous literature on the question of union-management cooperation. The present paper is not an analysis or review of these studies, but an attempt to look cursorily at a few current trends that may work for or against cooperation, and to emphasize the importance of in-plant compulsions and practices for the question. I shall skirt the controversies over whether management will cooperate except in times of economic stress, whether union and management *can* cooperate without creating a gulf in the union between leaders and rank and file, what the union's area of interest *really* should be, how far unions want to go in sharing responsibility for production, whether conflict in the union makes for solidarity or not, and so on.

By formal cooperation I mean adherence to a jointly developed policy reflecting the feelings of persons at all levels of each hierarchy. Efforts are made in good faith to advance the agreed cause, and to consider and reconcile individual interests with those of the two parent groups. Discussion around this ideal is meant to be more provocative than systematically factual. I have in mind middle sized and larger organizations, rather than the millions of small businesses.

OBSTACLES TO COOPERATION

Blocks to joint action can be sketched in terms of influences from larger society, conditions in unions, and conditions common to unions and management *The larger society*. The growing pressures for compulsory arbitration obviously work against free cooperation. The usual justifying arguments are that public welfare and economic health are prior to the interests of either labor or management. Where this view dominates community policy, union and management are likely to feel that there is no chance for real bargaining, that responsible and equitable decisions will rarely if ever be made, that, in short, cooperation is impossible.

Reinforced by the expectations of greater education, and a long period of economic prosperity, drives for personal success continue strong in blue collar workers. Able members climb out of the work

group to the damage of union leadership at plant levels. Some companies have a policy of selecting shop stewards and grievance men for foremen. Occasionally this may be done to weaken the union, but it also aims at utilizing skills first tested and acknowledged by the work group. In either case the impetus to advance weakens the balance of skilled negotiators and cooperators. Some students see union leaders now as middle class and the rank and file as lower class, a distinction hurtful to the unanimity important for cooperation in our sense. The concern of management may then narrow to preoccupation with leaders of the rank and file, which promotes segmental cooperation but leaves the rank and file alienated and poorly represented. As one manager put it, "If we get along with the union heads, we can get along with the men."

Union goals and structure. The disagreement among unionists and their supporters over the current function of unions reveals a disunity unsuited to full joint action. The bureaucratic structure in unions and the declining rate of membership spurs alarm and criticism among adherents. Some would have the union be an interest group and avoid sharing troublesome responsibilities with management; others would prefer that the union have strong social reform goals; still others, that it be a codeterminor. Friendly critics charge that bigness and complex structure is opposed to the democratic process and works as another force to separate leaders from rank and file, as the theory of elites has long held. The criticism is that trade unions have become business institutions rather than a movement.

Common practices of union and management. These actions offer the greatest obstacle to formal cooperation. They can be discussed as the balance of favors, and the problem of formalizing informalities.

Practices in the plant that as yet escape formal containment unequally involve officers of union and management from top to bottom of their respective hierarchies. In the formally loose small firm the personnel search for formal certitudes to justify action and to give protection. In the large organization—stiff with restraints—they search for informal means of qualifying the formalities and of reconciling the two. Each role meets pressures with a blend of wile and sentiment, and officers of one camp implicitly join with those of the other to maintain certain controls over their informal practices.

To look quickly at the compromising practices, let us start at the bottom of the union group. The shop steward and grievance com-

mitteeman conform to the labor agreement or seem to at all times. If they simulate poorly they are unlikely to be re-elected. In practice their fluid interpersonal favor-trading with rank and file and chosen managers often defies formal fiat. This stems in part from the fact that (1) pressures frequently require illegal actions and that (2) exposure of these actions might cause ethical disturbances among some followers and withholding of their support.

As top local officer of the union, the president or business agent often sees no course but to depart from formal procedure. He wants to keep some issues off paper, yet learn their present state and where they may be cut off without greater loss than return. He does this by circulating in both camps to assess the personal involvements of his subordinates, and to get the picture as his friends in management see it. In understanding their problems he may cooperate with management to the point of withholding information from the national union and the rank and file, as both do him on occasion. If he doesn't show resilience in compromising formalities, both management and his union may press him to resign.

In the management circle similar unauthorized parts are played by officers. Where these actions are too important to risk failure, the first level foreman is kept in ignorance because of his relatively fixed ethical outlook, though officially he knows and acts out higher policy. Obviously one pressure on middle and higher managers is to produce efficiently and aid in maintaining a good public image. This is difficult then the local facility is technologically old and but one of several in the corporate chain. For then the newer establishments are held up as models. The older centers must compete with the newer. Without any formal accounting, local union officers frequently cooperate with management to meet the coercions to which both are subject and to maintain a convincing competitive front. This includes joint action essential to show high production, safe behavior, and civic consciousness in responding to Red Cross, Community Chest drives and other civic claims. The alliance is reflected in minimized reporting—or ritualized concealment—of scrap, defective materials, accidents, illnesses, departmental personnel problems, turnover, absenteeism, tardiness, etc. However this behavior may be viewed by outsiders, it is sometimes full-blown joint decision-making.

In their coalitions to meet the downward flow of directives with qualified upward communications, union and management confer on

how the responsibility for accidents will be assigned, how departures from official—and often outdated—work methods can be justified in case of detection, how a given grievance will be presented at the next step, if pushed by some member of rank and file, and so on. If these paired informalists continue successful, they come to share the further concern to control formalists in their camps who see rules as ends rather than means. The formalists are punished by having their ideas ignored and by being barred from significant action. On the other hand, the dominant informalists reward co-informalists or their sponsorees by promoting able members of the rank and file contrary to seniority, and keeping well-liked employees without seniority, by laying off poor employees regardless of seniority, and by keeping some employees on who are long past retirement age; by not processing certain kinds of grievances or taking advantage of each other during critical periods; by persuading reluctant workers to sign the checkoff; by making pacts to aid each other in case of transfer or promotion; by using some workers for unofficial operations during slack periods rather than lay them off; by allowing a worker exemption from some rules in return for his doing operations he is not paid for; by agreement to share credit for successful work plans or standards that were originally resisted by one side or the other. We do not know the national scale of occurrence or the relative weight of each camp in such decisions, but these adjustive processes really add up to a body of informal policy. The natural question is, why not formalize it?

Sometimes we can in some respects. But there are obstacles. One is the need to preserve propriety in the eyes of ethical absolutists, both in management and the union, who feel moral about rules, and resist labeling as good today the practices that were bad yesterday. Here, as in the larger society, such absolutists are valuable as the only persons in a nihilistic world who can firmly say what is right and wrong. Attempts to legitimize practices too sharply away from the current line inspires distrust and makes logic look like a device for supporting a cause. Even the plant logicians sometimes feel the futility of keeping up to date and prefer elastic interpretations and concealment to creative fatigue.

Differentials among personnel in their commitment to the organization, and their knowledge of internal affairs work against formalization. Dissimilar abilities to deal constructively with situations not

covered by rules leads to tentative experiments and hence some secrecy. In making hazardous mechanical and social trial runs, leaders cannot make all plans equally open to the unequally dedicated and informed because of danger to the organization. Constructive informal practices are not brought out until involved members are relatively sure of acceptance. If revealed prematurely, the experimenters may be condemned as conspirators without a hearing and their contribution lost.

In some cases recurring practices will be deliberately maintained as informal. This is common where leaders want to escape being caught in democratic rivalries in which their involvement would trigger demands for further change to equalize alleged differentials in rights and rewards. Here with both union and management there is concern to maintain minimum order during threats of severe change, and to make changes when "things are quiet" and orderly.

Formal and informal action are not inherently antagonistic. They belong together. If either is separated and pursued to the neglect of the other, each can be a threat to the organization. Where procedural despots stress the ideal to the point of denying the real, they reject the able unionist and manager alike. The ideal then becomes a wordly faith more extreme than formal religions which typically allow room for some imperfection. As the instrument of experiment and change, and a device reflecting pluralistic ethics, the informal should interfuse with the formal.

CONDITIONS FAVORING FORMAL COOPERATION

Perfect cooperation may be neither possible nor desirable in practice. It would be alien to the struggles and conflicts of traditional democracy, though it might better fit a nationalized economy. And though the excess of cooperation we call collusion is not formal cooperation, there is always the danger that formal cooperation can lead more easily to collusion of which there is an abundance already. There are trends, however, that point to the probability of increased cooperation. Some of these currents allow a measure of choice, some may be difficult to resist because of developing conditions, and some can be encouraged by inspiring leadership.

Based on little evidence, my own field researches suggest that middle-aged and even younger workers increasingly prefer fatter pensions and earlier retirement to wage increases anticipated by the grocer,

landlord, and tax collector. Fringe benefits may be as costly as wage increases—or more so in a business decline. But spreading automation and the entry of new lower-priced job seekers might compensate to some extent. The lure of earlier escape from formal monotony to less regulated freedoms would supply a social basis for cooperation: the evidence that employees and employers have moved a step closer to being a community in terms of externals, and have done so without destroying each other as internally distinctive groups.

There is also some evidence that workers identify enough with a given industry, or work associates in a firm, that they do not transfer to other local firms in the same industry, given the opportunity growing out of technological and other changes. Fear of losing seniority rights is of course a factor, but the reluctance among the middle-aged workers to leave, and their readiness to take new jobs in the same firm requiring new skills calls for more study. If the condition reflects a desire for social as well as economic certainty, distaste for change less responsive to individual urges than the present location, possibly even a feeling of resignation, then it may add up to a growing preference for more cooperation as against the alternatives.

Some students argue that enlightened businessmen are coming to value strong unions as an aid to the business system both in showing its general justice to the public and assuring workers that they do not stand alone. Others make a related point in noting that once unions have established a *modus vivendi* with management, they have a force in the firm's government that might—though the character of the union would change—exceed that of the stockholders. Such behavior is not official cooperation, but it may be a forerunner of more formal arrangements.

Influences and inclinations. So far as I know no studies have explored the significance for labor participation in decision making of the reported growing conservatism among students in their teens and twenties. Conservatism as a rebuttal to a threatening world might mean more formal cooperation, especially when joined with the continued intrusion of a federal government, the probable growing heterogeneity of personnel at all levels, and the clash of personal differences that may be increasingly reconciled impersonally out of a need to escape the uncertain rewards of complex informal strategies. The trend toward compulsory arbitration, which was mentioned as an obstacle to formal cooperation might, in the present context make

union and management more efficient in their efforts to cooperate.

The declining rate of union membership may find younger as well as older workers prepared to cooperate in new ways that could lead to uncertain outcomes, such as the restructuring of unions, coerced cooperation—or true cooperation—with management, or some form of paternalism.

The growing number of white collar workers may increase homogeneity in the group itself as well as draw it nearer to managers who are changing in outlook and characteristics. Fanciful as this sounds, it could blur the line between managers and managed and give a basis for better cooperation by clarifying their area of overlapping interests.

Automation is a developing influence that has potential for encouraging more formal cooperation. Not all participants in production are inert mechanisms unable to deal with the technology. But many of those who control automation are well aware of their limitations. Both union and management share the goal of reduced costs for new and multiplied products. But the facts of unemployment and the uncertainties of how to deal with displaced labor—or how even to talk about it—lead both to serious consideration of the larger consequences.

The problem is not confined to labor. In some industries dozens if not hundreds of lower members of management are being forced to retire early for various garbled reasons which certainly include the facts of limited education, and inflexibility. In other cases subsidiaries are being absorbed by the parent company and questions are being raised about what will become of the many vice-presidents. Hence the problem is an internally shared one calling for greater union-management interdependence. It also challenges management's ability to deal with its own affairs, and threatens its image locally and nationally. Finding workable solutions with minimum aid from eager outside parties is a great pressure for more cooperation.

SOME SUGGESTIONS

We must face the reality that rank and file and managers at the local level often feel as pawns of officers at the level of the national union and the central office. They perforce carry on a cooperative life that as a rule offends the rules of higherups. Conflicts that would bring criticism from superiors are concealed except as they spill over into formal grievances. To survive, and bridge the breaks between tops and bottoms of the two hierarchies, local union and management

form cliques and engage in subterfuge and evasion to match the deceptions and miscalculations they are prey to from above.

Instead of a frontal attack to uncover and ban all off-the-record activities, we should copy the informal aspects of that conduct by forming constructive cliques to correct disturbing cliques. The wiser course is to move by smaller, more manageable steps. First sound out the informal leaders about the helpful practices that are concealed and why. Make the concern less a witch hunt for corruption than discovery and formalization of successful unreported methods and experiments. This wins favor with those who damn the informal as well as those who have used it for formal ends and can now apply their ingenuity elsewhere. If the revealed sound practices require semantic clarification or ethical purification, put the group's honor men to work to change sinful circumventions into creative inventions. Over a period of time concealment of superior methods will decline. Follow-up inspections of the new formalities to detect and absorb burgeoning practices helpful to the formal should be part of the standard ongoing social maintenance. Other, but lesser, problems may appear for a time. For example, egos bruised in disputes over credit for ideas will have to be dealt with according to individual sensibilities.

To detect and re-channel or eliminate practices that do not reflect the spirit of the formal we must be aware that any set of measurable data used as criteria of progress in cooperation is subject to misrepresentation in reporting and interpretation. Such data would include contributions as a committee member, accident rates and responsibilities, safety reports, scrap records, the numbers and kinds of grievances, suggestions for improved methods, work records, and so on.

One cannot assume that the easily detectable practices are working will because of existing formal arrangements. The latter may be only symbolic of the ideal cooperation and be near collapse. In our area of study the formal phase of action will at best be only more dominant than the informal. The formal structure must constantly—but not obsessively—be renewed with tested material. The great danger in constructive formalization is that virtue may become a vice. Once it is a structured interest in its own right it may exceed its workable limits. Even the moderate amounts of formality essential for control become excessive to current rank and file and lower supervision, and damages their morale. There is usually a direct rela-

tion between rank and tolerance for necessary form. Beyond that tolerance the consequences are suggested by playing on Acton's maxim on power: virtue tends to corrupt and absolute virtue corrupts absolutely.

Genuine joint decision-making is possible only when the idealists and realists in each camp are able to—and wish to—have a voice that is reflected in the accommodations. Both must escape apathy and see the need of the other, or the idealists will become uncompromising tyrants, and the realists cynics who mouth the ideal to keep peace and covertly evade it in practice. Cooperation will work best when the existence of tension between the ideal and operation is admitted and workably resolved as any other subtle relation or mechanical problem would be as a matter of course.

