

**INDUSTRIAL RELATIONS
RESEARCH ASSOCIATION SERIES**

**Proceedings of the Thirty-
Eighth Annual Meeting**

**DECEMBER 28-30, 1985
NEW YORK**

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EDITED BY BARBARA D. DENNIS

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INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

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PREFACE

This year's Annual Meeting was IRRA's 38th, but it was Number 100 for our associated organization, the American Economic Association. Therefore, we were back in New York, the scene of AEA's founding in 1885.

Our Association's program included many important topics of continuing concern—collective bargaining, unions, labor markets, equal employment opportunity, work-sharing, ESOPs, labor statistics. And we, too, were observing some anniversaries. In one panel discussion it was the 50th of the CIO, and in another session the topic was "Social Security After 50 Years: Looking Back and Looking Ahead."

"Collective Bargaining Prospects" was the subject chosen by Lynn Williams, our distinguished speaker, and "Trade Unionism" was Everett Kassalow's topic for his presidential address.

There were some innovations as well. For the first time in recent memory the IRRA had joint sessions with an organization other than the AEA. This year there were two, with the American Historical Association, which happened to be meeting in New York at the same time. David Lewin made the arrangements, and he (and the Board, too) hopes to schedule joint sessions in the future with other national organizations that share our interests.

The papers presented in two other sessions—on "Unions and Industrial Relations in Selected Countries in the Past Ten Years"—are not included in these Proceedings, but will appear in the *Bulletin of Comparative Labour Relations*. A grant from the German Marshall Fund of the United States helped pay for the travel expenses of the European participants, and we are grateful to the Fund for its assistance.

And four of our sessions this year were panel discussions. For three of them we are publishing rapporteurs' summaries; for the other we have one paper from a panelist.

There is no doubt that the 38th Annual Meeting was a success, and we thank both of the host chapters, New York and Long Island, for their contributions. We also thank the American Arbitration Association for making its headquarters available for our Sunday evening reception. And, of course, none of the IRRA's activities would be possible without the guidance and coordination provided by Executive Assistant Marion Leifer, Marge Lamb, and the National Office staff.

Barbara D. Dennis
Editor

You are invited to become a member of

THE INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

The Industrial Relations Research Association was founded in 1947 by a group who felt that the growing field of industrial relations required an association in which professionally-minded people from different organizations could meet. It was intended to enable all who were professionally interested in industrial relations to become better acquainted and to keep up to date with the practices and ideas at work in the field. To our knowledge there is no other organization which affords the multi-party exchange of ideas we have experienced over the years—a unique and invaluable forum. The word “Research” in the name reflects the conviction of the founders that the encouragement, reporting, and critical discussion of research is essential if our professional field is to advance.

In our membership of 5,000 you will find representatives of management, unions, government; practitioners in consulting, arbitration, and law; and scholars and teachers representing many disciplines in colleges and universities in the United States and Canada, as well as abroad. Among the disciplines represented in this Association are administrative sciences, anthropology, economics, history, law, political science, psychology, and sociology as well as industrial relations. Membership is open to all who are professionally interested and active in the broad field of industrial relations. Libraries and institutions who are interested in the publications of the Association are also invited to become members, and therefore subscribers to the publications.

Membership dues cover publications for the calendar year, January 1 through December 31, and entitle members to the *Proceedings of the Annual Meeting*, *Proceedings of the Spring Meeting*, a special research volume, a *Membership Directory* every three years, and quarterly issues of the *Newsletter*.

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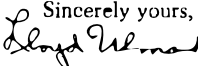
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If you are not already a member, we invite you to join by sending your membership application and dues payment. Inquiries regarding membership, meetings and publications should be addressed to the IRRA Office.

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Sincerely yours,


IRRA President 1986

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Everett M. Kassalow, Chairperson

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West Germany	WOLFGANG STREECK
Sweden	ANDREW MARTIN
England	TREVOR BAIN
Discussion	OLIVER CLARKE

* A grant from the German Marshall Fund of the United States helped meet the expenses of the European participants in these sessions. The papers will be published in a forthcoming issue of *The Bulletin of Comparative Labour Relations* (Louvain).

I. PRESIDENTIAL ADDRESS

Trade Unionism: Once More Into the Future

EVERETT M. KASSALOW
Carnegie-Mellon University

The current wave of articles about the “plight” of the American trade union movement continues a tradition of long standing in academic and journalistic circles. Back in 1961 Professor Solomon Barkin, who is on this year’s program, wrote a perceptive study on *The Decline of the Labor Movement*.

Even earlier, in his 1932 presidential address to the American Economic Association, the progenitor of these ASSA meetings, Professor Barnett of Johns Hopkins concluded that there was only a gloomy future for American unions—this on the very eve of the greatest membership expansion in union history.

So in talking about the prospects of American unionism, I run a certain risk of repetition. But my wife has taken steps to see I can’t miss here. She has packed the audience with three of my children and their spouses, my grandchildren and other family members. After all, if you can’t have a claque on your home grounds, where can you?

Why this endless fascination with the plight of American trade unions? I think it surely reflects the almost continuously precarious position of unions in American society. Despite occasional peaks of growth, it does appear that U.S. unionism has never become fully institutionalized in American life. Unlike the case of Western Europe,

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the bulk of U.S. employers has never accepted that permanent, institutional role of unions, especially in their own companies.¹

Many academics, incidentally, are prone to overlook these purely power aspects of labor-management relationships. Some recent writings on this subject seem to assume that changes in union programs and attitudes alone will usher in a new era for labor. Certainly many such changes are needed, but along with them is the need for organized labor to move more clearly and in concentrated fashion to regain and then use the organizational power that has ebbed away from unions in the past two decades. I shall return to this theme at the end of this speech.

In one other important respect some academics often miss the point. Many are impatient with the unions. They see a world of massive and rapid change, and relatively slow union responses. They expect and sometimes demand rapid responses by the unions.

Academics often forget the almost historic caution which necessarily tends to envelop unions. At best, especially in the U.S., most of the ground they've won has been at the grudging expense of deeply ingrained property power and attitudes. The common rule, as the Webbs put it, which unions seek to establish, is so difficult to gain, and consequently it is difficult to put aside, and to change quickly and radically. The kind of "pessimism" and insecurity which Perlman wrote about, in characterizing union members and union leaders, does not predispose them to cast off quickly practices, work rules, and programs that have been so difficult to put into place. Doubtless this is a disadvantage for unions when rapid change is taking place in the society, but at least academics should understand the process.

My favorite illustration of that almost inevitable caution of unions comes not from an American business union leader, but from a left-wing socialist union leader who was then part of the communist-oriented Italian General Federation of Labor (CGIL). On his retirement from CGIL, he contrasted the radical left-wing political parties that had much greater freedom of movement compared to the unions which, he noted, "cannot make appointments with history. . . . Each day the union must give an account of itself . . . it must conquer something each day . . . [the union] must avoid sterile impatience.

¹ Elsewhere I have indicated some of the reasons for the differences between employers in the U.S. and Western Europe and how these affect the institutional position of U.S. unions. See E. M. Kassalow, "Industrial Conflict and Consensus in the United States and Western Europe," *Proceedings of the 30th Annual Meeting, Industrial Relations Research Association, 1977* (Madison, WI: IRRA, 1978).

...” The union, he added, must incorporate “workers’ gains in the customs, regulations and laws, in order that they may be safeguarded and become part of the civil patrimony of the entire society.”²

If I, too, seem to be “preaching” at times below, understand that time prevents me from inserting all the qualifications and explanations that are in order. Moreover, I am quite aware that especially in the past couple of years the AFL-CIO has moved to adopt a number of new programs and to project some new attitudes on some of the very issues I raise below.

But let me conclude this prologue by adding that the huge literature about the troubled present and future of the unions is really a tribute to how important an institution unionism is in American life. While a few writers portray present-day union difficulties in almost gloating terms, I find most are expressing a deep concern out of a conviction that unions are an essential part of modern democratic life. I’m sure union leaders become irritated with our preachings, but we in academic life hope they realize it comes out of this concern, not from superior attitudes!

• • •

There seems to be wide agreement that we are in a changing era of labor-management relations and one of great transition for unions. In its report on *The Changing Situation of Workers and Their Unions*, AFL-CIO declares: “The United States—indeed every industrialized nation—is undergoing a scientific, technological, economic revolution every bit as important and significant as the industrial revolution of the nineteenth century.”³ No other union movement in the democratic, industrialized world has felt this revolution more than the U.S. unions, which have experienced a loss of around 3 million members in the past few years, and a drop from around 34 percent of the wage and salary force to almost 18 percent in the past 30 years.

² Fernando Santi, as quoted in Everett M. Kassalow, *Trade Unions and Industrial Relations: An International Comparison* (New York: Random House, 1969), pp. 40–41. After studying the reactions to work of workers in Britain, Germany, Belgium, and France from 1890 to 1914, one writer saw change as one of the common ingredients in this experience: “Despite the tremendous variety in situations . . . workers tended to share a considerable fear of change. They were easily convinced, more often than not correctly, that change would cheat them. They had seen previous changes redound to the benefit of their employer.” Peter N. Stearns, *Lives of Labor* (New York: Holmes and Meier Publishers, 1975), p. 11.

³ AFL-CIO Committee on the Evolution of Work, *The Changing Situation of Workers and Their Unions*, February 1985.

But I propose to look primarily to the future and to use the recent past just as a guide to what the future may hold for trade unions.

In tackling this general question, I find it useful to begin with some demographics. Certainly one reason for union weakness in the middle and late 1970s and the early 1980s was the enormous expansion of the labor force in those years, a result of the baby boom of the 1950s and early 1960s. An average of more than 2 million workers, net, was added each year to the workforce in the seventies. This virtually swamped the labor market, and it reduced the bargaining power of workers and unions. Moreover, most of these employees were added in services where, by and large, productivity tended to be lower and potential wage gains smaller than average.

It is not surprising under these demographic circumstances that unions found hard going. Membership recruitment was more difficult. Despite all the fancy dress of possible new union appeals, especially in modern times, unless unions can hold out the prospect of immediate economic improvement, it is difficult to organize. Surely one reason why unions like the Service Employees, the National Hospital Union, and the United Food and Commercial Workers have made some of their membership gains is that they are often working among groups who are poorly paid and in industries whose continued expansion has made it possible to demand and negotiate better wages and conditions of work.

In any event, demographic circumstances should alter to the favor of trade unions as this decade wears on and we enter the early 1990s. The baby boom crop is past us, and some analysts even forecast a shortage of entry-level workers in the late eighties. One way or another, other things being equal, labor markets should be tighter in the years ahead,⁴ labor's potential bargaining power should improve, and union appeals will have a better chance. Nothing is automatic here, but there will be, to coin a phrase (!), a window of opportunity. Whether and how unions can grasp that opportunity I propose to explore below.

Again on the demographic side, trade unions should also come to do better with the rapidly growing female labor force. More and more unions, for example, are becoming involved in the struggle for comparable worth. The recent conflict over the efforts to place another woman on the AFL-CIO Executive Council is also a harbinger

⁴ This assumes that immigration, legal and illegal, will be no larger a factor than it was in recent decades. It also produces no great changes in labor force participation rates other than the continued growth in female labor force participation.

of the process of opening up the labor movement. One can expect more of this, and more success in the years ahead, as unions learn to be more responsive to women workers.

Some of the same goes for blacks, and the need to open up union leadership positions more. AFL-CIO and some of its affiliates have taken important steps in recent years, but greater progress is called for. Women and blacks will continue to be heavily represented in the additions to the labor force in the decade ahead, and the unions must learn to accommodate them in a variety of ways. At the center, the labor movement as a whole should push any national unions that are lagging in those areas.

Turning from demographics to economic structure, we find that here, too, great changes have taken place. Key industries like auto, steel, and machinery have been buffeted, and smaller ones like rubber tires and meat packing, long union strongholds, have also been drastically altered and reduced. Deregulation has weakened unions in the airlines, trucking and, to some extent, in construction. In recent years this industrial decline has been accentuated by the overvalued U.S. dollar. But certainly the general decline of the heavy manufacturing industries, especially the drops in employment, seem irreversible. Elsewhere I have pointed out how critical union leadership and bargaining in these key industries was for the 40-year period stretching from World War II to 1980. Major advances in health and hospital insurance, company pensions, improved paid vacations and the like sprang to a great extent from the successes of auto and steel unionism. That leverage in the labor market has declined, just as the leverage of coal mining and railways on the U.S. labor market disappeared several decades ago.

Of course the steel and auto industries won't disappear. Modernization, some trade relief, and basic market forces will keep them alive. But their key market role is passing.

It is understandable that the auto and steel unions will continue to struggle against the inroads of foreign competition. It is also understandable that the AFL-CIO will lend them support, especially against unfair practices of foreign competitors.

But I think it would be a mistake for AFL-CIO, and the labor movement as a whole, to be too wrapped up in this matter. For better or worse, metal production is of declining importance in American economic life, and there is need for labor to identify more fully with the expansion forces in the economy. The restoration of full employment and sustained economic growth will flow from a new

economic growth synthesis, not from a revival of older manufacturing industries like metals or textiles. AFL-CIO must move to reclaim the position organized labor had in the immediate post-World War II decades when it stood at the center of the forces pressing for *new* economic growth.

What is called for is a new full employment policy. Several years back, AFL-CIO President Kirkland looked to make a new beginning when he took the lead in arguing for an accord between labor, employers, and government to meet the challenge of a new global economy. Labor must avoid the danger of being overly preoccupied with defensive trade issues. It should be the sparkplug in moving to new full employment and growth targets and programs.

As the momentum provided by the great Keynesian-like deficits of the Reagan administration begins to weaken in the next few years, the need for genuinely new economic policy initiatives will present new opportunities.

The need to identify with the future rather than the past should pervade other parts of labor's program.

The AFL-CIO and many of its unions have hammered at the fear that the new technology may create a two-tiered labor force, with relatively few technical and professional workers on top and a mass of low-paid operatives and clerks at the bottom. They point to the disappearance of hundreds of thousands of well-paid middle-income blue-collar jobs in auto, steel, meat packing, and other industries.

So much of organized labor's strength has been concentrated in the declining manufacturing industries that it is easy to become defensive as these stagnate or decay. But the prospect of a permanently split labor force is dubious. Research by BLS and others indicate the data do not, at least not yet, support the thesis of a two-tier labor force. Moreover, it seems clear that the services are increasingly being mechanized, and when and if unionization covers a larger slice of that private service labor force, collective bargaining and rising service productivity should produce better wages and working conditions in that sector.

This area of technological change is another one where the unions must avoid being cast in purely defensive roles. Most workers, and especially younger workers, look upon the new technologies as an opportunity and hope to get ahead with them. The unions should be out front negotiating adequate training and retraining programs to open up new opportunities for workers. Programs like those recently instituted by the UAW in its master agreements with Ford and General

Motors are the kind of forward-looking measures that put labor in the right light. Another interesting program has been set in place by the Graphic Arts Union, which has opened up a series of training centers around the country where workers in the printing industry can be trained on the newest and best technology.

Unlike many of the craft unions, *most* industrial unions are not accustomed to taking an active role in training, but this should change as technology and market shifts shake up jobs.

In hammering on training as a path to the future, I don't mean to deny the importance of union bargaining to insure the immediate income and benefit position of workers displaced by advancing technology. Here again I think some of the programs negotiated by unions in the steel, auto, and telephone industries are extremely useful.

For the labor movement as a whole, the emphasis should be on advancing, helping workers take advantage of the new opportunities technology offers. Labor might, for example, take the lead in helping to convert some of unemployment insurance into credit for training and relocation as well as income support.

It is also time for organized labor to take the lead in promoting a far more comprehensive government training program, to get at the problems of the thousands of still displaced industrial workers who lack jobs and real opportunities. The idea that federally funded training should be largely limited to the poor or disadvantaged, as has been true of most manpower programs for over a decade, is absurd. We need to return to the kind of aggressive, total, active labor market programs that were envisaged when the Manpower Development and Training Act was first passed in 1962. The Swedish manpower experience which inspired the 1962 legislation is still valid today, especially if one looks at the relatively better unemployment record that country has experienced in the past decade.

I think too many people were intimidated by the attacks on manpower programs when their costs reached \$9 or \$10 billion annually in the late 1970s. I would not argue that all of those programs of the seventies were perfect. But for years and years industrialists and economists have been preaching the great importance of human resources and human resource management. It is about time for them and for political leaders to put their money where their mouths are.

We need a massive program to get people ready for today's and tomorrow's jobs. In many instances this should involve sending workers to colleges and junior colleges for extended training. We need a program which includes extending financial aid to workers who

must move to new jobs and to relieve them of some of the burdens of dumping old housing and finding new housing when they do move to new job opportunities. All of this training and relocation would cost over \$10 billion a year, I daresay. For those who are intimidated by the figure, may I remind you that when President Reagan set a top priority on beefing up our defenses, he and the Congress thought nothing about stepping up those expenditures almost \$100 billion in three years.

I must add that I realize it is difficult for union leaders who must deal with the immediate impact of technological displacement of workers in auto, steel, meat packing, and elsewhere to get excited about comprehensive manpower training programs. I was in AFL-CIO headquarters when the 1962 Manpower Act was taking shape, and we were only mildly interested. In the face of automation, the first so-called Detroit type, which seemed to be threatening many manufacturing jobs, we asked: What were workers to be trained for? Well, looking back, the fact is that millions of new jobs were in the wings of the economic stage—not all of them great jobs, but millions of technical and professional openings did come into existence in the years thereafter. I am not predicting a simple rerun of the 1960s, but with full, broad training, supported by stipends to sustain them during training, hundreds of thousands of today's displaced workers can find decent jobs in the years ahead.

Increasing spending on human resource development for the workforce, not just a small part of it, will have a great productivity pay-off for the nation, and ultimately save on unemployment insurance, welfare, and the like. One can't say the same for most defense spending, necessary as it may be. An effective manpower program could also reduce some of the pressure for trade protection and eliminate some of the need for trade adjustment assistance.

Finally, it is important to remember that past experience indicates that good programs for manpower development have a better chance than many others to command broad political support in the Congress.

It is not just in the area of training that unions must take new, positive positions. I think there is still confusion about what some people call workers' participation programs—including quality of work programs. My colleague, Ben Fischer, has cogently pointed out that in industries like steel or auto the unions have no alternative but to enlarge participation. It is clear enough that without input by workers into better work organization and better management, such industries will face an even more difficult future.

But the same holds true for the entire world of work. Today's more highly educated workforce has much to contribute. Moreover, it seems clear that if given the chance, millions in the new workforce like the greater responsibilities that go with enlarged work systems and more flexible work arrangements.⁵ Professionals and technicals continue to make the largest employment gains in our labor force. These groups, particularly, show an interest in having a greater say in the organization and operation of their jobs. Unions must be responsive to these groups as the labor force continues to differentiate and fragment into more sectors.

Indeed, if it is to be responsive to this changing labor force, the union movement itself will have to respond with greater variety in many of its appeals and programs. It was, in part, a failure of the union movement to adjust to the shift from blue-collar to white-collar work that caused labor to miss organizing opportunities (in the private sector) in the 1950s and 1960s. Unions must be on guard in the 1980s as the labor force continues to evolve. They will have to offer a wider menu of options in wages, benefits, job control, hours of work, and the like to appeal to this even more varied workforce. (I am not underestimating the problems that confront a movement that is traditionally based on *collective* appeals and rules, which tries to move toward greater individualization of some of its programs, but this is another adjustment that will be made as labor faces a changing world.)

Of course, unions have reason to be suspicious of some of the management plans to expand and redesign jobs. Old fears about speedup and layoff of workers which followed new work layouts in the past are readily understandable. And for some employers, work redesign is part of a general campaign to keep unions out or to reduce their influence.

But it would be the height of irony for unions to find themselves defending the old Tayloristic system of a super division of labor, with rigid barriers between dozens and dozens of different classifications. The unions' job is to see to it that new work design and organization, and workers' participation in decision-making, have a genuine and permanent base, that workers share in its benefits, that it is carried out

⁵ Greater worker and union participation in what have been traditionally managerial decision-making areas should not, however, be oversold as the new, utopian solution to labor's ills. It is important, but it is not applicable to all industry, and many workers may have no great interest in such participation. For a sober view of this aspect of worker participation, see Andrew Weiss, *The Effect of Job Complexity on Job Satisfaction: Evidence from Turnover and Absenteeism*, Working Paper 1597 (Cambridge, MA: National Bureau of Economic Research, 1985).

for the advancement of workers, not at their expense. Where displacement occurs, the unions are a force to insure that incomes will be protected and retraining rights and opportunities are provided.

The failure of unions to thrust themselves into wider decision-making responsibilities could end up by radically reducing workers' freedoms. Parts of the new technology hold out the possibility of greater and more sophisticated control over the workforce. Unless workers and their unions establish their share and their role in the management of this new technology, workers will be deprived of some of their existing freedoms on the job. I refer to such developments as remote monitoring and worker control devices which, without union input, could lead to severe restraints on workers.

This brings us to the last and most formidable problem confronting American labor, that of organization. There are no pat solutions here. It would be easier for the union movement if it could somehow recreate the organizing conditions of the 1930s and 1940s when membership virtually exploded, increasing fourfold in a little over 10 years. Fortunately for all of us, those social conditions—a great depression and then an all-out war—are not to be repeated.

But clearly, not all that might be accomplished in new organization has been done in recent years. I realize that a large part of the union movement's decline can be attributed to the decay of traditional union industrial strongholds like auto, steel, and rubber in the recent past, and coal, railroads, and textiles in other postwar decades.

That is not a real explanation, however. It is that kind of structural change which aggravated labor's position in the 1920s, when the great expansion of the unorganized manufacturing mass production industries took place. That ended up forcing the AFL into more defensive positions. (Can I remind you that as late as 1931 the Federation had become so harassed and so suspicious of government, it was still opposing government unemployment insurance?) A further analogy with the 1920s might be found in the tougher and more sophisticated employer resistance to unions then and today. The changing structure and face of industry should help establish a new agenda for labor rather than become a rationale for membership decline.

It is encouraging that the AFL-CIO is exploring new organizing appeals and forms. I refer to its urging unions to offer new association types of membership to unrepresented workers, and to its promotion of joint, interunion organizing campaigns directed at certain key companies such as Blue Cross.

Even more may be needed from the center, the AFL-CIO itself. Studying those unions which have made major organizational gains in the past couple of decades—and AFL-CIO President Kirkland listed a number of impressive cases as he addressed the organization's recent convention in Anaheim, California⁶—I find that a standout feature of all of them is enormous concentration on organization.

Whether it is the Service Employees union, the National Hospital Union, or State, County and Municipal, in my brief encounter with them I am terribly impressed with the way in which virtually their entire national organizational apparatus is bent to the task of organizing. Be it education, research, or the union's president, all elements are drawn in, and a great part of their time and effort goes to organizational questions.

I think that if the labor movement as a whole is to go forward organizationally—and, I repeat, no quick revolutions like the 1930s can be expected—a similar kind of organizational concentration must be generated, beginning with the AFL-CIO itself. The present top labor leadership has been more active about this than its predecessors, but even more concentration and resources are called for.

Organizing should become a very top, continuing priority for the AFL-CIO. It could call, for example, for having a top elected officer tagged with that responsibility. Such an officer, devoting full time to this task, with political power and status, might, for example, command the resources of the AFL-CIO to help national unions in critical campaigns, to help settle quickly jurisdictional conflicts in organizing before they get out of hand, to set up new organizing committees, or to help bring about necessary mergers.⁷ Looking back, one of the elements that accelerated the almost overnight growth of the CIO from a modest base to around 4 million members, was the deep and passionate involvement of its top leaders, Lewis and Hillman, in the organizational struggles of a number of the new industrial unions. Even after the CIO settled down and had begun to sag, the top full-time officer in its headquarters, who certainly commanded the greatest part of its resources, was an elected Executive Vice President in charge of organization. He, for example, helped bring into the CIO the telephone workers, today's CWA, who

⁶ "AFL-CIO President Lane Kirkland to the 1985 AFL-CIO Convention," *AFL-CIO News*, October 25, 1985, pp. 2-3.

⁷ Such a top officer seems to have been envisaged by AFL and CIO in their original merger plans in 1955, but a variety of factors reduced the position to a staff level and serious, new organizational plans never really got off the ground.

previously had been in a company union. In an earlier era Samuel Gompers, head of the AFL, devoted a large part of his time to helping unions in their organizing efforts.

A similar new organizational concentration at the top might even be able to help take on those weak, weak sectors of organization, like banks, finance, and insurance. I realize it's too late to unscramble the competing union picture in sectors like high-tech electronics and chemicals; too many strong unions already have well grounded claims there. But surely in banking and finance, the establishment of better funded, clearly identifiable national unions or organizing committees would begin to offer employees in those sectors the kind of organizational identity and potential countervailing power that was characteristic of auto and steel in their industries during the 1930s and 1940s. It would help with organizing in those new sectors. The establishment of that kind of countervailing power is particularly important for the American labor movement, which, for historical reasons, lacks the direct political power which many union movements have in Northern and Central Europe.

Of course, no one organizational form has a monopoly. For example, in the case of engineers, a key element in the new technology, why not an effort to build anew, or around existing forms, a new union just for engineers? This might have broader appeal to those numerous small groups of independently organized engineers who have been flirting with parts of the AFL-CIO for decades. I mean these for illustrative purposes, not as certain models.

If the AFL-CIO came to devote the kind of top leadership time, resources, and energy it poured into the 1984 election campaign directly and continuously to organizational questions, important results could be obtained. I realize this might entail some acrimonious debates in the councils of labor, and that some national unions would oppose such moves. But I think that this last convention of the AFL-CIO and recent Council meetings demonstrated that debate and some internal conflict can be good signs of health and change in the labor movement.

By putting new organizing so high in the Federation's priorities, the labor movement would also be in a better position to use its latent power to forward organization at strategic moments in the future. As one who worked in the early 1960s at union headquarters in Washington, I realize a golden opportunity was missed in those years. Union power was at a peak, and President Kennedy created a national union-management committee to help win support for his tax and

trade programs. And unlike the late seventies when the big business community rejected President Carter's call for a new accord between unions and major employers—and the rejection probably reflected its estimate of the decline in labor's strength—the big business community was glad to join in during the 1960s. Organized labor failed to take advantage of that earlier period, when its power was peaking, to bend the bulk of the big business community into a clearer institutional acceptance of unionism, including easier recognition of unions in still unorganized establishments. (I have in mind the kind of peace “treaty” unions reached with the business community in Northern European countries many decades ago. Those accords took most of the heat out of the recognition struggle and helped lay the basis for more consensual labor relations patterns at the enterprise level. I realize that there are no easy analogies between the U.S. and West European labor systems, but on the other hand there are some aspects useful for comparison.) One reason that labor failed to take advantage of that favorable moment was that from the top leaders down to some of us lowly staff people, we were probably too busy sipping the heady wine of national politics.

I suggest that for an organization which still counts 13 million members, favorable social and economic moments will come again in the future, but unless organizing is a prime, active goal and powerful political force in the AFL-CIO itself, opportunities could be missed again.

If I return constantly to the role of the AFL-CIO, it is because I believe the center has a greater potential for change and for freedom of action than do most of its affiliates. The affiliated unions are caught up on long-standing collective agreements, rules, and practices which make them more of a hostage to the past.

The United States continues to need a strong and growing labor movement. And it needs a labor movement at the leading edges of the new industrial revolution which, it has acknowledged, is sweeping society. The new beginnings recently signaled by AFL-CIO may be a harbinger of greater things to come.

II. DISTINGUISHED SPEAKER ADDRESS

Collective Bargaining Prospects

LYNN WILLIAMS
United Steelworkers of America

I welcome the opportunity to join you on this occasion which marks the founding of the CIO and 50 years of industrial unionism. My distinguished brothers on the previous panel have reflected on their often vivid experiences over the past decades. My role is to address the future. What lies ahead for the labor movement in the coming few years—more particularly, what are the prospects for collective bargaining?

Seeing Abe, Leonard, Sol, and Chick here puts me in mind of Santayana's familiar warning that "those who cannot remember the past are condemned to repeat it." For today's Steelworker, however, the problem is somewhat different. When it comes to collective bargaining, we have no difficulty at all remembering the past, especially the 1970s. No, our concern is trying like hell to repeat it. Given the circumstances staring at us in 1986, being "condemned" to the settlements won by Abe and his colleagues in 1971, 1974, and 1977 is a fate to which most of us would readily submit.

The fact is, of course, that while we were living the experience, bargaining in the 1970s was no Sunday afternoon picnic in the park. Abe, I'm sure, recalls the difficulties in negotiating those settlements, as well as the Steel Industry Experimental Negotiating Agreement, expedited arbitration, the civil rights Consent Decree, and other hard-won gains of that decade. Moreover, though strikes in the 1970s were less pervasive than earlier struggles, we certainly had our share. Copper strikes occurred in nearly every round during this period. In 1971 there was the precedent-setting fight over cost-of-living in the container industry. Finally, from the litigation it spawned, some of you

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may be familiar with the three-month iron ore strike for incentive pay in 1977-1978.

Bargaining is rarely easy. What it comes down to, I suspect, is that the current challenge is always the toughest. The challenge today is bargaining in an environment where the external elements are overwhelmingly hostile to the process. The economy, imports, the administration, the NLRB—all couldn't be worse. What directions will collective bargaining take in that environment?

In responding, the best I can do is share the thoughts of one leader based on the needs and desires of the workers our union represents. Even at that, no one should take my remarks here as the bargaining prescription for any individual employer or industry in our jurisdiction. That is a task for the specific industry conferences and single employer local bargaining committees which have yet to formulate their own specific bargaining agendas.

It might be well to begin by identifying again what it is, ultimately, that labor wants. When that question was put to Samuel Gompers 94 years ago, he responded as follows:

We want more school houses and less jails, more books and less arsenals, more learning and less vice, more constant work and less crime, more leisure and less greed, and more justice and less revenge. In fact, more of the opportunities to cultivate our better natures, to make manhood more noble, womanhood more beautiful and childhood more happy and bright.

The statement correctly describes labor's broad objectives today. How we might translate these goals to more specific bargaining objectives and how we might get somewhat closer to their achievement is the main focus of my comments today. First, a word about the bargaining structure itself.

Internally, all unions have in place a system by which they tap the sense of the membership to guide the formulation of bargaining goals. These systems are undergoing significant change as communications technology develops. In the Steelworkers, we are constantly trying to increase two-way communications with the rank and file. More and more we conduct opinion polling, broadcast on cable television and by satellite, and use other sophisticated means to improve the flow of information. We recently released a study of the domestic steel industry commissioned by the union and conducted by Locker/Abrecht Associates, Inc., an independent consulting firm. An

important component of that study was the involvement of local union leaders whose participation proved invaluable. Our aim in all this is to insure that leaders and members are each better equipped to perform the bargaining process.

Externally, as one might expect, bargaining structures are evolving to match the changing needs and strengths of the parties. Most of you are aware that the Coordinating Committee Steel Companies, a fixture in steel bargaining for decades, has been dissolved by the companies. It is their belief, evidently, that level employment costs, guaranteed in the past by multiemployer bargaining among the major producers, is no longer a desirable thing. Whether they are right and who will win or lose by reason of the change are intriguing questions only time can answer.