Parts of economic and political processes have long been dealt with covertly in a framework of gentlemen's agreements, "where each assumes that the other is acting honorably even if he is morally certain that he is not." It seems reasonable that the ingenuity enabling covert cooperation can be directed toward more open cooperation if the gentlemen heading giant powers can be persuaded to be interested in more than power, and to refrain, like gentlemen, from using their power like giants. But the continuing problem is what mix of direction and persuasion to employ in a system that encourages initiative and considerable irreverence toward too much order.

LABOR PARTICIPATION IN MANAGEMENT: SOME IMPRESSIONS OF EXPERIENCE IN THE METALWORKING INDUSTRIES OF BRITAIN, ISRAEL, AND THE UNITED STATES

MILTON DERBER

*Institute of Labor and Industrial Relations
University of Illinois*

Labor participation in management must be looked at from two angles: (a) as a question of values and (b) in relation to organizational goal achievement, e.g., efficiency.

From a manager's standpoint, labor participation not solicited by the manager is an impingement on managerial freedom and responsibility to perform an essential function. The manager may recognize benefits in labor participation but always in relation to *his* directive role.

This conception of the managerial and labor roles is a product of the American private enterprise tradition in which the owner of the enterprise was also its chief manager. It was his property; why shouldn't he be free to treat it as he wished? With the separation first of ownership from management and later of ownership from control, the rationale necessarily changed. Instead the manager justified his role in terms of his function; it was his responsibility to the enterprise and to all its constituents to "manage."

In opposition to the above concept is the conception of labor participation in management as an expression of the once fashionable, now less widely used term, "industrial democracy." Labor participation is necessary, according to this view, because it is "right" that workers and their representatives should have a major role in decision-making in their work places. Industrial democracy is seen as the parallel of political democracy. When we examine the more specific statements on industrial democracy, however, we find a considerable variation in the suggested character of the labor participation. The range extends from a voice in determining wages and working conditions, narrowly defined, to codetermination and even full workers' control of the total management process.

Although the scope and depth of labor participation can be conceived exclusively in terms of managerial and worker "rights," the test of organizational efficiency is often used as well. Managers tend to

place considerable weight on efficiency, insisting that in many areas of management, the requirements of technical training, foresight, and interest preclude much, if any, labor participation. Laborites also sometimes apply the efficiency test, but their argument is that proper labor participation contributes to efficiency by adding the knowledge and insights of workers and their representatives and by improving the morale of the work force. For labor, however, production efficiency is a less immediate and direct functional concern than it is for the manager. Often there is the risk of a conflict with other labor interests, such as the internal strength and unity of the union, or the job security concerns of the workers, or worker views about the work load or pace. Labor representatives participating in management may find themselves supporting policies opposed by their members so strongly as to jeopardize the former's representative positions.

SOME BRITISH EXPERIENCE, 1954

The following analysis is based mainly on a five months' study in Birmingham, England, of plant labor relations in ten "engineering" or metal-working establishments.¹ Most establishments in this industry operate within the broad framework of what is probably the world's largest single collective bargaining system—involving the Engineering Employers Federation with its nearly 4500 member firms, the Confederation of Shipbuilding and Engineering Unions with its 40 national affiliates, and about 3 million employees. The basic national agreement emanating from this system covers a relatively small number of subjects which are usually part of collective labor agreements, e.g., general wage changes, wage minima for certain key occupations, the standard work week, overtime and night shift premiums, vacation and holiday pay, a weekly hour guarantee, union recognition, the status of shop stewards, and the procedure for settling grievances. It also contains some statements on "management," which are particularly relevant to this discussion.

"The Employers have the right to manage their establishments and the Trade Unions have the right to exercise their functions," the national agreement states. In itself this is nothing more than a "recognition" statement. But this general proposition, which has been the

¹ *Labor-Management Relations at the Plant Level Under Industry-Wide Bargaining* (Champaign: University of Illinois, 1955) and "Adjustment Problems of a Long-Established Industrial Relations System," *Quarterly Review of Economics and Business*, Vol. 3, Winter, 1963, No. 4, pp. 37-48.

subject of three great lockouts in the industry (1852, 1897, and 1922) and of numerous negotiations, is elaborated in several specific respects. Changes in general wages, the general work week, and working conditions which are the subject of official agreement (as noted above) can not be made at the plant or firm level until the procedures specified in the national agreement have been exhausted. Where managers contemplate a change in recognized working conditions, which will result, without a change in material, means, or method, in one class of workers being replaced by another, the managers must give advance notice to the people concerned or their representatives so that they can engage in discussion with the managers on the issue if they so desire. The changes may not be made until settlement has been reached or the grievance procedure exhausted. Where a change in material, means, or method leads to the replacement of one class of workers by another, there shall also be advance notice and discussion and if the workers give notice of a dispute, the managers may not put the change into effect for seven working days. Meantime the grievance procedure may be resorted to. Where workers are displaced for any reason, the managers must give consideration to finding them other suitable work in the establishment. Where changes do not result in any displacement of workers, the managers must consult with the workers if requested, but the work may proceed as the managers direct.

The significance of these regulations is the recognition of the principle of *advance consultation*. Managers have given ground reluctantly on this issue. The unions are by no means satisfied—as recently as 1961 they were pressing for a rule that would prevent all changes without prior worker agreement or exhaustion of the procedure, thus going considerably beyond consultation to joint determination. Resolution of the issue is not in sight.

In addition to labor participation in management through collective bargaining, we find a second channel of participation which stems back to the Whitley Councils of World War I and which is generally labeled the joint production committee or joint consultation. In theory the JPC represents a very different philosophy of labor relations and a very different conception of communications and participation than collective bargaining. Whereas collective bargaining is premised on conflicting interests, the JPC assumes mutuality of interest. Whereas collective bargaining leads to joint determinations, the JPC is consultative and advisory, with management free to make final decisions. Whereas collective bargaining is administered by elected or appointed

union officials, the JPC representatives are elected on a departmental or divisional basis without respect to union affiliation or role. In practice the lines between the two mechanisms are often blurred and distorted. In some plants the unions dominated the consultative machinery; in other plants they ignored it; in a few cases the JPC supplanted unionism.

Thus my limited research in one section of English industry reveals a considerable clash in values over labor participation in management with a gradual narrowing of the gap in the managerial acceptance of the concept of advance consultation. Joint determination, however, continues to be restricted largely to the traditional collective bargaining issues of wages and working conditions. The scope of collective bargaining has expanded only slightly (for example, in the area of economic layoffs). Although the once-popular slogan of "workers control" is less often heard, the desire for extended joint determination as opposed to consultation remains strong in official union circles.

ISRAELI EXPERIENCE, 1961-62

In Israel where I spent five months studying relations in 18 of the larger industrial establishments, 11 of which were metalworking, labor participation in management is official trade union policy for both ideological and efficiency reasons.² Since its formation as an independent state in 1948, Israel has been governed by a coalition in which the major labor party (Mapai) is the dominant member. Mapai is also the majority force within the trade union organization, Histadrut. Although the Mapai politicians and the Mapai trade unionists do not always agree on policies, they are united in the belief that fostering the nation's economic growth is a major labor concern. This belief applies to Histadrut's role in the private sector of the industrial economy as well as to the numerous factories owned and run by Histadrut's economic division and to the relatively few but important government plants.

It was Histadrut which sparked the formation of the Israel Institute of Productivity in 1951 and which pressed the private Manufacturers' Association in 1952 to sign an agreement requiring the establishment of joint productivity councils in all affiliated firms employing 50 or more people. Within its own plants, Histadrut has

² "Plant Labor Relations in Israel," *Industrial and Labor Relations Review*, Vol. 17, No. 1, October 1963, pp. 39-59 and "Worker Participation in Israeli Management," *Industrial Relations*, Vol. 3, No. 1, October 1963, pp. 51-72.

tried to go a step beyond the JPC by instituting joint worker-manager councils to discuss and decide all plant affairs except wages and social benefits, which are left to the collective bargaining sphere. And in one of the largest government-owned enterprises, the Electric Corporation, three elected worker representatives were added to the board of directors and given executive operating responsibilities.

As with the English experience, theory and policy have not been implemented in accord with the planners' views and hopes. Labor does exercise a considerable voice in the management of the private metalworking establishments, but this voice derives from superior bargaining strength and is largely a function of collective bargaining and grievance handling. With a few exceptions the content of collective agreements is similar to the American and British.

The JPC's, however, have not had the positive impact on labor participation in management that had been contemplated, despite a heroic effort by the Histadrut section responsible for the program. The great contribution of the JPC to productivity has come from the development of individual wage incentive plans which, prior to statehood, had been bitterly opposed by the Histadrut. Administration of these plans, including the setting of norms, was made a JPC function, in contrast to the English practice of leaving them under collective bargaining. This wage incentive function gave workers a powerful stimulus to participate in the JPC and it is generally agreed by informed Israelis that worker productivity was substantially increased during the first five or six years of the program. Sooner or later, however, the stimulating effect of wage incentives reaches a plateau and problems arise over obsolete norms, adjustment to small cumulative changes in production methods, etc.

When I conducted my research in 1961-62, Histadrut officials were working hard to rescue the JPC from serving principally as a wage incentive committee and to interest workers in the nonwage aspects of JPC work, e.g., the reduction of waste, the more effective utilization of equipment and materials, the training of workers, and the improvement of communications. The seriousness of the problem was reflected in the fact that in a number of important establishments paying wages on a straight hourly basis, the JPC system had withered away because of worker apathy and employer resistance to sharing what it regarded as the managerial function.

The most unexpected finding of my research in Israel was that the managers in the Histadrut enterprises, although selected by national

labor officials, also tended to be lukewarm, if not hostile, to the involvement of workers and their representatives in aspects of management bearing on production and efficiency as distinct from personnel matters. Many of the plant managers (excluding some purely political appointees) were trained engineers who perceived their function as the professional direction of production in the most efficient manner possible. They recognized the constraints of a labor-owned enterprise, and they appeared to be content to work within them. Nonetheless, they did not have a high regard for the capacities of the workers to contribute positively to the production function and they were not prepared to take a major role in propagating the worker council idea. As a result, labor relations in these establishments differed only in degree from the private enterprises.

ILLINI CITY, 1955-6 AND 1959

In contrast to both England and Israel, metalworking in the United States is not covered by one or a few collective bargaining systems but rather is dispersed among innumerable sub-systems of a plant, multi-plant, and multi-employer character. My discussion is based mainly on a series of case studies which several colleagues and I have conducted in Illinois at various intervals during the post-war period.³

The typical Illini City union continues to be job-oriented, security-minded, concerned with getting more pay and benefits. It is not basically interested in assuming or even sharing the reins of management beyond the personnel area. Except for some relatively recent extensions into the areas of work standards and contracting out, labor participation in management decisions about the manner of production is largely limited to the role of griever and critic rather than of co-determiner in advance of action. Efficiency is regarded as the managers' responsibility and the unions get involved only in the role of protecting the workers' standards and interests. Thus, the managers decide the materials and machines to be used, the arrangement of the work flow, the production schedules, and the quality and volume of

³ M. Derber, W. E. Chalmers, and R. Stagner, *The Local Union-Management Relationship* (Champaign: University of Illinois, 1960); "Union Participation in Plant Decision-Making," *Industrial and Labor Relations Review*, Vol. 15, No. 1, October 1961, pp. 83-101; "Management and Union Rights in Industrial Establishments," *Current Economic Comment*, Vol. 22, No. 2, May 1960, pp. 3-11; "Collective Bargaining and Management Functions," *The Journal of Business of the University of Chicago*, Vol. XXXI, No. 2, April 1958, pp. 107-120.

output; the union representatives normally have a voice only in challenging the speed of operations, the output standards applied to individuals or groups, and the safety of work conditions.

We found advance consultation or, at least, advance information which tends to blend into consultation, a common procedure whenever the managers planned to introduce technological or other changes that would affect numbers of workers either in terms of job losses or in dislocations of positions or conditions. Advance agreement in these cases, however, was rarely a contractual requirement, although the consultation might often lead to a tacit or formal agreement. For the most part the unions were not pressing for advance agreement; they appeared to prefer to retain the freedom of the critic, thereby minimizing the possibility of being accused by their members of being allied with the managers in opposition to the interest of the workers.

One of the most outstanding characteristics of these plant relationships, when compared with the English and Israeli, is the integrated nature of the formal communications system. None of our plants had a joint production committee. Even more specialized joint committees were rare; for example, less than a third of the sample establishments had a joint safety committee and only a few had training and instruction committees. On the other hand, practically all of the subjects discussed by the JPC's in England and Israel were, from time to time, taken up by the regular union-management bargaining or grievance committees. In some instances the discussions were simply of an informational character, e.g., the expected trend in sales and employment; in others they were consultative, e.g., how to reduce waste; in some cases they were negotiational, e.g., how to revise work rules in light of the opening of a new division.

INFERENCES FROM THE THREE-NATION COMPARISON

The foregoing brief descriptions of labor-management relations in various metal-working plants of England, Israel, and the United States permit only some very rough and hypothetical conclusions, particularly when we consider the numerous methodological limitations.

1. *On labor's values.* We find a considerable range of opinion among labor leaders on labor participation in management. At one extreme is the Israeli ideology which favors extensive codetermination; at the other extreme is the widespread American belief that the union's role should be primarily that of the critic and watchdog. In

between is the English emphasis on joint consultation (and in some areas joint determination) prior to action. In all three countries labor wants to participate in decisions which might lead to a displacement of workers from their jobs or a drastic change in working conditions.

2. *On managerial values.* In contrast to the diversity of labor views, managers in the three countries were generally unsympathetic to extensive labor participation in management. Management was viewed as a function devoted to maximizing productivity and efficiency and labor's role was viewed as secondary at best, restrictive and obstructionist at worst. A minority of managers supported the joint consultation idea, but even most of these wanted to reserve decision-making to managerial discretion.

3. *On industrial democracy.* How much labor participation in management is supported by practice in these three democratic societies when viewed from the perspective of democratic theory? The answer obviously depends on one's conception of democracy. If the criteria are majority representation, freedom for workers and employers to choose their own spokesmen, due process of law, equality under law, and the protection of individuals and minorities against organizational or bureaucratic abuse, then all of the establishments surveyed come off quite well. The varying degrees of participation from griever to co-partner all become more or less consonant with democracy in action. If on the other hand, the test of industrial democracy is the degree of individual participation in the government of the work community, then it obviously follows that labor participation in management must extend far beyond the practices described.

4. *On efficiency.* Participants in the industrial process, however, cannot fail to give substantial weight to the test of efficiency. The chief impression gained from my studies in this regard has been that workers tend to be or to become apathetic about participation in management unless there is a direct economic or socio-psychological return. Although some British and Israeli worker representatives enjoyed the prestige associated with their roles in the JPC, most of them, reportedly, did not display much concern. Worker representatives in all three countries seemed to be most comfortable in the role of critic or protector of worker interests; when they assumed too positive a role, they often became suspect in the eyes of their followers.

5. *On the appropriate balance between democracy and efficiency?* The comparative survey attempted here suggests that there is no single

answer to this key question. The expansion of the scope of collective bargaining, in large part because of job security concerns, has given labor an enlarged role in management. Although the initiative for change in the spheres of production and finance has remained chiefly with the managers, the decisions for implementing them have been increasingly influenced by labor reactions. Whether labor's role is primarily negative or positive depends on many factors—the economic context, the abilities and ideologies of managerial and labor representatives, the strength of monetary and other incentives, etc. Consultation, whether in advance of or after managerial decisions, is on the increase. Most managers probably still view it as a necessary evil, some welcome and encourage it. The ordinary worker is obviously able to participate most fruitfully in management at the shop or departmental level; his leaders' role at the top levels of the enterprise appear to be as much a function of the quality of leader-follower relations as of technical insights and knowledge about management.

6. *On the relation between participation and cooperation.* Labor participation in management is usually discussed in terms of joint cooperation. Such a link is not essential since the degree of participation may be largely dependent upon labor's power. Nevertheless, the research findings described in this paper suggest that extensive and positive labor participation in management decisions relating to production (as distinct from personnel) does appear to require a sympathetic and willing managerial approach.

INDUSTRIAL DEMOCRACY IN THE AFFLUENT SOCIETY **

ADOLF STURMTHAL
University of Illinois

In labor history the term "industrial democracy" has had a fairly long lease on life. Its roots can be traced back to the beginning of the nineteenth century, most clearly to the latter half of it. Since then, the intensity and attention devoted to the concept of industrial democracy has varied a good deal, but it is remarkable to observe that even after long periods of eclipse the term "industrial democracy" has again and again found wide use in labor circles. One of the reasons for this longevity of the term may be its vagueness, its ability to be shaped according to the needs of the moment. It has meant to some observers no more nor no less than a collective bargaining relationship in which the workers or their representatives have a share in the determination of the wages and working conditions to which they are subject. In other writings, the term "industrial democracy" has been employed to indicate labor-management cooperation in general on matters of common interest. In a third and perhaps most interesting and most significant meaning, industrial democracy has denoted a social and economic system in which labor is substituted for management.

The origins of this concept are in the industrial countries of the West. They include, of course, Syndicalism, as it was worked out in France and spread to Spain and Italy. Another root was Guild Socialism, which in turn had at least one of its sources in the romantic anti-industrial ideas of William Morris. The high priest and most influential of the Guild Socialist writers was G. D. H. Cole, and the high tide of Guild Socialist influence on the British labor movement was the period shortly before World War I, World War I itself, and particularly the first two or three years following the end of World War I. Guild Socialism and French Syndicalism had in turn their impact upon the IWW's, and the Wobblies on their part influenced some sectors of the British and other labor movements. Historically, even more significant in the long run may have been the impact of the Russian Revolution and the institutions which it created, perhaps willy-nilly, for the administration of industrial enterprises. Convinced that existing industrial management was hostile

to the new regime and that management did not require any special skills, the Bolsheviks proceeded to hand over the administration of industry to representatives of the workers, at least for some time. In this case, as in the case of the great agricultural reforms carried out at the time of the Revolution, the Bolsheviks accepted or endorsed ideas of others which up to the moment of taking power they had bitterly opposed.

In Central and Western Europe the idea of industrial democracy reappeared at the end of World War I primarily in the form of a merger between the ideas of Guild Socialism and those of the Russian Revolution. The main author of this merger was the Austrian Socialist theoretician Otto Bauer, who in his history of the Austrian Revolution described the way in which the intellectual impact of G. D. H. Cole's writings and the political influence of the Bolshevik Revolution combined to produce Bauer's program for the administration of nationalized enterprises. In his view, the management of nationalized or socialized establishments was to be entrusted to what he called a "tripartite" council consisting in equal parts of representatives of the government, the consumers, and the workers and white-collar employees of the enterprise.

Otto Bauer's proposal spread not only through Austria, but also to Germany where Karl Kautsky became its main propagandist. He embodied the principle in the abortive proposals of the German Commission for the Socialization of Industry. Of greater and more lasting consequence was the fact that the French trade unions, under the leadership of Léon Jouhaux, adopted the very same scheme under the slogan of "industrialized nationalization." I have described in previous writings the further evolution of these ideas on the Continent.

In England, Guild Socialism, having reached its height around 1920, rapidly declined in influence. The Labour Government in 1929, when preparing a scheme for the nationalization of the London Transport System, rejected Guild Socialist ideas, a fact which led to a sharp conflict between Ernest Bevin and the then Minister of Transport, Herbert Morrison. The crushing defeat of Labour in 1931 set an end to these discussions. When, toward the end of the thirties, and particularly after World War II, the idea of nationalization gained influence once again in England, very little was left of the Guild Socialist impact. The nationalization laws enacted after World War II provided for management by experts, including experts in

personnel management and industrial relations, but no longer for any representation of either employees or the union. Instead, some vague and unconvincing clauses for consultation were introduced into the nationalization laws in line more with proposals worked out by the Wheatley Commission of World War I vintage than with Guild Socialism.

On the Continent, for the time being at least, a revival of industrial democracy could be seen in the reconstitution of the workers' councils in the plants after the defeat of Hitler, and ultimately in the codetermination system in coal and steel and the Works' Constitution Law in **Germany**.

Throughout all of this, the idea of industrial democracy as an instrument of collective bargaining persisted in a somewhat inconspicuous way, less glamorous than any of the great schemes connected with other interpretations of the term, but in the long run more persistent and perhaps of greater consequence.

AN ANALYTICAL SCHEME

The very ambiguity of the term that we have attempted to outline makes it difficult to evaluate the operations and effectiveness of any system of industrial democracy that has been devised and put into practice. In most cases even the authors of the schemes were not quite clear about the objectives they wished to attain, except in the most general terms. In the absence of clearly stated objectives, we are lacking a yardstick by which to measure the distance between goal and attainment. Some form of analytical scheme is necessary in order to make possible a fruitful discussion of the various ideas, schemes, and institutions that come under the general heading of industrial democracy.

Such a scheme might start from the proposition that all ideas of industrial democracy and the resulting institutions are designed to give the workers or their representatives influence upon at least some aspects of the workers' life in the plant. Starting from that premise, we might distinguish among the various schemes and institutions according to: (a) the degree of influence which they give to workers or their representatives; (b) the subject matter area in which they exert influence; (c) whether the impact is direct or indirect, in other words whether the workers themselves or representatives elected by them influence the decisions; and (d) at which level of management or of public administration influence is to be exerted.

A few words of comment on each of these headings might be useful. Under "degree of influence," we might distinguish between simple consultation and co-decision-making, veto-giving power, with a number of variants in between. The "subject matter areas" in which workers or their delegates are given a voice might reach from those traditionally connected with collective bargaining to technical, commercial, and financial problems. The influence might be exerted directly by "workers' collectives" as the language used in Eastern Europe says, or by delegates such as workers' councils and representatives in managerial or administrative bodies. In general, the higher the level of influence, the greater the probability that this influence would be exerted by representatives or delegates. A very important distinction relates to the level of management or administration at which "industrial democracy" is to operate. This may be the plant, the particular industry, industry as a whole or the highest levels of economic administration such as the government itself. This distinction is of particular significance for the rest of this paper.

With the aid of such a scheme, we can classify and sub-classify various schemes of industrial democracy, and in that way proceed to compare them and perhaps evaluate them in their own terms.

I have attempted at least a part of this kind of analysis in a recently published piece of work, and I do not intend to pursue this line of thought any further in this place. Instead, I should like to use this analytical framework in order to present some thoughts about the current state of the labor movement in relation to the ideas of industrial democracy in the industrial nations of the West with a brief reference to the countries belonging to the Eastern bloc.

AFTER WORLD WAR II

The end of World War II was followed by a series of experiments in industrial democracy in the industrial nations. Codetermination in Germany, the Works' Constitution Law in the same country, the establishment of personnel delegates and plant committees in France, the institutions of workers' participation in the management of nationalized enterprises in France, the establishment of the *Commissione Interne* in Italy, are outstanding examples of measures of this kind. A review of the stated objectives and the actual performance of these institutions leads to some interesting observations.

1. Almost all were intended to be instruments of workers' par-

ticipation in management at various levels of the hierarchy, from the plant or individual firm up to the top policy-making bodies of the country.

2. The power of the low-level institutions to influence decisions tended in general to be greatest as far as wages and working conditions were concerned. In technical, financial, commercial matters their influence was usually limited to consultation. Within the area of personnel matters, councils and other bodies of industrial democracy had frequently a veto power on issues relating to hiring and firing, particularly of larger groups.

3. In general, the institutions of industrial democracy seem to have performed best with regard to the traditional subject matter of collective bargaining. The workers' concern was least pronounced in the area of finance, economics, and technology, and in general the results in these areas were disappointing.

4. Wherever possible, management tended to channel council activities into issues of welfare and industrial relations. In these areas workers' representatives were given power of decision or co-decision. Management was least willing to contribute to the successful operation of the institutions of industrial democracy in economic and technical matters. These continued to be regarded as far as possible as preserves of managerial prerogative. Only rarely was management willing to go beyond suggestion schemes and—often superficial—consultation on such matters.

5. The official reasons given by management for such reluctance were most frequently:

- (a) Lack of competency on the part of employees or their representatives;
- (b) Lack of interest of employees in such issues;
- (c) The danger that effective workers' or union influence in such matters would unfavorably affect efficiency.

On the union side there was, in some countries, reluctance to commit labor to managerial responsibility. Official British T.U.C. policy was and continues to be based upon the proposition that "the union cannot sit on both sides of the bargaining table."

6. Consultation at high levels, particularly of public administration, is becoming more and more accepted practice, in Western nations, regardless of the political color of the government. Participation

beyond consultation—involving some degree of managerial responsibility—e.g., codetermination in Germany, union representation in the administration of nationalized enterprises in France—is limited to only a part of the Western world.

These propositions call forth a number of comments and conclusions.

1. The dominant theme in discussions regarding industrial democracy and particularly in the efforts to limit it to the subject matter of collective bargaining is concern with efficiency. The assumption is either that ignorance or shortsightedness of the employees will cause them to favor measures likely to impair efficiency, or that there is a basic conflict between the interests of employees and those of the enterprise (or at least of the stockholders). The last point is a restatement of Marxian views, remarkable as it comes from people otherwise bitterly hostile to these views and their implications. The first group of considerations will be discussed in a subsequent part of this section. What appears particularly interesting at this point is the peculiar fact that concern with efficiency appears to be most intense in countries with high or even highest output per manhour, where, therefore, the sacrifice of some part of this efficiency in favor of other values (such as the expression of the human personality in the work process) could most easily be tolerated. This, of course, may be a chicken-egg problem. It could very well be that these countries are so efficient because they have been willing to subordinate other values to that of producing the highest possible output per manhour. "Moonlighting" may indicate that the dedication to maximum incomes is not necessarily limited to management. In any case, whether we approve or disapprove on moral or cultural grounds, the high priority given to efficiency in Western industrial societies seems, at least for the time being, an unchangeable premise of social action in this field.

2. No convincing evidence, to my knowledge, has yet been presented that industrial democracy is indeed detrimental for efficiency. Even if it were to be granted that in the short run employees or their representatives would tend to curtail investment funds in favor of current consumption (which may or may not be economically justified at any given time), or resist technological change, the impact of industrial democracy may be quite different over the long run and in long periods of full employment. Experience may change the char-

acter of workers' participation in management, may teach better understanding of the connections between the loss of current income and the prospects of increased earnings in the future, and may open up new sources of technological and other improvements. There is no reason, moreover, to assume that our society has fully solved the problem of identifying all managerial talent and of providing the necessary channels of promotion.

3. One set of objections to industrial democracy—those relating to the lack of competency of the employees—tends to be weakened as industrial development progresses. Educational levels rise in the entire population and in the industrial labor force. A growing proportion of the latter consists of white-collar workers in general and professional personnel in particular and is thus eminently qualified to understand the problems of management—economic, technical, financial.

4. The disappointing results of industrial democracy in those cases where it was limited to consultation can be readily explained as following from a sense of frustration on the part of the employees and their representatives. In the absence of real authority, they seem to regard consultation as not much more than prior notification.

5. Perhaps the most significant aspect of the facts presented above is their timing. The flurry of legislation creating institutions of industrial democracy after World War II has been followed by an almost complete pause in experimentation. The German Works' Constitution Law set the final point, at least for an entire decade or more, to the series of acts that was unleashed by the shift in the relationship of social forces in the wake of the war and the defeat of Hitlerism. Since then, no further steps have been taken in the West to advance the cause of industrial democracy (apart from minor experiments on a small scale here and there and De Gaulle's not very successful attempt to develop profit sharing). Indeed, the evolution of the existing institutions has tended to weaken industrial self-government in practice. The Italian Commissione Interne and the French plant committees have been gradually reduced to grievance handling or the administration of welfare agencies in the plant. Their impact upon the technical, commercial, and financial operations of the enterprise is, in most cases, negligible. The affluent society of the West rejects daring experiments in plant management. The solution for the problem of "alienation" of the worker is no longer sought by way of a

reform of the enterprise—*pace* Bloch-Lainé—but more and more by offering compensation in the form of higher living standards and, possibly, shorter work hours. The worker is less and less expected and expecting to find self-fulfillment in his work; his real life begins after working hours.