For our part, the union will adapt to this change just as we have to others. Just how is a matter that will be fully debated by the Basic Steel Industry Conference in mid-January. For now, I can assure you that we still believe in the level employment cost principle and will do our best to sustain it in bargaining. Of course, the law and reality make that an impossible task in the case of bankrupt employers and others in dire circumstances. What's more, it is wholly irrational for anyone to suggest that employment cost levels for large, healthy employers should be set by smaller ones struggling to reorganize in bankruptcy and armed with the legal right to lower wage costs by rejecting their collective bargaining agreements. To put it more concretely, the Wheeling-Pittsburgh Steel settlement may be relevant for a company (1) which is in Chapter 11, and (2) which is willing to make the same management-sharing agreement that company did. No one else need apply.

Let's turn now to the demands we are hearing from our members. An excellent source is the International Wage Policy Committee which met earlier this month in Pittsburgh in advance of the industry conferences. That committee is broadly representative of the union's entire membership. As reflected in the resolutions submitted to the committee, many of our members, of course, want higher wages, better pensions, and fairly typical benefit improvements. Others, however, are making employment security their highest priority. This should surprise no one given the economic blows which have staggered workers in the smokestack industries, a subject which will receive more attention later.

There are, in addition, a whole range of contract issues encompassing not only such familiar matters as seniority and safety and health, but also new demands for enlarging upon workers' rights vis-à-vis the employer and fundamentally changing the nature of the bargaining relationship. I will spend a little time on certain proposals that may be of special interest to segments of this audience.

First, take a look at employment security. In the current high unemployment climate, it is an issue of overriding importance to our members across many industries. How do we deal with it?

One alternative is to develop pioneering approaches which attack the problem frontally—for example, a plan that bars layoff of any employee with the requisite years of service except in the most disastrous of circumstances. Instead of being laid off, these employees are assigned to work-related training programs, filling temporary vacancies, performing work reclaimed from outside contractors, reducing overtime, servicing customers, and doing other worthwhile tasks, including some which may be viewed as nontraditional.

The UAW-GM Job Opportunity Bank Security Program takes a step in that direction, but it leaves market-related layoffs, such as those caused by cyclical economic turns, in the care of the existing SUB program. A number of employers in this country have gone further and adopted blanket no-layoff policies. In Japan, as most of you know, major corporations offer lifetime employment to many of their workers, including those represented by labor unions.

I am certain that it is feasible to develop employment guarantee plans in some of our Steelworker-represented plants and industries. No doubt that will require new ways of structuring work and innovative approaches to the administrative and technical difficulties inherent in such plans. But it can be done, and we are willing to put our creative talent to work on the problem.

A second alternative for dealing with the security issue is to build upon existing income maintenance programs such as SUB. Where we follow this path, our goal will be the lowering of eligibility requirements for receipt of guaranteed benefits. Also, in cases where unemployment benefit funds have been depleted, we will seek to negotiate massive cash infusions, as we did in the steel industry in 1983.

Finally, as part of any security program, we hope to negotiate a series of coordinated measures which maintain stability in employment and provide fair and humane treatment for those whose jobs are unavoidably lost.

One of the key elements in a coordinated approach is the solution, at last, to the contracting-out problem in such industries as steel. No issue has been the subject of more studies, experimentation, and landmark arbitration as this one. Yet the problem persists and, if anything, has grown worse. The use of contractors—both on and off the plant site, indeed as far away as Korea—has risen steadily at a time when bargaining-unit employment is declining. Our members in these industries are insisting that we close the remaining loopholes and put some deterrent sting in the remedies for contracting-out violations.

Another proposal aimed at stabilizing the workforce is to provide more time off with pay. For example, you can expect a renewed push for shorter hours in future bargaining. There is, of course, a recent precedent from abroad. In 1984, IG Metall, the West German Metalworkers Union, successfully reduced the workweek in the metals industry to 38½ hours. Beyond shorter hours, we are certainly willing to consider experimental work-sharing plans provided employers join us in securing the facilitating changes in state unemployment compensation laws.

The third element in the coordinated approach to employment security is to restrict the use of overtime. For many employers, the game plan is to impose regular overtime on active employees in order to forestall the recall of workers in layoff status. There are a number of ways for dealing with this problem, some within and some outside the contractual framework. At this stage we are prepared to explore all the options.

I mentioned fair and humane treatment for those whose jobs are unavoidably lost. Even under the most ambitious employment-security program, not all jobs will be retained. Some will be lost when plants permanently close despite our best efforts to save them. Others will be lost as the consequence of advancing technology designed, as nearly all of it is, to reduce the number of manhours required in the productive process. The steel study I referred to earlier forecasts a loss from these sources alone in the range of 30,000 jobs in the next four years. What should the union's response be to that development?

Steelworkers, as a rule, have never favored the Luddite approach to new technology. We have long recognized that employer investment in modernization is in the best interests of our members. Indeed, we have been critical of those responsible for an economic atmosphere that discourages such investment. We have also been critical of companies that opted for short-term profit maximization over long-term health. The worker has the highest stake in the

continuing viability of the particular enterprise which employs him. For that reason, we do not stand in the way of basic oxygen furnaces, continuous casters, computerization, or countless other innovations by the employers whose workers we represent.

But, at the same time, we don't want the impact of change to fall squarely across the worker's back. The issue, as I see it, is to insure that those workers who remain receive a just share of the fruits of modernization and that those who lose their jobs as the victims of change are fairly treated as well. Current government training and retraining programs are plainly inadequate, as are some job-search assistance plans. We simply must do a better job in this area in the coming round of collective bargaining negotiations.

In the noneconomic sphere there are two bargaining subjects in which this audience may have more than a passing interest. One is workplace democracy; the other is the grievance and arbitration machinery.

Workplace Democracy. Employees are clearly telling us how they want to humanize working conditions. One pretty solid indication is in a survey commissioned by the AFL-CIO Committee on Evolution of Work. It found that workers—union and nonunion alike—are insisting on having a say in the “how, why and wherefore” of their work. Within the Steelworkers, I have been particularly close to the development and installation of programs affording workers meaningful participation in the decision-making process at the workplace. We call them Labor-Management Participation Teams (LMPT). With rare exception, these programs have been very successful, particularly when judged by the standard of crucial significance to me—namely, worker acceptance. The response of our members has been overwhelmingly positive. At the same time, I must add, employers are issuing glowing reports on the cost-savings they have achieved.

If, as I am firmly convinced, workplace democracy is a “win-win” matter, there is every reason to expect the acceleration and expansion of worker-participation programs through collective bargaining in the years to come.

So far we've considered worker participation primarily on the lowest or shop-floor level. We need to be more daring. Bargaining unit employees have talents and ideas to contribute at middle-management levels as well. That fact is surfacing now in some of our programs. In others, an entire layer of supervision is being eliminated as unnecessary. At the same time, employees ought to have more of a say in decisions that affect their long-term employment security.

Accordingly, my sense is that the worker input will, in time, be welcomed at middle-management levels to the mutual advantage of both parties to the relationship.

I am not prepared to stop at that level either. In the future, particularly with the growth of Employee Stock Ownership Plans, I expect worker interests to be represented on many more corporate boards than is now the case. Recently, at Wheeling-Pittsburgh Steel, we negotiated participation agreements in which workers will have a voice at nearly every level of management, including the board.

Our efforts at Wheeling-Pittsburgh have not received universal acclaim. In a steel industry piece entitled "Beware 1986 Labor Negotiations," the Wall Street firm of Oppenheimer & Co., Inc., gave us something less than four stars in its stockholder-oriented review. I quote Oppenheimer:

Labor made *extraordinary* noneconomic gains in the new Wheeling-Pittsburgh contract. First, the USWA's ability to intimidate and outmaneuver all other players in the bankruptcy proceedings in and of itself set important precedents and "put management in the back seat." Second, the USWA won a voting and a nonvoting board seat. Third, a joint strategy committee was created with equal labor management and labor representation. Fourth, "management committees" with equal management and labor representation were created in *all departments of all* Wheeling-Pittsburgh's *plants*. Fifth, *plantwide management committees* were created in *all* of the plants with equal management and labor representation. Sixth, labor's dissenting views within the departmental management committees can be "*appealed*" to the plantwide management committees or the "strategy committee." This right of appeal is especially pernicious, in our view, as it precludes split-second decision-making.

I wonder if Oppenheimer would be good enough to mail that review to every steelworker, preferably at a judicious interval before the next Steelworker international election. Except as a tribute to our skills, however, the seven-page Oppenheimer piece is somewhat hysterical in tone—of which the quote gives you only a taste—and it greatly overstates the practical difficulties in participatory management. So far the parties at Wheeling-Pittsburgh are doing fine, thank you, and are jointly tackling some tough problems, including the financing of some large-scale mill operations.

Wheeling-Pittsburgh aside, I don't expect a line of employers outside my door tomorrow with invitations to join the board of directors or clamoring for the chance to share control of their corporations. However, in dire situations or others where viable facilities will be abandoned or sold to nonviable purchasers, a carefully designed employee ownership plan may be part of a workable alternative. We will not exclude that possibility so long as we are convinced that the plan is sound and not simply a tax-avoidance scheme.

I recognize that granting workers and their unions a larger voice in what is traditionally regarded as management's domain runs counter to current thinking at the NLRB. Ironically, the harsh economic climate in manufacturing cries out for enlarging, not restricting, the mandatory bargaining playing field. We ought to be encouraging joint efforts at solving problems, whatever their nature, in order to preserve the plant or industry. Why shouldn't the union be consulted on trade, investment, tax, or environmental problems? I don't think the National Labor Relations Act was designed as a straitjacket, and its sponsors surely intended that the scope of collective bargaining would respond to the changing needs of the parties and the demands of the social and economic climate.

The Grievance and Arbitration Machinery. That brings me to the second noneconomic subject I identified, the grievance and arbitration machinery. In one sense this subject cannot be viewed in isolation as though it had nothing to do with the other relational problems between the parties. For example, we have very few structural problems in the grievance and arbitration area at those plants where there is a sound LMPT program in place. The positive attitude often spills over. Conversely, the best designed dispute-resolution system probably won't function smoothly if the parties are engaged in all-out war at the plant. Having said that, however, I must also relate that many of our members are losing all faith in the dispute-resolution system. In my judgment, they cannot be blamed. From the workers' standpoint, the system is too expensive, too slow, too cumbersome, too formal, and too Draconian. Indeed, because remedies are often meaningless and grievance pipelines hopelessly clogged, there is no deterrent to employer contract violations. Why not violate the scheduling provisions? There is no remedy and the case won't be decided for three years. Why not deny severance pay to thousands of employees? Surely not everyone will sign the grievance, and if, by some miracle, they all do, the company will pay no more than it was

obligated to anyway. Why not insist on separate single-case arbitration? It will break the local unions.

These are all real situations and they are all too prevalent. For this brand of employer we need systemic changes that will streamline the process, make it more fair, and, most important, remove the profit from contract violations. The measures might include the following:

- Penalties for all contract violations, and special remedies for willful and repeated violations, including broad cease-and-desist orders.
- Granting grievances when the employer misses a time limit.
- Payment of substantial interest.
- Expansion of expedited arbitration.
- Shifting of costs to the employer.
- Provision for class grievances and multiple arbitrations.
- Elimination of unnecessary briefs and ridding the process of overlegalization.

These are some of the matters that will be discussed across future bargaining tables. In the remaining minutes I'd like to talk a bit about the role nonparties will have to play in certain industries if the process is to succeed.

It is no secret that many of our basic industries are in deep trouble. They have not recovered from the Reagan recession, and they never will unless there is a drastic change in government trade and fiscal policies. A number of companies in the steel industry face an immediate crisis because of losses sustained in recent years. We are convinced that, on its own, collective bargaining cannot avert the coming disaster. The facts permit no other conclusion.

The terrible plight of the steel industry in recent years is directly traceable to these interrelated forces, each acting upon the others. One is the surge of imports, the second is the rise of the dollar, and the third is the decline in steel prices.

The Reagan Administration announced a steel import voluntary restraint program in September 1984. Its object was to reduce imports to the level of 18.5 percent of apparent domestic consumption, plus an allowance of 1.2 million tons for semifinished steel. Judged by its own declared goals, the program is a dismal failure. In the past year, imports have averaged nearly 26 percent of the domestic market. What's more, no one expects significant improvement in 1986. Even

optimists are forecasting import penetration levels of 24.5 percent over the next few years. The recent voluntary restraint agreement with the European Community is a case in point. The Administration increased the Community's quota of finished steel, thereby rewarding some of the most heavily subsidized, least efficient operations in the world. As a separate plum for the United Kingdom, the U.S. Trade Representative agreed to an allocation of semifinished steel which, when added to allocations already contained in agreements with other countries, totals 2.3 million tons. That's 600,000 tons (35 percent) over the Administration's announced goal and it doesn't include semifinished exporting nations, such as Sweden, with whom we have no agreement.

It gets worse. The figures I cited refer to steel imports as determined by traditional consumption measures. But those figures don't tell the entire import story because they ignore imports of goods containing steel, such as automobiles, machine tools, farm equipment parts, and hundreds of fabricated or cast products. According to Economic Consulting Services, from 1977 to 1985 indirect imports represent a growing share of U.S. steel usage. Indeed, at the beginning of the period, U.S. export of goods containing steel exceeded imports by some 3 million tons. By 1985 the tables had turned so that indirect imports exceeded exports by 6.3 million tons or 6 percent of total U.S. steel usage. It is only when these numbers are added to direct imports that one can appreciate the full dimension of the import problem.

The pressure of import volume itself causes prices to fall. On top of that, overvaluation of the dollar relative to European currencies (a 40 percent increase between 1980 and 1984) pushed steel prices even lower. Finally, domestic producers, overwhelmed by a tide of cheap foreign steel, engaged in price-cutting wars of their own to maintain market shares. Since 1982 actual domestic steel prices have dropped from \$518/ton to \$467/ton, a decline of 10 percent.

Predictably, the result of all this has been that the integrated producers have suffered major operating losses each year since 1982. And, as I have indicated, the prospects for the future are less than rosy.

Of course, to completely set the bargaining stage, we have to look at what's happened to total steel employment, employment costs, and productivity in this period. In view of the prevailing myths on these subjects, you may be surprised at some of the facts.

The total workforce in the steel industry has declined from 452,000 in 1977 to 200,000 employees today, a national disaster by any assessment. In the next few years, even under optimistic scenarios, an additional 10,000 steelworkers will lose their jobs.

In 1982, on the eve of the last basic steel contract, total employment costs stood at \$195 per ton shipped. Today, employment costs are down to \$126 per ton shipped, a decline of 35 percent. There have been no appreciable reductions in any other cost component in that period, and a few, such as interest rates, actually went up. The reduction in employment cost per ton is itself a function of two factors. One is the 1983 collective bargaining agreement which reduced hourly employment costs, and the other is the reduction in manhours per ton from 8.3 in 1980 to 6.1 in 1984. The United States now ranks among the world leaders in productivity.

In light of these and other findings, the Locker/Abrecht study concludes that no one party can save the industry. We at the bargaining table cannot solve the problem of overvalued currency. We can't stem the tide of imports. We can't stretch out principal payments or defer interest for those steel companies choked by debt. Indeed, unless these problems are addressed by those who are positioned to do so, it won't matter very much what the parties do in collective bargaining.

Consider the steelworker's perspective. Having made a substantial sacrifice in 1983, he believes he has done his part. The Administration's response was more shadow than substance. Now he may be asked to sacrifice again, but he knows that it's all likely to be in vain unless the government and others do their part. Would anyone in this room take a cut in salary or fees in like circumstances?

There are steelworkers abroad who earn as little as \$3.00 an hour, live in barracks, are forbidden from joining genuine unions, and march to and from work under the watchful eyes of military leaders. We will never be able to compete with those conditions. I trust that public policy does not require that we lower the living standard of U.S. workers until it sinks to the level of the least paid and most depressed of our counterparts elsewhere in the world. When it comes to exploitation of workers, I doubt this country could ever lead the world league and, more important, it is both immoral and economically self-defeating even to try.

Being an optimist at heart, I believe that the government—that is, the President or Congress—will eventually be forced by public pressure to save our basic industries from the onslaught of unfairly traded imports. Every opinion poll I have seen on the subject strengthens my conviction in that regard. Of course, in this critical year

the Steelworkers will do everything possible to spur the process along. We are planning now in the belief that, though they sometimes act otherwise, the powers here will ultimately realize that the Mon and Ohio valleys are as important to this nation as the Amazon valley.

III. SOURCES OF LABOR STATISTICS IN AN ERA OF BUDGET CUTBACKS: WHAT ARE ALTERNATIVE SOURCES FOR I.R. DATA?

Sources of Labor Market Data from BNA

JOHN M. WALSH
Bureau of National Affairs, Inc.

The Bureau of National Affairs is an independent, for-profit publishing company, owned and operated by its employees. BNA publishes more than 60 daily, weekly, biweekly, and monthly information services providing accurate, comprehensive information on major developments dealing with labor, legal, tax, economic, environmental, and safety activities of the nation. The company was founded in 1929 by David Lawrence, who later founded *U.S. News & World Report*. It was sold to its employees in 1947.

BNA's reports and services go far beyond conventional news sources. A unique feature of these services is that they are meant not only to be read, but to be used to make sound, informed judgments, pare costs and maximize revenues, and add timeliness and relevance to education and research.

BNA's role as a collector and analyst of labor market data did not just begin with the cutback of programs at the U.S. Department of Labor under the Carter and Reagan administrations. BNA's Labor Services Division has published information services since the company's establishment. BNA began publication of a daily labor

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service during World War II with the introduction of the War Labor Report. Following the war the War Labor Report was transformed into the Daily Labor Report (DLR) which has continued to be published, uninterrupted, to this day. DLR is widely recognized as an indispensable tool for employee relations practitioners, professionals, and academics.

Other publications of BNA's Labor Services Division focus on specific industries or sectors of industries, such as the Government Employee Relations Report, or subject areas, such as the Equal Employment Opportunity Manual, and offer the user comprehensive coverage of a depth and scope unavailable in popular journals.

In the process of providing this unique scale of coverage, each of BNA's Labor Services maintains up-to-date files containing background data on the issues, industries, and labor organizations covered by that publication.

Because the ongoing nature of the journalistic process makes the accessing of these data, for outside users, by BNA's Labor Services editors themselves an unwieldy task, BNA has established a separate unit to provide this type of service. BNA PLUS is designed to expand the resources available for the professional or academic researcher. Through this unit BNA provides users with access to data and background information that otherwise might be outside his or her reach. The research specialists at BNA PLUS are familiar with the contents of BNA's data sources and are capable of custom-fitting a BNA database to the needs of the professional or academic client. BNA PLUS is also the first place to turn for access to BNA databases.

Wage Settlements and Basic Patterns Database

The single largest source of labor market data from BNA remains the Collective Bargaining Negotiations and Contracts (CBNC) databases. CBNC's Table of Current Contract Settlements contains up-to-date information on agreements covering 50 or more employees. The table reports wage increases, freezes, or decreases, and cost-of-living adjustments. Shown in each entry are the employer, union and local number, location, and contract duration. The table also lists settlements negotiated under contract reopeners as well as deferred increases falling due under current contracts. Data reports, on an as-available basis, include the number of employees covered, expiration date, old and new average rates of pay, and changes in other provisions (i.e., vacations, holidays, pensions, insurance, shift differentials, supplemental unemployment benefits, hours).

Settlements are grouped in three major categories: manufacturing, nonmanufacturing (excluding construction), and construction. Within each category employers are grouped by state, with multistate agreements and Canadian agreements grouped separately.

Median first-year wage changes are reported by BNA biweekly. These reports summarize the changes in each sector from new contract settlements reported in each group and are expressed in cents per hour and percentages for the biweekly period and for the year to date. Median first-year wage adjustments are computed for five categories: all industries, all industries (excluding construction), manufacturing, nonmanufacturing (excluding construction), and construction. Included is a distribution of cents-per-hour figures used to calculate medians and highlights of settlements selected as most significant during the two-week period.

BNA attempts to obtain information on all negotiated wage settlements covering 50 or more employees. Information on all major settlements is obtained by direct report. Other sources, principally labor union publications and the popular press, are relied upon for information on smaller settlements. All settlements included in the table have been ratified within the three months immediately preceding their inclusion.

All available wage changes are listed in the tables, but for the purposes of computing the medians, the following practices are used:

Equal weight is given to each contract regardless of the number of employees.

Cost-of-living adjustments and Canadian settlements are not included.

Cents-per-hour or percentage increases are tabulated as reported. Thus, a 50-cent increase is valued at 50 cents and 10 percent is valued at 10 percent. Usually only one of these measures is provided and the other is computed by using the average base pay rate under the contract. If specific base rates are unavailable, the average hourly rate for the appropriate industry found in the Bureau of Labor Statistics *Employment and Earnings* series is used.

Weekly, monthly, and annual increases are reduced to hourly terms by application of the appropriate hours figure for the industry.

Ranges of increases are averaged to single hourly figures.

Deferred increases are not prorated (e.g., if an agreement has semiannual increases of 30 cents and 20 cents in the first contract year, then the first-year increase is considered to be 50 cents). Increases falling due in the first 12 months of a contract are interpreted as

occurring in the first year; the second 12 months in the second year, etc.

Over term increases are averaged over the life of the contract (e.g., 90 cents over the three-year term is interpreted as 30 cents each year).

In the construction sector, a breakdown of compensation may not have been made at the time of settlement, in which case the wage-benefit package is used to calculate medians and is specified as such in each settlement report.

Wage adjustments for timeworkers only are tabulated; because incentive compensation and piecework systems differ, rate changes for workers under these systems are not tabulated.

Changes in hours, where pay remains the same, are not tabulated as wage increases.

Benefits are given no weight and are not tabulated for purposes of the statistical indexes discussed above. Although BNA recognizes that package values would be desirable to compute as a measure of total compensation, sufficient information is rarely available for an accurate determination of such values.

In quarterly and annual statistical abstracts are detailed breakdowns of the following benefits when such data are available:

Holidays—shows the average number of holidays in manufacturing and nonmanufacturing (excluding construction).

Insurance—breaks down insurance to show what changes were negotiated (e.g., life, sickness and accident, accidental death and dismemberment, hospital, major medical, disability, surgical, maternity, drug, dental, and optical plans).

Pensions—gives the average monthly benefit per year of service in manufacturing and nonmanufacturing (excluding construction).

Access to the Collective Bargaining Negotiations and Contracts database is available. In addition to the aforementioned compilations of wage and benefit terms in contract settlements, the databank includes a bibliography of more than 3000 collective bargaining agreements and analyses of patterns in a sample of 400 agreements. Reports customized to meet individual research requirements are available and may be formatted through BNA PLUS.

The CBNC unit at BNA maintains a Calendar of Negotiations as part of its database. The calendar, which contains information on contract expirations, is published annually and may be accessed at any time to determine the upcoming collective bargaining schedule. It may be accessed by company or union, size of bargaining unit, industry, or expiration date.

The CBNC unit is also the source of BNA's new Employer Bargaining Objectives survey, conducted for the first time this year with a view to 1986 bargaining. The initial survey was mailed to 500 companies on June 1, 1985, and responses were accepted through July 31. Information was compiled from all 230 employers who had responded by that date.

Answers to any of the questions raised by the survey may be accessed from this database by number of employees, geographic region, contract duration, industry, and so on. As a condition of the survey, individual employers who responded are not identified. Respondents to the survey are skewed predominantly to manufacturing rather than nonmanufacturing industries, by a margin of about 3 to 1. Nearly half of the respondents are located in the North Central and Mid-Atlantic states and more than one-third employ between 1000 and 5000 workers.

Personnel Policies Forum

BNA surveys of interest to industrial relations researchers are also conducted by the BNA Surveys Unit, part of the Research and Special Information Services (RESIS) division. Every two years the Surveys Unit invites more than 30 personnel and industrial executives to become members of the Personnel Policies Forum (PPF). These human resources officials represent all types of enterprises, large and small, in many branches of business and nonbusiness organizations from all areas of the country. Forum members are nominated by BNA representatives throughout the country, but are not necessarily users of BNA information services.

PPF members are asked periodically to outline their organization's policies and practices with respect to a specific personnel activity or area of concern. Their responses are tabulated and BNA's editorial staff prepares a summary report on the subject, outlining prevailing practices, new initiatives, and a cross-section of opinion from panel members. Several surveys have been repeated over the past ten years. For example, a third survey of Paid Holiday and Vacation Policies originally conducted in 1976 and repeated in 1980 is currently in the planning stages for 1986.

The panel is constructed in such a manner that consistency in the industry and employment level and a geographic balance are maintained, enabling a researcher to compare data for similar and differing firms over time.

The survey unit conducts quarterly studies of the employment outlook as seen by human resources executives. The employment outlook panel is composed of members of the Personnel Policies Forum and/or the American Society for Personnel Administration, approximately one-third of whom represent employers of 1000 or more workers while two-thirds represent smaller employers. Although the industrial mix has shifted somewhat over the past ten years, the approximate composition has remained 60 percent manufacturing, 20 percent nonmanufacturing, and 20 percent nonbusiness organizations. Data from the employment outlook survey are comparable over the past ten years.

Coincident with the employment outlook survey, BNA conducts a job absence and turnover survey—two quantifiable aspects of employee relations generally considered important indicators of worker satisfaction or alienation. It is also widely believed that excessive absenteeism and high turnover are major factors contributing to lowered productivity. This retrospective survey obtains monthly absence and turnover data from individual firms on a percentage basis. For purposes of BNA's own quarterly reports, overall results are presented in terms of median percentage rates disaggregated by size, industry, and region.

Although two-thirds of the establishments in the BNA employment outlook and absence and turnover surveys represent what we refer to as smaller establishments—fewer than 1000 employees—compared to what would be expected as a random sample of employers in the United States, the BNA survey is skewed toward larger establishments. Forty-seven percent of the respondents in the BNA survey employ fewer than 500 workers, while U.S. Census data indicate that more than 50 percent of U.S. employers have three employees or less and only 2 percent have 100 employees or more. In the latest BNA survey sample, 32 percent of respondents employ more than 1000 workers. As with the employment outlook survey, the job absence and turnover report utilizes a panel composed of PPF and/or ASPA members.

The survey unit also conducts periodic surveys of “hot topics” in human resources and industrial relations, using a random sample of ASPA's membership list. The purpose of the “hot topics” surveys is to obtain a timely and accurate picture of how establishments are responding to newly emerging workplace problems. Subjects for these surveys may be suggested by members of the BNA editorial staff, internally generated or the product of collaboration with external

sources. Examples of surveys reflecting this “hot topics” profile that are currently scheduled are studies of *Smoking in the Workplace* and *Flexible Employment Programs*.

BNA Directory Data Sources

Other sources of data at BNA that may interest the individual researcher include several directories and an arbitration database.

For the past several years BNA’s Book Division has maintained a *Directory of U.S. Labor Organizations*, that has previously been published by the U.S. Bureau of Labor Statistics. The 1982–1983 edition of the directory contained 1980 data compiled by BLS prior to its decision to end publication of its biennial *Directory of National Unions and Employee Associations* and union membership data from the 1980 Current Population Survey compiled for BLS by the Bureau of the Census.

The current 1984–1985 edition of the *Directory of U.S. Labor Organizations* marks the initiation of a new series containing statistical data on membership in U.S. labor organizations compiled on behalf of BNA. Most of the data in the directory comes from the unions themselves. In those few cases where the unions did not cooperate with the data collection effort or where record-keeping was not adequate, other sources were used. AFL-CIO average per capita membership totals, as reported to the AFL-CIO biennial convention in 1983, are given for AFL-CIO member unions.

Although it is possible that the figures obtained from the unions themselves may be inflated above actual totals, given the reluctance to report lower numbers that may indicate diminished strength, the user of the directory will note that most unions provided totals that are reflective of the difficulties faced by the American labor movement in the first half of the decade.

In 1985 BNA published for the first time a *Directory of U.S. Labor Arbitrators*, envisioned primarily as a source to be used in selecting individual arbitrators or establishing a permanent panel of arbiters to be used on a rotating basis. Compiled from data submitted by individuals to the Federal Mediation and Conciliation Service or submitted directly to BNA, the directory listings contain such information as age, education, profession, professional certification, experience or membership on permanent panels, arbitrated issues, and arbitrated industries.

BNA has recently begun to maintain a labor arbitration database, using decisions published in *Labor Arbitration Reports*, BNA's arbitration decision service. Users of this database will be able to access decisions by issue, industry, or arbitrator. Decisions are not accessible on the basis of the party favored by the arbiter's award.

BNA continues as a leader in the human resources information and publishing industry because the company continuously searches for new products and new services to serve the professional and academic needs of the human resources community. These products and services are and will remain timely, unbiased, and factual as BNA seeks to remain the preeminent information source for the profession.

Labor Market Data From The Conference Board

AUDREY FREEDMAN
KENNETH GOLDSTEIN
The Conference Board

The Conference Board's reputation as a data-gathering organization was built in the first few decades of its 70-year existence. It pioneered in the creation of cost-of-living indexes in 1918, for example, with a large field staff pricing market baskets across the country. An average hourly earnings series was begun in June 1920. Broad "personnel practices" surveys were instituted in that era, and by the 1940s union contract collections were also established.

Today there are only two data series in the labor market area that are regularly produced by The Conference Board. These are the Executive Compensation surveys, now annual, covering the highest paid executives in large, U.S.-based private companies, and the Help Wanted Advertising Index, a monthly measure of the intensity of labor demand. The rest of our surveys in the labor market area are irregular. They are designed to detect change, usually changes in corporate human resource strategies. Some examples are: studies of company training, done a decade apart; surveys of benefit practices, done every four years; surveys of company wage-setting and labor relations policies, done five years apart. Most of our surveys are one-time examinations of subjects like participative management practices, plant closing adjustments, nonunion grievance systems, etc.

Why are the regular data series so few? Mostly because the larger businesses that make up the 3000-member base of The Conference Board do not find time-series data on labor markets or personnel practices useful enough to buy. In earlier days, such companies may have preferred a data series limited to "their own kind." Or they may have felt a trust and loyalty to an industry-sponsored institution that lingered beyond the time when BLS began to produce similar data. By now, business has learned to rely on the authority of the large and well-designed surveys produced by BLS and the Census Bureau. Business

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looks to The Conference Board more in terms of identifying new changes about to take place, new "problem areas," and new techniques of business management. These kinds of information do not originate in regularly produced data series.

The two long-lived series described below meet different needs. The executive compensation data are used mainly by companies verifying their own position relative to other companies in the same industry or size class. They are produced by Charles Peck, Senior Research Associate in the Human Resource Program, who has written the next section of this paper. The Help Wanted Advertising Index is produced by Kenneth Goldstein, author of that section.

Top Executive Compensation

This is an annual report on the compensation of the five highest paid executives, regardless of title, in a sample of over 1000 companies in six major types of business: manufacturing, construction, gas and electric utilities, retail trade, commercial banking, and insurance. The major focus is on the salary and annual bonus paid to each position in the most recent calendar year according to type of industry. This information is presented as a regression analysis measuring the relationship between (1) total compensation and company size, and (2) salary and company size. For manufacturing, construction, and retail trade, company size is expressed as annual sales volume; for gas and electric utilities, it is annual operating revenue; total deposits at year end is the measure for banks; and for insurance, company size is expressed as annual premium income. A regression line is given for total compensation and the regression formulas are given for both total compensation and base salary for each of the five highest paid positions according to the six industry groups. In manufacturing, this information is shown separately for about a dozen individual industries.