6. Should the union represent the worker when he is participating in managerial functions or should a different body be set up for that purpose? The answer to this question involves a fundamental decision from which many other consequences follow. The British trade union movement, as we have seen, decided after a prolonged debate that labor could not “sit on both sides of the bargaining table” at the same time. The German (and the French) unions seem to have made the opposite choice. The British (and the American) unions regard collective bargaining and grievance handling as their primary function whose loyal fulfillment would be impaired by their accepting managerial responsibility. On the Continent, many unions have left the bulk of grievance handling to the workers’ councils—essentially a non-union organization¹—and are devoting a large and increasing portion of their energy to influencing general economic and other policies at management and governmental levels. Other unions, while continuing their bargaining functions, are shifting the focus of their activities to participation in top level agencies. Power at the top or power at the bottom of the industrial relations system—in a somewhat oversimplified way this may be described as the alternatives confronting Western labor movements. In general, it would seem that the two kinds of power are inversely related to each other. Involvement in management most often weakens the impact of the union at the bargaining table. The greater the degree of managerial responsibility one accepts, the less is one able to exert force of pressure from the outside. Primary absorption in the strategy of bargaining, on the other hand, requires a refusal to use the means of influencing decisions which the acceptance of managerial responsibility might put at labor’s disposal.

The rise of democratic planning mechanisms in some countries of the West may reenforce the trend toward union involvement in managerial problems. How this evolution will affect the character of

¹ The French *délégué du personnel* is only loosely connected with a union and not its representative though he is often nominated by it. The German workers’ council is even less a union organ except where the council members by personal choice owe primary loyalty to the union.

those unions that have so far been aloof from accepting managerial responsibility remains to be seen. In some Continental countries, in any case, the trend toward managerial involvement is likely to be reinforced by the growth of planning bodies. Political considerations may, however, affect these developments. Thus, the Communist-inspired French C.G.T. has refused to participate actively in the planning bodies, even though it has accepted membership in them.

We are beginning to witness a trend toward the development of two different kinds of unionism: I suggest tentatively to label them bargaining unions and administrative unions. They are distinguished by the role which they assign to the unions in the context of industrial democracy. For the bargaining unions, industrial democracy is limited in scope to bargainable issues; the locale of industrial democracy is the workplace; the impact of the union is most clearly seen in the plant; the action of the union is direct or at least close to the rank and file. The administrative unions find their leverage strongest above the plant level: they make their impact felt in accepting managerial responsibilities, in dealing with employers' association representing all employers and thus administering the distribution of the increment in national income from year to year, in participating in the work of official government planning agencies, etc. Industrial democracy means in this latter context union impact on top policy-making bodies. A discussion of the implications of this differentiation within Western unionism lies outside the scope of this paper.

7. Developments in the area of industrial democracy seem to be going a different way in the newly industrializing countries. The need to locate scarce managerial talent, to accommodate the politically often influential union movement and to find new social and economic structures has led to considerable experimentation in management at different levels—from the firm up to government administration.

This trend is accentuated by the strength of anti-capitalistic sentiments in many countries. Workers' councils appear as desirable substitutes for private owner-appointed managements. In the countries of the Soviet bloc an evolution in the direction of industrial democracy in this sense has been emerging—with considerable ups and downs—since 1956. Leadership in these experiments has been held by the Yugoslav councils.

8. The Yugoslav Workers' Council is a highly limited attempt to combine two types of industrial democracy: the workers' collective

is to represent industrial democracy in the plant; the union is to do so at the higher administrative levels. But even if the Councils were to perform effectively as managerial agencies—a large topic by itself—the absence of democratic institutions at the higher policy-making levels would defeat any intention of turning the unions into real agencies of industrial democracy. From the point of view of the bargaining union, moreover, the absence of aggressive workers' representation for that purpose in the plant makes the system heavily weighed toward administrative objectives—in line, of course, with the stated purpose of the governing party of achieving the highest possible rate of industrialization of the country. There is thus within the system a built-in conflict between the objective of hothouse industrialization on one hand and the institutions of industrial self-government in the plant, as well as the normal union functions at higher administrative levels, on the other hand.

THE WORKERS' COUNCILS IN WESTERN EUROPE: AIMS AND RESULTS

MARK VAN DE VALL

State University of New York at Buffalo

Among industrial sociologists, the problems around the authority structure of modern industry are rapidly gaining attention. Does the modern industrial organization, they ask for example, require only bargaining, or consultation, or trade union participation in management decision making?¹

An analysis of the workers' councils in Western Europe is certainly relevant to industrial power, although it only partially gives a *direct* answer to the question. This is because the workers' councils express not primarily the economic needs of the enterprise, but certain non-economic values in larger society. Max Weber has described how the system of Capitalism is not purely of economic origin.² This is even more the case with the workers' participation in industry. Its sources are political, religious and ethical and only secondarily of an economic nature.

The beginnings of workers' participation in the plant are almost exclusively idealistic. In France the delegation of entrepreneurial tasks to the workers was proposed in 1829 by utopian socialists.³ In Germany, joint consultation was favored by the ethically oriented liberal thinker von Mohr, in 1835.⁴ In Britain of the 1920's the Fabians considered industrial democracy a promising counterpoise to Capitalism.⁵ After his exile in England, at the turn of the century, Bernstein introduced the idea in the social democratic parties of the Continent. For a short time councils of co-determination have existed in the Republic of Weimar.⁶

Since then the class struggles of the nineteenth century have been

¹ The theme of Session VIII of the 17th annual IRRA conference, January 28 and 29, 1964 at Chicago, where this paper was presented, was: "Does Modern Enterprise Organization Require Trade Union Participation in Management Decision Making, or only Consultation, or Bargaining?"

² Max Weber "The Protestant Ethic and the Spirit of Capitalism," New York, Charles Scribner's Sons, 1958.

³ Charles Fourier "Le Nouveau Monde Industriel et Sociétaire," Paris, 1829.

⁴ Hans Jürgen Teuteberg "Geschichte der Industriellen Mitbestimmung in Deutschland," Tübingen, Mohr, 1961.

⁵ G. D. H. Cole "Self Government in Industry," London, 1919, pp. 94-100.

⁶ Dr. Markus Beck "Wirtschaftsdemokratie," Zürich, Polygr. Verlag, 1962, p. 25.

succeeded by the welfare state and the movements of utopian socialism, Fabianism and social democracy have largely dwindled away. From a visionary ideal, workers' councils in the plant have become a reality in large parts of West-European industry. Such changes certainly justify our interest in the *present* nature of the workers' councils. But whatever the differences with the past, in one respect little has changed. At present, co-determination and joint consultation again have their origins outside the enterprise. In the case of the socialist parties they are political, in that of the Catholic and Protestant social movements, religious. As for the third movement behind the councils, the trade unions, their center of gravity lies also outside the plant.

MODERN SOCIALIST THEORIES

Before World War II socialists used to view the workers' council in the wider context of a nationalized and fully planned economy. Since then, socialist theory has narrowed its view towards a democratic structure of the enterprise. This theory has a political as well as an economic aspect.

Politically, this theory views the simultaneous existence of political democracy and industrial autocracy in modern society as a source of social and individual strain. Socialists argue that the coming of the welfare state has sharpened the workers' consciousness of a disharmony between their political freedom and their subordination to industrial power. They are confronted with democracy in one part of their life and with (enlightened) despotism in another. In this situation, socialists view co-determination and joint consultation as institutional safeguards against the exertion of industrial authority over individuals who lack the means to control it. The socialist aim is not to transplant political democracy into the industrial order, but to give labor, like the stockholders, certain controls over management.⁷

The economic aspect of socialist theory stresses the widening rift between labor, ownership and management. The division between worker and employer is longstanding; that of stockholders and management is relatively new. The spread of stock over the millions, according to socialism, has weakened the owners' control of the enterprise, and created a vacuum in the legitimation of management's authority. As the traditional controls over management have weakened, its power has correspondingly grown. The more the legitimation

⁷Dr. Alfred Christmann und Dr. Otto Kunze "Wirtschaftliche Mitbestimmung im Meinungsstreit," Köln, Bund-Verlag, Teil I, p. 282.

of management's authority diminishes, the greater the necessity, according to socialist theory, to bring labor into partial control of the enterprise.⁸

This general objective is voiced in such terms as "the equal economic rights for labor and ownership," "the workers' liberation from managerial autocracy" and "the satisfaction of the human need for self-determination." Underlying these goals is the belief that only fundamental changes in the structure of industrial control will enhance the workers' sense of economic freedom.⁹ Among these changes the socialists include the introduction of the workers' councils.

ROMAN CATHOLIC AND PROTESTANT THOUGHT

Roman Catholic and Protestant theories about co-determination and joint consultation differ in several respects from those of the socialists. They devote less attention to changes in the structure of the industrial organization and more to the ethical motives behind workers' participation. From the theological point of view they consider the worker's right to be heard in industrial decision-making as given by God and basically equal to the rarely contested property right.¹⁰ The ethical arguments in the socialist and the religious theories are largely similar: co-determination and joint consultation are viewed as conditions that enable the employee to satisfy deeply rooted needs of self-esteem and freedom in the course of his daily work.¹¹

Over the last few years, however, socialist and religious discussions are gradually shifting from the introduction of the workers' council to changes in higher levels of the industrial organization. There they advocate introducing labor directors or labor representatives to the board of directors. The principal reason for this shift is that the workers' councils, once created, rarely succeeded in contributing to or controlling management. This is most deeply felt in the third movement: the trade unions of Western Europe.

TRADE UNIONS AND THE WORKERS' COUNCIL

The European trade unions promote the workers' council not only for idealistic but also for strategic reasons, as the realization

⁸ *Ibid.*, p. 322.

⁹ *Ibid.*, p. 283.

¹⁰ "Entschliessungen der Bochumer Katholickentages," 1949, quoted in Kunze and Christmann, *op. cit.*, Teil II, p. 106.

¹¹ Beck, *op. cit.*, pp. 55-62.

of the welfare state has demanded organizational change. At the *macro*-social level the unions' functions generally expanded, especially in the fields of social security and economic planning. They are represented in national economic councils,¹² in joint consultative committees of nationalized and private industries and, sometimes, in government.

However, at the *micro*-social level, that of the individual worker, many trade union functions have evaporated. The unemployment insurance is transferred to the state social security agencies and individual grievance functions are often taken over by industrial welfare. Other traditional functions are less apparent to the workers: for example, collective bargaining on an industry level is less real to him than bargaining within the plant.¹³

This two-way functional change often leaves the mass of the workers with the impression that the focus of the trade union's activities is shifting away, from the individual worker. Research by the author has discovered this to be one of the reasons why the growth of the membership halts.¹⁴ The trade unions welcome the workers' council as a means to dispel this idea and bring the trade union's functions nearer to the worker in the plant.

With collective bargaining as the traditional trade union function, theoreticians of labor have given much thought to its relationship to the council. Out of the wealth of publications¹⁵ we can distinguish two types of theories, the complementary and the channeling theory of joint consultation.

The *complementary* theory of the council stresses the communal relationship between the two partners. It points out that workers and management are not only opposed, but also have a number of interests in common, for example productivity, safety and workers' morale. Their interaction may involve conflict, but it also involves cooperation. These two should be served by separate institutions: the conflicting interests by the collective contract drawn up with the trade

¹² National Economic Councils are now established in France, Belgium, The Netherlands, Italy and Sweden.

¹³ M. van de Vall "Trade Unions in the Welfare State as seen by their Members." in "Trade Union Information" (OECD), no. 38, p. 308.

¹⁴ In a survey by the author among ex-members of trade unions in the Netherlands, 21% mentioned this as the main reason why they left the union.

¹⁵ In West Germany, between 1945 and 1961, no less than 7000 publications about joint consultation and co-determination have appeared. See: "Bibliographie zur Mitbestimmung und Betriebsverfassung," Deutsches Industries Institut, Köln, 1963.

union, the common interests by joint consultation in the workers' council. This concept of the council as complementary to bargaining is found in the British nationalized industries.¹⁶ It allows for a considerable integration of its members in the plant.

The *channeling* theory of the council stresses the conflicting elements in the relationship between workers and management. It points out that even in the welfare state, or in nationalized industries, their interests are not identical. The conflict may now be less a matter of economics than of power, but it still exists.¹⁷ However, although the basic conflict can only be met by trade union bargaining, some parts, especially those extended over time or involving continuous control, can be channeled into a permanent problem-solving institution. Those parts are :

1. Supervising and controlling the execution of the collective contract in matters of individual hiring, promotion, replacement, gratification and dismissal ;
2. Resolving friction between a superior and his subordinate by differentiating between functionally adequate authority and non-functional, irrelevant and therefor unjustified authority ;
3. Creating and implementing adjustment to technical changes, organizational innovation and production changes which may lead to tensions ;
4. Assisting and advising in long term planning of unavoidable closures (coal mines) or curtailments (automation) in the way which is least harmful to the workers ;
5. Supervising and partially managing the plant's social security and welfare institutions.¹⁸

With the exception of the last, these functions are all aspects of the conflicting interests of workers and management at the micro-level, that is, in the plant. This conception of the workers' council as a means to channel parts of the conflict into a standing committee is found among trade unionists and labor theoreticians in Western

¹⁶ From discussions of the author with Mr. D. Delay of the T.U.C., Mr. M. Skinner of the Electricity Council and Mr. Kessler of the Nat. Union of Mine-workers, in England.

¹⁷ Ralf Dahrendorf "Soziale Klassen und Klassenkonflikt in der industriellen Gesellschaft," Stuttgart, 1957.

¹⁸ Alfred Christmann "Mitbestimmung und sozialer Konflikt, löst die Mitbestimmung die sozialen Gegensätze?", in: "Das Mitbestimmungsgespräch," 9. Jahrgang, nr. 5/63 and 6/63.

Germany.¹⁹ The members of this type of council would be less vulnerable to integration in the plant.

From this it will be clear that neither the complementary nor the channeling theory views the workers' council as an elimination of the industrial conflict. The complementary council handles common interests which are neglected in traditional bargaining and the channeling council takes over intra-plant parts of the conflict. The problem is not whether there should be either consultation or bargaining, but whether consultation should be complement or extension of bargaining. In each method the unions see a means to strengthen their ties with the workers.

Today, workers' councils are established in 30% (Holland) to 75% (France) of West-European industry, with the highest percentages in the larger industries. After the first enthusiasm however, their growth has slowed down or even reversed. For France, Sturmthal has observed that of all institutions in the field of industrial relations created after World War II, none has been more disappointing than the workers' council.²⁰ This applies generally throughout Western Europe. Studies of OECD, ILO and ICFTU all come to the same conclusion.²¹

MANAGEMENT AND THE COUNCILS

Since their introduction, management's power to determine the success or failure of the council has been unimpaired. Belgian experiences stress management's important role in the council's operations²² and British observers state that management's harmonious relations with the lower ranks are a necessary condition for the council's success.²³ However, the attitude of management towards the council is predominantly negative; for France it is reported that

¹⁹ From discussion of the author with Dr. G. Leminski of the Wirtschaftswissenschaftliches Institut der Gewerkschaften (WWI) and Dr. W. Höhnen (WWI) and Dr. H. Seidel of the Hanns Böckler Gesellschaft, Düsseldorf, West Germany.

²⁰ Adolf Sturmthal "Workers' Councils," Cambridge, Mass. Harvard Univ. Press, 1964, p. 36.

²¹ (a) George Ventejol "Le Conseil d'Entreprise et les Problèmes Économiques de l'Entreprise," Paris, OECD, 1956.

(b) "Consultation and Cooperation between Employers and Workers at the Level of the Enterprise," Geneva, ILO, 1962.

(c) "Survey of the Participation of Trade Unions in the Determinations of Economic and Social Policies in their Countries," Brussels, ICFTU, 1963.

²² "De Informatiefunctie van de Ondernemingsraad" (rapport), Antwerpen, Centrale voor Productiviteitsbevordering, 1964

²³ "Consultation etc.," ILO, *op. cit.*, p. 67.

no more than 5% really want them to succeed.²⁴ In the rest of Western Europe the trend is the same.

Management has various means at its disposal to obstruct the controlling functions of the council. One highly inconspicuous, successful technique is to gradually convert the council into an instrument of 'human relations'. This is opposite to the council's goals, as the principles of joint consultation and 'human relations' differ as follows:

a. The ideas of co-determination and joint consultation are essentially democratic, those of 'human relations' are not necessarily so. Co-determination and joint consultation aim at a reorganization of the industrial structure in order to increase labor's control over management. By curbing management's autonomy in decision-making, they expect to increase labor's power in the enterprise. The workers' council is one means to achieve that purpose.

b. The trend of 'human relations' presents innovations within the industrial authority structure without altering it. By delegating the making of minor decisions to the lower ranks, management's power to have its own decisions executed increases. Consequently management's position is strengthened. That the 'human relations' techniques are not necessarily democratic is illustrated by the fact that they were applied in the 1930's by the national socialists in Germany, who never heard of the Hawthorne experiments and called them "Menschenführung im Betriebe."²⁵

The council's conversion into an instrument of human relations follows several stages. First, management avoids any real control by the council by manipulating its monopoly of information, by transmitting information too late or in an inaccessible form, by withholding data or by keeping alternative solutions vague. Second, management guides the council's attention consistently away from economic and financial problems to the fringe areas of security and welfare. Third, continuous cooperation with management encourages a spirit of company-mindedness among the members with the effect that they may feel closer to management than to the union.

It is characteristic for Western Europe that management finds an ideological justification for its attitude toward the workers' coun-

²⁴ Georges Laserre "Les Expériences Françaises de Participation de Travailleurs," Vienna, 1958, p. 9.

²⁵ Erich Potthoff "Zur Geschichte der Mitbestimmung," in: E. Potthoff, O. Blume und H. Duvernell "Zwischenbilanz der Mitbestimmung," Tübingen, Mohr, 1962, p. 15.

cil. This is the so-called "community theory of the enterprise," popular among leaders of European management. It holds that the modern company is developing into a "Gemeinschaft," a harmonious community-of-work, where the members share the same economic values, where the ethos of cooperation replaces the doctrine of conflict and where the workers' council, substituting for the trade union, represents the interests of all parties in the plant.²⁰ This theory may have some appeal among naive younger workers and unorganized white collar employees, but the trade unions, afraid of a European version of the company-union, are strongly opposed.

THE WORKERS' COUNCIL, AN APPRAISAL

Which of these different, even opposed goals are, in fact, met by the council? To answer this question, we shall compare its effect with the ideals of socialism, with the Catholic and Protestant ethics, with the needs of the trade unions and with management's aim to improve human relations.

The *socialists*, who strive for a more democratic industrial structure, see the council partly as an agent of control. Has the council led to new controls over management and has it succeeded in curbing management's power? The findings are negative; indeed, the opposite may be true.

Forced into the enterprise by law or by trade union pressure, without any independent economic power, with the intellectual level of its members below that of management, the council seldom succeeds in reversing the flow of command. The socialists once welcomed it as a step toward co-determination. Now they realize that it lacks the power and ability to influence management in crucial decisions. In plants where the council has changed into an instrument of 'human relations,' management's power may even have increased. This is partly because the conversion may alienate the trade unionists in the council from the workers in the plant and also because it may create a favorable climate for the execution of management's major decisions. The conclusion therefore is that the workers' councils have not, in any considerable measure, achieved the socialist goals.

Roman Catholic and Protestant goals behind the workers' council aim at the satisfaction of the psychological needs of self-determination

²⁰ M. van de Vall "Die Gewerkschaften im Wohlfahrtsstaat," Köln, Westdeutscher Verlagsanstalt, to be published Spring 1965. An English edition of this work is in preparation.

and a sense of freedom. Again the question arises whether the workers' councils are meeting these goals.

In this case the best judges are the workers themselves. Do they feel the council satisfies psychological needs which have been frustrated in the process of production? Their reactions show this is hardly the case. In Belgium, the workers seldom pay attention to the council²⁷ and the general attitude of the French workers has changed from optimism in the first post-war years to widespread disillusion.²⁸ Although the West-German workers generally welcome the idea of co-determination, only 10% is very positive about its present form, with the highest percentage in plants where no council exists.²⁹ It is significant that similar reactions come from workers who do participate in the councils and who, accordingly, should know their psychological benefits best. A survey of council members in the Netherlands discovered that the majority (60%) are not satisfied with their council and that even more (64%) would prefer to be replaced.³⁰ From these and similar reactions we may conclude that the Catholic and Protestants goals behind the workers' councils are not met by the council. There is even the probability that a workers' council which fails to realize the workers' high expectations has a greater demoralizing effect than no council at all.

In the *trade unions* of the West-European welfare states, where the contact with the workers presents a serious problem, the expectations were partly of a pragmatic nature. It was hoped that the activities of the council might close the gap between the trade union's functions and the individual's needs and perceptions. In some situations, for example in the British (nationalized) Electricity Supply Industry, under severe public criticism, with highly skilled workers and many local branches, and in the West-German and British coal mines, where thousands of workers had to be transferred and re-trained, this has undoubtedly been the case.

In many West-European trade unions, however, the responses are negative. The integration of the councils in the policy of 'human relations' on the one hand and their failure to actually co-determine on the other, prevented improved communications between the

²⁷ "De Informatiefunctie," *op. cit.*

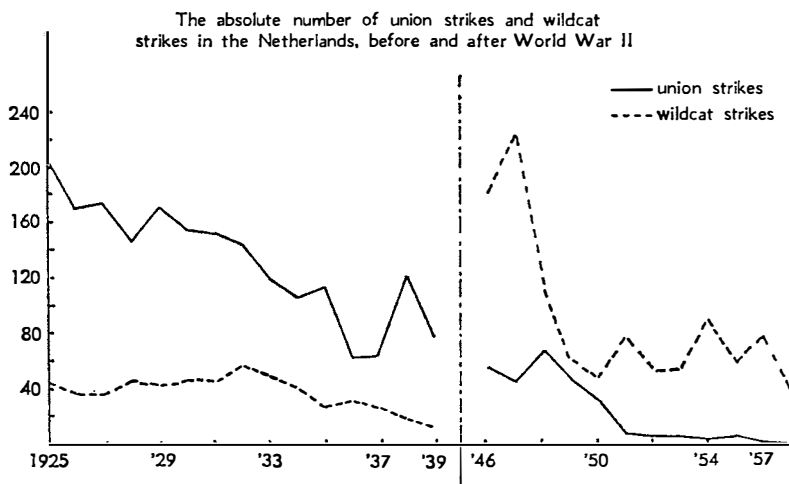
²⁸ Laserre, *op. cit.*

²⁹ Ralf Dahrendorf "Das Mitbestimmungsproblem in der deutschen Sozialforschung" (report), Hamburg, 1960.

³⁰ Drs. J. J. de Bruin "Het functioneren van de Ondernemingsraden," (rapport), Amsterdam, 1962.

workers and the trade union. Research in West Germany indicates that 40% of the workers show a distrust of the trade unionists in the council and blame their low abilities and integrity for its apparent lack of success.³¹ Naturally its members are affected: French trade unionists in the council complain that the workers have no confidence in them,³² and Dutch workers accuse between 53% and 58% of their council members of siding with management against labor.³³ The result may be that the voluntary trade union leaders in the council become estranged from the mass of the workers. Indeed, in Belgium council members confessed that they sometimes feel closer to management than to their colleagues in the plant.³⁴

This trend becomes a real danger, for the trade unions as well as for the national economy, when the organization no longer represents the workers' frustrations by meaningful action. An illustration of this is the inverse relationship between trade union- and



wildcat-strikes (diagram) in the Netherlands before and after World War II. The pre-war years show the workers' strong union loyalty, with the trade union strikes consistently predominant. In the post-war era, however, joint consultation at the plant- and at the industrial level lead to a virtual disappearance of the trade union strike, with the wildcat conflicts increasing in number. There are indications

³¹ R. Dahrendorf "Das Mitbestimmungsproblem etc.," *op. cit.*

³² Laserre, *op. cit.*

³³ J. J. de Bruin, *op. cit.*

³⁴ "De Informatiefunctie van de Ondernemingsraad," *op. cit.*

that this also happens elsewhere.³⁵ In Holland, the ratio of trade union- to wildcat strikes had in 1963 risen to 1:57;³⁶ in the rapid and widespread raise of wages that followed, the Dutch trade unions' existence was almost threatened.³⁷

This is a spectacular illustration of the council's failure to improve the contacts between the trade union and the workers. Having recognized this, trade union leaders in several countries have founded a new institution between workers and council. In Belgium, Holland (ANMB) and West Germany (IGM) trade unions have initiated plant-communities of trusted members which, again, should serve as a link between the workers and the organization. They are another indication of the workers' council's failure to achieve its goal.

It is almost ironic that *management's* goals, e.g., the improvement of the human relations in the plant, may be served best by the council. At least to some extent. In large companies, with extensive hierarchies, it can provide a direct and useful shortcut in the communication from the ranks of the workers to the highest levels of management. This is one reason why workers' councils are more successful in large than in small industries.

For communication downwards, from management to the workers, the council is a less adequate instrument. Because its members often represent hundreds or thousands of workers, a great deal depends on their ready communication with the colleagues in the plant. This representative structure makes it psychologically less effective than the 'work session' of a supervisor with *all* his subordinates in the plant.³⁸ It is generally acknowledged that to improve the workers' morale a combination of personnel department, industrial welfare

³⁵ The same trend can be observed in Great Britain. P.E.P. noticed in 1948 that since World War II there had been only one trade union strike in England, although "since the end of the war several disputes have occurred in which, had the same grounds for complaints existed in pre-war days, the strikers would certainly have received official backing." "British Trade Unionism," London, "Political and Economic Planning," 1948, p. 171.

³⁶ Data received from the "Central Bureau of Statistics" in The Hague, the Netherlands, in correspondence with the author.

³⁷ This situation is definitely aggravated by the fact that most wildcat strikes are not directed against management but against the trade unions. Again, not only in the Netherlands. Ian Mikardo observed for England: "Many unofficial strikes are not against the employers but against the union's national executive or its national trade council." Ian Mikardo "Trade Unions in a Full Employment Economy," in: "New Fabian Essays," ed. by R. H. S. Crossman, London, 1953, p. 153.

³⁸ H. Wallenburg in Dr. C. J. Lammers, Univ. of Yeyden, "Medezeggenschap en Werkoverleg in het Bedrijf." The author thanks Professor Lammers for having made this manuscript available to him.

and 'work sessions' is superior to the council. Circles of labor and management realize that good human relations in industry are more a condition for than a result of the workers' council.

CONCLUSION

That the true merits of the workers' councils do not lie in their practical results is indicated by the introduction of new institutions like the 'work session' by management and the 'committee of trusted members' by the union. Their main value lies in the democratic and ethical values which they express. Although in their present form not an absolute success, we must expect that these hopes and ideas will be presented again, in different ways. From a sociological point of view the workers' councils must be seen as indications of widespread and deeply rooted changes in our industrial culture.

Part X

SUMMARY AND CONCLUSIONS

DEFINING NEW SOLUTIONS: A COMMENTARY ON THE ANNUAL MEETING

SOLOMON BARKIN
President, IRRA

The seventeenth annual meeting focused on the "solution of today's and tomorrow's problems." Four of the eight sessions dealt with the likely design of "Industrial Relations in 1975." The remaining sessions were concerned with correlated issues or with techniques of research not extensively used in the field of industrial relations. The participants were asked to concentrate on the broad national and international long-term social and economic trends, in order to develop a better perspective on which to formulate future courses of action and new methods of research in each area. The Presidential Address defined central and major themes to unify research and thought in the total field of industrial relations.

Initial progress can be reported in this task of determining possible future lines of development. But the Association must foster this endeavour if the academic profession, in cooperation with its practitioner associates both in Government and private institutions, is to provide this country with better guidelines of the appropriate issues of debate on goals, policy, and instruments for their implementation. It may be too much to ask students to reach a consensus of views on the solution, for traditionally they are individualistic and eschew the bargaining table where agreements are reached. But at least there is no reason for refuting the demand that they help to define the basic issues in each field and in the total discipline of industrial relations and to outline alternative approaches to "solutions for today's and tomorrow's problems."

SOCIAL SECURITY AND SERVICES

In one area the writers faced up to the challenge both of defining the problems of today and hazarding a description of the course of future developments. The present social security and social service systems are proving inadequate and incompatible with our new views. They grew out of the efforts to supplant the older poor law systems and philanthropy. In the twenties, public assistance programmes for special groups, such as the aged and blind, initiated the new era. The social security programmes covered the risks of old age and un-

employment; they were real innovations, the basic ideas for which were borrowed from abroad. These plans were improved and the benefits extended over time so that more persons and more diverse risks were covered. Benefits have been increasingly dissociated from payments or contributions. The emphasis has substantially shifted from equity considerations, referring to the rights of contributors, to those of adequacy of benefits for the beneficiaries.

But the United States is still a long way from having organized an integrated universal social security system covering all risks with adequate and equal minimum benefits. The gaps in coverage both as to people and risks are now increasingly evident. Benefits are recognized as inadequate and certainly deficient in view of rising costs and progressive improvements in national living standards. The beneficiaries, many now recognize, should share in the growing national prosperity and abundance.