In addition to the amount of base salary and bonus award, the study also describes generally and by industry the prevalence of, and trends in, four major elements of the executive compensation package: the annual bonus plan, long-term performance unit/share plans, stock option plans, and restricted stock arrangements. For stock options, the size of options granted is shown, as well as the net gain for options granted during the year. Information is given on the size of restricted stock grants during the year, and the size of payouts from long-term performance unit/share plans is also given.

Information is also presented on compensation trends, which is derived by comparing salary and total compensation in the same companies two years in a row. Companies were also asked for the average salary increase to the exempt population in the current year and the anticipated increase for the next year.

The information described above is collected by means of a mailed questionnaire which asks companies to list, in order of total compensation, the five highest paid executives. Additional questions are asked on practices and grants and/or payouts from stock options, restricted stock and long-term unit/share plans. Background information is requested on the type of company and financial and employee size. The questionnaire is typically mailed in March of each year. Data analysis begins in May and is completed by the end of the summer. The report is usually published in October.

Using the report, a company can compare the compensation of its top-paid executives in a particular year with counterparts in companies of similar size and type of industry. The company can also make a judgment as to how its executive compensation package compares with similar companies in terms of composition and size of grants and payouts.

Top Executive Compensation In U.S.-Based Multinationals

The data collected in connection with the Top Executive Compensation study described above is analyzed in the same manner, but separately, for those companies in the sample classified as U.S.-based multinationals. The basis for classification is that the company meet any two of the following criteria: at least 30 percent of sales are outside the United States; such sales are at least \$250 million; and manufacturing operations controlled by the U.S. parent are located in at least five countries. The final report presents the same type of material in the same manner as the Top Executive Compensation report.

The latest edition of the Top Executive Compensation report has just been released. The second edition of the Multinational report will be published in early 1986. The constant problem with ongoing studies is to meet changing considerations but still preserve year-to-year continuity. Perhaps the change most needed is a revision of the manufacturing industry classifications used. The classification used in the study is based on the U.S. Government Standard Industrial Code system, which is seriously out of date. So many companies,

particularly the larger ones, are now in multiproduct lines that it becomes almost capricious to try to assign them to a single industry classification as is presently done. Also, in certain areas of industry the SIC product groups do not reflect current realities. For example, there is no classification that would accommodate companies engaged in both computer hardware and software activities.

A second possible change would be to give more prominence to reporting amounts of compensation generated by long-term incentive plans. Indications are that long-term plans are becoming an increasingly important part of the executive compensation package and perhaps should receive as much emphasis in the study as base salary and annual bonus.

There are a number of other sources for top executive compensation data. These other studies are based on direct survey, proxy information (which is increasingly difficult to use because of the changed reporting requirements), or a combination of the two. Some of the major annual executive compensation studies are: Annual Management Compensation Study (Sibson and Company), Execu-Comp (Segal Associates), Executive Compensation (Arthur Young and Company), Executive Compensation (Dartnell Corporation), Executive Compensation Data Bank (Towers, Perrin, Forster & Crosby), and Top Management Report (Executive Compensation Service).

Help Wanted Index

In the United States we have very good statistics, from the monthly unemployment survey, on the supply of available help. Unlike some other developed economies, we do not have very good numbers on the demand for help. The Conference Board's monthly Help-Wanted survey does provide something of a proxy measure for the demand.

Some of the benefits, and drawbacks, of this measure will be summarized. Before getting into that, it should be posited at the outset that this survey has empirically demonstrated a positive relationship with employment levels for the past three decades. That, together with the lack of any other routinely available measure of labor demand, is the principal reason why the survey is maintained.

Methodology

Every month 51 major newspapers—one in each of 51 selected labor markets across the country—are asked for a count of the number

of help-wanted ads carried in their classified advertising pages for the prior month. Note that it does not matter, statistically, how big the ad is, what the ad actually says, why it was placed, or how often. The ad count in one month serves only as a base upon which the count in the succeeding month can be assessed. The great advantage of this system is that the newspaper provides the count, and the newspaper itself has an interest in keeping track of that number.

Ad volume may change if advertising rates change. And a company that had placed an ad for two typists in one month may advertise for only one driver the following month. Thus labor demand may change even though ad volume does not. In general, in theory, a change in advertising volume corresponds to a change in labor demand. In practice, no doubt, there are months when labor demand and ad volume in a given market move in opposite directions, which implies further that there are times when demand and ad volume move in the same direction for the wrong reason. Still, we have monthly ad counts for the labor markets starting in December 1951 and consistently updated through 1985. This empirical record shows that ad volume has generally risen as labor demand increased, and that declines in ad volume have generally occurred in periods of softening labor demand.

The raw data have to be adjusted for variations in the number of days in a month and the number of Sundays. This is less of a task nowadays in that a growing number of papers have gone to an accounting period that evens out monthly variations. Next the data are run through a routine seasonal adjustment process. Finally, the deseasonalized, adjusted data are indexed at the labor market level. No attempt is ever made to aggregate the data counts. It is always important to keep in mind that not every available job is filled via a newspaper advertisement, nor is every available job advertised in the classified section of a local paper. The only aggregation attempted here is on the basis of indexes.

The 51 papers are in labor markets that currently have a little more than 40 percent of all nonagricultural employment within their areas. The markets were originally selected so as to survey evenly the nine Census regions of the country. Given the geographic mobility of the workforce, recent slowing in that mobility notwithstanding, the representation has become a little skewed over time. One project on the back-burner is to select candidate markets in underrepresented regions for inclusion in the monthly survey. It may be interesting to note that offers to contribute have had to be turned down more frequently than have requests for contributions been denied.

The individual market indexes are combined in a weighted average for the region. The regions, in turn, are weighted into a national average. Nonagricultural employment levels form the basis of the weighting. That national index is the number most frequently cited in news stories. It is also listed in *Business Conditions Digest* as a business cycle indicator. For roughly the first decade and a half of its modern existence, it was considered a leading indicator at both peaks and troughs.

“Modern existence” refers to the period dating from 1951. William A. Berridge, an economist with Metropolitan Life Insurance, was the first to use want-ads for clues about the labor market back in the 1920s. Our series is largely an outgrowth of his work. But today the series is considered a leading indicator only at peaks. It is considered a lagging indicator at troughs. The rationale is straightforward. If orders begin to slow, business certainly will stop advertising for new help before beginning to plan layoffs. Conversely, it will call back laid-off workers before starting to advertise for new job applicants. If that is true, why was the series once considered a leader at troughs? I can think of only two plausible, straightforward explanations: (1) better understanding of what constitutes a leading series, and (2) better use of human resource management techniques.

The primary use of want-ad volume data is to fill in the macroeconomic information gap on labor market demand. Second, the data are used by newspapers to report on changes in local labor market conditions, especially as they compare or contrast with changes at the national level. Third, some analysts find it a useful variable to plug into labor market equations.

An example of how the Help Wanted Index can be plugged into equations is contained in a paper by James Medoff, published in the Brookings Papers on Economic Activity (1:1983). Medoff used them in describing growth in labor market imbalances by using the Beveridge curves, which reflect the relationship between employers' difficulty in satisfying labor demand and the degree of unutilized labor supply. The theory is that a vacancy rate, relative to an unemployment rate, may reflect difficulty in hiring and retaining help. Medoff proxied a vacancy rate by using help-wanted advertising per employee and quit and firing rates. The result was limited and less than satisfying, though it was not as unsatisfying as the test would have been had there not been a history of help-wanted advertising.

Disaggregation

If a simple survey can prove useful in terms of garnering information about change in labor markets, why not survey with respect to changes within individual occupational or industrial categories? That question was tested about 20 years ago. John Meyers and Dan Creamer, of The Conference Board, chose Rochester as a target market, given its size and relatively concentrated market. They knew that not every job was filled via the newspaper. Within a given market, however, those limitations tend to cancel. That advantage doesn't exist within individual classifications. Predictably, then, the test proved that the added work needed to produce disaggregated data was not matched by increased knowledge of changes within the industries in that market. Miriam Johnson tried looking at differences within and between the San Francisco and Salt Lake City markets. She concluded that Meyers and Creamer had made a good decision in spending time, effort, and money on disaggregation.

Labor Market Intensity

Help-wanted data are basically used for near-term macroeconomic analysis. They can be of limited use in some longer-term applications. The most immediate use that comes to mind is in assessing a structural tightening in labor markets. Starting in the early 1970s we noted that unemployment growth—resulting from population growth and increased labor force participation—was outstripping growth in want-ad volume. To measure this we needed to index the unemployment level. That way, we could take a ratio of the Help Wanted Index to this unemployment index. The declining trend in this ratio of indexes reflects the differing growth rates of want-ad volume and the number of unemployed. Thus, there is some evidence of softening of labor demand relative to that presupply, dating from the shutdown of smokestack America. More recently, the stretching of the average manufacturing workweek to more than 45 hours suggests that employers are more willing, given the uncertainty in output demand, to pay overtime than to hire new workers who might have to be laid off after rather a short spell.

The Help Wanted Index is a relatively easy and inexpensive series to keep updated on a monthly basis—so much so that state labor departments in Texas and Michigan are providing coverage on a more local basis than The Conference Board can, or would want to, provide. Inquiry has recently been made by Virginia as to the feasibility of

doing something along this line for part of that state. All the data generated by these efforts are of limited use. The limitations notwithstanding, the idea of using classified advertising to say something about labor market activity, an idea first tried back in the 1920s, is worth continuing into the 1990s. The techniques may be improved upon, but the idea is not worth abandoning. Unless and until a better way to get at labor demand is forthcoming, there probably will be a Help Wanted Index to kick around.

Alternative Sources of Labor Market Data*

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Recent cutbacks in data collection at the Bureau of Labor Statistics (BLS) have focused attention on alternative sources of labor market data. To what extent can private services and state labor bureaus fill the void left by BLS? This paper examines non-BLS sources which existed in the past—when BLS services were very limited—and some more recent cases of alternative data collection. From these selected examples, conclusions are drawn concerning what may be reasonably expected from non-BLS suppliers.

Historical Sources of Labor Market Data

Prior to the 1930s, a variety of organizations outside the BLS collected specialized labor market data. State labor bureaus, for example, filled some gaps left by the BLS (e.g., the unemployment statistics compiled by Massachusetts and New York), although studies were limited to their jurisdictions. Nonetheless, a few private organizations did compile national series. Two noteworthy examples are discussed below: turnover and hourly earnings.

Labor Turnover

Although labor turnover rates were high by current standards throughout the late 19th century, interest in the phenomenon did not surface until the 1910s, when employers and social reformers became convinced that high turnover was undesirable (Jacoby, pp. 115–25). In response, the BLS conducted two major studies of labor mobility which resulted in the development of monthly turnover figures for the period 1910–1919. However, for some unknown reason the BLS let the series lapse.

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* Due to space limitations, some citations have been omitted. The authors will supply full citations upon request.

During the early 1920s, several universities and state agencies sporadically conducted turnover surveys. At Brown University, for example, W.A. Berridge gathered data from 45 Rhode Island companies to test labor turnover's usefulness as a macroeconomic indicator. In 1925, the Metropolitan Life Insurance Company (MLIC) hired Berridge to create a national turnover index. Berridge collected data from several hundred of the firm's group life policyholders, combined with figures obtained from other sources, to produce a national turnover series for 1920–29. MLIC compiled these data on a monthly basis and they appeared in the *Monthly Labor Review*. In July 1929, BLS took over the series from MLIC and developed a more extensive series of its own, which began in 1930.¹

Why did MLIC devote several years to this sizable project? The 1920s were the heyday of welfare capitalism, and companies like MLIC were beginning to sell employers group health, life, and accident insurance. MLIC used data from the turnover survey to formulate actuarial statistics on employee turnover by industry and sex. Also, the data allowed MLIC to provide a service to its clients who were trying to reduce their turnover costs. Policyholders were sent reports comparing their firm's turnover to the national median. Berridge thought clients could use the data "as a barometer for measuring the effectiveness of the work done by the personnel department in maintaining morale" (Berridge 1925, p. 171).

Although the data may have been useful to MLIC, they were flawed. First, MLIC used unweighted median rates, which gave undue influence to small firms in its sample. Second, the survey used peculiar occupational definitions: office employees were excluded, but managers and staff personnel were included. Third, and most important, the sample was unrepresentative. At a time when few firms bought group insurance policies or bothered to collect turnover data, the companies that did so constituted an elite group. They tended to be large, progressive, and profitable companies, with turnover rates below the "true" mean. Indeed, during 1924–1929 the companies in the MLIC sample had *lower* separation rates than a group of 17 firms studied by a contemporary economist as exemplars of progressive personnel practices. Additional evidence of unrepresentativeness is the fact that the MLIC firms more than doubled their employment levels during the 1920s, at a time when employment in the rest of manufacturing was stagnant.

¹ Unfortunately, the BLS discontinued this series in 1981.

Hourly Earnings

A second example involves another private organization, the National Industrial Conference Board (NICB), which in 1920 began to collect current and historical data on hours worked and average hourly earnings (AHE) in 25 manufacturing industries, by skill. Data were published monthly in bulletins sent to NICB members, and annually in a volume available to the public. They were published regularly during the 1930s and irregularly thereafter.

Unlike MLIC's turnover index, which filled a void left by the BLS, the AHE series compiled by the NICB to some extent duplicated BLS data. BLS had a trade union AHE series and a general (union plus nonunion) AHE series based on payroll data, both dating back to 1907. But the BLS data were deficient, notably in their coverage of the kind of companies that belonged to the NICB, i.e., unorganized, capital-intensive firms with large numbers of unskilled workers.

While BLS collected data on skilled workers (its trade union series), no separate figures were compiled on unskilled workers, in contrast to the NICB series. Also, the BLS regularly published AHE data for only a limited number of industries. Before 1923 these data were available for 12 industries, and of these only three were capital-intensive: machine shops, motor vehicles, and steel. After 1923, BLS expanded its payroll survey to 42 industries, but until 1932, AHE data on these other industries appeared intermittently, whereas the original 12 continued to be published on a biennial cycle.² Finally, data for the general AHE series were published by industry, with each industry on a different publishing cycle, thus making it difficult to perform regular analyses and cross-industry comparisons, as was possible with NICB data.

The NICB's AHE series was a response to problems inherent in the BLS data. But that in itself does not explain why the NICB bothered to remedy these problems. Part of the answer lies in industry's growing demand for statistics, both to facilitate fledgling efforts at economic planning and to guide the compensation decisions of the new personnel departments established during and after World War I. Another explanation has to do with an image problem that bedeviled the NICB initially, when some in the research community viewed the

² This still did not match the monthly availability of NICB's AHE data. However, every month the BLS did publish average monthly earnings figures based on all 42 industries in its payroll survey. Similar statistics were available from a number of state labor bureaus and the Federal Reserve Board.

organization's studies as biased in favor of the open shop movement.³ Meticulous compilation of wage data and other statistics enhanced the NICB's reputation as a producer of serious, impartial research.

Although the NICB's AHE data were in some respects superior to BLS data, they were imperfect, suffering from the same problems as the MLIC's turnover index. NICB data were collected from members, but these large firms were not a representative sample of American industry. Thus, the absolute wage levels reported by the NICB were from 9 to 13 percent higher than those compiled by BLS for 1923–1926.

The NICB and MLIC data were appropriate reference points only for these organizations' members and clients, not for general users. History suggests, therefore, that private sources often provide unrepresentative data suitable for a specialized audience.

Contemporary Supplementary Data Sources

In the past, private organizations and state government agencies did attempt to fill in gaps left by BLS. Current evidence suggests that the same tendency still exists. If there is a market for data, some organization often steps in to provide them, either for reasons of public relations or as a direct item for sale. In addition, state statistical agencies will provide information felt to be useful within their jurisdictions.

To illustrate these sources—and their pitfalls—three areas are discussed below: executive compensation, salary intention surveys, and state industrial relations data. Interested readers may consult more extensive surveys for additional references.⁴

Executive Compensation

Although the BLS provides a substantial array of data on pay, certain areas are not covered. A prime example of such an omission is executive compensation. BLS's Employment Cost Index (ECI) includes a subcategory for pay of "managers and administrators." But this classification (part of the old Census occupational code) covered 11.5 million employees in 1982 including such nonexecutive groups as bar managers and purchasing agents. In addition, the ECI does not

³ Alfred D. Flinn, a member of the National Research Council and secretary of The Engineering Foundation, said in a letter to an NICB official, "Not merely from labor organizations, but from several other sources I persistently hear questions raised as to the disinterestedness of the investigations and reports of the Board." Flinn to A. W. Berresford, 11 January 1921, Bingham Papers, Carnegie-Mellon University.

⁴ References to non-BLS sources can be found in Chaplan (1984) and Bagin and Barry (1984).

provide information on *absolute* pay levels. Absolute data are available from BLS for usual weekly earnings of “executives, managerial, and administrative” personnel using the new Census occupational code. In early 1985, 9 million workers fell in this classification—too large to represent executive pay. For example, on an annual basis, pay for this group was only about \$26,100.⁵

Interest in executive pay—with the term “executive” confined to high-ranking corporate officials—comes from two sources. Executives are public figures and—like movie stars and athletes—their salaries spark debate over whether the recipients are “worth” what they are paid. The executive pay series published by *Business Week*, which is confined to very top executives in major firms, generally caters to this interest. Also, management consultants and others who set executive pay need comparison data.

Executive compensation data for “serious” users are collected by various consulting firms. Detailed data are often available only in expensive publications or to clients. Methodological statements may not be available or may be imprecise. Table 1, for example, compares pay changes from three widely cited executive pay surveys and the BLS’s managerial subcomponent of the ECI. The series shown produce very different results owing to coverage and only one conclusion can be drawn: Poor economic conditions in the early 1980s had a marked—if temporary—impact on reported pay adjustments.

Salary Intention Surveys

Although it is possible to collect data on expectations and intentions (as the Commerce Department does with regard to plant and equipment expenditures), BLS has not collected data on *planned* pay adjustments. Such information is of potential use to pay-setters and to economic forecasters. Some management consulting firms do survey such information, filling the void left by BLS.

As an example, Table 2 summarizes data collected by Hewitt Associates on pay adjustments planned and under way for salaried employees. The Hewitt figures are compared with realized wage adjustments for white-collar workers taken from the ECI. It appears that surveyed personnel managers at first underestimated the degree of wage disinflation taking place in the early 1980s, but then stabilized

⁵ The figure in the text refers to the first quarter of 1985. The Current Population Survey, from which the figure is drawn, now uses the new Census occupation code. Hence, the current number of employees falling under the old code still used in the ECI is not available.

TABLE 1
Pay Adjustments for Executives, 1979-84:
Selected Sources

	1979	1980	1981	1982	1983	1984
<i>Business Week</i> Survey ^a	14.7%	13.7%	15.9%	5.5%	13.1%	12.7%
Wyatt Survey of Top Management ^b	10.5	12.4	11.1	9.9	4.5	6.9
Hay Associates, ^c Industrial Sector Chairman & CEO	10.2	9.8	5.1	8.7	5.2	28.1
President & COO	11.6	10.7	6.7	7.4	5.5	16.6
BLS Employment Compensation Index for Managers & Administrators ^d	7.4	7.2	8.6	6.3	5.9	5.6

^a Salary and bonus adjustment. Data appear in an early May issue of *Business Week*. Survey undertaken with Sibson and Co.

^b Salary and bonus adjustment. Refers to pay as of June of the year indicated. Formerly published by American Management Association; now published by Wyatt.

^c Salary and bonus adjustment. Published in *Wharton Annual*.

^d Adjustment in wage and salary rates.

TABLE 2
Estimated Salary Structure Adjustments, 1982-1985

Year of Adjustment	Date of Estimate	Executive Group	Other Salaried Exempt	Salaried Nonexempt	Note: White Collar Com- ponent of Employment Cost Index ^a
1982					6.4%
	Aug. 1981	9.3%	9.1%	9.0%	
	Aug. 1982	7.9	7.8	7.6	
1983					6.0
	Fall 1982	5.4	5.5	5.4	
	Fall 1983	4.9	5.0	4.7	
1984					4.4
	Fall 1983	5.2	5.2	5.1	
	Fall 1984	5.2	5.0	4.8	

Source: Hewitt Associates, *Compensation Exchange*, various issues.

^a Wage and salary rate.

their expectations in line with actual results. Thus, the Hewitt data provide insight into the shift of wage norms that developed during the economic downturn of 1980-1982.

Unfortunately, use of salary intention surveys is hindered by the

misunderstanding common among personnel managers concerning the cost of "merit" increases. Particularly among nonunion employers, there is often a confusion between the gross and net effects of merit pay awards. In a steady-state situation, a properly operated merit system (in which across-the-board adjustments are segregated from merit awards) should not raise average pay.⁶ Yet respondents to the Hewitt and other surveys seem to include gross merit awards in their estimates, thus biasing up the figures (*not* those of Table 2) by roughly 1-2 percent. These upward biased estimates are then cited, giving a misleading indication of likely wage trends.⁷ The merit problem illustrates the more general methodological weakness sometimes associated with private data suppliers.

State Sources of Industrial Relations Data

Although some state labor statistics agencies predate the BLS, they have had a much less visible role in data collection in modern times. Data available from state agencies often are derived from BLS or Census series. But in some states the agency collects industrial relations data on its own. For example, the California Department of Industrial Relations puts out self-collected data on union wage settlements and union membership by union and region.

It is unlikely, however, that state agencies will quickly fill gaps left by the reduction of BLS data collection. For example, eight states

⁶ Imagine a formal progression plan with a series of defined merit steps. As long as the proportion of employees at each step is constant, the average wage will not change. In the steady state, the number of employees retiring from the top will be offset by those entering at the bottom. Thus, although existing workers may be receiving large merit increases (depending on the gap between steps), the average wage will remain constant. Confusion over this issue is rampant since managers are often given "merit budgets" as a control device to prevent them from finding "too many" employees to be especially meritorious. These merit budgets often are based on gross cost or may include what amounts to across-the-board money designed to raise the average wage. Managers are not alone in their confusion; during the Nixon wage-price controls program, the Pay Board became snarled in merit issues. See Weber and Mitchell (1978, pp. 89-93).

⁷ Hewitt's questionnaire asks respondents to calculate a salary structure increase based on the movement of the midpoint of salary ranges and an average base salary increase. The former is essentially a rate range adjustment and should be free of any merit system "taint." The latter, defined as the increase in the average wage per employee, ought to include only the *net* cost of merit (which in the steady state should be zero). Yet it is typically 1-2 percent higher than the former, suggesting respondents are using a gross cost of merit in their calculations. (When Hewitt asked its respondents in late 1984 whether they were following the precise instructions of the questionnaire, 70 percent said "yes," suggesting that the problem is based on inadvertent misunderstanding of the impact of merit pay.) Unfortunately, it is the base salary increase (and similar estimates from other surveys) that tends to be reported. See, for example, Freedman et al. (1984, p. 9).

were reported to have issued union membership data during 1984 according to the *Statistical Reference Index*. But closer inspection reveals that all but three (California, South Carolina, and Wyoming) are still reproducing the now-discontinued BLS series from 1978 or 1980. States which collected their own membership data prior to the BLS discontinuance continue to do so; the others have not been motivated to undertake the effort.

Conclusions

To the extent that a market or a public relations value is perceived for collecting labor market data, private-sector organizations often undertake the task. However, general availability of such data for research purposes can be a problem. And problems of methodology (sampling, precise definitions, technical explanations) are less likely to concern private suppliers than BLS. Private organizations have less authority than a government agency in requesting cooperation with surveys; potential respondents may have concerns about confidentiality and the use to which data will be put; and the users themselves may be less sophisticated than statistical technicians about methodological issues. These factors suggest that private data collection—while playing a useful role in data provision—is really a complement to, rather than a substitute for, federally collected data.

State government statistical bureaus do have a level of authority not found in the private sector. But they have tended to become reliant on breakdowns from federal data sources for much of their output. And the statistical output that state agencies produce is largely applicable only within their borders. Finally, state agencies must deal with budget uncertainties similar to those facing BLS and cannot be expected substantially to fill voids in the national data collection system.

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DISCUSSION

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The papers point up the need for a consistent strategy on labor market statistics. Information has hardly ever been questioned as being a public or quasi-public good. It exudes externalities when viewed in terms of individual series such as the "Help-Wanted" advertisements from The Conference Board discussed by Freedman and Goldstein, or the "wage settlements" described by Walsh. However, the problem of externalities becomes most clear when we examine the likely effect of budget cuts upon the total supply of information concerning labor markets.

The issues are focused somewhat by Prosten as well as Mitchell and Jacoby. A functional approach to the data budgetary problem has to address the following criteria: usefulness, which has as subfeatures timeliness, consistency, and certainty. Cost is always a consideration and merges with the issue of acceptability and neutrality. The United States has been substantially free of statistics tainted by political manipulation and therefore being subject to negotiation. The government has been part of the solution rather than the problem. It is this status which may be in jeopardy.

The data sources such as BNA and The Conference Board report that privately developed and reported series are drawn from large firms. We know that staffing patterns, pay, fringe benefits, accident rates, and other variables are functionally related to firm size. If the only information we receive on turnover and compensation packages, among other things, emerge from a restricted sample frame, two forms of mischief are afoot: The statistics will become the basis of debate which can be costly. Alternatively, the partial index will be interpreted as a relevant index for the entire market, generating possibly wrong policy conclusions.

It is hard not to conclude that the private sector is less concerned with sample design, response error, and sampling error than the public sector. While one might, by applying a market test, conclude that too

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much care, at too great a cost, has been provided by the government, in general this is dismissable because of the existence of externalities and the difficulties in the quantification of benefits. Timeliness is less a problem than consistency and certainty. Private sources may respond to the market which itself may be erratic.

At this time we face promulgation of OMB Circular 130 on the production and dissemination of information, including statistics, and the passage of Gramm-Rudman, which in all likelihood will cut the production and distribution of statistical and nonquantified data. It is perilous to think about information in a limited framework. While there is evidence that some private sources can be responsible for complex market statistics (FW Dodge Reports on construction), the fundamental question is how our knowledge of labor markets, whether for research or professional purposes, will be affected. What should a research strategy for labor markets contain, given public- and private-sector inputs and both inertial and market forces? Strategic thinking should not, as a premise, accept either the historic demand for the existing data sets or the traditional supply offered. While ritual packages are comforting, they may be irrelevant. We are caught between a budgetary fog bank and the potential shoals of the free market. Perfecting a single oar may be aesthetically satisfying but not very helpful.

IV. WHITE-COLLAR LABOR MARKET CHANGES

Technology and White-Collar Employment: A Research Strategy*

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Over the past decade the plight of blue-collar workers in smokestack industries has captured the attention of both the popular press and the professional literature. On the one hand there are a series of interrelated problems: declining employment levels, dislocated workers, reduced unionization, and concession bargaining. On the other hand, a new set of human resource practices emphasizing employment security, greater participation, and commitment have emerged in younger firms (often in the high technology field) and have gradually spread into the traditional economic base. All of this has encouraged the perception of an "industrial relations system in transition."¹

Considerably less attention has been paid to the employment situation of white-collar employees; yet there are a number of reasons to believe that significant changes are afoot here, too. Consider these developments:

- New technologies are penetrating white-collar employment at a rapid rate. The diffusion of computers and innovations in communications and information management may potentially be the most far-reaching transformation of white-collar work in this century.

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¹ This is the title of a forthcoming book by Thomas Kochan, Robert McKersie, and Harry Katz.

- White-collar work has traditionally been secure relative to blue-collar employment. However, in recent years employers have demonstrated an increased willingness to pare white-collar jobs. Large and visible companies—Ford, CBS, Union Carbide, Kodak, and New York Life—have all recently announced substantial reductions of their white-collar labor force and *Business Week* recently reported that 89 of the 100 largest firms have established programs to reduce the number of management levels.²

- Alternative forms of work organization—temporary help, subcontracting, and increased involuntary part-time work—are expanding and this adds to the impression that white-collar employment is becoming less secure.³

- The union movement, faced with difficulties in its traditional occupations, is looking to white-collar jobs as important sources of future growth. Hence, clerical organizing is an active area, as is political activity around issues such as comparable worth.

This paper addresses some of these issues and takes as its vantage point the impact of new technologies upon white-collar work. There has been research and speculation concerning the impact of new technology upon white-collar work, yet no useful general framework has developed for organizing the findings. This paper attempts to take a few steps in that direction. As such, it should *not* be read as a report on research or a presentation of findings. Rather, it attempts to lay out a framework for future research in a manner that avoids some of the traps that have made previous research difficult to interpret.

The Confused Research Record

In the past decade and a half, a heated debate in the scholarly literature has been carried on concerning the impact of new technologies. Although particular writers are not always clear about what they are arguing, it seems fair to say that the debate has been about two impacts of new technologies: the effect upon skill level or job quality, and the effect upon employment levels or numbers. The terms of the skill content debate were set by Harry Braverman's influential *Labor and Monopoly Capital* in which he argued that managers use new technologies to "deskill" or remove the craft content of jobs. A number of empirical studies, for example in the field of computer programming (Kraft 1977), have supported this view.

² *Business Week*, Sept. 16, 1985, p. 34.

³ For evidence on this point, see, for example, Appelbaum (1985) and Mangum et al. (1985).

However, other research has suggested that the computer-based technology enables firms to reintegrate previously fragmented jobs by using the power of computers to give operators control over the entire range of tasks in a particular operation.⁴ Furthermore, at a more theoretical level the Braverman argument is flawed by positing a single management goal. One can safely imagine that cost reduction, via creation of a small number of skilled jobs, might dominate other possible uses of new technology.

Debates concerning displacement are less theoretically complex since (in principle) the impact can go either way. Technology can eliminate jobs by doing tasks previously done by people or can add employment either by creating new jobs (e.g., programmers) or by lowering product prices sufficiently to shift out labor demand. The particular form the impact takes is occupationally specific, and so the debate has tended to focus upon the distribution of these impacts. Has, for example, the pattern of technology been such that jobs at the top and the bottom of the skill distribution been expanded at the expense of the middle? If the "middle is missing," then this might have implications for career mobility patterns. In fact, in the aggregate the missing-middle argument does not appear to be valid (see Medoff (1984) and Lawrence (1984)), although there may be particular cases in which it is an accurate description.

It would appear from the foregoing that no generalization suggested by the recent debate is likely to withstand scrutiny. This, in turn, suggests that a more textured understanding of the impact of new technologies is necessary. To get a sense of possible impacts beyond skill levels or displacement, consider the following:

- New technologies can alter the boundaries between different kinds of work. For example, as blue-collar workers increasingly employ computer-driven machine tools, they may learn programming skills and soon find themselves doing work which previously was considered white-collar. This can be important in unionized settings in which wages and benefits depend upon whether one is considered blue- or white-collar. In Sweden, for example, sharp tensions have arisen between the blue-collar LO and the white-collar TCO union

⁴ For example, in the insurance industry information technology is used to knit together tasks which had previously been subdivided. In the past, different people were responsible for opening customer claims, assembling the proper records, and reaching an initial determination. Now, computer-based databases permit these tasks to be the job of one individual. See Osterman (1984).

federations over classifications.⁵ A different twist on the same theme is illustrated by a recent case involving technical innovations in the Bell Telephone system. A new technology permitted a redesign of a billing system for a cluster of hotels in the Rocky Mountain area. For local reasons the union was involved in working out the new work design, and the resulting system proved more productive and required fewer staff. The key savings flowed from the elimination of all first-level supervisor jobs and the transfer of their functions into bargaining-unit jobs (Communications Workers 1985, p. 210).