Public schemes and programmes are increasing so that there is a search for new methods of integrating them and simplifying their administration. The extension in recent years, both in the United States and in other industrial countries, of the groups reached by the national income tax systems has led to studies of plans for integrating income guarantees, security programmes and the income tax organization. Proposals for attaining national minimum incomes have assumed one of two major forms; namely, negative income taxes or universal social dividends. The debate in the future, as the proliferation of systems and increase of beneficiaries continue, will be centered on the question of how these programmes are to be unified to assure at least a minimum income to all, without depriving people in the higher income groups of the provisions under these programmes to assure them more adequate financial protection.

Similarly new ideas are being generated with regard to the social utilities and services. Many basic human risks and problems are better met through direct service than through income guarantees. The choice of methods may vary from time to time depending on the drag of older stereotypes and the ingenuity of the designers of these new services. For example, the direct assurance of the necessary medical and educational services to restore physical capacity or mental and emotional competence and to equip persons for participation in the economy and society, are widely recognized as preferable, for many persons and groups, to the mere provision of funds to be spent individually.

Public or philanthropic social utilities and services have in the past been limited to the poor. But effective adaptation of people to life in an urbanized industrial environment dictates that all groups be offered these opportunities. Effective personal performance clearly demands that people have access to and obtain the benefits of preventive, therapeutic and rehabilitative utilities and services. Both the individual family and the community would benefit greatly therefrom, even on the basis of direct long-term cost-benefit analysis. The arrangement for payments and the organization of the utilities and services of course will provide occasions for great invention to fit them to the changing views and political pressures.

The future action therefore appears to be to assure at least a minimum of income and the requisite utilities and services to all to help each person realize his potential without losing his ability to maintain himself and his dependants during periods of difficulty.

MANPOWER POLICY AND ORGANIZATION

The conviction that there is a national responsibility for the administration of a national manpower policy is so new that its full import has not yet been fully understood. The debate on the adequacy of broad economic policies for generating demand and the role of direct specialized manpower programmes for promoting geographical and occupational mobility and appropriate utilization of human resources served to deepen the understanding of the utility of such techniques. But the continuing separate preoccupation with the problems of unemployment, automation, and the large sector of the disadvantaged has delayed the complete integration of thinking in this field. Nevertheless, because of the impact of ideas and developments in other countries and international agencies, the conviction is growing that a national comprehensive cohesive policy is vital. The ILO's endorsement of a "full productive and freely chosen employment policy," the OECD's "Active Manpower Policy," and the latter's examination of American employment policy all contributed to the crystallization of thinking in this country. Probably the most important domestic contribution has been made by the Senate Subcommittee on "Employment and Manpower" headed by Senator Joseph S. Clark.

The goals for such a programme are increasingly evident. They are the "development, maintenance and utilization of actual and potential members of the labor force." But it has been difficult to get a precise identification of the manner in which the older institutions,

services, and aids are to be remodelled, supplemented, coordinated and integrated to meet these goals. Government personnel and even the Congressional Committees are absorbed with the ideas and proposals which are immediately feasible and with truly transitional innovations. Knowledge about European experience is growing, but few have been as bold as E. Wight Bakke in his book on "A Positive Labor Market Policy" to outline the precise import of European ideas for the United States and to sketch an administrative model for implementing them. The radical changes in European programmes in this field are being reported but somewhat too slowly for effective consideration in current programmes. In some fields, American experimentation is moving far ahead of European innovation, but what is lacking is a clear image of the total American system. Its formulation would facilitate the transmission and adaptation of foreign experience and help to integrate American programmes.

The reasons for developing such a national manpower policy and system are clearly emerging from the economic, technical and political dynamics of our time. Unemployment continues to be a challenging problem which cannot be shelved for human and political reasons. The study of the characteristics of the unemployed and underemployed is disclosing the complexity of this problem and the need for a variety of tools. While past war-time experience and that of current areas of full employment reassure us that lower levels of unemployment will help liquidate many difficulties standing in the way of people's re-employment, consideration of the need for higher personal and national productivity demands that the country should intensify its measures for raising individual qualifications and competences. Technical and economic changes, including automation, are proceeding at a pace which makes even greater demands on people to be flexible, willing and capable, both financially and emotionally to adjust to these newer demands. All economic and social policies must finally be considered in terms of their impact upon manpower demand as to numbers, quality and location. Moreover, the administrators of all public and private agencies and organizations must cope with these manpower needs. Their aggregate and individual needs and programmes are appropriately the concern of a national manpower policy group. Political considerations also demand that not only shall there be employment but that the terms of employment shall be in harmony with the aspirations of a growing society dedicated to improved living standards including right of participation in the decision-making processes affect-

ing employees. The push for action is unrelenting; and a national manpower policy is its consummate expression.

In seeking a definition of the scope of such a national policy, caution predisposes some to thinking of restricting it to the concerns of the Labor Department or to the programmes generated by the Federal Government. These limitations presumably are suggested primarily by the desire to initiate immediate action. But an adequate policy will in the long run be developed only as its scope is extended to the entire national labour market and both the public and private sectors. The effort to limit the scope to the area of administrative policy misses the primary purpose of a policy which is to guide rather than provide administrative directives. The Council of Economic Advisers' policy recommendations are not restricted to the areas of direct federal action. The manpower policy development group must be able to encompass the total labor field and influence the views and policies not only of the federal manpower agencies or administrators of federal agencies, but also those normally considered outside this area such as educators, economic policy formulators and those in the private sector.

Considerable hesitance was expressed at the meeting about moving towards "a national active manpower policy with a federal manpower authority." Several urged more study and invention at the federal level to be paralleled in the local community to prepare the way for further coordination and integration. But the creation of such a group would do much to define further directions for study and invention and expedite the process of integration and coordination. Such an authority could take over many responsibilities hitherto shouldered by the Senate Subcommittee of defining the scope and crystalizing the components of a national manpower policy adapted to the American environment and needs.

AREA REDEVELOPMENT

The role of action in stimulating thought and study and the mature consideration of new policies is illustrated both in the field of area redevelopment and in retraining. A live academic interest in the subject of area redevelopment only appeared as the issue was debated in Congress and particularly since the law was enacted and the benefits granted. Now there is an appropriate concern as to the proper direction for this programme. Diverse views are being expressed. Some would limit the number of areas which benefit since they feel that the programme rests primarily, if not exclusively, upon the grants and

loans it provides, overlooking the fact that area planning for redevelopment is one of its central objectives. Others have been impressed with the current European tendencies to concentrate upon growth centers and play down a broad program of incentives to all depressed areas. A third new concentration of opinion is upon regional planning.

Unfortunately, the number of academic participants in the public debate is very limited so that the merits and appropriate usefulness of the respective points of view are not adequately thrashed out. The clarification of many issues would help in the formulation of policy on the nature and type of training needed in distressed areas and type of programmes which are appropriate for immigration and emigration. The present tools may be adequate for many objectives in this field; but a clear outline of all goals would make it apparent that others are probably also needed.

RETRAINING

The federal government's programme for the retraining of adults has certainly uncovered more issues and challenges than the students of this problem had previously even contemplated. European experience is being examined for general lessons and specific techniques, guides and models. The conclusion which is now widely shared is that a permanent public programme is essential, irrespective of the effectiveness of efforts by managements to improve the competences of their own employees. The program has to be considerably larger and be integrated into the operation of both the local labor market and educational programs. Most significant is attention to the education and retraining of adults to help them overcome the handicaps of inadequate education and the lack of vocational preparation so common in many regions. Beyond this need to make up for prior deficiencies in the systems for preparation of work life, there is a great urgency to formulate a mature and adequate system for aiding youngsters to meet the tests of the newer economic society. To date, the broad outlines for a training and vocational educational system do not yet exist. The industrial relations expert has not yet formulated his contribution to this major national challenge.

COLLECTIVE BARGAINING

The British discussant at this session helped the American participants perceive some problems in collective bargaining which lie ahead of this country. Otherwise the papers underlined the vigor of the pres-

ent procedures. A plea was made in the basic paper for extending the system to areas and industries in which it was not practised, and for the principles announced in the NLRB General Electric decision. If there was any fear expressed about collective bargaining in this country it was that it might be overburdened with demands for solving problems which "it was not designed to handle." But one discussant argued that "it was just as risky to back away from it completely and to look at other devices, such as government action or new legislation, to take care of the problems which could properly be solved by an imaginative use of the system of collective bargaining."

The British discussant spoke from the background of recent European experience. Full employment and high rates of economic growth had endowed unions with great bargaining power. By continuing to pursue the traditional goals, methods and arguments, unions were contributing to the severe threat of inflation and possibly also undermining the competitive position of British industry. Facing serious national economic problems, the speaker observed that "collective bargaining, in and by itself, is not a device that promotes general economic equity and cannot be relied upon for purposes of economic stability." The public interest had to be included to ensure economic stability and protect the country against "major strikes" possibly by the use of "some form of compulsory arbitration."

To meet the current needs, management, unions and government had accepted a system of restraint through a national incomes policy to be guided by the deliberations of the parties at the national level. The fact that British unions had joined in the tripartite support of an incomes policy, and were willing to accept a price and wage review board and the concepts of national planning, indicated that a new epoch might be ahead. True, these agreements were consummated under a Labor government, but the British trade-union movement, even under the Conservative government, had joined in some projects of national economic policy coordination. It had also recognized that its own structure had to be remodelled better to participate in an era of centralized national negotiations and decision-making.

The unwillingness of the American discussants to look ahead may have been due to the fact, as the Englishman observed, that they were viewing the operations of collective bargaining in a period when the United States has chosen "a higher level of unemployment than we (British) would ever possibly tolerate."

The system of collective bargaining in the United States, in the

traditional sense employed by the American discussants, proved flexible enough to deal with the growing complexity of issues through systems of continuing study and bargaining between contract revisions. The "living collective bargaining process" had been revived, and superseded the view that agreements were legal contracts not to be modified and to be strictly interpreted during the period of their effectiveness.

But this great achievement does not justify overlooking the growing importance of detailed national economic policy in controlling the people's destinies and increasing direct intervention by government into the detailed acts of the parties in industry. The inadequate levels of growth and high unemployment may have minimized the needs for close review of price and wage trends to assure conformity with the "guidelines announced by the Administration." Informal contracts between government and the parties may help overcome serious major threats to national stability in the form of pay increases or strikes. But the direction in which governmental powers and responsibilities are moving is clear. The freedom and areas of discretion for decentralized decision-making are being increasingly limited. With collective bargaining moving into the public employment sectors and even into the community-supported services such as hospitals, existing procedures certainly need re-examination.

If the parties in industry are to retain a high degree of discretion in the development of services, there is need for joint deliberations by employers and unions on areas of operations over which they would like to retain responsibility. A collective bargaining system which depends for such definitions upon ad hoc agreements in individual companies, possibly stimulated by the demands of an imaginative union leader, is likely to fall increasingly behind the needs of the times. It may lead at best to the development of governmental programs administered in part by the parties under contract with the government. Defense of the present procedures of collective bargaining is hardly sufficient to prepare one to face the future or protect the system of private decision-making unless a program for the maintenance of its vitality is also proposed.

INDUSTRIAL RELATIONS POLICIES OF AMERICAN BUSINESS ABROAD

Besides considering the future design of the domestic system of industrial relations, the United States has also to define its attitudes to, and industrial relations policies for people of other countries. Cer-

tainly this is true for American business enterprises which operate in foreign countries either directly or through other agents. As the government grants foreign aid to managements, unions and universities abroad to foster appropriate labor relations systems, it should consider these most seriously. They constitute an important part of the political and economic structure of a country. Trade-unions are important institutions through which the international cold war is often fought.

What patterns of industrial relations should we expect American business to follow? To what extent should these programmes and their corporate behaviour be in harmony with specific national economic and political policies? It has been said in earlier years that the American flag follows business. Does American business have any responsibilities in their industrial relations policies for their foreign units to foster basic American goals and to promote the general positive image of the United States? Should unions also be called upon to heed Administration objectives?

As respects current practice in the fields of personnel and industrial relations, John Shearer finds certainly in Latin America that the American corporations have no clear definition of "purpose" and that there are "serious inconsistencies in practice." At home these corporations follow a "policy to improve the efficiency of organizations through constructive integrated programs for recruiting, developing, motivating and utilizing their human resources." But abroad "they have usually abdicated leadership in industrial relations" and have sought to adopt local "coloration." In Latin America, they follow American practice as to employee training and human relations but in other areas they have adopted local practices even to the extent of indulging in bribing "union officials and government labor inspectors." Wages and other terms of employment tend to be on par with rather than above prevailing levels. He concludes that they have submerged the formation of a good image and organizational efficiency "to the futile pursuit of anonymity." Even more significant is the judgment that "most firms merely pretend to be interested in employing nationals in key posts." Actually they rely primarily for higher posts on Americans. Certainly they have done little to promote independent anti-communist unionism which George Lodge urges upon them.

These findings, however tentatively stated, reach into the heart of the problems of policy making in this field of industrial relations. The differences in policy among American corporations are reflected in

the contrast of views presented by Messrs. Belford and Dickover. The former advocates formal written universal policies formulated in "broad terms permitting application to meet varying conditions and provide the framework for local tailor-made practices and programs." The other view is that "employee relations, policies and programs must be related to the social legislative economic and cultural patterns existing at a given time in the specific region in which the country is operating." The absence of studies and public debate on these issues makes it difficult to define a public position in this field.

AMERICAN TRADE UNIONS

There is a general agreement among members, leaders and students of the American trade union movement that it has reached a plateau. The evidence is most persuasive. Depending on whether the writer or speaker believes that the trade union movement must continue to grow in proportion with the expansion of the work force and the economy, the individual will view these facts with alarm and pronounce that a crisis exists, or merely report the facts and observe that the movement has experienced similar periods of stagnation and even recessions and has rebounded.

One of the facts which tends to favour the latter more placid attitude is the success which unions have had in improving wages and fringe benefits of the organized sectors. They have enforced basic changes in the concepts and scope of collective bargaining to insure increasing security and economic improvements for their members. These gains have become the pattern of terms of employment for all American employers. As a result some students observe that in these circumstances there is no real need for extending union membership. Its influence, certainly in periods of continued high economic growth, will be most pervasive and more members may contribute little.

The pressure for re-evaluation of the present trends and organization and policies of the trade-union movement among its own leadership is also low. Their influence as a pressure group within the Democratic party is substantial; their views are considered both by the Executive and Legislative branches of the Federal Governments and many State Governments. Many leaders occupy distinguished positions in the individual communities and American society as a whole. The clouds which blackened the image of trade unions during the fifties and early sixties, e.g. the charge of corruption and non-democratic practices, have been somewhat lifted, though not dispelled, by

Federal legislation. There is now less sense of undue embarrassment among the leaders and they are not dogged by the continued parade of "bad" union characters in the public press.

While this phlegmatic attitude pervades the movement, there is a deep sense of frustration and disappointment particularly in the secondary leadership, the professionals attracted to the movement, occupying staff positions or acting as advisers, and many students and friends of trade-unions. Their commitments are to a profounder function of the trade-union movement than the protective one discharged in daily or annual collective bargaining. They view the trade-unions as defenders of all weak, discriminated and disadvantaged, and as social and economic innovators to assure continued high economic growth and constant improvements in the standard of living and rights of the people. The failure of the unions to press this broader purpose and to promote broadly and intensively the need for collective representation in a country in which individualistic values predominate, dooms the movement to continued contraction in size and importance. The present strong bargaining position is an outgrowth of strategic power in key industries rather than a reflection of true overall strength.

As for the directions in which the re-evaluation of the trade-union movement should move, there is no clear consensus either among the discussants at this meeting or outside. Nor are there as yet either strong advocates of one or another course or even an over-abundance of central themes for guiding the direction of the future movements.

One cluster of ideas centers about proposals for structural reforms such as the theme debated at the meeting, namely, the creation of a strong central national trade-union federation. The arguments for this course stem from the inability of the individual trade-unions to respond to the demands of the time. Rothbaum calls attention to the need for "friendly but independent allies" in the form of professional organizations. The evolution of new attitudes toward this group could only arise from a central organization assuming overall responsibility for the trade union's growth and status. The increasing opportunities for overall economic national bargaining developing in the United States will be forestalled by the absence of such a strong federation. It could help overcome other structural deficiencies such as are found in rural areas and small towns and those arising from jurisdictional conflicts and the multiplicity of small national traditional unions.

The second cluster of suggestions derives from the proposals to

improve internal practices in the direction of greater democracy and responsible member participation. Minority ethnic groups will provide an increasing proportion of the recruits of the manual workers; it would therefore appear to be in the movement's self-interests as well as in harmony with its own basic values to promote the interests of ethnic minorities.

The third cluster of ideas arises from the conviction that the union movement will regain its appeal only if it more fully articulates the aspirations for the good life shared by all classes of employees, and promotes the fullest acceptance of the view that their realisation demands organisation and collective representation, and that the future of democracy itself depends upon the attainment of this goal.

But the serious search for new union roads has not been truly started within the movement. The author has recommended that the trade-union movement itself should organise a commission for self-analysis. Until such a step is taken, it must behove the students and citizens who believe in the essential need for such a movement in a democracy to provide both the rationale for such an evaluation and ideas for guiding it.

LABOR PARTICIPATION IN MANAGEMENT

The basic impulse for the demand for labor participation in management originates with the political, religious and ethical views held within the labor movement and only in a minor way, if at all, from the organizational requirements of the enterprise. The unanimity of the views of observers that these programmes have not realized the hopes of their sponsors reinforces the view that workers are themselves not fundamentally interested in active review of management's business conduct. The insistence on such representation flows from the views of the leadership and general social forces except where the enterprise or industry is unable to meet workers' expectations or where its very existence is at stake. In such instances workers and unions are likely to propose radical structural innovations or seek governmental assistance. Only in rare instances, particularly where the depression is local or restricted in character, will unions themselves initiate proposals for technical or economic innovation in a firm or industry. Workers may support demands for radical social reorganization where frustration is widespread.

The drive for labor participation at the firm level has in recent years lost much of its momentum. Unions and workers have become

disillusioned with works councils. Representatives on them have often lost touch with workers, and the institution itself has at times become an additional barrier between the union and the work force. It has also occasionally been used by employers to sidetrack or even combat union influence. Winning control of the works councils has become an objective in itself but the fruits of victory have not generally been significant. The economic contest has had to be carried on by the union itself. In several countries where works councils exist by reason of law, unions have sought to circumvent them by seeking to negotiate plant or firm collective bargaining agreements independent of the operations of the councils or organized special plant committees of trusted members.

The fact that works councils have not adequately answered the demand for industrial democracy is not likely to eliminate the call for newer forms of participation. Collective bargaining as practised even in the United States, with its broad scope of items for negotiations, does not reach into the process of decision-making by management itself. The deep attachment to democratic values found among many groups of workers supported prior demands for such participation; it is more than likely to endorse future proposals. The current tendencies for unions to participate in national and regional decision-making processes organized by government and public or semi-public agencies is likely to find a counterpart in the private sector.

COST-BENEFIT ANALYSIS

The growing realisation that economic development is dependent upon public approval and upon a population which is culturally, physically and educationally prepared to participate in the new endeavours has persuaded economists that investments in people's development and in social projects are vital to economic growth. One technique for examining the economic benefits of such investments is cost-benefit analysis. Limited use has been made of it to date. The meeting considered one employed in appraising the benefits of manpower retraining and another currently being applied to housing programs in developing countries. Further exploration of this method of study is vital to facilitate the broader acceptance of the economic value of such programs, to help determine the relative priority of such fields, and to consider alternative courses of action. The very early stage of sophistication of the use of this tool of analysis demands that more time be spent in adapting it to this field and in applying it to many new fields.

CONCLUSION

The annual meeting provided a stimulus for the exploration of the future developments in the field of industrial relations. Such a forward look helps both to define the deficiencies of current answers and institutions and possible solutions, thereby providing both an opportunity for selecting the significant trends and examining basic propositions for future lines of development. The study of industrial relations cannot remain descriptive; it must also be oriented to serve the needs for better adaptation of institutions and practices to the needs of the time. As such it must consider prescriptions so as at least to be able to help in the appraisal of their merits and demerits.

Part XI

REPORTS

MINUTES OF THE IRRA EXECUTIVE BOARD MEETING

GATLINBURG, TENNESSEE, MAY 4, 1964

The IRRA Executive Board met Monday, May 4, 1964, 6:00 p.m., in the Mountain View Hotel, Gatlinburg, Tennessee, with William F. Whyte presiding in the absence of President Solomon Barkin. Others present at the meeting were: President-Elect Edwin Young, Secretary-Treasurer David B. Johnson, Editor Gerald G. Somers, Board Members Joseph Bloch, Everett M. Kassalow, William McPherson, Frederic Meyers and Joel Seidman, and Gatlinburg Arrangements Chairman J. Earl Williams.

Reporting for Nominating Committee Chairman Solomon Levine, David Johnson noted that all 1965 Executive Board nominees had accepted. He reported that the number of membership dues payments was a little above that of last year. New membership promotional mailings are planned for early summer. As a result of the dues increase, comparative cash balances showed a definite improvement over those of a year ago.

Considerable interest in the formation of new chapters was reported in Atlanta, North Texas and Memphis; and Johnson presented a request for affiliation from the newly-organized San Francisco Bay Area Chapter. Their purposes program and bylaws conformed to the requirements of National IRRA Bylaws. The request was approved by the Board.

The luncheon meeting of active and proposed local chapter representatives in Gatlinburg followed a precedent established at the Boston Meetings through efforts of New York Chapter President Eileen Ahern. This custom was established to promote cooperation and interest among local chapters. Another precedent followed was that of holding Spring Meetings in new local chapter areas. Begun in Montreal in 1963, the practice was continued in Gatlinburg this year. This procedure not only gave encouragement to the newly-formed host chapter, as was originally intended, but it had also resulted in unusually successful Spring Meetings.

In his report on IRRA publications, Editor Somers said the *Sixteenth Annual Proceedings* were now being bound for membership mailing in May as scheduled. However, publication of the *Spring Proceedings* has become increasingly a problem. This year

for the first time, the *Labor Law Journal* will charge IRRA for reprints. The *Journal* makes no commitment for next year and reserves the right to hand-pick the papers to be published. Somers was instructed to explore other possibilities for publication of the 1965 *Spring Proceedings*.

Somers reported on behalf of Editors Taft, Estey and Wagner that the 1964 volume, *Regulating Union Government*, was in the galley proof stage and should be ready for publication in the fall. Extensive research was involved in the papers in this volume, and they should make a very worthwhile contribution since little had previously been written on this subject.

Manuscript submission for Dankert's *Hours of Work* volume was expected by the end of May for publication on schedule next summer. It was confirmed that a *Membership Directory* would take the place of a special research volume in 1966. It was suggested that papers should soon be chosen for the 1967 *International* volume; the problems of multinational authorship added to those of multiauthorship and multieditorship could slow its preparation and publication.

President Barkin's suggestion for the 1964 Chicago Meeting program were discussed and approved. It was recommended that Board Members might write President Barkin suggesting names of younger people as discussants. A number of procedures were suggested for the encouragement of younger persons for the presentation of papers and discussions to be scheduled at the 1965 meetings.

The informal procedures adopted under William Whyte's urging in the Boston and Gatlinburg Meetings were commended. It was concluded that the period for general discussion by the participants and from the floor had been increased without loss of quality in the initial presentations.

In discussions of preliminary plans for the 1965 Spring Meeting in Buffalo, for which Joseph Shister and Al Bartlett have been asked to assist with arrangements, it was suggested that it would be more fitting for the IRRA president to organize the two meetings which take place during the year of his term of office. President Barkin had agreed with such a proposed policy. The motion was made, seconded and passed that, beginning with the spring 1965 program, arrangements for the IRRA Spring Meetings would be the responsibility of the president-elect of the preceding year. Each president would then be responsible for both meetings within the year of his term of office.

William McPherson, as a retiring Executive Board Member, ad-

vanced the idea that a gesture of recognition be considered for the services of IRRA Executive Board Members in the future. Partial payment of Meeting expenses or leather-bound gift copies of the *Proceedings* were suggested as appropriate. Secretary-Treasurer Johnson was instructed to explore with the Board Members suitable methods for according such recognition in view of the varying procedures for reimbursing expenses of Board Members adopted by universities and other organizations.

Professor Whyte expressed his appreciation and that of the Board to Earl Williams and the Local Arrangements Committee for the outstanding job they had done in planning the Gatlinburg Meeting; he noted that the IRRA was very fortunate in having had people so active in organizing the meetings. McPherson moved that such a resolution be drawn, Joseph Bloch seconded it, and the motion was passed by acclamation.

William Whyte adjourned the meeting at 8:15 p.m.

MINUTES OF THE IRRA EXECUTIVE BOARD MEETING

CHICAGO, ILLINOIS, DECEMBER 28, 1964

The IRRA Executive Board met on Monday, December 28, 1964, 6:30 p.m. at the Palmer House in Chicago. President Solomon Barkin presided. Present were: President-Elect Young, Secretary-Treasurer Johnson; Board Members Bancroft, Barbash, Bernstein, Bloch, Brown, Goldfinger, Hildebrand, Jensen, Kassalow, Levitan, McPherson, Miller, Raskin, Saltzman, Seidman, Shultz, Whyte; and Messrs. A. Bartlett, M. Joseph, R. Lyons, and B. Roberts.

Myron Joseph, Chairman, reported for the Nominating Committee. A motion was passed by unanimous ballot nominating the Committee's selection for president-elect. The Committee recommended that this year each of the nominees for the executive board agree to take an active interest in the Association and to serve diligently if elected. After some discussion of balance in representation from different groups among the nominees, the Board adopted a motion accepting the nominees.

The Secretary-Treasurer reported that the cash position of the Association had continued to improve since the increase in dues in 1963. The cash balance on November 30, 1964 was \$2750 higher than on the same date a year before. Paid memberships during 1964 increased by 252 despite the dues increase bringing the total on November 30, 1964 to 2500. Johnson reported that efforts to bring the Association to the attention of prospective new members would continue during 1965. Since local chapter officers had reported that many of their members were not members of the National Association, an effort was to be made to recruit these people by direct mail, using the local chapter membership lists.

Reduction of dues was discussed for IRRA members in underdeveloped countries where there may be difficulty in obtaining dollars. Action was deferred.

The results of the annual election were reported by Johnson for the Elections Committee. Arthur M. Ross was elected to the office of President-Elect. New Executive Board Members elected were Jack Barbash, Douglass V. Brown, George H. Hildebrand, Sar A. Levitan, and Abraham H. Raskin. A total of 848 ballots were cast with a rather uniformly high number of votes polled by each nominee—but with a definite margin for the winner in each instance.

Johnson reported that Commerce Clearing House would be unable to continue to publish the IRRA Spring Proceedings in the Labor Law Journal on the same basis as they had previously, although they were willing to publish selected papers. Other possible arrangements were discussed. The consensus was that the 1965 Spring Proceedings be published, with the decision regarding method of publication made under the new President.

A report from Clyde Dankert, chairman of the editorial board for *Hours of Work*, was read. It indicated the volume was scheduled for publication in the summer as planned. The Secretary-Treasurer reported that work on the 1966 *Membership Directory* would begin in the spring of 1965.

President Barkin reported on the 1967 *International* volume, and various suggestions were made to the editorial board composed of Barkin, Dymond, Kassalow, F. Meyers, and C. Myers. Barkin asked for suggestions for subjects for the 1968 research volume. Among those proposed were (1) women in the labor force, (2) industrial relations in the non-unionized work force, (3) industrial relations in developing countries, (4) the increasing federal role in labor relations, (5) human resource development, (6) workmen's compensation, (7) wage and wage policies, (8) changing concepts of the scope of bargainable issues. The Executive Board instructed the President and the Editor to study the suggestions and present a more limited list to the Board at the May Meeting.

The request for affiliation of the newly formed Georgia Chapter was approved. Their local chapter charter was to be presented at the Spring Meeting in Buffalo. Barkin repeated the invitation from Milwaukee for the 1966 Spring Meetings and presented one from Detroit. A motion to accept Milwaukee's invitation was seconded and passed.

Al Bartlett described plans for the May 3-4, 1965 Spring Meeting in Buffalo. Topics and speakers had been arranged by Joseph Shister and President-Elect Young.