- New information technologies can alter the comparative advantage of business organizations in ways which imply wholesale shifts in the kind of work done within the firm. In some stimulating recent work, Gunnar Eliasson has argued that the increased capacity to manage information combined with diminishing returns to cost reduction in manufacturing means that firms will increasingly specialize in marketing and distribution. In addition, the new information technologies will reduce the need for several layers of middle management whose function was to process information for higher levels. The consequence of both of these developments will be firms whose hierarchies are flatter than before and in which the proportion of workers engaged in various activities is shifted toward marketing, distribution, and “niche finding” (Eliasson 1985).

Towards an Analytical Framework

The foregoing material makes it clear that it is not possible to speak confidently of “the” impact of technical change. This uncertainty arises for two reasons: First, there are many dimensions along which technology can have an effect. More interestingly, even along the same dimension a similar technical innovation may have different effects. In one firm, for example, the introduction of workstations throughout the office might reduce white-collar employment (all else constant), whereas elsewhere the same technology might have no discernible impact upon employment numbers. A related example, although from blue-collar employment, is that in greenfield sites new technologies reduce labor content far more than do similar innovations in already existing plants.

What this diversity of effect suggests is that the impact of technology is determined not simply by the characteristics of the

⁵ The tensions have been so sharp that the Chairman of Volvo recently floated a proposal that a plant currently under construction be entirely organized by one union encompassing blue- and white-collar employees.

innovation, but also by the nature of the setting in which it is introduced. If we want to understand variation in the impact of technology, we must examine not only the technology itself, but also how that technology interacts with the other variables that determine employment outcomes. The ambiguity of the research results to date suggests that it would be fruitful to step back momentarily from the technology and try to develop a framework within which the introduction of technology can be played out.

Our basic construct is to view the firm as a mini-industrial relations system⁶ which is organized around rules covering five topics:

1. *Job Classification and Job Definition.* Under this category fall rules that determine whether jobs are defined broadly or narrowly (i.e., include many or few tasks) and whether job definitions are rigid or loose (i.e., whether a person doing Job A does only those tasks or whether he or she will do other work).

2. *Deployment.* This refers to rules concerning how employees may be moved from job to job in the organization. For example, in some settings seniority determines bidding rights, while in other settings management retains complete discretion as to how to deploy labor.

3. *Security.* Some firms operate with explicit or implicit promises of lifetime job security; other companies make no promises beyond payment for the current day's work. In some settings layoffs are determined by (reverse) seniority and elaborate job-bumping rules, while elsewhere management is free to lay off whom it chooses.

4. *Wage Rules.* The major distinction here is whether wages are attached to jobs or to individuals. In the former case, individuals in a given job classification receive a given wage; in the latter circumstance, some combination of personal attributes and seniority determines wages regardless of what set of tasks the individual is engaged in.

5. *Decision-Making.* The degree of worker participation in the planning and introduction of new technologies is our final category of rules. The possible range here goes from codetermination requirements of some European nations to technology agreements in several U.S. labor contracts to informal consultation and participation to complete management discretion.

⁶ This term is taken from John Dunlop's well-known book, *Industrial Relations Systems* (1958). The model developed here clearly owes a considerable debt to that work. It differs in its focus on firm-level variables and on variation within firms, and in its less deterministic character.

The most important point to grasp concerning these rules is that within a given firm they fit together with a coherent logic. For example, in companies in which lifetime job security is guaranteed, there are likely to be fewer and less restrictive job classifications than in firms in which hire/fire is the rule. The logic is that rigid job classifications are a form of security or protection, and in an environment in which security is provided through other mechanisms, then this is less necessary. A similar point might be made concerning the relationship between deployment and security rules. In the same spirit, we can also see that in circumstances in which wages are attached to individuals, job classifications will be less rigid than where wages are determined largely by job assignment.

Towards a Research Strategy

Imagine that a stable employment system exists in a given firm and that the system is then faced with a substantial technological innovation. How does the perspective which we are sketching help us understand the impact and, perhaps more importantly given the earlier discussion, how can we explain why the impact of the same technology may vary in different settings?

Most technologies have their initial impact upon a subset of the rules described above. Therefore, how the introduction is played out depends upon the rules that are in effect at the point of impact. To see this, consider a technology which is largely labor-displacing (for example, large database systems aimed at replacing filing and other routine clerical work).⁷ In a situation in which high turnover rates or low levels of job security are the rule, then the innovation will most likely have an immediate and substantial impact upon overall employment levels in the affected occupations but minimal impact elsewhere in the organization. On the other hand, if the organization is heavily committed to job security even in clerical work (as some of the younger high-tech firms or a government bureaucracy might be), then the impact is likely to be quite different. In this case, in order to reduce employment levels in the relevant areas, new work will have to be found elsewhere in the organization and this, in turn, may imply new training programs, alterations in mobility patterns, and other changes in the employment system. Alternatively, in this circumstance the source of resistance to technological change might be management,

⁷ For evidence that clerical work is displaced by the introduction of large computer systems, see Osterman (1986).

particularly middle management, which is unable to devise a strategy for reconciling the conflicting pressures of technical innovation and maintaining employment security.

The nature of a system such as that described above is that it is not possible, as it were, to pick a rule from each category and establish a stable set of employment relationships. Rather, only certain configurations of rules fit together. The implication is that the initial impacts outlined above should best be viewed as first-round or short-term effects. Over time the entire system will have to adjust. For example, the introduction into part of an organization of a technology that permits management to assess individual output will likely lead to pressure to alter the wage system in the direction of pay for performance. This, in turn, will have implications for job classification since performance measures will be related to particular sets of tasks, and it will be undesirable to mix systems in combining tasks into jobs. With wages and job classifications altered to accommodate the potential of the new technology, mobility (deployment) will have to be reconsidered because it may prove difficult to move people from one wage system (say, pay-for-performance) to another.

In effect, then, the research strategy suggests that we map the employment system into which the new technology is being placed. We then match the potential characteristics of the new technology (i.e., whether it is labor-saving or not, whether it changes skill content or not, whether it has the potential for spatial redistribution of work, etc.) against the system and determine which element of the system it will most strongly affect on the first round. Observed management and labor responses to an actual or proposed technical innovation can be interpreted in light of the interaction of the character of the technology and the nature of the rules it impacts. Then, over time, the system itself can be expected to evolve. By following each of these steps we can achieve a balanced description of the impact of technology upon white-collar work as well as a deeper understanding of the process that generates those impacts.

In addition to this basic strategy, there are at least two additional complications. There are alternative modes of introducing technology (the extent of worker participation, the role played by vendors, etc.), and it would be valuable to determine what effect these different choices have. Furthermore, within any given work setting there often is, in reality, more than one employment system and firms have some

discretion as to how to organize a particular set of tasks.⁸ Technology is one of the variables that condition the costs and benefits of alternative choices and, hence, technical innovations may lead to substantial shifts in the quality of work.⁹

As noted at the beginning of this paper, the foregoing material is not intended to present specific findings and should not be read as such. Rather, the intention is to point toward a research strategy for understanding the impact of technical change upon white-collar work. The debates about deskilling, displacement, the missing middle, and so on have been carried as far as is useful. The research findings which we have in hand suggest that no generalization will hold. This means that the key research challenge is to understand the variation in effects and this, in turn, requires that we have a framework that predicts and can explain variation. This paper is an initial attempt to outline such a framework.

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⁸ For a discussion of these issues, see Osterman (1985).

⁹ A simple example is the growing use of "homework," i.e., data entry and word-processing which new communications technologies permit to be done at home by independent contractors. This represents a substantial shift in employment systems.

New Trends in Part-Time Employment

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A number of popular accounts report a shift toward part-time employment in the United States economy in recent years (Deuterman and Brown 1978, *Business Week* 1985). Since part-time employment will likely move with the business cycle (Becker and Bowers 1984), analysis that extends across more than one business cycle and that controls for cyclical factors affecting employees' and employers' decisions is needed to document a secular trend in part-time employment. Here, using longitudinal economy-wide data, we document a significant secular increase in one component of part-time employment: the percentage of employees in the workforce who are part-time but who would prefer full-time employment. The trend in the percentage of all employees who are "voluntarily" in part-time jobs, on the other hand, has decreased over time. Exploring the sources of these trends with Census data on individuals from 1973 to 1983, we find little support for the arguments that the changing industrial or occupational structure of the economy accounts for the increase in part-time workers. However, we do find that part-time employees are much less likely to receive certain fringe benefits in their compensation packages than are full-time employees. This fact may make part-time employees relatively more attractive as fringe benefits become a larger part of the compensation package.

Trend Estimates Using Aggregate Economy-Wide Data

Initial estimates of the secular trend in part-time work are obtained from equation (1) using monthly Bureau of Labor Statistics (BLS) data from January 1973 to August 1985 as reported in *Employment and Earnings*.

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$$(1) \quad \% \text{ part-time}_t = f(\text{time trend}_t, \text{unemployment rate}_t)$$

The dependent variable in equation (1) is the percentage of all United States' nonagricultural employees who work less than 35 hours per week. We also estimate secular and cyclical trends in three components of part-time employment. The first component analyzed is the percentage of all U.S. employees who are part-time for "noneconomic reasons" and who usually work part-time. These workers voluntarily hold part-time jobs and may state that they work part-time because of school or familial responsibilities. The second and third components of the part-time workforce to be analyzed are the percentage of all workers who are part-time for economic reasons but usually full-time and those who are part-time for economic reasons and usually part-time. The former category are those workers whose employers are experiencing slack work, material shortage, machine repairs, and the like; the latter are employees whose regular schedules are less than 35 hours per week but who would prefer a full-time job.

The independent variables are the monthly nonagricultural unemployment rate and a monthly time trend that equals one for January 1973 and increases to a value of 153 for September 1985. In addition, since the data are not seasonally adjusted, a set of 11 dummy variables that describe the calendar month of the observation is included.¹

Equation (1) is estimated by least squares regression with a correction for first-order serial correlation. The coefficients from these equations are presented in Table 1. Both components of the part-time workforce that are part-time for economic reasons (columns 3 and 4) have a significant positive relation to the unemployment rate. This result points to an important cyclical component where percent part-time increases in recessions and decreases in recoveries. Coefficients on the time trend variable document a significant upward trend in the percentage of part-time workers in the labor force over the 12-year period. Examination of the time trend coefficients for the different components of the part-time workforce reveal that this increase comes from one very specific source—those workers who are part-time for economic reasons and who are usually part-time because they cannot find a full-time job (column 4). This is the only component of the part-time workforce that has been increasing over the 1973 to 1985 period. The increase in these workers has been offset somewhat by a decrease

¹ Seasonally adjusted data are not used in this analysis because the X11 adjustment process used to seasonally adjust BLS data is not perfectly compatible with time series regression analysis.

TABLE 1
 Secular Trend in Part-Time Work
 Determined Using Monthly Data^a (N = 153 Months)

Dependent Variable	% Part-Time (1)	% Part-Time for Non-economic Reasons (2)	% Part-Time for Economic Reasons	
			Usually Full-Time (3)	Usually Part-Time (4)
Mean of dependent variable	.182	.135	.018	.029
Time trend	$0.6 \times 10^{-4} \text{**}$ (0.2×10^{-4})	$-0.5 \times 10^{-4} \text{*}$ (0.3×10^{-4})	-0.1×10^{-4} (0.1×10^{-4})	$1.4 \times 10^{-4} \text{**}$ (0.2×10^{-4})
Unemployment rate	0.0051** (0.0007)	0.0002 (0.0008)	0.0020** (0.0003)	0.0019** (0.0004)

^a Data taken from Bureau of Labor Statistics, *Employment and Earnings*.

* Significant at the .10 level using a two-tailed test.

** Significant at the .01 level using a two-tailed test.

in the percentage of workers who are part-time for noneconomic reasons.² On balance, though, the total part-time labor force has been increasing.

Trend Estimated Using Micro, Current Population Survey Data, 1973-1983

While the monthly economy-level data indicate a positive trend in the percentage of part-time employees who would prefer, but cannot find, full-time jobs, the cause of the secular trend in this component of part-time employment is not identified. Therefore, micro data on individual workers reported in May *Current Population Surveys* (CPS) for 1973, 1975, 1977, 1979, 1981, and 1983³ are analyzed to gain further insights. These data allow definitions of part-time status of workers that correspond to the BLS definitions used above. They have an added advantage for determining forces behind the increase in part-time work. Specifically these data identify workers' human capital characteristics, industry and occupation locus, regional location, and

² This trend is a reversal of a trend observed between 1954 and 1972 when the percent of voluntary part-time workers was increasing (Deuterman and Brown 1978).

³ CPS data from every other year are used to avoid resampling of a significant percentage of individuals in consecutive years.

demographic characteristics. The probability that a worker is part-time is estimated by ordinary least squares⁴ for the sample of all workers and for a white-collar subsample. Independent variables in these part-time probability equations include: the worker's education, experience, occupation, industry, race, union status, sex and marital status, and the unemployment rate in the worker's region-industry cell.⁵ Finally, to estimate a time pattern in part-time employment in these data, a set of five year dummy variables is added to these probability equations.

While the time pattern of part-time employment in the 1973-1983 CPS data is judged from this relatively small set of year dummies, the coefficients on the year dummies (see Table 2) exhibit a pattern similar to that in Table 1. In the all-worker sample, the probability of being part-time for economic reasons has increased between 1973 and 1983 with the largest and most significant increases coming between 1973 and 1975 and between 1981 and 1983. The downward trend in the probability of being part-time for noneconomic reasons is also documented, with the largest decrease between 1981 and 1983. In the white-collar sector one observes a pattern similar to the one in the all-worker sample for part-time workers for economic reasons. The lowest probability is associated with 1973 and the highest probability with 1983. However, there has been no significant decline in the number of part-time workers for noneconomic reasons in the white-collar sector since 1975.

Because the changes over time in the voluntary and involuntary part-time labor forces are in opposite directions, there is no clear trend in overall part-time employment as judged by the coefficients on the six-year dummies. In column (1) of Table 2, the probability of being a part-time worker is lowest in 1973 and peaks in 1975 and 1983. Since six time periods of data are not sufficient to document a secular trend, these year dummies should be interpreted in the context of the analysis in Table 1 using 153 months of economy-level data. In fact, when year dummies replace the monthly time trend in the Table 1 analysis of the BLS data, 1973 is associated with the lowest percentage of overall part-time employment. Moreover, this analysis also shows that the peak of part-time employment, associated with 1983 in the CPS analysis, extends into 1984 and 1985.

⁴ While binomial logit or probit equations are preferable to OLS equations, the size of the sample (355,000 workers) prohibited the use of these techniques.

⁵ The unemployment rates were calculated directly from the May CPS surveys.

TABLE 2
Trend in Part-Time Work Using Yearly CPS Data,
1973-1983^a

Year Dummy Variable	Dependent Variable		
	Part-Time	Part-Time Economic Reasons	Part-Time Noneconomic Reasons
<i>All Workers</i>			
1975	0.0115 ^{°°} (0.0026)	0.0161 ^{°°} (0.0013)	-0.0045 [°] (0.0024)
1977	0.0036 (0.0024)	0.0111 ^{°°} (0.0013)	-0.0075 ^{°°} (0.0023)
1979	0.0004 (0.0024)	0.0094 ^{°°} (0.0013)	-0.0090 ^{°°} (0.0023)
1981	0.0028 (0.0036)	0.0116 ^{°°} (0.0018)	-0.0087 ^{°°} (0.0033)
1983	0.0105 ^{°°} (0.0040)	0.0279 ^{°°} (0.0021)	-0.0174 ^{°°} (0.0038)
<i>White-Collar Workers</i>			
1975	0.0024 (0.0034)	0.0084 ^{°°} (0.0014)	-0.0060 [°] (0.0033)
1977	0.0015 (0.0032)	0.0089 ^{°°} (0.0013)	-0.0075 ^{°°} (0.0031)
1979	0.0003 (0.0032)	0.0074 ^{°°} (0.0013)	-0.0071 ^{°°} (0.0031)
1981	0.0028 (0.0048)	0.0086 ^{°°} (0.0019)	-0.0058 (0.0045)
1983	0.0152 ^{°°} (0.0054)	0.0228 ^{°°} (0.0022)	-0.0076 (0.0052)

^a Independent variables included in the OLS equations are the unemployment rate of each worker's industry-region cell, the individual's education and experience, and dummy variables representing industry, occupation, region, union status, race, and sex by marital status classifications.

[°] Significant at the .10 level using a two-tailed test.

^{°°} Significant at the .01 level using a two-tailed test.

What makes the similarity in patterns between results in the two tables especially interesting is the large number of controls included in the equations using CPS data. Leading hypotheses concerning the causes behind the increase in the part-time labor force are the growth in the service sector, a large employer of part-time workers, and the increasing labor force participation of women who historically have had high probabilities of being part-time workers (Leon and

Bednarzik 1978). While coefficients in equations run on the all-worker sample do in fact indicate that both female employees and service employees are more likely to be part-time employees than are their male or nonservice-sector counterparts, the pattern in the year dummies in columns 2 and 3 of Table 2 remains after controlling for an extensive set of worker characteristics. Because the increase in the part-time workforce seems to be driven by an increase in the proportion of part-time workers who would rather be full-time, there appears to be some other motivation leading employers to restructure their workforces toward more part-time workers.

Differences in Fringe Benefits: A Potential Cause of the Part-Time Trend

One promising avenue of inquiry involves the differential probabilities of having important fringe benefits for part-time and full-time workers. Over the last 15 years the value of fringe benefits has become an increasing proportion of the total compensation package. The value of voluntarily contributed fringe benefits has increased from 25.8 percent of the employment package in 1969 to 33.3 percent of the package in 1980 (Heneman et al. 1983). Because of this trend, employers find that part-time workers, who are likely to receive fewer fringe benefits, offer increasing cost savings.

Table 3 presents differences between part-time and full-time workers in the probability of having selected fringe benefits. Binomial logit equations estimated the probability of having selected fringe benefits as a function of human capital characteristics, union status, size of the firm, occupation, demographic characteristics, and part-time status. Two data sets were used: the *Quality of Employment Survey, 1977* (QES), and a worker survey of job characteristics conducted by the Harvard Sociology Department in 1979 (SJC). The fringe benefits used as dependent variables are health insurance covering off-the-job illness and injury, employer-provided pension plans, paid sick leave, and paid vacation. According to both surveys, and in all-worker and white-collar samples, the probability of having each fringe benefit is significantly lower for part-time workers. Columns (2) and (4) reveal that being a part-time worker decreases the probability of having these important fringe benefits by anywhere between 11 and 36 percentage points depending upon the sample and the particular fringe benefit. These striking differences in probabilities may be signalling large cost savings associated with part-time workers

TABLE 3
The Effects of Part-Time Status on the Probabilities
of Having Selected Fringe Benefits^a

Dependent Variable	QES		SJC	
	Part-Time Coefficient ^b (1)	Change in Probability (2)	Part-Time Coefficient (3)	Change in Probability (4)
<i>All Workers</i>				
1. Sick leave	-0.486° (0.203)	-0.112	-1.474° (0.337)	-0.332
2. Paid vacation	-1.339° (0.209)	-0.195	-1.957° (0.357)	-0.214
3. Pension	-1.197° (0.230)	-0.258	-1.062° (0.325)	-0.255
4. Health insurance	-1.593° (0.227)	-0.263	-1.685° (0.338)	-0.276
<i>White-Collar Workers</i>				
5. Sick leave	-0.967° (0.313)	-0.164	-2.361° (0.470)	-0.361
6. Paid vacation	-1.504° (0.311)	-0.225	-2.656° (0.544)	-0.238
7. Pension	-1.250° (0.324)	-0.233	-1.029° (0.414)	-0.244
8. Health insurance	-1.338° (0.308)	-0.194	-2.368° (0.481)	-0.316

^a SJC and QES logit equations include the following independent variables: education, tenure, experience, size of firm, occupation, union status, and demographic characteristics.

^b Standard errors are included in parentheses below each coefficient.

[°] Significant at the .01 level using a two-tailed test.

that will play a larger role in employers' decisions as fringe benefit costs escalate.⁶

⁶ The reduction in voluntary part-timers and the increase in involuntary part-timers might signal a cutback in the supply of part-time workers at the same time as an increase in demand for these workers. In a competitive labor market such changes would result in an increase in the relative wage for part-time workers. Wage equations performed on the CPS data revealed, however, that the part-time differential remained relatively constant at -.12 over the 10-year time period. This analysis may be faulty in that the connection between the supply of part-time workers and workers on part-time for noneconomic reasons and the one between the demand for part-time workers and workers involuntarily on part-time schedules may not be very precise.

Conclusion

This paper documents that from 1973 to 1985 there has been an increase in the part-time labor force. Because this growth is driven by the growth in part-time workers who would prefer full-time jobs, this trend seems to be employer rather than employee motivated. Popular hypotheses concerning the forces behind this growth do not stand up under statistical testing. Therefore, new research into the restructuring of the workforce with special attention given to the increasing cost advantages of part-time workers is needed. In addition, a more complete longitudinal analysis of the relative wage differential between part-time and full-time workers might help to identify supply and demand forces behind the trend.

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DISCUSSION

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Each paper deserves to be commended for alerting the profession to significant developments in the field of white-collar employment. Clearly, the employment relationship is changing in a variety of ways. That said, it is appropriate to reinforce certain points and reinterpret others.

The paper on part-time employment correctly paints a picture of significant overall growth in the share of part-timers in total employment: according to *Employment and Earnings* data, there was an increase of approximately two percentage points between 1973 and 1984, representing an absolute rise of 6 million workers. The primary role of involuntary part-time work by individuals who were usually part-time indicated in the paper is underlined by further disaggregation of the data: workers unable to find a full-time job (as distinct from those affected by slack work) initially accounted for one-tenth of part-time employment in 1973 but contributed one-third of the overall absolute growth over the period.

While concurring with the analysis of trends since 1973, it is important, given the title of the paper, to clarify what is new about the trends compared with preceding years. Three characteristics stand out. First, the growth in the part-time share was in fact *slower* than between 1966 and 1971 when the share increased from 17 to 21 percent. Second, the data suggest a more robust, lasting, trend component in the growth of the late 1960s, whereas much of the later growth, such as in the early 1980s, appeared to be more transient. Third, the recent trend toward involuntary part-time work contrasts with the mainly voluntary nature of the late 1960s growth.

As the paper argues, demand-side factors appear likely culprits in recent growth, given the salience of involuntary part-time work in the expansion. Surveys support the contention that fringe benefits may have been instrumental factors: for example, in a 1977 survey 57

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percent of users reported that fringe benefit costs were saved when employing part-timers, while only 19 percent said costs were higher (Nollen and Martin 1978). Nevertheless, the same survey also showed that other demand-side factors favored the employment of part-timers: overtime and straight wage costs were reduced, and productivity was higher, for a large majority of users, although it should be said that the relative fixed costs of employment were more unclear. These factors warrant further investigation to discover whether the relative cost position has moved in favor of part-time employees.

Furthermore, the generally slower growth of the 1970s, and the specific growth spurts of the mid-1970s and early 1980s must be explained. The key may lie in the supply side: the stabilization of the share of voluntary part-timers in total employment since the late 1960s may have curbed the growth of part-time employment somewhat. Although the part-time–full-time wage differential may not have changed, other supply conditions may well have induced a slower increase in voluntary part-time work and greater desires for full-time work. For instance, other household income, particularly from the spouse, has been reduced by higher unemployment and devalued by inflation in many cases. Tastes may also have changed as the baby boom generation moved into older age-groups where full-time work was more likely than part-time work.

The timing of the most significant trend increases in the part-time share may well be due to unusually marked responses by employers and unions to recessions in the mid-1970s and the early 1980s, and to the increased competition in domestic and international markets since deregulation and the growth of new sources of supply. Essentially, the economic conditions may have forced employers to stop ignoring supply and demand considerations and to attempt to minimize costs. At the same time, unions may have been prepared to make concessions in the form of lower relative compensation levels for part-timers, and also to acquiesce in the employment of a greater proportion of part-time workers. Certainly, the increasingly hostile environment appears to have played a role in the growth of temporary employment (Way 1985).

The paper focusing on technology and white-collar employment validly points out that the conclusions regarding the impact of new technology on employment and skills often fail to agree, and it persuasively advocates a more sensitive appreciation of the qualitative types of effects. To add to this, the relationship between technological

change and its sundry effects would be better understood if the black box of technical change were opened. Clearly, different types of new technology have different effects. Early vintage computers may have increased employment where paperwork was entered into computers by a new class of data processors, but, later, decentralized terminals may have removed the need for them. The so-called "electronic cottage industry," where jobs are carried out at home on terminals has even more different employment implications.

However, the foregoing should not detract from the need to assess, first, the extent of diffusion of new technology, and second, its impact in quantitative terms, not least because of the implications for macroeconomic, employment, and training policies. There is still great disagreement between those that see a widespread revolution in work and those who see technical change limited by finance shortages and massive investment requirements (Levitan and Johnson 1982). Likewise, there is a divergence of opinion concerning the employment effects, with unions typically noting widespread displacement and employers perceiving expanded activity and job opportunities, unemployment being blamed on the general economic climate (International Labor Office 1981). Part of the problem is the reliance on case study evidence. Where studies have had a broader focus, they have generally merely noted shifts in employment, the causes of which are moot, or they have cited the numbers of jobs affected, rather than displaced or deskilled, by new technology.

On the subject of the analysis of the causes of the impact of new technology, the paper suggests working within an industrial relations system approach, particularly emphasizing the role of existing and new industrial relations rules generated by labor and management. This certainly seems a fruitful avenue. For example, the *New York Times* strike of 1978 led to an agreement that new technology should be eased in through attrition and reduced overtime, while film and TV writers, in the face of cable TV and VCRs facilitating repeats, have simply opted for a share of the revenue that producers receive, with no employment safeguards.

In accordance with this model, it would seem to be worth explicitly taking into account the roles of the economic, political, and legal environments in shaping the rules and hence the impact of technology. In a booming sector of the economy, displacement may be of less concern as alternative opportunities would be available, but elsewhere preferences may be more biased towards retraining and redeployment. Also, the availability of government retraining programs may

affect responses, as may the peculiarities of the operation of state unemployment insurance systems, such as the magnitude and speed of adjustment of the experience rating.

Both these papers demonstrate the rich prospects for future research in the area of white-collar employment. As well as following up on particular developments, it would be worth analyzing broad strategic choices by management, investigating the mix of policies pursued, such as the balance between part-time employment, temporary employment, and subcontracting. A complete comprehension of trends in one area can only be obtained within the context of a general framework.

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V. CONTRIBUTED PAPERS: ORGANIZATIONAL BEHAVIOR AND PERSONNEL

Two-Tier Wage Structures and Attitude Differences

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Two-tier wage structures, setting the top rate of pay of employees who have not yet been hired a substantial amount below the current top rate, are becoming a common way of handling union concessions. Employers seem to favor them, while unions and employees have varied reactions, ranging from acceptance to striking to avoid them. There has been little literature in this area except impressionistic reports and news articles. Yet, the theoretical and empirical literature on equity (cf. Adams 1963) helps predict and explain the impact of such structures on employee attitudes and behavior.

This paper reports an exploratory empirical study to determine if there are systematic differences in four attitudinal variables (pay equity, union pay instrumentality, and commitment to union and to employer) between employees hired on an older high-wage tier and those hired on a newer low-wage tier. It uses data collected in October 1983 from employees on both tiers and at work locations opened both before and after the low tier went into effect to test several working hypotheses. We do not hypothesize that wage tier and work location cause differences in employee attitudes in a direct cause-effect link. We do hypothesize that wage tier and work location influence employee attitudes differently and should be considered as variables

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potentially shaping job attitudes and employee support for union and/or management.

Development of Working Hypotheses

Wage Tier

To apply equity theory to two-tier wage structures, one must understand the concept of “referents,” that is, the standards which individuals may use to determine whether they perceive their pay as equitable (Goodman 1974). An internal referent of persons within the same organization appears important to examine in the study of a two-tier structure. An external referent of persons similarly employed in other organizations is also useful. Low-tier workers should believe their pay is less equitable than high-tier employees. Further, if employees in the same job classification but on different tiers use the same external referent, those on the low-tier would likely perceive equity. Union instrumentality in obtaining fair pay would be expected to have a similar relationship to tier because the referents would not change.

There are conflicting suggestions from the news media concerning the potential impact of such structures on the union as an institution and on the employer. Critics of two-tier wage structures say they may be a sellout of future generations, a challenge to union brotherhood, and a divisive force by creating distinct employee classes. Thus, the statements of these critics appear to follow equity theory predictions which suggest that low-tier employees would have less union commitment than high-tier ones. Further, the news media reported that low-tier employees were bitter, which negatively affected their productivity. This parallels findings from equity studies and suggests that low-tier employees have less employer commitment than high-tier ones. Alternatively, the fact that other employees have voted down such plans, sometimes in opposition to the union hierarchy, suggests that a two-tier structure may be related to a lowering of union and employer commitment for the high-wage tier, at least at the time the low tier is implemented. Current employees (and unions) may fear that accepting a low tier leads to a lowering of high-tier rates in future negotiations. Under these circumstances, they would have lower commitment than they would have had otherwise.

The literature on concessions offers further suggestions in relation to commitment. A primary reason unions make concessions is to avoid layoffs/shutdowns and/or increase employment. Where the economy is poor (few job possibilities) and the primary employer cost-saving

results from turnover and the replacement of higher paid employees with lower paid ones, it is likely that low-tier employees would have higher commitment than high-tier ones because they might not have been hired elsewhere.

Work Location and Tier

New work locations, created after the implementation of the low tier, would not have many high-tier employees, compared to old locations. All employees in such new locations would likely have a lower internal referent and would perceive more pay equity. Further, because of the lower internal referent, employees in new work locations would be more likely to believe that the union had obtained them fair pay than those working in old locations.

While differences in the internal referent might affect commitment, where low-tier employees see the direct employment effects of negotiating the concession of a two-tier structure, as in the establishment of new work locations to compete in new geographic areas, they would likely have higher union and employer commitment than low-tier employees in old locations. Thus the application of equity theory to commitment in new work locations generates predictions parallel to those from bargaining theory concerning concessions. High-tier employees in new work locations, compared to those in old locations, would likely have a lower internal referent. That, along with the fact that they likely perceive increased employment security, would lead them to be more committed to the union and employer. Thus we predict that, within each tier, employees in new work locations have higher union and employer commitment.