President-Elect Young then discussed his program proposals for the 1965 December Meetings in New York. Two or three sessions on labor market issues are planned, including long-range projections of labor force supply and demand. Tentatively, he expected to have a session on technological change and one on industrial or labor history. For the joint session with the American Economic Association, he proposed an assessment of national employment policy broad-

ly considered. This might take the form of a debate on Administration policy and plans. Young proposed a session which would include miscellaneous papers submitted by scholars who for one reason or another had not previously been invited to participate. Hopefully such an invitation would produce enough contributions so that a cohesive, integrated group of presentations would result. Scope of the presentations or the subject matter would be determined by the President on the basis of material submitted. He also proposed sessions on "the state of the unions" and "the state of management."

Board Members suggested a number of specific topics for the program, including the upsurge of restlessness in union ranks and what this might do to industry-wide bargaining; a systematic review of collective bargaining developments during the year; factionalism, whether it is real restlessness or just signs of a power struggle of leadership; and the agricultural labor problem, especially in California. Panel discussions similar to those of earlier IRRA meetings were suggested as an effective type of session.

President Barkin hoped that the new president would continue to investigate the possibility of arranging for foundation support for visits of foreign scholars to IRRA Meetings. He reported on his visit to the British Industrial Relations Association meetings in June and suggested that further cordial relationships between our two associations should be cultivated. He thanked B. C. Robert for attending the Meetings and the Board Meeting.

The meeting was adjourned at 10:00 p.m.

MINUTES OF THE IRRA MEMBERSHIP MEETING

CHICAGO, ILLINOIS, DECEMBER 28, 1964

President Solomon Barkin presided at the 5:00 p.m. general membership meeting. About fifty members were present.

Secretary-Treasurer Johnson presented a brief financial and membership report. The cash position of the Association has improved as a result of the increase in dues in 1963. (Receipts and disbursements for 1964 are shown in the auditor's report, reproduced on the pages which follow). Despite the dues increase, paid memberships increased from 2248 in 1963 to 2500 as of December 1, 1964. Milton Derber proposed that efforts be made to recruit national members from local chapter membership lists. Sol Barkin suggested that if local groups operate under the name of IRRA, perhaps we should gradually move in the direction of urging, then requiring, national membership. E. J. Forsythe estimated that $\frac{3}{4}$ of the Detroit Chapter were not members of the national association. Johnson agreed that local chapters are a good source of recruits and reported that this topic had been discussed at the meeting for local chapter presidents, which thirteen representatives had attended that day. It had been agreed that local chapters and the national office would exchange mailing lists so that non-member participants at both levels could be urged to join.

Incoming-President Edwin Young was introduced. In outlining his general plans for the 1965 program, he said that he hoped to make use of younger and newer participants and asked members to suggest names of promising scholars. Young indicated that it would benefit incoming presidents if such suggestions could anticipate topics, speakers and discussants two or three years in advance. Barkin suggested the possibility of a joint session on financing welfare funds with the American Finance Association. Seymour Brandwein suggested that additional multidisciplinary participation be explored but that individuals rather than whole associations be invited to participate.

Barkin introduced B. C. Roberts of the London School of Economics. Mr. Roberts, who is president of the British Industrial Relations Association, spoke briefly about that organization. Most of its members are teachers at universities and technical colleges, but

eventually it hopes to widen membership to include representatives of management and unions. The British Journal of Industrial Relations is accepted as the official journal of the organization. That journal welcomes subscriptions as well as articles for publication from Americans. Roberts brought the greetings of the British Association to IRRA.

The meeting was adjourned by President Barkin at 5:30.

AUDIT REPORT

HOUGHTON, TAPLICK & CO.

CERTIFIED PUBLIC ACCOUNTANTS
December 15, 1964

Executive Board
Industrial Relations Research Association
Madison, Wisconsin

Gentlemen:

We have audited the cash receipts and disbursements of the Industrial Relations Research Association for the fiscal year ended November 30, 1964 and submit herewith our report consisting of this letter and the following:

Statement of Cash Receipts and Disbursements for the Fiscal Year Ended
November 30, 1964

Comparative Statement of Cash Receipts and Disbursements for the Fiscal
Years Ended November 30, 1963 and November 30, 1964

The available cash resources of the Industrial Relations Research Association on November 30, 1964 totaled \$13,339.68 consisting of \$8,339.68 on deposit in the First National Bank and \$5,000.00 invested in the Home Savings and Loan Association. These balances were confirmed directly to us by the bank and the savings association.

As set forth the cash receipts for the fiscal year totaled \$25,534.17 and the disbursements totaled \$22,784.17. The receipts exceeded the disbursements by \$2,750.00. The cash receipts for the 1963-64 fiscal year exceeded the cash receipts for the 1962-63 fiscal year by \$3,436.60. There was a dues increase during 1964 which accounts for the increase in total receipts for the fiscal year. The cash disbursements for the 1963-64 fiscal year decreased from the cash disbursements for the 1962-63 fiscal year by \$115.25.

The cash receipts journal was footed by us for the entire year. All cancelled checks returned by the bank during the year were examined by us and traced to the disbursement journal. The cash disbursements journal was also footed for the year. The source information of dues income was tested for a portion of the year.

In our opinion the accompanying statement of cash receipts and disbursements presents fairly the cash transactions of the Industrial Relations Research Association for the fiscal year ended November 30, 1964.

Respectfully submitted,
HOUGHTON, TAPLICK & Co.
Certified Public Accountants

FINANCIAL REPORT
INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
Madison, Wisconsin

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Fiscal Year Ended November 30, 1964

Cash Balance—December 1, 1963		\$ 5,589.68
Cash Receipts:		
Membership Dues	\$16,947.79	
Subscriptions	1,424.00	
Sales	2,215.16	
Mailing List	570.00	
I.R.R.A. Conferences and Meetings Income	3,417.42	
Interest	200.00	
Royalties	756.50	
Miscellaneous	3.30	
Total Receipts		25,534.17
Total Cash		\$31,123.85
Cash Disbursements		
Salaries	\$ 4,208.58	
Social Security Taxes	150.30	
Printing	1,345.17	
Postage	1,056.12	
Service and Supplies	838.64	
Publications	12,005.05	
I.R.R.A. Travel, Conference and Meeting Expenses	2,980.20	
Telephone and Telegraph	43.02	
Audit Expense	125.00	
Miscellaneous	32.09	
Total Disbursements		22,784.17
Cash Balance, November 30, 1964		\$ 8,339.68

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
Madison, Wisconsin

COMPARATIVE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Fiscal Years Ended November 30, 1963 and November 30, 1964

	Year Ended <u>11-30-64</u>	Year Ended <u>11-30-63</u>	Increase	Decrease
Cash Receipts:				
Membership Dues	\$16,947.79	\$13,317.00	\$3,630.79	\$
Subscriptions	1,424.00	1,456.00		32.00
Sales	2,215.16	2,008.37	206.79	
Royalties	756.50	444.35	312.15	
Mailing List	570.00	505.48	64.52	
Travel, Conference and Meetings	3,417.42	3,957.41		539.99
Interest Income	200.00	200.00	-0-	
Miscellaneous	3.30	208.96		205.66
Totals	<u>\$25,534.17</u>	<u>\$22,097.57</u>	<u>\$3,436.60</u>	\$
Cash Disbursements:				
Salaries and Social Security	\$ 4,358.88	\$ 3,489.56	\$ 869.32	\$
Printing	1,345.17	1,258.35	86.82	
Postage	1,056.12	885.59	170.53	
Services and Supplies	963.64	636.50	327.14	
Publications	12,005.05	13,071.62		1,066.57
I.R.R.A. Travel, Conference and Meeting Expense	2,980.20	3,454.37		474.17
Miscellaneous	32.09	37.48		5.39
Telephone and Telegraph	43.02	65.95		22.93
Totals	<u>\$22,784.17</u>	<u>\$22,899.42</u>		<u>\$ 115.25</u>
Excess of Receipts Over Disbursements				
	\$ 2,750.00	\$ (801.85)	\$3,551.85	\$
Add: Beginning Bank Balances				
	5,589.68	6,391.53		801.85
Bank Balance, End of Year				
	\$ 8,339.68	\$ 5,589.68	\$2,750.00	
Home Savings and Loan Certificate No. 3384— Purchased in 1954.....				
	5,000.00	5,000.00		
Available Cash Resources				
	<u>\$13,339.68</u>	<u>\$10,589.68</u>	<u>\$2,750.00</u>	

PROGRAM

IRRA Seventeenth Annual Meeting—December 28-29, 1964

Chicago, Illinois—Palmer House

REGISTRATION—Club Floor Foyer

Sunday 2:00–10:00 p.m.; Monday 8:00 a.m.–5:00 p.m.;

Tuesday 8:00–12:00 a.m.

Sunday, December 27

RECEPTION—7:00 p.m., Victorian Room

Monday, December 28

SESSION I—9:30 a.m., State Ballroom

INDUSTRIAL RELATIONS IN 1975—SOCIAL SECURITY AND SERVICES: Is the solution a single guaranteed minimum income and social service system?

Chairman: *Richard Lester*, Princeton University

Basic Papers: *Eveline M. Burns*, Columbia University, "Social Security in Evolution Towards What?"

Alfred Kahn, Columbia University, "Social Services in Relation to Income Security and Some Introductory Notes"

Discussants: *Oscar Ornati*, New School of Social Research

Gaston Rimlinger, Rice University

Margaret Gordon, University of California

SESSION II—9:30 a.m., Dining Room 17

INDUSTRIAL RELATIONS POLICIES OF AMERICAN CORPORATIONS ABROAD: Do American corporations follow American industrial relations policies abroad?

Chairman: *J. Wade Miller*, B. F. Goodrich Company

Basic Papers: *John C. Shearer*, Carnegie Institute of Technology, "The Underdeveloped Industrial Relations of American Corporations in Underdeveloped Countries"

George C. Lodge, Harvard University, "Labor's Role in Developing Countries"

J. A. Belford, Massey Ferguson Ltd., "Centralized Policy Direction of the Industrial Relations Function in an International Company"

George Dickover, Industrial Relations Counselors, "Some Emerging Trends in Overseas Operations"

Discussants: *Everett M. Kassalow*, University of Wisconsin
Winston Oberg, Michigan State University

LUNCHEON MEETINGS—12:00 Noon

Directors of University Labor and Industrial Relations Centers, Dining Rooms 15-16. Informal Discussion of industrial relations curricula. (By Invitation)

Co-Chairmen: *Ronald Haughton*, Wayne State University
Dale Yoder, Stanford University

IRRA Local Chapter Presidents, Dining Room 2
Chairman: *David B. Johnson*, University of Wisconsin

SESSION III—2:30 p.m., Dining Room 17

INDUSTRIAL RELATIONS IN 1975—TRADE UNIONS:
Is a strong central trade union federation the solution?

Chairman: *Jack Barbash*, University of Wisconsin

Basic Paper: *Joel Seidman*, University of Chicago, "The Sources for Future Growth and Decline in American Trade Unions"

Discussants: *Lloyd Ulman*, University of California
Julius Rezler, Loyola University
Melvin Rothbaum, University of Illinois
Mitchell Sviridoff, Community Progress Inc.

SESSION IV—2:30 p.m., State Ballroom

EVALUATION OF NATIONAL MANPOWER POLICIES

Chairman: *Neil Chamberlain*, Yale University

Basic Papers: *Margaret Gordon*, University of California, "Training Programs at Home and Abroad"

William Miernyk, University of Colorado, "Area Redevelopment Programs at Home and Abroad"

Discussants: *Sar A. Levitan*, Upjohn Institute for Employment Research
J. S. Zeisel, U.S. Department of Labor

GENERAL MEMBERSHIP MEETING—4:45 p.m., State Ballroom

EXECUTIVE BOARD DINNER—6:00 p.m.

IRRA SOCIAL HOUR—9:00 p.m., Victorian Room

Tuesday, December 29

SESSION V—9:30 a.m., State Ballroom

INDUSTRIAL RELATIONS IN 1975 — COLLECTIVE BARGAINING: Is the solution a national joint-tripartite bargaining system supplemented by a continuing bargaining procedure by local bargaining units?

Chairman: *David L. Cole*, Paterson, New Jersey

Basic Paper: *Nathan Feinsinger*, University of Wisconsin, "Is the American Collective Bargaining System Obsolete?"

Discussants: *B. C. Roberts*, London School of Economics
George Shultz, University of Chicago
Frederick Harbison, Princeton University

SESSION VI—Joint Meeting with AEA—Conrad Hilton Hotel—10:30 a.m., Bel Air Room

MANPOWER AND WELFARE PROGRAMS: BENEFIT-COST ANALYSIS

Chairman: *Herbert Parnes*, Ohio State University

Basic Papers: *Gerald G. Somers*, University of Wisconsin, and *Ernst Stromsdorfer*, University of Tennessee, "Benefit-Cost Analysis of Manpower Retraining"

John S. MacDonald, United Nations, "Benefit-Cost Analysis of Welfare Programs"

Discussants: *Leland Burns*, University of California, Los Angeles

Juanita Kreps, Duke University

Selma Mushkin, Advisory Commission on Intergovernmental Relations

Benson Soffer, Committee for Economic Development

PRESIDENTIAL LUNCHEON—12:00 Noon, Victorian Room

Chairman: *Edwin Young*, University of Wisconsin

Presidential Address: *Solomon Barkin*, OECD, "A Current Focus for Industrial Relations Research"

SESSION VII—2:30 p.m., State Ballroom

INDUSTRIAL RELATIONS IN 1975—MANPOWER POLICIES: Is the solution a national active manpower policy with a federal manpower authority?

Chairman: *Charles Killingsworth*, Michigan State University

Basic Paper: *Frederick Harbison*, Princeton University, "Problems in American Manpower Policy and Practice"

Discussants: *Garth L. Mangum*, U.S. Senate Sub-Committee on Employment and Manpower

Seymour L. Brandwein, U.S. Department of Labor

Nathan Goldfinger, AFL-CIO

Frank H. Cassell, Inland Steel Company

George Shultz, University of Chicago

SESSION VIII—2:30 p.m., Dining Room 17

LABOR PARTICIPATION IN MANAGEMENT: Does modern enterprise organization require trade union participation in management decision-making, or only consultation or only bargaining?

Chairman: *William F. Whyte*, Cornell University

Basic Papers: *Melville Dalton*, University of California at Los Angeles, "The Prospects for Formal Union Management Cooperation"

Milton Derber, University of Illinois, "Labor Participation in Engineering and Metal Work Industries Abroad"

Adolph Sturmthal, University of Illinois, "Conclusions Concerning Union Management Cooperation"

Mark van de Vall, University of Buffalo, "Works Councils in the Benelux Countries"

Discussant: *Fred G. Lesieur*, M.I.T.

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