Setting and Subjects

The union studied had been recognized by the employer, a large retailer, over 30 years ago, and remained independent of the AFL-CIO until the summer of 1978, when, in a divisive campaign, the membership voted to affiliate with a large international union. Later that same year, the two-tier wage structure was instituted. For various reasons, many members who had supported the affiliation became negative toward the union. In this situation, the weak historical political support for the union among the high-seniority and thus high-tier employees suggests that they would have lower union commitment than those in the low tier. However, no prediction is made for employer commitment. In November 1978, a low-wage tier was established for all employees hired after that date, except for skilled-trade positions.

Three two-level factors which characterized the setting were employed in the research design. The factor *Tier* consisted of: (a) high-wage-tier employees (hired before November 5, 1978); and (b) low-wage-tier employees (hired after that date and before April 1, 1983, when a third tier, reducing the benefits of all new hires, went into effect). The factor *Store* was composed of: (a) employees at new store locations (opened after November 5, 1978); and (b) employees at old store locations (opened before that date). Although not a factor of primary interest, we controlled for differences in the other factors due to part- or full-time employment status with the third factor, *Time*. It consisted of: (a) part-time employees (regularly working less than 32 hours per week); and (b) full-time employees (regularly working 32 or more hours per week). Because significantly more old store (95%) and full-time (45%) employees were in the high than in the low tier (66% and 18%, respectively), the three factors are correlated and therefore not completely independent.

Method

In October 1983 a questionnaire was mailed to all 10,000 members in the union's largest bargaining unit; 2,966 were returned. After excluding all 371 skilled-trade respondents and those 146 third-tier respondents hired after April 1, 1983, and dropping 263 cases with missing data, 2,186 questionnaires remained for data analysis. The sample then was 30 percent of the remaining population. To assess its representativeness, we compared the characteristics of the sample with the population. While there were some differences in a statistical sense, their practical significance was minimal.

The Pay Equity scale consisted of three items, an internal equity item, an external equity item, and a general pay satisfaction item. Union Pay Instrumentality was measured by the following single item: "Local [X] has helped us obtain fair pay." The Union Commitment scale was composed of three items from the Gordon, Philpot, Burt, Thompson, and Spiller (1980) study that loaded highly on their first factor. The Employer Commitment scale consisted of three items parallel to those of the Union Commitment scale, adapted from Porter, Crampon, and Smith (1974). The reliability coefficient for each scale was above .70.

Results

To determine whether employees differed by Tier, the main effects in Table 1 for Tier were examined. They show, as predicted,

that low-tier employees had higher Union Commitment (3.89 vs. 3.68), lower Union Pay Instrumentality (4.81 vs. 5.30), and lower Pay Equity (-.28 vs. .23) than high-tier employees. There was no significant Tier effect for Employer Commitment. To determine whether employees in new stores differed from those in old stores within each tier, four-group univariate ANOVAs followed by multiple range tests were applied to the Table 1 groups. There were no significant differences between new and old store employees for any dependent variable on the high tier. As predicted, new store employees on the low tier were significantly higher on each measure except Employer Commitment. However, the significant Store effect for Employer Commitment meant that new store employees had higher Employer Commitment than those in old stores (4.83 vs. 4.60), thus supporting the working hypothesis.

TABLE 1
Attitude Means and Standard Deviations^a
by Store and Tier and ANOVA Results

Group	n	Dependent Variable			
		Union Commitment ^b	Employer Commitment ^b	Union Pay Instrumentality ^b	Pay Equity
High Tier					
New Store	63	3.87 (1.41)	4.77 (1.66)	5.13 (1.60)	.20 (.71)
Old Store	1242	3.67 (1.35)	4.61 (1.54)	5.31 (1.48)	.23 (.71)
Low Tier					
New Store	296	4.19 (1.14)	4.84 (1.40)	5.16 (1.49)	-.11 (.84)
Old Store	585	3.74 (1.33)	4.57 (1.48)	4.63 (1.72)	-.36 (.81)
	2186				
<i>Effect</i>			<i>Univariate - F_(1,2178)</i>		
Time		7.26**	26.93***	.02	5.33*
Store		35.26***	6.56**	.38	5.72**
Tier		6.19*	3.31	73.92***	304.35***
Time by Store		2.51	.99	2.49	3.80
Time by Tier		2.33	9.91**	6.91**	3.83*
Store by Tier		2.08	.13	11.32***	4.58*
Time by Store by Tier		.52	.91	8.29**	.35

*p ≤ .05 **p ≤ .01 ***p ≤ .001

^a Standard deviations are in parentheses.

^b These attitude scales are formed from 7-point Likert-type scales. Higher values are more favorable.

Discussion

The attitudes we assessed have been found to be determined in large part by what employees find at work and not only by what they bring with them to their positions (Adams, Laker, and Hulin 1977). Even with some self-selection of employees occurring, it is unlikely that alone caused the differences in attitudes we measured at a later time. Therefore, we argue that much of differences in the dependent measures were likely caused by an employee's position in a particular wage tier or location, which then was likely affected by his/her referent.

Other studies have found that employee attitudes are related to objective labor relations conditions and/or employee behavior. For example, Allen and Keaveny (1985) found that employees in a seemingly inequitable pay situation possessed attitudes (e.g., low job satisfaction) and displayed behaviors (taking more sick days and putting less effort into the job) which were likely to cost the employer more than those who appeared more equitably paid. Martin and Peterson (1982) found that bargaining units where there was less union commitment had both a significantly higher number of visits and meetings called by the union representatives. Thus membership attitudes were inversely related to more union servicing expenses. Angle and Perry (1984) found that employee attitudes in 20 bus operators' bargaining units were related to subsequent decertification. In their study, union instrumentality and pay and job satisfaction were significantly less favorable in the decertified units than in the stable ones.

Implications

The unique characteristics of the situation studied provided an opportunity to examine a number of factors in relation to a two-tier wage structure. It is recognized, however, that every two-tier wage structure situation may have unique elements so that these findings may not be generalizable to other situations. The exploratory results, along with equity theory and the findings of the above studies, still offer some tentative implications for both unions and managements. First, they suggest that there are a number of factors to be considered before advocating or rejecting a two-tier approach. These include the opening of new work locations and the general expansion of employment possibilities. Second, they suggest that there appear to be two major risks involved in negotiating a two-tier wage structure:

economic and political. For unions, the major cost may be political. In the situation studied, it is unlikely that a decertification drive could succeed because of the large size of the bargaining unit and its geographical dispersion. However, other political costs to the union could be incurred, such as electing stewards and union executive board members who might not agree with the union leadership from those locations where the union is weak. Less likely, but still possible, is the chance of replacing the union leadership. While these union costs could have a potential impact on the employer, a political risk to the union more likely to affect the employer would be if the membership votes down a newly negotiated collective bargaining agreement. In such a situation, there would be obvious costs for the employer.

There could also be economic costs for the union in terms of servicing locations where member commitment is low. However, most of the economic costs would appear to be borne by the employer because employees on the low tier or in other positions where they perceive their pay to be inequitable and/or where they have lower employer commitment, are likely to be less productive.

Overall, the results of this study suggest that if a union is forced to negotiate a two-tier wage structure, it may be politically safer to do so if new work locations or operations are instituted after a low tier is placed in effect. This suggests that the union could try a two-pronged strategy to increase its commitment and political support in such a situation. On the one hand, it could stress the wages it had obtained for the high-tier employees while arguing that negotiation of the low tier had increased job security for the high-tier employees and opened up jobs in the low tier that would be less likely to exist if the two-tier structure had not been negotiated. Obviously, similar arguments could be made by the employer.

However, our findings have other implications for employers. There appear to be risks to management when there is a low tier, risks that are lessened, however, by the opening of new work locations. The results concerning pay equity, when applying equity theory and the findings of Allen and Keaveny (1985), strongly suggest that employee attempts to balance inputs (effort, absenteeism, tardiness, etc.) with outcomes (pay, commitment, etc.) will lead to less productive work by low-tier employees in general, and specifically low-tier employees in old work locations.

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Job Satisfaction and Desire to Quit: Differences in the Determinants of Two Responses*

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Job satisfaction and desire to quit one's current job are two of the most common responses that employees exhibit in employment situations (Rosse and Miller, 1984). Employees may express their psychological well-being on the job in the form of job satisfaction or in the form of desire to leave their current job. Researchers have often considered desire to quit as part of job (dis)satisfaction (e.g., Hackman and Lawler, 1971). Only recently has desire to quit become recognized as a concept distinct from job satisfaction (Mobley, 1977). The purpose of the present study is to examine differences in the determinants of these two psychological responses. An integrated framework will be proposed at the end.

Job Satisfaction

Job satisfaction has been the subject of extensive research (see Locke, 1976, for a review of the literature). The simplest but most supported model of job satisfaction is the situational approach (e.g., Kalleberg and Griffin, 1978; Mannheim, 1983). This approach argues that differences in job satisfaction are situationally and structurally induced. Differential levels of job satisfaction are due to workers' reactions to differences in the situations in which they work. One of the most important factors which comprise employees' work situations is the type of job they have. A great part of the structural and

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situational differences is summarized in job type, two of the most important factors being work technology and hierarchical position in the organization (Weaver, 1974). Therefore, the first and baseline model of the present research predicts:

Hypothesis 1: Differences in levels of job satisfaction are determined by job type when demographic variables are controlled.

Despite its intuitive appeal, the psychological process through which different job types lead to higher or lower job satisfaction is left unexplained in this model. Locke's (1976) value-percept model addresses this question. According to Locke, job satisfaction is determined jointly by perceived job rewards and the work values of individuals. The perceived job rewards refer to outcomes and rewards that the job brings to the individual. On the other hand, an individual's work values represent "what a person consciously or subconsciously desires, wants or seeks to attain" (Locke, 1976, p. 1304). In Locke's model, these two components are hypothesized to affect job satisfaction *interactively*.

Two of the most important job rewards that workers receive in employment situations are intrinsic and extrinsic rewards (Kalleberg, 1977; Kalleberg and Griffin, 1978). Intrinsic job rewards are those associated with the content of the task. These rewards are administered by the individual through performance and accomplishment of a task. Extrinsic job rewards, on the other hand, are mediated by an agent other than the individual (e.g., the organization) contingent on performance or accomplishment of a task. This includes rewards such as pay and promotion.

On the basis of the Locke model, it is hypothesized here that the observed differences in the levels of job satisfaction among job types are actually due to differences in levels of perceived intrinsic and extrinsic rewards. Put differently, job type affects job satisfaction only indirectly through the differences in perceived job rewards. Thus,

Hypothesis 2: When perceived intrinsic and extrinsic job rewards are entered into the model, the significant effects of job types will disappear, and these two variables will appear significant.

From the value component of the Locke model, it is predicted that workers' values interact with perceived job rewards to affect job

satisfaction. Among the various concepts and measures of worker values, the central life interest concept has often been proven to be related to job satisfaction (Dubin and Champoux, 1977). In employment situations, the concept can be used to determine whether an employee's life interests lie in the work area or in the nonwork area. For the present study, the central life interest concept was constructed to represent the degree of centrality of nonwork interests in each worker's life.

Two interactions of central life interest and perceived job rewards can be hypothesized, involving intrinsic job rewards and extrinsic job rewards, respectively. For the intrinsic job rewards, it can be predicted that the higher the noncentrality of work in each employee's life, the less responsive the individual is in deriving satisfaction from perceived intrinsic job rewards. Thus, the sign of this interaction effect will be negative. On the other hand, the sign of the interaction between central life interest and perceived extrinsic job rewards is predicted to be positive. This is based on the argument that workers can use extrinsic job rewards in order to obtain nonwork outcomes outside their work. Thus, it can be predicted that the higher the noncentrality of work interests, the more responsive an individual becomes in deriving satisfaction from perceived extrinsic job rewards.

Hypothesis 3: Central life interest, as conceptualized in this study, will show a negative interaction effect with perceived intrinsic job rewards and a positive interaction effect with perceived extrinsic job rewards.

Desire to Quit

The literature on employee turnover seems to suggest a different specification for determinants of an individual's desire to quit his/her current job (Bluedorn, 1982; Mobley, 1977; Price and Mueller, 1981). This specification argues that desire to quit is an employee response that involves a cognitive process different from that involved in the formation of job satisfaction. Specifically, it is posited that workers formulate their desire to quit based on their perception of both job rewards and the possibility of finding an alternative job.

As labor economists have long argued, an individual's possibility of finding an alternative job is heavily influenced by labor market conditions (Kerr, 1954; Piore, 1975). Based on an individual's demographic characteristics (e.g., sex, age, education, marital status, work experience), a worker has access to different labor markets

which provide differential opportunities for alternative jobs. In other words, separate labor markets with different levels of difficulty in finding an alternative job exist for workers depending on their demographic and personal characteristics. Therefore, if each individual perceives correctly the labor market conditions he/she is in, demographic variables such as sex, age, marital status, and work experience may significantly affect this individual's desire to quit his/her current job.

Empirical literature on employee intention to leave the current job and on actual turnover behavior seems to support this view (Arnold and Feldman, 1982; Price and Mueller, 1981; Shikiar and Freudenberg, 1982). None of these studies directly assessed the demographic segmentation of labor markets in terms of alternative employment opportunities. However, the general pattern of the findings from these studies suggests that an employee's intention to leave his/her job is affected by both perception of job rewards and perceived possibility of finding an alternative job.

Hypothesis 4: Desire to quit is affected by both extrinsic and intrinsic job rewards and demographic and personal characteristics of individual workers.

Method

Data

Data for this study were collected in a large study of a Japanese union federation of chemical- and energy-industry workers. A survey was administered to a random sample of 6000 members. Questionnaires were distributed in local union meetings and were returned by mail directly to the researchers.

The average age of the respondents was 34, and 90 percent of them were male. Sixty-two percent of the respondents had been with their companies for at least ten years. Seventy percent were currently married, and 35 percent had at least some formal education beyond high school. The respondents were distributed over five job types: manual production operation (43.5%), research and development (17.5%), clerical (17.4%), sales (13.4%), and data processing and computer operation (7.8%). After the respondents with missing values on the relevant variables were removed, the final sample size was 4429.

Measures

Job satisfaction was measured on a three-point scale which ranged

from satisfied (3) to unsatisfied (1), with the midpoint being neutral (2). The mean response was 2.124 with a standard deviation of .7543. Desire to quit was measured on a binary scale which asked the employee's intention to leave his current job. Yes was coded zero; no was coded one. Fifteen percent responded affirmatively to this question.

Perceived intrinsic and extrinsic job rewards were measured by the scales derived from a large battery of perceived job-reward questions by means of a principal component analysis with a varimax rotation ($\alpha = .842$ for extrinsic rewards and $\alpha = .777$ for intrinsic rewards). The questions for central life interest were also derived from a large set of job attitude questions by means of a principal component analysis ($\alpha = .642$). From the five job types, four dummy-coded variables were constructed with the manual operation job being the omitted category. All of the demographic variables were dummy-coded.

Analysis

Four regression equations were constructed for each of the two dependent variables (job satisfaction and desire to quit). The first equation contained only the job type variables and the demographic variables, to test the prediction made in Hypothesis 1. Three additional variables were entered in the second equation: extrinsic job rewards, intrinsic job rewards, and central life interest. If Hypothesis 2 is to be supported, the coefficients for perceived extrinsic and intrinsic job rewards must be significant, eliminating the effects of job types. Additionally, the inclusion of central life interests tests the linear main effect of this variable.

The third equation tested whether the addition of pay satisfaction changed the results found for the second equation. In the literature, it is often found that an individual's job satisfaction and desire to quit are affected by the amount of pay received (Lawler, 1971; Weaver, 1974). In the present survey, however, the actual level of an individual's pay was not available. In lieu of the pay variable, employee's satisfaction with pay was used.

Two more variables were entered in the fourth equation: interaction terms of central life interest and perceived extrinsic and intrinsic job rewards, respectively. They were used to test the interaction effects presented in Hypothesis 3.

Results

Results of the eight regression equations are shown in Tables 1 and

TABLE 1
Satisfaction with Job (OLS Results)
(N = 4429)

	Eq. 1	Eq. 2	Eq. 3	Eq. 4
Intercept	1.8359 ^{***} (.0625)	1.8915 ^{***} (.0589)	1.7717 ^{***} (.0630)	1.8410 ^{***} (.0603)
SEX	.1062 ^{**} (.0420)	.0750 ^{**} (.0350)	-.0679 [*] (.0349)	-.0682 [*] (.0351)
AGE2	-.0037 (.0466)	-.0004 (.0372)	-.0019 (.0371)	-.0035 (.0371)
AGE3	.0458 (.0594)	.0032 (.0473)	.0019 (.0471)	.0063 (.0473)
AGE4	.0717 (.0708)	.0556 (.0570)	.0533 (.0569)	.0617 (.0570)
AGE5	.1515 (.1031)	.1438 (.0832)	.1330 (.0830)	.1527 (.0831)
EDUC2	-.0158 (.0410)	-.0271 (.0336)	-.0267 (.0335)	-.0302 (.0335)
EDUC3	.0896 (.0505)	-.0169 (.0415)	-.0230 (.0414)	-.0225 (.0415)
EDUC4	.2958 ^{***} (.0690)	.0884 (.0558)	.0779 (.0557)	.0747 (.0558)
TNURE2	-.0217 (.0471)	-.0210 (.0373)	-.0218 (.0372)	-.0252 (.0372)
TNURE3	-.0154 (.0586)	-.0030 (.0464)	-.0092 (.0463)	-.0091 (.0463)
TNURE4	.0656 (.0715)	.0156 (.0569)	.0055 (.0568)	.0102 (.0569)
MARR	.0572 [*] (.0312)	.0238 (.0249)	.0291 (.0249)	.0225 (.0249)
JOB2	.1562 ^{***} (.0362)	-.0373 (.0291)	-.0389 (.0290)	-.0385 (.0291)
JOB3	.1584 ^{***} (.0352)	.0042 (.0287)	.0008 (.0286)	.0048 (.0286)
JOB4	.1642 ^{***} (.0367)	-.0233 (.0295)	-.0280 (.0295)	-.0247 (.0295)
JOB5	.1284 ^{***} (.0432)	-.0044 (.0344)	-.0121 (.0343)	-.0011 (.0344)

Definitions of Variables: *SEX*, gender; *AGE*, age in years; *EDUC*, educational level in years; *TNURE*, company tenure in years; *MARR*, marital status; *JOB*, type of job; *EXTRIN*, perceived extrinsic job rewards; *INTRIN*, perceived intrinsic job rewards; *CLT*, central life interest; *CLEXTR*, *CLT* x *EXTRIN*; *CLINTR*, *CLT* x *INTRIN*; *PAYS*, pay satisfaction.

Notes: Entries are (unstandardized) regression coefficients. Standard errors are in parentheses.

Significance levels for a two-tailed test: * = .05 < *p* < .06; ** = .01 < *p* < .05; *** = *p* < .01.

TABLE 1—Continued

	Eq. 1	Eq. 2	Eq. 3	Eq. 4
EXTRIN	—	.0529 ^{***} (.0044)	.0403 ^{***} (.0050)	.0431 ^{***} (.0088)
INTRIN	—	.1404 ^{***} (.0033)	.1400 ^{***} (.0033)	.1627 ^{***} (.0066)
CLT	—	.0010 (.0046)	.0011 (.0046)	.0106 ^{**} (.0052)
CLEXTR	—	—	—	.0026 (.0020)
CLINTR	—	—	—	-.0055 ^{***} (.0014)
PAYS	—	—	.0463 ^{***} (.0088)	—
R ²	.0343	.2013	.4397	.4381
Adj. R ²	.0311	.1985	.4371	.4354
F	10.564 ^{***}	53.210 ^{***}	172.947 ^{***}	163.619 ^{***}

Definitions of Variables: *SEX*, gender; *AGE*, age in years; *EDUC*, educational level in years; *TNURE*, company tenure in years; *MARR*, marital status; *JOB*, type of job; *EXTRIN*, perceived extrinsic job rewards; *INTRIN*, perceived intrinsic job rewards; *CLT*, central life interest; *CLEXTR*, *CLT* x *EXTRIN*; *CLINTR*, *CLT* x *INTRIN*; *PAYS*, pay satisfaction.

Notes: Entries are (unstandardized) regression coefficients. Standard errors are in parentheses.

Significance levels for a two-tailed test: * = .05 < *p* < .06; ** = .01 < *p* < .05; *** = *p* < .01.

2, for job satisfaction and desire to quit, respectively. The first column of Table 1 shows that all four of the job-type variables were significant. Of the demographic variables, only *EDUC4* and *SEX* were significant. Thus, the general pattern of results seems to support Hypothesis 1. The second column of Table 1 shows the results of the second equation. The only significant variables were perceived extrinsic and intrinsic job rewards. Only *SEX* among the job-type or demographic variables was significant. Of special importance is that the job-type variables which were significant in the first equation were insignificant in the second. Although lack of significance does not present strong support for a hypothesis, the results of the second equation seem to be in agreement with the predictions of Hypothesis 2. Another finding of note is the insignificant coefficient associated with the central life interest variable. Central life interest does not seem to have a linear main effect when entered by itself.

The next column shows the results for the third regression equation. Although pay satisfaction turned out to be significant,

TABLE 2
Desire to Quit (OLS Results)
(N = 4429)

	Eq. 1	Eq. 2	Eq. 3	Eq. 4
Intercept	-.4539 ^{***} (.0298)	-.4132 ^{***} (.0334)	-.4713 ^{***} (.0358)	-.3875 ^{***} (.0342)
SEX	.1184 ^{***} (.0200)	.0717 ^{***} (.0199)	.0752 ^{***} (.0198)	.0706 ^{***} (.0199)
AGE2	.0548 ^{**} (.0223)	.0558 ^{***} (.0211)	.0569 ^{***} (.0211)	.0544 ^{***} (.0210)
AGE3	.1129 ^{***} (.0283)	.0867 ^{***} (.0269)	.0860 ^{***} (.0268)	.0852 ^{***} (.0268)
AGE4	.1094 ^{***} (.0338)	.0890 ^{***} (.0324)	.0878 ^{***} (.0323)	.0855 ^{***} (.0323)
AGE5	.1403 ^{***} (.0492)	.1246 ^{***} (.0472)	.1193 ^{**} (.0471)	.1192 ^{**} (.0472)
EDUC2	.0627 ^{***} (.0194)	.0577 ^{***} (.0190)	.0579 ^{***} (.0190)	.0588 ^{***} (.0190)
EDUC3	.0696 ^{***} (.0241)	.0326 (.0235)	.0296 (.0235)	.0354 (.0235)
EDUC4	.1041 ^{***} (.0329)	.0336 (.0317)	.0285 (.0316)	.0410 (.0317)
TNURE2	-.0307 (.0224)	-.0402 [*] (.0211)	-.0405 [*] (.0211)	-.0387 (.0211)
TNURE3	-.0163 (.0279)	-.0125 (.0263)	-.0155 (.0263)	-.0098 (.0263)
TNURE4	.0159 (.0341)	.0173 (.0323)	.0124 (.0322)	.0194 (.0323)
MARR	.0430 ^{**} (.0149)	.0333 ^{**} (.0141)	.0358 ^{**} (.0141)	.0335 ^{**} (.0141)
JOB2	.0736 ^{***} (.0173)	.0168 (.0165)	.0160 (.0165)	.0170 (.0165)
JOB3	.0761 ^{***} (.0168)	.0267 (.0163)	.0250 (.0162)	.0266 (.0162)
JOB4	.0787 ^{***} (.0175)	.0286 (.0168)	.0264 (.0167)	.0291 (.0167)
JOB5	.0364 (.0206)	.0002 (.0195)	.0034 (.0195)	-.0018 (.0194)
EXTRIN	—	.0234 ^{***} (.0025)	.0172 ^{***} (.0028)	.0233 ^{***} (.0050)
INTRIN	—	.0360 ^{***} (.0019)	.0359 ^{***} (.0019)	.0248 ^{***} (.0038)

Notes: Entries are (unstandardized) regression coefficients. Standard errors are in parentheses. See notes to Table 1 for variable definitions.

Significance levels for a two-tailed test: * = .05 < p < .06; ** = .01 < p < .05; *** = p < .01.

TABLE 2—Continued

	Eq. 1	Eq. 2	Eq. 3	Eq. 4
CLT	—	-.0031 (.0026)	-.0031 (.0026)	-.0080*** (.0030)
CLEXTR	—	—	—	.00005 (.0011)
CLINTR	—	—	—	-.0027*** (.0008)
PAYS	—	—	.0224*** (.0050)	—
R ²	.0525	.1997	.2033	.2023
Adj. R ²	.0493	.1963	.1997	.1985
F	16.449***	57.905***	56.258***	53.210***

Notes: Entries are (unstandardized) regression coefficients. Standard errors are in parentheses. See notes to Table 1 for variable definitions.

Significance levels for a two-tailed test: * = .05 < p < .06; ** = .01 < p < .05; *** = p < .01.

it did not change the pattern of results found in the second column. Thus, it may be safe to say that the results obtained for the previous equation were not due to spurious effects caused by pay satisfaction.

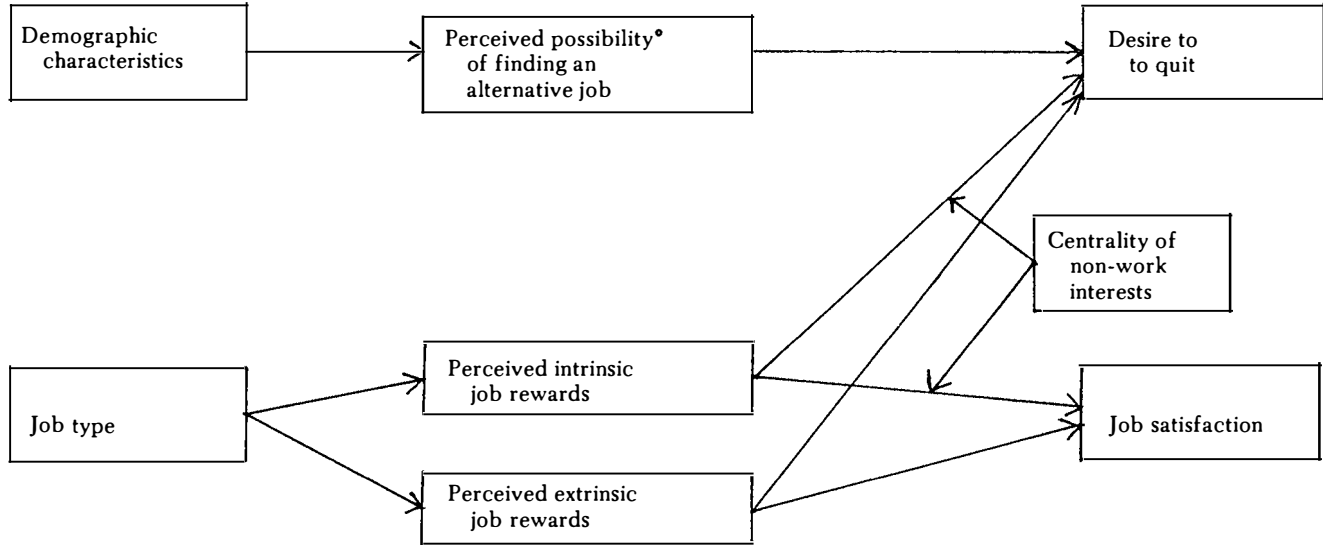
The fourth column shows the results for the fourth equation. When the two interaction terms were entered, only the interaction of central life interest with intrinsic job rewards was significant in the predicted direction. The interaction using extrinsic job rewards was not significant, although the coefficient was in the predicted direction. Hypothesis 3 was only partially supported by the data.

Table 2 shows the results for the four equations using desire to quit as the dependent variable. The patterns of results for job type, perceived intrinsic and extrinsic job rewards, and central life interest were very similar to those obtained for job satisfaction. For the desire to quit variable, however, three sets of demographic variables—sex, age, and marital status—were consistently significant across the four regression equations. In addition, two other variables, *EDUC2* and *MARR*, were significant in all four equations. The results seem to support Hypothesis 4, suggesting that desire to quit and job satisfaction involve different psychological processes.

Discussion

Based on the results of regression analysis, a hypothetical model of job satisfaction and desire to quit is presented in Figure 1. In this

FIGURE 1
An Integrated Framework



*This variable was not directly measured in the present study.

model, job satisfaction is treated as being determined solely by differences in perceived extrinsic and intrinsic job rewards, which are in turn determined by type of job. Desire to quit is determined jointly by job-reward differences and employees' demographic and personal characteristics. Central life interest, a variable representing employee work values, acts as a moderator between intrinsic job rewards, on one hand, and job satisfaction and desire to quit, on the other.

Although the results of this study clearly show that desire to quit is an employee reaction that is different from job satisfaction, one question remains for further investigation—the psychological process which the demographic variables are capturing. It was argued here that demographic variables represent differences in perceived probability of obtaining an alternative job. It is generally understood that an individual's probability of finding a job differs depending on the labor markets he/she has access to and that labor markets are segmented on the basis of workers' demographic and personal characteristics (Piore, 1975). However, we have no direct evidence that the segmentation of labor markets is actually reflected in each individual's perception of labor market opportunities. Some studies which attempted to test the effects of the unemployment rate on turnover have shown significant but weak correlations between the two (e.g., Shikiar and Freudenberg, 1982). However, few of the studies have identified the actual relevant labor market in which each worker finds him/herself. The studies usually used an overall figure for local or regional unemployment rates to represent the labor market effects for individual workers. Therefore, the correspondence between the objective characteristics of a worker's relevant labor market and his/her perception of labor market opportunities needs to be researched. If an individual correctly perceives the differences in actual labor market opportunities, it is likely that employees' demographic characteristics have effects on desire to quit indirectly through perceived probability of finding an alternative job. The results of the present study suggest that such a process may actually be operating. Research is also needed in this area (cf. Hulin, Roznowski, and Hachiya, 1985).

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Labor Unions and Title VII: A Case Study of Organizational Response to Environmental Change

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When Title VII of the Civil Rights Act was passed in 1964, it considerably changed the legal environment within which employment-related organizations had been functioning. Because of the comparative ease of pinpointing the occurrence of that particular environmental change (as opposed to a change in the economic or social environment, for example) it presented a rich opportunity to study how the affected organizations enacted and adapted to their changed environment. This paper discusses a case study of one labor union's interorganizational and intraorganizational responses to the change in its environment brought about by passage of Title VII.

Research and literature dealing with the effect of Title VII on unions and union members is minimal, limited primarily to narrowly focused essays in legal periodicals (Hill, 1976; Youngdahl, 1974; Cebulski, 1977). This dearth is symptomatic of a general absence of organizational theory and research dealing with the unions' intraorganizational processes. (A recent exception is work by Dalton and Todor, 1982.) There is, however, a considerable body of theoretical and applied literature dealing with inter- and intraorganizational responses to environmental change (e.g., Hummon, Doreian and Teuter, 1975; Leavitt, Dill and Eyring, 1973; Thompson, 1967; Ouchi, 1977; Aldrich, 1979; Weick, 1969).

Adapting to Environmental Change

Initial organizational response to an environmental change is of an almost existential nature. The organization's boundary spanners react to the change as they perceive and define that change, which may or may not differ from what an "objective" outsider might term the

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“actual” change (Weick, 1969; Powers, 1973). Remaining members of the organization rely on the boundary spanners for information on the environmental change, and successive interpretations are transmitted progressively deeper into the organization (Aldrich and Herker, 1977). At each transmission stage the information undergoes two modifications: (1) the receiver enacts (reacts to) only the information perceived; (2) senders in turn transmit only the information they feel is needed by the next receiver. As a result, like the childhood game of telephone, the environmental change perceived at the lower levels of the organization is often quite different from that perceived by the environmental liaisons or boundary spanners (Biggart, 1977; Wesman, 1983). Accordingly, for a meaningful study of organizational response to environmental change all levels of the organization must be considered, since perceptual differences beget behavioral differences (Powers, 1972).

Moreover, the organization does not have the luxury of responding only to the environmental change. As intraorganizational subgroups react to their own perceptions of this change, they will make demands of their own upon the organization. The organization is, therefore, obliged to devote some of its resources to satisfying its internal constituency while coping with the outside environment (Cyert and March, 1963).

Figure 1 suggests the complex interrelationships in existence when an organization reacts to environmental change. Solid lines denote the primary flow, dotted lines secondary relationships. To apply the model in the present context, consider a possible sequence of events following enactment of a federal nondiscrimination law. The union might respond by recruiting minority members and offering them occupational training. Nonminority union members might react with resentment to what they perceived to be preferential treatment of minority workers. The union might then begin a program of “sensitivity” training for its disgruntled members. If the entire sequence were successful, one outcome might be less employment discrimination. Eventually, perceived magnitude of the environmental change would decline and the organization would begin to achieve stability with respect to its changed environment. While this is a simplified scenario, it illustrates the primary sequence of inter- and intraorganizational responses to environmental change. The dotted line relationships, although secondary, are not trivial. Internal pressures on organization leaders to manage and/or appease their coalitions can consume more time, energy, and monetary resources

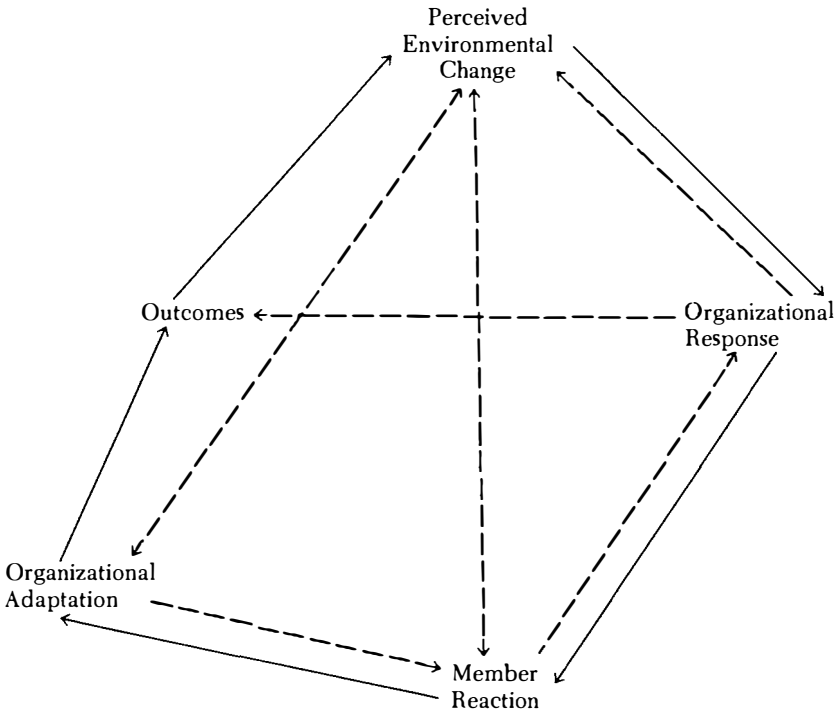


FIGURE 1
Flow of the Effect of Perceived Environmental Change

than the primary task of dealing with the environment (Cyert and March, 1963; Hirschman, 1972; Aldrich, 1979; Fromkin and Sherwood, 1974).

The Organization

The union in this study is a large (c. 200,000 members) international union founded in 1899 which represents primarily railroad employees. The union was chosen for the case study partly because of interest in the research expressed by the international and system board leaders. A second consideration was the wide distribution of skill levels among the membership. Jobs represented include janitorial workers, freight handlers, typists, clerks, and computer programmers. The heterogeneity of the membership of this union improves potential for generalizing data obtained to other organizations (Miller and Freisen, 1982).

The Environmental Change

Title VII of the Civil Rights Act of 1964 addressed the issue of discrimination in the workplace (42 U.S.C. § 2000e *et seq.*). It forbade employers and labor organizations from discriminating against persons because of race, color, religion, sex, or national origin. The AFL-CIO, recognized voice of the labor movement, was among the staunchest supporters of Title VII (*American Federationist*, 1964). Some individual unions, such as the United Steelworkers, also lobbied for its passage. Not all unions shared the Steelworkers' enthusiasm for Title VII, however. Many unions, particularly those in construction trades, had practiced discrimination for decades unimpeded by the legal environment. After 1965, unions found themselves occasionally joined with employers as co-defendants in discrimination suits (e.g., *United Steelworkers of American and Kaiser Aluminum and Chemical Corp. v. Weber*, 443 U.S. 193 (1979)). Perhaps most unsettling, the seniority system, heretofore a sacrosanct keystone of the labor movement, was now vulnerable to modification by a court decision or consent decree (e.g., *Franks v. Bowman Transportation Co.*, 495 F.2d 398 (5th Cir. 1974), *rev'd*, 424 U.S. 747 (1976)).

Qualitative Investigation

Qualitative data were accumulated through interviews and archival documentary research. Interviewees include the union's international president and general counsel, two system board general chairmen, and 46 union members and lodge officers. Archival research included numerous collective bargaining agreements, court cases, and inter- and intraunion correspondence. Also reviewed were AFL-CIO publications such as the *American Federationist*, topical pamphlets, and press releases. Of particular use were the unedited transcripts of the selected union's quadrennial convention—attended by elected delegates from nearly every lodge—from 1922 to the present.

Summary of Qualitative Findings

*Perceived Environmental Change.*¹ Magnitude of the environmental change brought about by passage of Title VII was usually perceived as greater by AFL-CIO member unions than by the parent organization. Predictably, in light of their pre-Act conduct, the impact was perceived as less disruptive by industrial than by craft unions.

The railroad union under study, like many other unions, had a

¹ Subheadings correspond to the model in Figure 1.

history of racially segregated locals (Gould, 1977). Until passage of Title VII, the union had encountered no significant environmental pressure to change its policy. Minutes of post-1947 quadrennial conventions indicate that even after black lodges were granted regular (rather than auxiliary) charters, the union retained segregationist attitudes and practices. A 1971 Supreme Court decision abolished segregated lodges and ruled that the union's formerly segregated "group classification system"—which effectively restricted black members to certain low-level, low-pay jobs—must be abandoned (*U.S. v. Jacksonville Terminal Co.*, 451 F.2d 418 (1971), *cert. denied*, 406 U.S. 906 (1972)).

Organizational Response. The union's leadership made what might be termed a conservative positive response to passage of Title VII. Directives from the international officers encouraged segregated lodges to merge. Actual merger of black and white lodges proceeded slowly, with some resistance from both black and white lodges, until the *Jacksonville Terminal* decision. Mandatory desegregation of the union's seniority system improved opportunities for minority and female members to transfer within and between job classifications. In addition, a majority of the union's collective bargaining agreements were amended to include nondiscrimination clauses.

Many system board chairmen conducted educational programs for local (lodge) leaders and disseminated literature concerning equal employment opportunity regulations and responsibilities to both lodge leaders and shop stewards. International leadership, however, declined to initiate any organization-wide educational or informational effort. It is apparent from statements by the union president and the general counsel, and from Grand Lodge Convention transcripts, that the "official" response of the organization was extremely reluctant acceptance rather than willing compliance (let alone enthusiasm).

Member Reaction. Among the union's membership, reaction to Title VII and the union's response was often unfavorable. Members were very vocal in their resistance to the plant seniority system imposed by the *Jacksonville Terminal* decision. Their resistance was not necessarily racially- or sex-based. Seniority related job rights such as vacation selection and choice of shifts were frequently disrupted by the change from group or department seniority to plant seniority.

Many union members expressed a desire to voice their concerns to upper-level union officers (see Hirschman, 1972), but most felt such communication was to little or no avail. Attendance at local lodge

meetings averaged about 5 percent of the total lodge membership. Union members interviewed suggested indifference of upper level leadership was a major factor in low participation rates, noting that member attendance surged only when matters such as local elections or a strike vote arose.

One method by which members did voice their concerns about work issues, including seniority, was the grievance procedure. Among union leaders and members there was agreement on a perceived increase in the number of grievances being filed since passage of Title VII. Specific figures were unavailable, however, and "educated guesses" ranged from "a few more" to "a 100 percent increase." Whatever the magnitude of the increase in number of grievances filed per year since 1964, it would be difficult to isolate those stemming from true Title VII-related complaints. Since passage of Title VII many standard grievances ("my supervisor improperly passed me over for promotion") have been amended by the grievant to include an EEO-related issue ("... because I am female (a minority member) (a white male)"). Besides attracting the shop steward's attention (see *Organizational Adaptation* section, below), addition of an EEO-related issue to a grievance affords the grievant two bites at the apple. The grievant may avail him/herself not only of the contractual grievance procedure, but, if not satisfied with that outcome, may also continue to process his/her complaint through the enforcement mechanisms offered by state and federal Equal Employment Opportunity Commissions.

Organizational Adaptation. Union leaders at the international and system board level asserted that, prompted by perceived member unrest concerning the effect of Title VII on their organization and work environment, they had increased contacts with the rank and file. There is some documentary evidence of system board attempts to keep lodge officers and shop stewards apprised of their responsibilities under Title VII, but little evidence of union/member communication on the subject after the 1960s.

Several union members and officers claimed to have observed a heightened sensitivity on the part of shop stewards to grievances filed by female and minority group employees. A union is free to (and usually does) refuse to process a grievance it feels is groundless. Members expressed the opinion that their union appeared very reluctant to do so in the case of a female or minority grievant. They attributed the union's attitude to Title VII-related pressures and potential duty-of-fair-representation suits (McKelvey, 1977).

Outcomes. In the early years of its existence, Title VII added to the traditional tensions in most union-management relationships (Youngdahl, 1974). Management was under pressure to rectify discrimination in its employment practices through equal employment and affirmative action. Unions, on the other hand, were concerned with protecting rights and interests of workers already in place.

Tension was created in the labor-management relationship in this study by management's increased promotion of minority members out of the bargaining unit into contract-exempt positions. Management thus improved protected-class employee representation in lower- or middle-level management positions and reduced its vulnerability to discrimination suits. The union, meanwhile, experienced distressing declines in membership and in dues income. Nevertheless, there was some evidence that when union and management were joined in an EEO suit, they were able to cooperate at least temporarily (*Jacksonville Terminal*). Union members interviewed did not favor this cooperation between union and management on civil rights issues (or on most other issues). On the contrary, several members expressed suspicion and a preference for more distance between the two organizations.

Status of minority and female members in the union organization is markedly similar to what it was prior to passage of Title VII. To date, there are no minority or female members among international officers. Some black members were actually disadvantaged by post-Title VII merger of their lodges with larger white counterparts. Those mergers often resulted in loss of representation within the system boards and at Grand Lodge Conventions. Women union members are better off in terms of their acceptance into nontraditional outdoor job categories, but their influence in the union itself is essentially unchanged.

Finally, Title VII and resulting legal and social pressures were viewed by union leaders and members as generally detrimental to union "effectiveness" (Joseph, 1975). Court costs and fines resulting from EEO litigation are paid out of a fixed source of income—member dues—thereby depleting funds available for other union activities. Union leadership argued that court-imposed hiring quotas, revised seniority systems, and subsequent white member backlash increased the difficulty of representing fairly all members' interest. As anticipated (Cyert and March, 1963; Hirschman, 1972; Fromkin and Sherwood, 1974; Aldrich, 1979), union leaders found themselves devoting an increasing amount of time and energy responding to and

appeasing conflicting demands of constituent groups to the detriment of other union functions.

Perceived effectiveness of the union was adversely affected as well by the fact that resolution of EEO-related complaints is frequently more quickly provided by state or federal human rights agencies than by contractual grievance machinery. One union leader pointed out that this situation puts the organization in a self-denigrating dilemma: in order to best serve some of its members, the union must admit its own inadequacy and suggest they look elsewhere for effective representation.

Quantitative Investigation

Throughout the interview, literature, and archival research phases of the study, certain relationships began to emerge with regularity. In order to test those relationships, as well as to address some valid criticisms of "Type 1" studies (Miller and Friesen, 1982), the following hypotheses were derived and a questionnaire constructed to test them.

While some of the variables in the hypotheses are peculiar to the particular type of organization being studied, they nevertheless represent concepts common to other organizations. For example, most organizations provide their members with either a permanent or an ad hoc complaint procedure. Although they may not label it "grievance handling," it is not dissimilar.

Hypothesis 1: The greater the perceived environmental change, the greater will be perceived member/union and member/member goal conflict (Cyert and March, 1963; Anderson, Hellriegel, and Slocum, 1973; Aldrich, 1979).

Hypothesis 2: As perceived intraorganizational goal conflict (member/union or member/member) increases, perceived union member/communication will increase (Fromkin and Sherwood, 1974).

Hypothesis 3: As perceived intraorganizational conflict (member/member or member/union) increases, perceived probability of filing a discrimination suit against the union increases (Fischer, 1975).

Hypothesis 4: As perceived equity of grievance handling increases, perceived achievement of EEO goals will increase (Youngdahl, 1975).

Hypothesis 5a: As concerns about job security lessen, perceived union effectiveness will increase (Hammer 1978).

Hypothesis 5b: As perceived equity of grievance handling increases, perceived union effectiveness will increase (Hammer, 1978).

Attitude Survey

Six hundred fifty questionnaires were sent to local lodge secretaries for addressing and forwarding to a random sample of the membership. This rather cumbersome system was necessitated by the peculiar political exigencies of this union. Further, 320 of the questionnaires were disposed of by a disgruntled secretary and never mailed. Of the remaining 330 questionnaires actually sent out to union members, 107 were returned. The response rate (approximately 32 percent) is not atypical of populations with similar demographic attributes (blue-collar workers, high school educated, in a conservative industrial environment).

The attitude survey consisted of 130 one-sentence items to which subjects responded on a Likert-type scale of 1 (strongly agree) to 5 (strongly disagree). From the items, scales were developed to correspond to the variables in the hypotheses. The scales were tested for internal consistency by means of Cronbach's alpha statistic (Table 1) and correlation coefficients among the scales were calculated (Table 2). All alpha coefficients were greater than or equal to .60—an acceptable level for a new instrument (Cohen and Cohen, 1975).

Results and Comment

In spite of a disappointing N of 107, the demographics of the sample closely paralleled the composition of the total union membership. Sixty percent of respondents were men and 40 percent

TABLE 1
Attitude Survey Scaler Variables

Abbreviation	Identification	Alpha Coefficient
<i>ENCHANG</i>	Perceived environmental change	.63
<i>MEMECONF</i>	Perceived member/member goal conflict	.67
<i>MEUNCONF</i>	Perceived member/union goal conflict	.86
<i>SATIOBSC</i>	Discontent with job security	.69
<i>DISCSUIT</i>	Probability of filing a discrimination suit against the union	.78
<i>UNMEMBOM</i>	Perceived union/member communication	.83
<i>GVCHNDLG</i>	Perceived equity of grievance handling	.75
<i>EEOGOALS</i>	Perceived achievement of EEO goals	.60
<i>UNEFFECT</i>	Perceived union effectiveness	.78

TABLE 2
Intercorrelations Among Variables From Union Attitude Survey

	1	2	3	4	5	6	7	8	9
1. ENCHANG	1.00								
2. MEMECONF	.09	1.00							
3. MEUNCONF	.04	.54*	1.00						
4. SATJOBSC	.00	.31*	.47*	1.00					
5. DISCSUIT	.01	.50*	.60*	.67	1.00				
6. UNMEMCOM	.16	-.50*	-.75*	-.48*	-.53*	1.00			
7. GVCHNDLG	-.03	-.43*	-.62*	-.60*	-.75*	-.53*	1.00		
8. EEOGOALS	-.11	-.38*	-.69*	-.52*	-.67*	-.48*	-.65*	1.00	
9. UNEFFECT	.00	-.38*	-.79*	-.59*	-.60*	-.69*	-.59*	-.59*	1.00

* $p < .001$.

women—identical to international union membership figures; 87 percent were white, 9 percent black, and 4 percent of other racial minorities, corresponding to the union's estimate of 88 percent white and 12 percent "nonwhite" members. There does not appear, therefore, to have been a response bias prompted by the sensitivity of the topic being researched.

As can be seen in Table 2, no support was found for Hypothesis 1. Neither perceived member/union conflict nor member/member conflict was related to perceived magnitude of environmental change ($r = .04$ and $r = .09$, respectively). While perceived intraorganizational goal conflict (member/union and member/member) was significantly ($p < .001$) related to perceived union/member communication, contrary to Fromkin and Sherwood's (1974) thesis, the relationship was negative ($r = 1.75$ and $r = -.50$, respectively). These results do support Mulder's (1977) finding that in times of severe environmental change, organization leadership increases the political distance between itself and the rank and file—in this case by decreasing the flow of information (Wesman, 1983).

Perceived probability of filing a discrimination suit against the union was significantly ($p < .001$) related to perceived member/member and member/union goal conflict— $r = .50$ and $r = .60$, respectively (Hypothesis 3). Also, not unexpectedly, perceived equity of grievance handling (irrespective of race, sex, etc.) was highly positively related ($r = .65$, $p < .001$) to perceived achievement of EEO goals (equality of opportunity in the workplace)—Hypothesis 4. Finally, Hypotheses 5(a) and 5(b) were both supported. Perceived union effectiveness was negatively related to concern about job

security ($r = -.59, p < .001$) and positively related to perceived equity of grievance handling ($r = .59, p < .001$).

Discussion

It is nearly 20 years since passage of Title VII, and most labor unions now view the law—for better or for ill—as just one more environmental “given.” The arduous process by which the union studied achieved a measure of stability with that particular environmental change, however, retains current significance. For example, savings banks affected by the Depository Institutions Deregulation and Control Act of 1980 have undergone inter- and intraorganizational adaptation processes not significantly dissimilar from those experienced by the union and union members in the foregoing analysis (Wait, 1982). Although the parameters may be different, one would expect to be able to identify employee/bank or employee/employee conflict situations, changes in communication patterns, and changes in employee- and constituency-perceived organizational effectiveness.

Case studies can increase our understanding of how various organizations adapt to environmental change. Development and testing of hypotheses help to highlight the commonalities among organizational experiences (Etzioni, 1973; Miller and Friesen, 1982). While the present study proposed and tested some preliminary hypotheses, clearly the qualitative portion of the study greatly overshadowed the quantitative portion. But this imbalance should not necessarily be viewed as a flaw in the methodological design. Organizational response to environmental changes is premised upon perception. Accordingly, qualitative research is an essential and prerequisite complement to quantitative study of the processes involved. Quantitative research deals with whether the operation was successful, qualitative research tells us whether—and how well—the patient survived.

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DISCUSSION

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In order to minimize the amount of overlap between our comments, Marian Extejt and I decided to focus on separate issues. I will examine a number of theoretical and methodological issues associated with each paper. Marian Extejt will discuss the policy implications and future research directions suggested by each paper.

The Martin and Peterson paper makes two contributions to the literature. First, it provides an empirical assessment of the impact of two-tier wage structures on employee attitudes. As stated by the authors, the literature to date has been based upon “. . . impressionistic reports and news articles.” More empirical studies are needed on this timely and important topic. Second, the study attempts to provide a field test of equity theory. The vast majority of equity studies have been previously conducted in laboratory settings.

These contributions should, however, be viewed in the context of a number of limitations associated with this study. In terms of the research methodology employed by the authors, I have several concerns. My first concern has to do with the failure of the authors to report the intercorrelations between the dependent variables. If the intercorrelations are high (and I suspect, for example, that the correlation between union commitment and union pay instrumentality is high), then the authors should have tested these data using multivariate analysis of variance rather than univariate analysis of variance. Another concern deals with the significance of the results. The authors present the level of statistical significance, but fail to report the practical significance of the results. An effect size statistic like omega-squared should have been calculated in order to assess the practical significance of the results.

My final concern with the research methodology used by the authors relates to the wage level differences between low- and high-tier employees. In an unspecified number of cases, the difference

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between the lowest paid high-tier employees and the highest paid low-tier employees was as small as \$.05 per hour. As a result, some of the lowest paid high-tier employees may have perceived themselves as being low-tier, and some of the highest paid low-tier employees may have perceived themselves as high-tier. Had these employees been excluded from the analyses, or analyzed separately, then the differences in attitudes between low- and high-tier employees may have been more pronounced.

At a theoretical level, the authors are to be commended for attempting to extend equity theory to a field setting. However, they do not provide a full test of the theory. Equity theory is concerned with the ratio of outcomes to inputs. The authors only examined the employees' perceptions of outcomes (e.g., pay level). They did not examine the employees' perceptions of inputs (e.g., effort). Hence the ratios between outcomes to inputs cannot be determined. By focusing only on outcomes, this study addresses the issue of pay fairness more than it does the issue of pay equity.

The Morishima paper takes a look at two of the most commonly studied variables in the personnel/organizational behavior literature—job satisfaction and turnover. It is an interesting paper for two reasons. First, the study was conducted with a sample of Japanese workers. The previous research on job satisfaction and turnover has primarily been conducted with American workers. Second, as shown in previous research, this paper demonstrates that job satisfaction and turnover have some similar as well as unique determinants. It goes beyond the previous research, however, by attempting to show how these determinants might be integrated.

Some caution must be exercised in the interpretation of this study because there are several methodological and theoretical limitations. Three problems with the research methodology used in this study are of concern. My first concern is the fact that ordinary-least-squares is an inappropriate statistical procedure when the dependent variable is a dummy variable. In the present study, the desire to quit variable was a dummy coded and the ordinary-least-squares procedure was applied. A more appropriate statistical procedure in this situation would be another multivariate test like LOGIT, PROBIT, or discriminant analysis.

My second concern is that R^2 values obtained in this study were probably influenced by high intercorrelations between the predictor variables. At a minimum, the author should report a correlation matrix between all of the predictor variables so that it can be discerned to

what degree the results are a function of multicollinearity among the predictor variables. One would expect, for example, that the correlation between age and tenure would be quite high.

My final concern is that the author used a one-item measure of job satisfaction. I am puzzled by this decision for a number of reasons. First, a one-item measure of any variable is notoriously unreliable. Second, it has long been established that job satisfaction is a multidimensional construct and this multidimensionality is not reflected in a one-item measure. Third, there are a number of well-validated job satisfaction measures that are available (e.g., Minnesota Satisfaction Questionnaire). Given these considerations, I think that a more developed measure of job satisfaction should have been used. Perhaps the decision was made to use a one-item measure of job satisfaction because of the length of the questionnaire. This explanation appears to be doubtful as other constructs (e.g., intrinsic job rewards) were measured with multiple items.

Turning to theoretical considerations, the integrative framework presented by the author is intuitively appealing and is supported by his data. However, based upon previous research, I think that there should be two additional relationships proposed and that these relationships could be tested with the data base in the present study. In particular, it has been well established that job satisfaction and the desire to quit are related and that intrinsic and extrinsic job rewards are related. These results have been, however, primarily with American workers. It would be interesting to see to what extent these relationships hold true for Japanese workers.

The Wesman paper presents an excellent example of how both qualitative and quantitative data can and should be combined in order to explain a particular phenomenon. As shown in this paper, qualitative data aid in the development of hypotheses while quantitative data permit the empirical testing of these hypotheses. This qualitative/quantitative approach has produced a "rich" description of a union's response to Title VII.

There are, however, several limitations that need to be kept in mind when interpreting the results of this study. First, it is difficult to know what impact the passage of Title VII has had upon the variables shown in Figure 1 (perceived environmental change, organizational response, member reaction, organizational adaptation, and outcomes). These variables were measured only *after* the passage of Title VII. It is difficult to know whether there was a change in these variables as a result of Title VII because these variables were not measured before

passage of the act. Even if a change in these variables did occur, it is difficult to know whether the changes were due to Title VII or due to some other environmental change because a control group was not used or available. The author needs to address the issue of alternative explanations for her findings.

Second, there appears to be some conflict between the results of the qualitative and quantitative investigations. For example, it is forcefully stated in the qualitative section that the union members believed that the passage of Title VII led to decreased union effectiveness. However, the quantitative section shows a correlation of .59 between the perceived achievement of EEO goals and perceived union effectiveness. Without any knowledge of the questionnaire items for these two variables, my interpretation of this correlation is that the passage of Title VII may have increased the perceived effectiveness of the union. I would like to have seen the author address this discrepancy in qualitative and quantitative results.

Finally, I think that an important "outcome" variable was overlooked or perhaps the data were unavailable. One of the major goals of Title VII was to reduce adverse impact in the workplace. It would have been interesting to see to what extent the variables in Figure 1 produced an increase, decrease, or no change in adverse impact since the passage of Title VII.

DISCUSSION

MARIAN M. EXTEJT
John Carroll University

I have been asked to discuss the policy implications and future research questions generated by the papers presented in this session. Although each of the papers has its own strengths or limitations, as pointed out by the first discussant, each also provides some food for thought for practitioners and academics alike.

Morishima's paper, "Job Satisfaction and Desire to Quit: Differences in the Determinants of Two Responses," is an example of research which generates almost as many questions as it answers. It is important for academic researchers to know that the two constructs studied are, indeed, two *distinct* constructs. In conducting and evaluating future work on employee turnover, the current research emphasizes the necessity of determining the construct validity of measures used to study either job satisfaction and/or desire to quit.

Practitioners must also recognize that the two constructs are distinct. The model and supporting research implies that managers can *directly* influence a worker's level of job satisfaction by manipulating the level of perceived job rewards. This manipulation can take place at a number of times during the employment relationship. It can occur at the time of recruiting and selecting the employee—by making sure the employee "fits" the job requirements as well as the corporate culture, and by providing the prospective employee with a realistic view of the potential intrinsic and extrinsic rewards the job has to offer. Reward systems, such as compensation, fringe benefit, and performance appraisal policies, which support corporate goals and employee needs also influence perceptions of these job rewards. Finally, the level of influence employees are able to have over the way in which they perform their work has a direct effect on intrinsic job rewards.

On the other hand, this research implies that management policy is only one of the variables influencing an employee's desire to quit. The

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external labor market, personal characteristics of the employee, as well as the centrality of work in the employee's life have as direct an influence on the worker's desire to quit as do perceived job rewards. Thus, while the manager may effectively manipulate these job rewards to an optimal level, high levels of turnover may still occur because the external opportunities look too good to pass up, or work is not a major interest in the employee's life. Managers must be willing to admit that a certain amount of turnover is inevitable.

The questions generated by this paper center on the relationship between the two variables, job satisfaction and desire to quit. First, a question still exists as to their temporal relationship—which comes first? Does the affective state of job satisfaction precede the cognitive decision to quit, or are there two states generated by perceived job reward levels simultaneously? Only a carefully conducted longitudinal study in which these two states are measured at various times for a cohort of employees can accurately answer this question. Second, since both are influenced by perceived job reward level, does some critical level of perceived rewards exist that could result in an acceptable level of job satisfaction, but combined with the current level of external employment opportunities result in high levels of turnover? If this is true, then conducting attitude surveys that focus solely on job satisfaction may be misleading. For example, a particular level of job satisfaction during labor market state A may be associated with very little turnover. The same level of job satisfaction during labor market B might result in high turnover. If an employer were to look only at the job satisfaction level at time B and see that it had not changed since time A, the erroneous conclusion might be that the employer should not try to raise the level of job satisfaction among employees since it had not changed. In fact, by raising the level of satisfaction, the employer may be able to offset the influence of external labor markets, and consequently lower turnover. The final question I have involves the external validity of the findings and the model. Since the current research was conducted among Japanese workers, does the model proposed by Morishima hold for other cultures? If the model holds, is it complete and are the relationships among the variables as strong as in the Japanese culture?

Wesman's paper, "Labor Unions and Title VII: A Case Study of Organizational Response to Environmental Change," neatly blends the fields of industrial relations and organizational theory to generate research which has implications for union leaders and policy-makers alike. The basic hypothesis of this study—that environmental change

will be associated with a number of attitudes and behaviors on the part of the organization—was not supported. In fact, unions appear to be unaffected by an environmental change as strong as Title VII. On a positive note, this finding might imply that union members and the organization itself reacted to this environmental change with acceptance and little conflict. If one wants to take a cynical view, it can be argued that the union ignored the change, acted as if it never happened, and thus was not affected by it. Further work involving other unions and/or other environmental changes would give us more insight into the true reaction of union organizations.

Another finding of this study which union leaders should especially note is the negative relationship between organizational goal conflict and perceived union/member communication. Although the current study reveals only a significant negative correlation between them, the possibility of a causal relationship should have leaders reevaluating the influence of their communication policies during times of intraorganizational conflict. Withholding information from the membership may generate more conflict. This relationship may be even stronger in unions where the membership is better educated and more politically involved. Wesman's finding that goal conflict and suit-filing behavior were related may also mean that poor communication policies during times of environmental change may result in costly suits and additional conflict.

This area of study would best be advanced by work which determines the causal relationship between the variables studied. In addition, interunion studies which show how different union structures and policies help or hinder them in their reaction to environmental change would provide useful information for union and government policy-makers.

It should be noted at this point that Wesman's research approach is one which more industrial relations researchers should consider. The institutional models of unions as organizations used as the theoretical basis for numerous current statistical studies were developed many years ago. They need to be reevaluated in today's environment. When it is practical, industrial relations researchers should use the social scientists' qualitative approach as well as the quantitative approach to evaluate organizational phenomena.

Finally, Martin and Peterson's study, "Two-Tier Wage Structure and Attitude Differences," should be read by any firm or union contemplating such an arrangement. Introduction of a two-tier wage policy certainly may result in labor peace and lower labor costs in the

short run. However, as pointed out by the authors, introducing such a policy may have severe economic and political costs for both parties. Careful consideration of such questions as where and when to introduce this compensation policy may result in a smooth transition toward economic security for all parties. Reckless implementation may be followed by employee turnover, decertification, and other behaviors associated with perceived inequities.

A new group of managers and union leaders who should find the Martin and Peterson work of interest should be those involved in corporate mergers. These often result in multiple wage structures. If the current research is externally valid, mergers of firms which are geographically separate may support these multiple structures. On the other hand, consolidation of geographically proximal locations almost certainly calls for the creation of a new wage structure.

Future research on the topic of multitier wage structures needs to concentrate on the behavioral consequences of implementing such a policy. The dependent measures of interest would include turnover, productivity, grievance-filing activity, and union member voting behavior in certification/decertification elections, as well as union officer elections.

VI. SEMINAR ON THE BISHOPS' PASTORAL ON CATHOLIC SOCIAL TEACHING AND THE U.S. ECONOMY

Summary Notes on the Panel Discussion

PETER D. SHERER, RAPPORTEUR
University of Illinois at Urbana-Champaign

Msgr. George C. Higgins **Catholic University of America**

The U.S. bishops decided to write the pastoral on Catholic social teaching and the U.S. economy in November 1980. The bishops had just completed a letter on Marxism, and they felt they should look critically at other systems, particularly their own. Archbishop Rembert Weakland of Milwaukee headed a committee to prepare a draft.

The committee soon came to the conclusion that Capitalism could not be treated as theoretically as Marxism. No single theoretical piece is commonly accepted as representing Capitalism. Also, the committee felt a more practical document was in order—one in which everyday problems and suffering were the focus. The committee thus focused primarily on the U.S. economy, and secondarily on the role of the U.S. economy in the global economy.

The first draft of the Bishops' pastoral was made public on November 11, 1984. At that time the committee invited all those interested to critique, discuss, and debate the pastoral in order to improve the document.

This economic pastoral has been the source of considerable exchange. In the media, professional journals, parish halls, executive

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boards, and union halls, discussion and debate of the pastoral has taken place. Also, at minimum, ten thousand pages of responses have been mailed to the U.S. Catholic Conference, the bishops' national office in Washington, D.C.

The bishops took the discussions and responses seriously. The more important themes from the exchanges were discussed in Minnesota in June 1985. A second document was prepared and this document was made public on October 7, 1985. A second invitation for improving the draft also was made public at that time. This second draft is the document we have before us.

In the summer of 1986, after another round of exchanges, the Bishops will make public a third draft of the pastoral. In November, 1986, the Bishops will discuss the third draft, propose amendments, and vote on final acceptance. This meeting will be helpful to the Bishops in preparing the third draft of the pastoral.

James J. McFadden
American Catholic Committee

The Bishops' draft states that employment is a basic right, and that our unemployment rate is morally unacceptable. The Bishops also state we cannot afford to have millions of able-bodied unemployed men and women, and that no economy can be considered healthy when so many are denied jobs for reasons outside their control. The draft identifies the unemployed as disproportionately black, Hispanic, young adults (presumably teenagers also), and female heads of households. As well, the Bishops recognize the effects of technology on the employment picture in the U.S.

The Bishops recommend an end to discrimination, decreased military spending, sufficient investment in industries and regions, better education and training for new workers, assistance for technologically displaced workers, and government action to ensure full employment. These recommendations are aimed at a full-employment economy by coordinating economic policy, job creation programs, and other policy measures.

The unemployment rate is higher than in the past. However, a much larger proportion of our citizens are in the workforce and most families now have two and even three breadwinners. Being out of work now is not the same as when the sole breadwinner lost his job.

The Bishops also identify as disproportionately unemployed, young adults, including teenagers. These are basically high school dropouts, with few or no skills, who represent at least a million of the

unemployed. None of the Bishops' recommendations, except education and training for new workers, will help this group. A national endeavor involving religious leaders, educators, counselors, labor, industry, and government is required to induce our youth to stay in school.

Female heads of households represent another category of unemployed identified by the Bishops, comprising 35 to 40 percent of those living in poverty. The Bishops' suggestions do not apply to this group. They are victims of a breakdown, not of the economic system, but in moral and religious values in our society. Religious leaders should take the lead in tackling this problem.

Workers displaced by technological change are identified as a third group of unemployed. The Bishops call for public service employment and subsidies for private-sector employment. Both have been tried before; the former is costly, and the latter is tricky and leads to abuse. I believe these workers can be better helped by continuing their health insurance through an insurance plan, same with their mortgage payments, that they be provided skills training, given priority in government and private-sector jobs, and unemployment insurance be modified so that they could continue to receive benefits while working and gaining experience in newer, lower paid jobs.

The Bishops, in their guidelines for action, state that "alleviating poverty will require fundamental change in the social and economic fibre of the nation." The nation now spends billions on poverty. If all the money spent were divided equally among the poor, poverty would be eliminated. Lack of generosity is not the problem.

Also, the draft's emphasis on glaring income inequity makes no mention that, since 1975, the United States has produced over 25 million new jobs while Europe has lost 2 million jobs. Our middle class, percentage-wise, far exceeds Europe's.

I suggest that the answers are not in the inequity of our economic system or discrimination in our society. Our problems are moral, not economic. I only hope that, in addressing these problems, the Bishops will take the lead in mobilizing our nation in a crusade based on our Judaic-Christian heritage.

Our efforts should be to improve the status of those at the bottom. We, as a country, have the resources and the know-how to make progress in this area. Current proposals for tax reform to eliminate the need for the poor to pay taxes and increasing dependency allowances will help. Education and skill development will be the key, however.

A Workers' Bill of Rights, enabling all who obtain the necessary skills to earn a living, is a must.

Lacking in the draft is discussion of two-wage family earners. For these families day-care centers are not the answer; parental-leave policies are needed. Also lacking is a statement on corporate mergers. Such mergers do not provide economic benefits, but do involve job loss. Finally, the treatment of defense spending is questionable, and contradicts the Bishops' pastoral on nuclear war.

In summary, rather than requiring fundamental changes in the social and economic fibre of the nation, I propose the Bishops write in their field of expertise in the next pastoral letter by examining the reasons for the disintegration of American families and the increase in the number of unwed mothers. These are the single major causes of poverty in the United States.

Charles Wilbur
University of Notre Dame

I, like Msgr. Higgins, served as a consultant to the committee that prepared the draft, so presumably I will speak in defense of the pastoral. Actually, instead, I will say a few things about what the Bishops were trying to say and do with the pastoral.

When the document was commissioned approximately five years ago, the Bishops saw fundamental attitudinal changes sweeping the country. The Keynesian consensus was shattered, while a philosophy of rugged individualism was on the rise. The Church was at odds with this latter view.

The Bishops' main purpose in drafting the pastoral was to pull together what in the Catholic faith bore on the economy. As such, the Bishops' document was fundamentally moral, not economic.

What are the Bishops saying? For one, the Bishops are asserting that economic policies are not neutral; rather, they are intertwined with moral issues in that they affect the human dignity of people. The Bishops also provide a vision of the good society. In this society, value is placed on the solidarity of people and the community of human life.

Guided by this view of economics, economic policies, and the good society, the Bishops suggested that economic policies can be evaluated on technical and moral grounds by examining economic institutions or policies with respect to three questions:

1. What does the economy do *for* people?
2. What does it do *to* people?
3. And how do people participate in it?

The document places obligation on the Bishops to analyze problems (e.g., poverty) in terms of faith. Thus, approximately half the document is Biblical and philosophical. However, the Bishops decided not to stop there. Rather, they decided that dialogue must begin on specific issues such as unemployment. The second part of the document is thus devoted to more specific and technical issues. Unfortunately, many commentators read the second part of the document and shot it down on technical grounds. For example, the concern for lowering unemployment raised technical concern about the inflation rate.

Instead of getting lost in technical arguments, it needs to be emphasized that the Bishops' major concerns are theological. For example, in the world we live in, jobs provide human dignity. Thus, we need to ask: Do economic arrangements help people to get a job and provide human dignity?

In summary, the Bishops' pastoral is fundamentally moral, not economic. Specific suggestions by the Bishops are not to be viewed as "set in stone," but are to be viewed as a mechanism for opening up dialogue. This draft is not the final word, however. The Bishops hope to generate continued dialogue and are committed to finding solutions.

Sheldon Friedman
International Union, UAW

In recent history, no other church document has attracted as much interest and discussion. If the Bishops' intent was to get people thinking about moral and ethical issues concerning the economy, then they have succeeded admirably.

It is difficult to say whose world-view is challenged more by the Bishops' document—Adam Smith's or Karl Marx's. The document has been welcomed in liberal and left-of-center circles, yet attacked shrilly by conservatives and the right wing.

The thrust of the Bishops' document cuts strongly against the conservative grain of our time and, therefore, it is no surprise that the Bishops have been criticized. To me, most of the criticisms seem profoundly misplaced.

Economic decisions have moral and ethical implications. If decisions about the economy should be left to economists, does it follow that decisions about nuclear war should be left to scientists and generals? Clearly, the Bishops should be free to speak out on those

moral issues raised by the arms race and be equally free to speak out on those raised by economic policies.

One of the strongest points of the letter concerns its statement on affording *all elements of society* a meaningful voice in economic decisions that affect their lives. Such participation is fundamental for economic and social justice, but is lacking in the United States' economy. Vital economic decisions—such as plant closings—are typically made behind closed doors, with affected workers and communities having little or no input. Though the document stops short of recommending federal plant-closing legislation, it certainly offers the rationale for such legislation.

Especially gratifying, given the increasingly anti-union tenor of our times, the document makes clear the rights of workers to organize and, indeed, the necessity of doing so as a vital and fundamental human right. The Bishops' letter, with its clear statement about the importance of a strong, independent trade union movement is a welcome antidote to those who say unions have outlived their usefulness. The Bishops denounce union-busting and call for labor-law reform. The Bishops also deserve special credit for calling upon the church as an employer to recognize trade unions and collective bargaining rights.

The document makes clear that the nation's approach towards poverty should involve a greater measure of compassion and that private charity can not substitute for the proper role of government in meeting the needs of the poor. However, the best antipoverty program would be to give a decent, well-paid job to everyone in the U.S. who is willing and able to work.

Our nation's leaders have grown increasingly complacent and tolerant of ever higher unemployment rates, even during business cycle peaks. In the first draft, the Bishops explicitly take on the so-called "natural rate of unemployment" concept and its corollary, that the government must not act too vigorously in pursuing full employment as this would set off an inflationary spiral. The Bishops don't mince words: they assert there is no natural unemployment rate, and call this a dangerous concept.

The above issue raises the larger topic of what is the appropriate role for government in the economy and the society. As a general rule, the Bishops find that the government should "do those things necessary for justice which private actions wouldn't do." Their statement is a good antidote to the prevailing conservative wisdom

that “government which governs least, governs best,” and is a far cry from charges by conservatives of “statism.”

The treatment of trade and international investment improved from the first to second document. There is a middle ground between pure free trade and harmful protectionism, and without such a middle ground it is questionable whether the Bishops’ full employment objectives can be obtained.

An endorsement of national health insurance was a notable omission in the letter. Nonetheless, the Bishops’ letter is an important and praiseworthy document. It reaffirms the proper role of government, speaks out for trade union rights, defends the poor, and issues a call for full employment.

Anthony Downs Brookings Institution

Those commentators interested in social justice in the U.S. economic system tend to focus on *distribution of incomes* while neglecting the *high overall income production*. This focus is understandable given the great inequalities in the American economy. However, the remarkable feature of the U.S. economy and other developed economies consists of the high per capita wealth and income produced and increased over time.

These economies have generated such wealth and income for many decades. Therefore, it is especially tempting for commentators who are not economists, but specialists in morality, such as the Catholic Bishops who wrote the pastoral, to take for granted the ability of these economies to produce economic benefits. Also, some traditional religious views on economics are based on pre-industrial societies that had relatively static total and per capita outputs. Issues of economic justice in those societies centered on how the static total income was to be divided rather than on how more could be produced.

Taking for granted the ability of modern societies to produce high per capita wealth and incomes would be a great mistake. Production of high total and per capita incomes, more than the distribution of total incomes, are what make modern industrialized economies beneficial to their populations. Such income generation relies on constantly “revolutionizing the means of production” through innovation and change based on decentralized decision-making in markets.

These same processes that have raised average wealth and income in modernized societies to unprecedented heights also have generated

socially undesirable outcomes, including great income inequalities. More fundamentally, the economic change and innovation in such societies repeatedly disrupts social arrangements and traditions, disconcerting people economically and psychologically.

Most modernized societies have social policies that greatly modify these conditions. Social security and unemployment compensation, *inter alia*, are examples of social policies which, grouped together, are usually referred to as the "welfare state."

I believe some type of welfare state is essential. However, strong tensions exist between the extent of welfare policies and the efficiency of market-oriented decision-making. Although all modern societies have shown electorally that they are willing to accept large sacrifices to obtain welfare benefits, welfare policies reduce the total production of wealth and income in an economy. Increasing the scope of welfare policies thus may hamper raising or even maintaining per capita income.

The tendency to focus on distribution rather than production is even greater in international comparisons than in examining any one developed nation, and is encouraged by widespread belief that poverty in lesser-developed nations is caused by developed nations. Such explanations neglect to consider that poverty dominated the economies of all societies. Thus, what needs to be explained is not continued poverty in nations, but high per capita wealth and incomes such as in the U.S., Japan, and Western Europe.

The possibility for lesser-developed nations to raise average per capita income depends on their success at imitating those social and economic institutions, habits, and behaviors found in developed nations, including innovative, decentralized market-oriented decision-making.

Yet many people believe that lesser-developed nations remain poor because of the failure of modern developed nations to share wealth. Without doubt, developed nations could make the worldwide distribution of incomes more effective and just by giving more to the poorer nations. But such aid and international redistribution cannot be the major way to improve living standards in the long run. Such erroneous beliefs also foster an equally false view concerning the way to increase social justice internally in developed countries.

It may surprise you to learn that I favor more redistribution of incomes in the United States. However, I believe social commentators need to recognize that, in the long run, achieving decent living standards for the poor in the U.S. and elsewhere depends mainly on

production of high and increasing per capita wealth and income. Justice seekers need to recognize the importance of innovative, market-oriented decision processes in the production of wealth and income. Religious and lay authorities commenting on social justice have a special responsibility to these truths.

Donald Nichols
University of Wisconsin-Madison

Four specific and interrelated topics are described in this document: employment policy, poverty, agriculture, and underdeveloped economies. These topics are dealt with in a grand edifice.

The document is more broad, sweeping, and refreshing than what we deal with ordinarily in the economics profession. The document is broad in that it encompasses not only economics, but also politics and sociology. The document is sweeping in that it espouses values that counter the greed-based model of mainstream economics, the most developed and readily turned to model in policymaking. The document is refreshing in that it reminds us of the value of the community of life, our obligations to the poor, and the value and importance of political and economic participation for all.

Where do I begin in appraising such a massive piece? I retreat to what I know, macroeconomics and employment policies, and present common wisdoms of mainstream economics.

The employment program of the document sounds like the original Humphrey-Hawkins bill. I am sympathetic to much of the program, having had a role in the Carter administration during the development of the Humphrey-Hawkins bill. However, the anemic document ultimately adopted by Congress was far removed from the original document.

The pastoral is not numerically specific in what constitutes full employment, although I suggest we are talking in the area of 0 to 7 percent unemployment. Inflation is mentioned almost as an irritant, rather than obstacle, but cannot be if the pastoral is to be taken seriously and accepted by professional economists.

Consider the "equilibrium" or "natural" unemployment rate, accepted by mainstream economists as a useful concept. Most technical economists believe that moving below an equilibrium rate of, say, 5 or 6 percent unemployment would seriously increase the inflation rate. Whether unemployment can be reduced without inflation needs more discussion, but it is a concern of many in the profession, and the Bishops need to further address this concern.

Macroeconomic policies can do better than 7 percent unemployment. More monetary policies, rather than fiscal, would help. We might set 6 percent as a goal, although not be stuck on this number. We need to be experimental with policies.

What is the possibility of achieving these goals? To answer this question we can turn to employment programs in this country. On the one hand, these programs have experienced some troubles. Stability is difficult because of new administrations, and evaluations lack scientific rigor. On the other hand, if high enough value is attached to participation, many programs have succeeded. However, if we narrow our evaluation to greed-based criteria, even then some employment programs pay off.

Advocates of programs thus have a “strong leg to stand on”; programs have succeeded. We should examine those characteristics of programs that contributed to their paying off and incorporate these into new programs. We need to consider also that the success of a program in achieving its stated goal depends on macroeconomic conditions. For example, the original CETA in 1964 came at a time of massive recession. Not surprisingly, evaluations concluded that job prospects were not improved for program participants.

History allows us another means by which to examine the possibility of achieving the Bishops’ goals. For several years in a row during World War II, unemployment was below 2 percent and inflation was below 5 percent. How did we achieve these impressively low rates? We had a moral commitment by the population to produce vast amounts. As this suggests, we will do better when we are morally committed. However, at this time the public does not appear to be morally committed to achieving these goals.

The experiences of Sweden and Austria, both efficient economies that have relatively low unemployment, are another way by which we can examine the possibility of achieving the Bishops’ goals. We need to ask: Why can the Swedes and the Austrians achieve these goals, but not us? Part of the answer lies in a difference in our moral fibre.

The Bishops’ pastoral provides us with a challenge, an enthusiasm, a call for experimentation, and the hope for a better economy. Parts of the document are troubling, however. Some issues, like military spending, are irrelevant to academic debate, detract from the document, and need not have been addressed.

Given the current orientation of the economics profession, many will not be persuaded by the Bishops’ pastoral. An analogy is helpful. Many in the economic, scientific community believe the population

problem—more than any other—restricts wealth and human dignity in the Third World. The Bishops might ask themselves whether their views on population are right. I doubt, however, the Bishops will change their views, just as I doubt professional economists will change those views on economics that they hold fundamental.

I do believe, however, macroeconomists can do better.

VII. SOCIAL SECURITY AFTER 50 YEARS: LOOKING BACK AND LOOKING AHEAD

Social Security After 50 Years

WILBUR J. COHEN
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The Social Security program on its 50th birthday is well and financially sound. There are 37 million persons currently drawing their benefits each month. The program has paid the benefits due every month for 45 years and will continue to pay the benefits due next month, next year, and, in my opinion, indefinitely. A long-range financing plan adopted in 1983 provides a sound basis for the belief that the benefits will be paid to those retiring, becoming disabled, or dying during every month for the indefinite future.

Efficiency and Equity

Moreover, the program is administered very efficiently. The administrative cost of the cash benefits program is only 1¼ percent of the contributions paid by employers, employees, and the self-employed. And all of the assets of the system are invested in U.S. government bonds. The benefits are increased in relation to wages and prices, and there are 1300 local offices where you apply for benefits and obtain information about your rights and responsibilities. And you have the opportunity to appeal and have an independent review of a decision affecting you. Where else can you get such a combination?

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The 125 million individuals who are currently contributing to the program get their money's worth. Like any group pension and insurance plan, all individuals who pay into the program and become eligible under the provisions in the law will receive payment of benefits from one of the trust funds. Some people will get back more than they paid in; others who do not experience the specific risks insured against may get less or nothing at all. Just as in the case of fire insurance on one's home, if your house does not burn down, no benefit is paid. If an individual does not live to retirement, and leaves no dependents, no benefit will be payable. If an individual does not become disabled, no disability benefit is paid. But the individual who lives to 100 years of age (and some do!) will get back many times what he or she paid in. Individuals who become disabled at 35 will get back many times what they paid in. The widow with dependent children of the man who dies at age 30 will receive life insurance benefits probably in excess of \$200,000 in the future.

Most people think that only old age retirement is covered by Social Security. This is a serious misunderstanding. Social Security also pays monthly life insurance to young widows (and widowers) and to dependent children, and monthly disability insurance benefits to persons in mid-life (between age 20 and 65) and to their families. In addition, it pays Medicare hospital insurance benefits not only to the aged, but to younger people who have serious disabilities—including renal dialysis and kidney transplants.

There are beneficiaries receiving Social Security from the time of birth and other individuals who receive it when over 100 years of age. It extends to the entire life span from birth to death for various people. It is not simply an old age program. It is a family program.

Moreover, Social Security provides benefits that are inflation-proof in two major ways which most private plans cannot match. The first is that as overall wages and salaries increase, the individual's benefits will be calculated on a revaluation of his past earnings. For instance, if an individual pays contributions on a salary of \$20,000 in a given year and during the subsequent 25 years wages in general double, he/she will receive credit for that past year of \$40,000 for Social Security benefit calculation purposes. The benefit calculation is thus kept up to date, and this method is therefore called the "dynamic" formula for benefit purposes.

In addition, when an individual becomes a beneficiary—as a young disabled person or as a widow, a mentally retarded child or adult, or as a retired person, his benefit will be increased annually by the

increase in the cost of living (COLA). Very few private plans have this automatic built-in adjustment.

You Do Get Your Money's Worth

Therefore, it is possible to say that individuals under the Social Security program for old age, survivors, disability insurance and Medicare receive their money's worth in *protection*, just as each of us receives our money's worth from fire insurance protection of our home irrespective of whether we experience a catastrophe. Protection is the key to value—not the exact equivalence between money paid in and benefits received.

Social Security is a group insurance plan. It is not a savings bank plan. It has no salesmen and it requires no medical examination. It covers the rich and the poor, the black, white, and Hispanic. It not only protects the individual; it protects the nation against the possibility of vast increases in the welfare rolls. If Social Security didn't exist, some 10 to 15 million additional persons would have incomes below the poverty line, and many more persons would be on the welfare rolls. It thus reduces the expenditures otherwise necessary from federal and state general revenues.

Some persons who proclaim that individuals can get a better deal by taking their contribution and investing it privately overlook the life insurance and disability protection to young persons and the Medicare protection in the program to disabled persons of any age. They also assume that interest rates will continue indefinitely at high levels such as 10 or 8 percent. The fact of the matter is that these high interest rates are not borne out by long-range historical experience. Over 30 to 40 years, a real interest rate of 3 to 4 percent is probably more realistic.

Objections to "Reforms"

My vision of Social Security is as a basic floor of protection for all persons, upon which they can build greater protection for themselves. Such a system encourages individual and group saving and stimulates private plans to supplement the basic protection.

Some proposed changes to reduce benefit costs of Social Security arise from a belief that we will not long be able to afford the program in its present form because more people are living longer. This belief seems to me to be based on the assumption that the American economy is going into a permanent state of slow economic growth or "stagflation," and thus that we can no longer afford to be as generous as we thought we could be.

I do not share the current pessimism about our economic future for several reasons. I believe that increased productivity will continue to be a feature of the American economic system. We will ultimately survive the pessimism of the 1970s and 1980s and reach a more prosperous high-tech period. We should not make radical long-run changes in Social Security based upon dismal short-run economic forecasts. These changes could adversely affect the security, the planning, the expectations, and the benefits of present contributors to the system. Although the number and population of aged Americans will increase in the years to come, it appears that the percentage of children in the population will not. As a result, the ratio of total dependents (those under age 20 plus those 65 and over) to the rest of the population will remain relatively similar to the 1965-1970 ratio. Thus, the overall financial burden on society for the care of total dependents should not increase as much as just looking at the aged alone implies. In addition, if our gross national product continues to grow (as I believe it will), the total cost of OASDI should not increase very much as a percentage of the gross national product. It is currently about 5 percent of GNP and may reach 6 percent by the year 2035, but by that time the GNP should be relatively larger in per capita terms, so it will not be a greater burden.

The one exception to this generalization is likely to be medical care costs, not only for the aged, but for the entire population and for private insurance as well. This involves different considerations from the cash-benefits part of the program. Cost constraints on rising medical costs are essential. All the available indicators suggest that the old age, survivors, and disability cash benefits of the program do not require any cutbacks. The 1983 amendments put them on a soundly—and adequately—financed path for the long run. It is the Medicare program, however, that requires financial attention due to the rapidly increasing costs of medical services. In 1985, individuals have paid 1.35 percent of their wages and salaries and employers will pay an equal percentage, totaling 2.7 percent for Medicare. This will amount to about 19 percent of the contribution income to the Social Security program as a whole.

The Medicare allocation is already scheduled to increase to 1.45 percent each in 1986. Nevertheless, with medical costs continually increasing, it may still be necessary to allocate additional funds for Medicare in the future to keep the program financially sound. While I would favor some additional financial resources for Medicare if they are needed, the more basic need is for an effective nationwide cost-

constraint program to keep medical costs from rising as fast as they have in the past.

It is very probable that overall medical expenditures will continue to rise as older people live longer, as a substantial need for nursing home care exists, and because terminal illnesses can be so expensive. The ongoing development of technological devices for medical diagnosis and treatment is also an important factor in the continual increase in medical expenditures. We must find better ways to control medical costs, but we must also be prepared to pay more for the medical miracles that will most likely continue to evolve.

The most widespread suggestion for the short-run reform concerning Social Security's cash benefits involves cutting back on the cost-of-living adjustment (COLA). Several proposals have been advanced: freeze the COLA for one year; reduce the COLA by one or two percentage points; base the increase on changes in prices or wages, whichever is lower; pay a uniform amount instead of a percentage increase. These proposals are all grounded in the belief that they would help reduce the federal deficit. I oppose reductions in the COLA as part of a policy for reducing the federal deficit. Social Security contributions are presently yielding an excess of revenue over expenditures. The Social Security program is not a cause of the federal deficit, and it should not be politicized in this way.

Conclusion

Social Security is sound and here to stay. It is a social compact with the people. It is a solemn commitment by the Congress. I predict that the young people today will receive their Social Security 30 or 40 years from now. Congress, in my opinion, will not repudiate a sound program involving every taxpayer. There are over 200 million persons with developing rights under the program. There will be over 50 million persons drawing monthly benefits in the future. I feel sure Americans will be celebrating Social Security's 100th birthday 50 years from now in the year 2035. I have faith in Congress as long as citizens have the right to vote every two and four years for our representatives. I do not expect either the United States or Social Security to go out of business.

The Future of Social Security

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The future of Social Security, defined here as Old-Age, Survivors and Disability Insurance (OASDI), depends on its continuing popularity. This is true, too, of the future of private pension plans, Individual Retirement Accounts, or any arrangement designed to promote the economic security of the country's earners and their families. If people don't like these arrangements, they will be changed or disappear altogether. And what counts most for the future is the attitude of those not yet retired. When we talk about Social Security in the year 2000, we are talking of the retirement date of those now 50. When we talk of Social Security in 2010, we are talking about 40-year-olds. What do they think of Social Security?

What People Think of Social Security

There is no doubt that Social Security is currently extremely popular, and there is almost no support for the idea—promoted by those who would like to cut back on Social Security—that it is popular with the elderly but not with those still working. Every public opinion poll has shown an extraordinary degree of support among every age group in the population.

The most recent study of public opinion, one done by Yankelovich, Skelly, and White, Inc., and released in August 1985 (Yankelovich et al. 1985), found support for the continuation of the program among 88 percent of all respondents, with 9 percent for phasing it out and 3 percent not sure. There were no significant differences by age.

In fact, in this survey the majority of all groups wanted the system to do more. Of all respondents, 71 percent thought that Social Security should provide a retirement income at least sufficient for an adequate standard of living without regard to any other source of income. Yet only 38 percent thought that it did so. Again, there was very little difference by age of respondent. Even on the question of whether

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Social Security taxes were too high, there was no significant age difference. Among all respondents, 23 percent thought they were too high, 62 percent about right, 6 percent too low, and 8 percent were not sure.

When people were asked to sort through options for reducing federal spending, we find again that Social Security is the most popular of all government programs. Although 86 percent of the respondents believed that the federal budget deficit is a serious problem, only 11 percent would cut back on Social Security payments to help reduce it. The support is almost as strong for the other contributory social insurance program paying benefits to the elderly and disabled, Medicare, with only 14 percent favoring cuts. In contrast, 63 percent favored cutting military spending and 36 percent farm subsidies.

Yet, not everything was favorable for Social Security. In spite of across-the-board approval and support, the youngest group, 25-34 year olds, showed less confidence in the future of the system than did older people. And then, too, a whopping 31 percent of all respondents said they believed that the benefits should go only to the indigent elderly, a position entirely contrary to the basic purposes of the program.

The overall favorable findings of the Yankelovich poll should not be a cause for complacency. All is not well when so many young people lack confidence in the program's long-run financing and such a significant minority support turning it into a welfare system useful only to the poor.

Should Young People Have Confidence in the System?

Yes. It is in good shape. Of course one can argue about whether between 50 and 75 years from now the program will be in "close actuarial balance" (traditionally, estimated income for 75 years within plus or minus 5 percent of the cost) as the trustees have estimated in their 1983, 1984, and 1985 reports. Certainly it may turn out that the program is somewhat under-financed in that far-off period, but it may also be over-financed. No one can be sure. The trustees' findings are reasonable and not slanted one way or another.

One thing we can be sure of, however, is that 75-year estimates will not be entirely accurate. Financial requirements will certainly change somewhat in one direction or another. But changes in the financing provisions, either up or down, can be made gradually as the estimates are revised slightly year by year. The most significant point about the

long range is the clear legislative intent to provide for full financing and to update the estimates continually, changing the financing as necessary to carry out this intent. No other government program is financed on anything like so conservative a basis. Congress, which is supposed to have an attention span limited by the next election, in this program has put into law financing for 75 years, based on the best estimates furnished by professional actuaries and uninfluenced by political considerations. It is difficult to see how one could ask for any greater security.

For the shorter run, the financing seems more than adequate. At the end of 1985 the reserve funds are \$10 billion higher than it was estimated they would be under the intermediate estimates done at the time of the 1983 amendments. Early in 1986 it is quite likely that OASI will pay back all it borrowed from the Hospital Insurance Fund.

During the next 25 years, any need for increased financing over present law is highly unlikely. All four official estimates, from the one using highly optimistic assumptions to the one based on pessimistic assumptions, show the system in substantial surplus during this period (The Board of Trustees, 1985, Table 32, p. 69). The estimate used as a basis for setting the contribution rates under the system, the more pessimistic of the middle-range estimates and the one favored by the actuaries, shows a surplus of 2.00 percent of payroll. In other words, under present law, it is expected that during the next 25 years an amount equal to a 1 percent contribution rate from employees and a like amount from employers will not be needed to pay benefits or administrative expenses and will go to build up the funds.

I am not sure that people generally are aware of how strong the long-range financing of Social Security has become since the 1977 and 1983 amendments, not only for 25 years, but for much longer. Over 50 years, all but the most pessimistic of the four estimates show a substantial surplus, 0.62 percent of payroll under the preferred estimate.

As shown by the Yankelovich poll, the bankruptcy talk in 1981 and 1982 left its mark, but confidence will surely return as the trust funds continue to build and particularly at the greatly increased rates projected from 1988 on (The Board of Trustees, 1985, Table 25, p. 58; Table 28, p. 63).

In fact, one of the remaining great debates about Social Security may well be over whether present law provides too much funding over the next 25 years or so, turning the system away from pay-as-you-go financing toward an earnings reserve. This is a policy question that

does not need to be decided in the near term. Given the uncertainties of economic projection and the financial difficulties of the recent past, at the very least we should allow the trust fund to build to a higher contingency level than was previously contemplated. I would think even pay-as-you-go financing ought to have a contingency fund of about one and a half times the next year's benefit outgo, an amount which would allow the fund to last through a very major recession such as we had in 1981 and 1982. This level of funding will not be reached under current estimates until well into the 1990s (The Board of Trustees, 1985, Table 33, p. 70), and there is no reason to anticipate now whether the fund should be allowed to build beyond that to become a true earnings reserve with, say, five times the next year's outgo, as is now projected under present law.

Should it be decided to abandon an earnings reserve, additional financing would be required later, unless the estimates on which the contribution rates are based turn out to be too pessimistic. However, the additional financing required from remaining on pay-as-you-go is not prohibitive. The equivalent of about a one and a quarter percentage point increase in the contribution rate, each, for employers and employees in the year 2020 would do it (The Board of Trustees, 1985, Table 28, p. 64).

Who Should Benefit from Social Security?

Social Security is a universal system. It is not only for low-income people, but is a base on which all earners in the country build retirement, disability, and survivors' protection. Every private pension system is planned with the expectation that the pensioner will get Social Security, and those who save on their own count on it as a base for their savings. Limiting benefits to the poor, as supported by 31 percent of the respondents in the Yankelovich survey, would wreck the entire edifice of our four-tier system of retirement income protection built up by government policy over the last 50 years. Although there are desirable changes to be made in each tier, in broad outline the four-tier system works well. It consists of: tier 1, a nearly universal, compulsory, contributory, wage-related system of social insurance, Social Security; tier 2, supplemental private and public occupational pensions; tier 3, home ownership and income from other individual savings; and tier 4, needs-tested programs of last resort, primarily the Federal Supplemental Security Income (SSI) program. Social Security may be expected to be by far the most important part of the retirement system for the lower-paid half of the wage-earning

population and their families, but others need Social Security, too, if they are to have adequate retirement protection. Private pensions or career government positions built on Social Security will not ordinarily be enough without Social Security. This is true for most, even if they own a home and have other savings, including income from Individual Retirement Accounts. Inflation-proof Social Security is the base on which everything else depends.

Clearly, continued enthusiastic support for the program will depend on how well middle-income people, as well as the lower-paid, understand this. A major educational program directed at those who are still some way from retirement is greatly needed. For example, those respondents in the Yankelovich poll who thought Social Security benefits were too low may not have realized that up to the time of receipt, benefit rights are automatically kept up to date with increases in average wages and that Social Security will pay benefits 15, 25, or 40 years from now that bear the same relationship to wages being paid then as present benefits do to current wages.¹ Young people may not understand that all future productivity increases will be incorporated into their benefits automatically and that they can expect Social Security retirement benefits about twice the real value of current benefits. And, of course, benefit protection is not only kept up to date with rising wages, but after one starts to receive benefits they will be kept up to date with rising prices.

Perhaps an illustration will make these points clearer. If it turns out that over the next 15 years prices and wages increase as assumed in the Social Security cost estimates,² the worker now 50 who earns average wages and retires at 65 in the year 2000 would get a Social Security retirement benefit of \$14,916 a year, \$22,368 for a couple, as compared

¹ These automatic increases are accomplished by indexing the individual's earnings record so that the benefit formula is applied to average wages updated to the wage level being paid shortly before one reaches retirement age. Thus, the \$3000 wage paid in 1954 was credited at \$9,296 for the worker who retired at 62 in 1979 since wages were somewhat more than three times higher in 1977 (the indexing year used for those who retired in 1979) than they were in 1954. Maintaining a level replacement rate, as is done in present law, also requires the automatic updating of the brackets in the weighted formula to reflect increases in average wages. For example, when the automatic provisions were adopted in the 1977 Amendments, the benefit formula to be applied to average indexed monthly earnings was 90 percent of the first \$180, 32 percent of the next \$905, and 15 percent of the amounts above \$1,085. The law requires automatic updating, and the formula for 1986 will be 90 percent of the first \$297, 32 percent of the next \$1,493, and 15 percent above \$1,790.

² Prices are assumed to rise 4.7 percent in 1986, 5.3 in 1987, 5.0 in 1988, 4.6 in 1989, 4.2 in 1990, and an average of 4.0 thereafter. Earnings in covered employment are assumed to rise 5.6 percent in 1986, 6.4 in 1987, 6.1 in 1988, 6.2 in 1989, 5.2 in 1990, 5.4 in 1991, and 5.6 in 1992-2000 (The Board of Trustees, 1985, Table 10, p. 28).

to \$6,576 and \$9,864 today. However, the average wage of \$16,743 for 1985 will have gone up to \$36,227 in the year before retirement and the benefit will be approximately 41 percent of his or her earnings, as is true for workers now retiring. The important point, though, is that the purchasing power of the benefit will be 21.4 percent higher than the benefit payable to the average worker now.

Social Security has had a tremendous success in reducing poverty, and it is understandable that people who write about Social Security have concentrated on this success. Social Security has been largely responsible for the fact that the percentage of those over 65 who are desperately poor is now slightly less than for the rest of the population (12.4 compared to 14.4) instead of more than twice as high, as it was as recently as 1959 (Bureau of the Census 1985). Without Social Security, more than half the elderly would have incomes below the federal government's rock-bottom definition of poverty.

Yet, Social Security is much more than a poverty program. It helps people who are relatively well off while working to combine Social Security and other income so as to provide a level of living in retirement that is not too far below what they are used to. That is a major reason why the great majority of people gladly pay Social Security taxes—not only to protect their parents and grandparents today, but to buy a future benefit for themselves and their families. A means test that would take away benefits from those who made earmarked Social Security contributions would certainly be considered a betrayal, and it would be quite out of the question to continue the present method of financing Social Security while limiting the benefits to the poor.

Let me illustrate how much Social Security will mean to the working couple who are relatively well off—one earning the average wage, \$16,743 in 1985, and one earning a wage half-way between the average and the maximum covered under Social Security, \$28,178 in 1985. Supposing they plan to retire in 2000 when one earner is 65 and the other 62. They figure that in order to maintain about the same level of living in retirement that they had while working, they will require an income in 1985 dollars that is about 70 percent of their combined earnings. In 1985 dollars their Social Security benefits will amount to \$17,088 a year, and they are counting on private pensions and income from savings amounting to \$19,344, to give them the 70 percent they want. Thus, when they start out in retirement their Social Security benefits account for 47 percent of their income, but since Social Security is indexed to prices after retirement and private pensions and

savings are not, Social Security plays an increasingly important role during retirement. When they are 75 and 72, the purchasing power of Social Security will still be \$17,088, but, assuming an average inflation rate of 4 percent, their other income will have shrunk to \$13,068. At the end of 20 years in retirement, the \$17,088 in Social Security purchasing power will represent two-thirds of their total income, which is now far below the retirement income goal they had in mind.

A couple now 40 and 37 with the same earnings in 1985 as the couple in the previous example will have larger Social Security benefits in 1985 dollars when they retire. They will have a combined benefit of \$19,992 if they wait to claim benefits until the older worker reaches the age at which full benefits are first payable, 66 in 2011. Of course their real wages will be higher also, so they will need \$22,548 in income from private pensions and savings to reach a retirement income goal of 70 percent of their recent earnings. After 10 years their Social Security income will still be \$19,992 in 1985 dollars, but their other income will have shrunk to \$15,240. After 20 years in retirement, Social Security will be supplying two-thirds of retirement income in this illustration also.³

It is quite likely that most middle-income people are underrating the importance of Social Security benefits in their retirement plans.

Conclusion

My main thesis is that the future of Social Security will be determined by what people up and down the income distribution continue to think about the program's usefulness for themselves, their families, and for society as a whole.

There has been a crisis in confidence in Social Security brought on in part by the real short-term financial difficulties of 1981 and 1982 and, in part, by the exaggeration of those difficulties and the expression of unwarranted pessimism about the long-term financing of the program by those who wish to do away with Social Security or greatly limit its scope. But the fact that radical change did not take place in 1983 when there were real problems and the public had been bombarded by predictions of disaster seems to me to make it unlikely

³ These illustrations somewhat exaggerate the situation for some people. Although no private pension plans guarantee full inflation protection, a few do make automatic adjustments up to a cap of, say, 2 or 3 percent a year, and some others make ad hoc inflation adjustments even though they are not required to. And then, too, some retirement income from personal savings may contain a partial hedge against inflation. But these are the exceptions. Most retired people would be living on a fixed income if it were not for Social Security.

that there will be radical change now that the program is demonstrably in good financial shape and performing well the functions it was designed to perform. Of course there will be changes as there have been in the past, but it is probable that they will be made within the context of a continuation of the basic principles of a wage-related, contributory, universal, and compulsory program without a test of means or income, so that it serves as a base to which all people can add private pensions and private savings.

Some changes *should* be made. It would be good to have the administration of Social Security put under an independent board, as used to be the case. The fairness and efficiency of the disability program needs much improvement. It would be desirable to improve OASDI benefits for single people, particularly divorced homemakers, and the 30 percent of state and local employees not now covered should be brought under the system, probably starting with new hires.

Mostly, however, I think it is best to leave the OASDI program alone for a while. Certainly no fundamental changes are needed. On the contrary, it is important to preserve the basic program principles that are responsible for Social Security's great success. Benefits initially should continue to be based on past earnings updated to reflect increases in productivity and thus the level of living of the community. Once awarded, benefits should continue to be inflation-proof. The benefit formula should continue to be weighted in favor of the lower-paid worker and those with dependents. The right to benefits should continue to be based in part on deductions from workers' earnings and not conditioned on the income of the beneficiary. To the extent possible, the program should cover compulsorily all who work, with protection following the worker from job to job and with occupational pensions built on top, as appropriate. The concept of family insurance, as well as retirement protection, should be preserved.

What Social Security needs most is a greatly improved information effort to give people a better sense of what the program provides and to give them the confidence in its financing that is warranted by the facts.

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Social Security's Outlook at 50: A Critical Assessment

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It is a privilege to appear on this panel commemorating the 50th anniversary of the Social Security Act alongside two such distinguished panelists, Wilbur Cohen and Robert Ball. Their vast experience and knowledge in all matters relating to Social Security is well known. I am also pleased to have this forum to share my views on Social Security, as they differ in some important respects from those of the other speakers.

In preparing for this panel, and thinking over the birth and evolution of Social Security, I was struck by how much the debate has narrowed. In 1935 there was heated debate on the floor of the Senate on an amendment to permit individuals the right to contract out of the new retirement program if a private pension plan provided comparable coverage. (The amendment was approved by the Senate, though it was dropped in the final legislation.) A half-century later, with a much expanded private pension industry and greatly expanded economic opportunities, such a debate would seem an impossibility. A reading of most any recent issue of the *Congressional Record* would reveal that in the last 50 years, the debate on Social Security has narrowed from how best to supply retirement income to the nation's elderly to how best to limit debate!

This is unfortunate. The Social Security system is, by now, a vital part of our economy and society. It affects the decisions we make about saving and retiring, decisions about where and how we live—whether, for example, we live as extended families—and even decisions about marrying and working. Whether the system adapts to the radical changes that lie ahead—economic, political, and social—will depend in a fundamental way on the extent to which its strengths and weaknesses are debated in some meaningful way.

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In my remarks today, I would like to review what I see as the key challenges facing Social Security in the decades ahead. These challenges pertain to financing, equity, and choice. My purpose is not to provide pat solutions to a set of well-defined problems, but rather to raise questions and help focus attention on issues which I believe will be of recurring public policy interest in the years ahead.

First, and certainly the most immediate, is the challenge posed by the looming federal debt and Social Security's relation to it. Social Security has a potent effect on the finances of the federal government—both on the revenue and expenditure side and through trust fund investment policy—that simply cannot be ignored. Social Security and Medicare spending account for one out of four dollars spent by the federal government; the payroll tax, the system's principal source of support, is second only to the personal income tax in generating revenues for the IRS. While Social Security is beginning to operate in the black again, this is only after running deficits for more than a decade and contributing substantially to the national debt in recent years.

Whether operating in the red or black, however, Social Security has indirect effects on the taxing and spending decisions of the federal government. In 1986, for example, about \$3 billion in trust fund income will be attributable to transfers from the general fund of the Treasury for interest on federal bond holdings.¹ Amounting to just 1 percent of income today, these transfers are projected to reach a fifth of income by 2020. How are they to be financed? Like any other obligation of the federal government, they come at the expense of other federal taxes, other government programs, or increased public debt.² By the very fact that benefit promises to the adult population far exceed resources currently available to the system, Social Security has a huge debt associated with it—albeit largely an implicit debt—that must somehow be met as benefits come due. Interest and

¹ These and other data are drawn from Harry Ballantyne, "Long-Range Estimates of Social Security Trust Fund Operations in Dollars," Actuarial Note 125 (Washington: Social Security Administration, 1985), and Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *1985 Annual Report*. Projections based on intermediate assumptions.

² The cost is incurred (in a budgetary sense) when the funds are actually spent by Social Security, which means when benefits cannot be met with the payroll tax alone, and it may or may not represent an increase in cost over and above that associated with the debt outstanding at the time Social Security purchases its bonds. This depends on whether or not the amount of debt held by the public falls when surpluses are accumulated, as discussed below. In either event, however, interest payments and ultimately the principal payments themselves represent Social Security's outstanding claims against the resources of the federal government.

principal payments, no less than the payroll tax levies already scheduled in the law, are Social Security's pre-existing claims on future resources.

Evidently, Social Security has a significant impact, both direct and indirect, on the federal budget and taxing and spending decisions with respect to the rest of the budget. So long as it does, and so long as its effects are increasing over time, efforts to control the budget will inevitably involve Social Security. The Gramm-Rudman-Hollings legislation notwithstanding, that is, the vital link between Social Security and the finances of the federal government will preclude the making of budget policy—or the preserving of Social Security policy—in a vacuum.

A second and related challenge facing Social Security in the years ahead is the financing of benefits for baby-boom retirees—those of us coming into retirement after the years 2010–2015. According to the 1985 Board of Trustees, there will be more than twice as many retirees (in fact, twice as many retirees per worker) in the year 2020 as there are today, and the typical retiree will be receiving a benefit that is substantially higher, in real terms, than today's retirees.³

Can we afford that? According to the Trustees, the OASI and DI programs are in "close actuarial balance" over the long range, meaning that aggregate income over the next 75 years should roughly equal outgo. Without at this point questioning the actuarial assumptions underlying this favorable prognosis, consider the following: taxes are scheduled to rise sharply through 1990 then stabilize, while expenditures are expected to dip (relative to taxable resources) in the 1990s then soar as the retirement of a baby-bust generation gives way to the retirement of the baby-boom generation. The result is overfunding, relative to pay-as-you-go financing, in the next few decades and underfunding thereafter, a fact which is easily obscured by the actuaries' concept of balance.

According to the Trustees, the surpluses in the OASDI programs over the next 30–35 years will be so large that a reserve fund will be amassed by 2020 on the order to \$2.2 trillion (in 1985 dollars)! Such a fund exceeds the total amount of federal debt now held by the public and would, according to the actuaries, amount to some 26 percent of projected GNP in that year. Then, some time after the turn of the century, around 2030 or so, the trust funds are projected to begin

³ The growth of real benefits is due to the automatic adjustment of the benefit formula each year to reflect the growth of wages in the economy, rather than prices.

incurring deficits. Those deficits are projected to be so large that all of the reserves previously accumulated would have to be liquidated in the span of 20 years.

Of what importance is this to the security of future benefits if, on net, income equals outgo? Since Social Security is not projected to be able to meet benefits out of the proceeds of the payroll tax after about 2015, long-range solvency is predicated entirely on the assumption that the government will actually accumulate large reserves of interest-bearing government debt in the trust funds and will stand ready to redeem them for cash when needed. Several things must be true for this to be a reasonable prospect for those of us born in the baby-boom or later, and for all those paying excess Social Security taxes today.

First, it must be the case that the government—or, more accurately, the citizens alive at the time the obligations to the trust funds come due—chooses to meet those obligations. It should be kept in mind that the debt comes due decades later on a sizable number of people who were not consulted at the time it was issued. The debt can be reneged upon implicitly, through inflation, or indirectly, through cuts in future Social Security benefits.

Second, it must be the case that the government does not increase its indebtedness vis-à-vis other government programs as Social Security starts to run surpluses. Since the trust funds are invested almost exclusively in new government bonds, surplus Social Security receipts represent excess revenues from the standpoint of the Treasury, available to finance either an increase in government spending, a cut in federal taxes, or a reduction in borrowing from the public. Only in the event the surpluses are used to retire outstanding privately held federal debt—and one would be at a loss to determine whether they were or not unless the rest of the budget were in balance—could there be a net advantage to running surpluses. In such a case, Social Security surpluses would translate into real savings on the part of government, meaning less government debt outstanding when baby-boomers retire, and to at least some prospect for enhanced economic growth. Only in this sense can the accumulation of a portfolio of government bonds (i.e., IOUs from one part of the government to another) increase our ability to meet future benefits.

Third, it must be the case that present law is retained in the face of potentially giant surpluses and the strong political pressure that would presumably come to bear to enjoy those surpluses in the next few years (i.e., pressure to increase benefits, cut the payroll tax, or bail out the Medicare program). If Social Security's financing base is eroded

through any such action, the long-range indebtedness of the system would be increased as would the payroll tax necessary to finance future benefits.

The handling of surplus Social Security receipts in the next 10 to 30 years and the subsequent handling of the liquidation of trust fund assets poses an enormous challenge for policy-makers. A rethinking of advance funding and pay-as-you-go financing—reminiscent of the 1930s—and the implicit assumptions upon which the security of future benefits is based would appear to be both sensible and likely.

Now, what about the reasonableness of the assumptions underlying the solvency forecasts? Without going into detail, I would simply note that the Trustees' intermediate projection is based on a fertility rate assumption (at replacement) that is more favorable than the Bureau of Census projection and above recent experience as well. The fertility rate in the United States has been below replacement for more than a decade, just as it has been in the United Kingdom, West Germany, France, and most of the industrial nations of the world. Whether or not, and how quickly, the fertility rate will return to replacement is a matter of great debate. The accuracy of this assumption is critical to Social Security's financial outlook since fertility is the principal determinant of the age composition of the population and the ratio of workers to beneficiaries.

The prospect for renewed financing problems in the face of continued low fertility points up yet another problem—or challenge—facing Social Security, that of the system's inherent financial instability. Social Security has no "automatic pilots" that ensure solvency in the long range. Real wages or fertility or mortality can and certainly will grow at a different rate than now expected; reserves will build up more quickly or more slowly. Recognizing this, there will be an ever-present need to adjust taxes and benefits and, in so doing, allocate the risks of uncertain future events between workers and retirees. How that allocation is made—with or without advance notice, with or without a sharing of the costs across generations—has real economic and political import, as any change in Social Security alters the distribution of wealth and income over time. Even a decision to do nothing, for example, while surpluses accumulate more rapidly than expected is an implicit decision about how the rewards of, say, economic growth are to be allocated between present and future retirees (or between payroll- and income-tax payers or between beneficiaries of Social Security and other government programs).

To this point, my remarks have been limited to financing issues. In particular, can the current structure of obligations be met with available resources? Other challenges facing Social Security revolve around the structure and perceived equity of those obligations. A particularly troubling area in this regard is the treatment of women and families. Under present law, families with identical earnings and tax payments receive different benefits depending on whether one or both spouses work for earnings, with two-earner couples receiving sometimes substantially lower benefits. Second earners, generally women, are discouraged from working; older people with limited work experience and difficulty establishing eligibility, generally women, are discouraged from entering the workforce. Other features of the law leave women who work in the home without the benefit protections offered to those who work for earnings. Growing dissatisfaction with the current structure of benefits may well place pressure on federal legislators to revamp Social Security (financed, possibly, by some of those tempting surpluses?).

There are also concerns about intergenerational equity and the sharp decline in the implicit return on taxes. The average rate of return payable under Social Security is falling for new participants—as it must under a maturing pay-as-you-go system—and cannot in the long run exceed the rate of growth of the wage base, say 1 or 2 percent annually. This is an *average* rate, not one that can be paid to higher earners or workers with fewer dependents if subsidies are to be provided to lower earners and workers with more dependents. This too poses a challenge for Social Security: can the current system retain broad-scale public and taxpayer support in the presence of demands for more choice?

Finally, given the relatively low rate of savings in the U.S. and the persistent trend toward earlier retirement, attention is turning to the possibility that the particular features of Social Security may be adversely affecting economic choices. To the extent Social Security discourages individuals from saving for their retirement and/or discourages the elderly from continuing to work, the system holds the potential for undermining the economic growth upon which its financial viability depends. Attention to this critical issue may well foster a much needed examination of the proper role of Social Security relative to private pensions and other forms of retirement income.

A realistic assessment of Social Security, its problems and its prospects in a changing world, suggests that we have not seen the end of Social Security reform. The retirement of the baby-boom

generation and the general “graying of America,” coupled with the changing role of women in an environment of expanding opportunities and choice are likely to bring forth major changes in economic, social, and political life that we as a society will be better or worse equipped to handle depending on the adaptability of Social Security. Long-range reforms geared toward removing the obstacles to work and savings, improving the options open to young people, and thereby reducing the dependence of future retirees on the government for support in old age would all seem to hold great promise.

In closing, I would agree with the other panelists today, Professor Cohen and Mr. Ball, on one thing—Social Security is a solemn commitment by the Congress. Reform will not be made casually. However, Social Security is first and foremost a political institution, and as such, represents a commitment by Congress to provide what we collectively want, as expressed through the political process. As the Great Depression becomes a distant memory and the 21st century lies right around the corner, political choice may result in quite a different system than we have today. One need not look far to see the seeds of reform. The United Kingdom already permits contracting out of its earnings-related Social Security program, and the Conservative Government recently put forth a proposal to completely privatize the program. Who knows what opportunities our future may hold?

DISCUSSION

BERT SEIDMAN

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The Social Security Act of 1935 was, from its very inception, more than just retirement protection and more than just a social insurance program. Yet when most people think of “Social Security,” they think solely of providing income protection to the elderly.

The original Social Security Act included, in addition to old-age insurance, another form of social insurance—unemployment insurance (but strangely, not workers’ compensation, the oldest American form of social insurance, which remained exclusively a state program), grants to the states for means-tested income programs including Aid to Dependent Children (now Aid to Families with Dependent Children), Old Age Assistance and Aid to the Blind (the latter two now wrapped into the Supplemental Security Income program), and grants to the states for various types of services for such purposes as maternal and child health, child welfare, public health and rehabilitation.

There were two major unfinished pieces of business which at various times since 1935 have seemed to be within reach, but have never actually been achieved. The first was health care for the general population—a national health program. The second was appropriation of general revenue as a partial source of payment for Social Security benefit payments. At the outset it had been contemplated that the system’s financing would by 1962 begin to receive infusions of general revenue so that eventually its funding would come one-third from employers, one-third from employees, and one-third from general revenue.

Turning first to Old Age, Survivors and Disability Insurance and Medicare, the health insurance program for the elderly and severely disabled added in 1965, I agree with Wilbur Cohen and Robert Ball that it has been an outstanding success. But there are improvements that ought to be made whenever the opportunity presents itself. Included among such improvements are gradual introduction of

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general revenue to reach an eventual one-third share of funding, higher benefits especially for the lower paid who are most dependent on Social Security, better treatment of women commensurate with their current role in society and the economy through an earnings-sharing approach, a less harsh definition of disability, and special attention to the needs of the old-old who are the fastest growing group among the elderly.

As far as Medicare is concerned, the present emphasis on cost restraint in what has been a highly inflationary program makes sense, but we must make sure that the way in which costs are controlled does not do a lot of harm to the program's elderly and severely disabled participants by reducing their access to needed care as well as its quality. Though Medicare has improved health care greatly for those the program has served, from the beginning it has failed to cover many items the elderly particularly need including long-term care. It has also entailed red-tape forms and procedures that are particularly difficult for the elderly and the mentally impaired to cope with.

If OASDHI has been reasonably successful, the same cannot be said of other programs launched by the Social Security Act. Unemployment insurance started with defects which have become devastating in recent years. Unlike OASDHI, the federal role has been minimal so that, from its inception, it has been essentially a state program. We have 52 different UI systems with no federal minimum standards governing benefit levels, duration of benefits, criteria for qualification for or denial of benefits, or other aspects of the program which determine its effectiveness. Ours is the only UI program in the world in which the financing system is based on experience-rating. This is a regressive system of taxation which puts the heaviest financial burden on faltering firms and declining industries which can least afford it. Since the employer's tax is determined by how many of the firm's employees receive benefits, this perverse system of financing gives every employer a strong incentive to challenge the benefit entitlement of every displaced worker.

In the years of the Reagan administration, slashes in coverage have so reduced the scope of the program that, whereas a decade or so ago seven out of every ten jobless workers received benefits, today seven out of ten workers and even more *do not* receive benefits. In the face of more long-term unemployment than in any nonrecession period since World War II, the maximum duration is 26 weeks. Benefits for the few who receive them make up only about one-third of previous wages.

The means-tested programs have also failed to achieve their intended mission. SSI provides a subpoverty income for many dependent on it. The AFDC program is the only nonindexed income maintenance program we have. Many of the poorest of the working poor and their children have been removed from AFDC and are no longer receiving those meager payments; they have lost their Medicaid coverage as well. The program has greatly suffered because public discussion of it is confined to its supposed impact on the adults under it. Completely ignored is the fact that its goal should be to give a decent start in life to millions of the poorest and most disadvantaged children who have only a single parent (invariably the mother) to bring them up.

An assessment of the Social Security Act must begin by recording the considerable success of both OASDHI and Medicare. But a national health-care program, left out of the original act and never enacted since then, is still sorely needed. It is somewhat anomalous that at a time when its achievement seems most unlikely, there is increasing recognition that we must provide health care coverage for the increasing number—now 35 million—without it.

The emphasis of AFDC is on forcing adults into workfare rather than the welfare of children. But the social conscience is beginning to manifest itself. Witness the contrast between the mindless slashes during the first phase of the Reagan administration and the “protection” of such programs in Gramm-Rudman.

UI is in shambles and there is virtually no indignation about it.

Thus we got off to a good start in 1935 but since then, in all programs except OASDHI, compromises have produced yawning gaps, fragmentation, inadequate protection, and inequity. Over and over we have permitted illusions to overcome reality. Our failure to recognize and meet genuine needs has put us far behind most other industrialized countries and has destroyed our social cohesiveness and solidarity. Our penchant for categorical and means-tested programs has tended to make them tight-fisted, uncoordinated, and inordinately complex.

Only when we begin to assess both needs and resources realistically will we begin to fulfill the hopes and aspirations of the dedicated men and women who brought into being the Social Security Act.

DISCUSSION

WILLIAM M. VAUGHN^o
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When Mr. Cohen asked me last June to participate on this panel, I asked him “Why me?”, citing the fact that I knew very little about Social Security, especially in comparison to the other members of the panel. He replied essentially that it would be nice to have a member of the business community on the panel. After some thought and realizing that this would be an opportunity to learn more about Social Security, I agreed to do so, stipulating that I am not an expert and that I would not have much time to spend preparing for this session. I hope the audience will keep this in mind when evaluating my comments.

My comments are based primarily on the written work submitted to me by our distinguished panelists.¹ In general, I found the three papers well written, informative, and interesting. However, the papers are not carrying the same message. Mr. Cohen gives us reasons for optimism concerning Social Security in the future; Mr. Ball gives us factors that will influence the future of Social Security; and Ms. Weaver gives us a historical perspective of the reasons why conflict over the Social Security program is likely to continue in the future.

The conclusion I draw from reading these three papers is that though Social Security is now accepted and will continue to exist, the precise shape that it will take in the future is hard to predict given the size of the program(s); the financial impact the program has on individuals, business, and the federal government; and the resolution of the budget deficit question. Social Security will be prominent in the news and these papers help us to better understand why.

While admiring the papers of Mr. Cohen and Mr. Ball, I was disappointed that they did not stick closer to the title of this session, “Social Security After 50 Years: Looking Back and Looking Ahead.” My reasons for stating this are twofold: One one hand, Mr. Cohen and

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^o The views expressed in this paper are those of the author alone.

¹ Ball (1985), Cohen (1985), and Weaver (1984).

Mr. Ball probably know as much about Social Security and have influenced its history as much as any other living Americans; and on the other hand, starting from my own near ignorance of the system and benefiting from Ms. Weaver's paper and supplementary research, I have come to realize that there is much to look back on and much to speculate about the future. Let me cite some examples, starting with "looking back."

First, Social Security as we know it today is not 50 years old. The original program dating back to 1935 contained one beneficiary group—the retired worker at age 65. Coverage by today's standards was "relatively narrow." The taxable earnings base was \$3000 and the employer and employee tax rate was 1 percent. Contrast that with today's program where coverage is "nearly universal," and where besides retirement programs (with expanded eligibility) Social Security now includes Medicare and a wide range of disability payments, and you get some realization of the tremendous changes that have taken place under Social Security. Furthermore, with today's taxable earnings base at \$39,000 and the employer's and employee's tax rate at 7.05 percent (and increasing in future years), you get some appreciation for the change in financial impact that the system has had on the economy and individuals.

Second, it is difficult for many of us to appreciate how controversial Social Security was at its inception. Today there is good evidence that the program is accepted, if not appreciated, by the vast majority of Americans. I would like to have heard Mr. Cohen's and Mr. Ball's statements on the evolution of this acceptance and the expansion of Social Security.

Third, there is the history and philosophy of financing the Social Security program. Financing systems adopted in earlier years—Trust Funds and earmarked taxes based on a pay-as-you-go system—may not be appropriate for the vastly expanded Social Security program of today and the changing demographics (higher percentage of elderly to current workforce). Certainly, the amendments of 1983, as I will touch on below, challenged some of these assumptions. Again, I would have appreciated Mr. Ball's and Mr. Cohen's insights in this area.

Fourth, there is the transition of the administration of Social Security from an independent agency to that of being part of the Department of Health and Human Services. This is apparently an important transition—it is mentioned by Ms. Weaver and Mr. Ball in their papers—but it is one that I do not appreciate and would like to

know more about—as well as the significance of this administrative question for the future.

Finally, and partially with tongue in cheek, I am surprised that none of the authors mentioned the Social Security number. Can anyone today imagine a world without a Social Security number? It, too, has a history and importance of its own, and I think it should be mentioned in today's proceedings.²

Turning to the “looking ahead” part of the program, I believe the authors agree that Social Security is not likely to disappear; however, despite Mr. Cohen's optimism, Social Security is likely to be under pressure in the years to come. The reasons for this are not surprising. There is growing concern with the so-called “budget deficit problem” and Social Security is a major expenditure. Also, with the Social Security payroll tax rate of 7.15 percent on a wage base of \$42,000 in 1986 (a figure that probably exceeds the earnings of nine out of ten workers (Weaver 1984, p. 32)), individuals and businesses alike see this as a major expense item. Furthermore, as Ms. Weaver demonstrates in her paper (1984, especially pp. 30–33), with the changing demographics a comprehensive system based on “pay-as-you-go” will inevitably come under more conflict between the current beneficiaries of this system seeking to maintain or improve benefits and the current payors of this system (workers, employers) seeking to resist higher tax rates. Taking this as a given, I agree with Mr. Ball that “the future of Social Security will be determined by what people up and down the income distribution continue to think about the program's usefulness for themselves, their families, and for society as a whole” (1985, p. 11), but I do not know what the outcome will be.

Despite the statements of Mr. Cohen, Mr. Ball, and many others that the system is in good shape—albeit at a high cost—and assuming for the moment that the system *is* in good shape, there are two problems. First, probably due to the real financial pressures on the system in the years around 1983, the public perception is that the system *is not* in good shape. Younger workers, as Mr. Ball reports (1985, p. 3), have doubts about the benefits that will be available when they retire. Here, I do speak from personal observation. These worries are “putting pressures” and putting the spotlight on our private pension system. These pressures and spotlight on private pension plans, which very often are integrated with Social Security benefits,

² Department of Health and Human Services, *Social Security: Partnership with Tomorrow* (Cambridge, MA: August 1985).

are coming at a time when the government is considering doing away with or modifying vehicles for savings for retirement—such as DSO, 401(k) plans, ERISA, and MEPPA, while giving many necessary protections to private pensions, have probably not fostered the growth of pensions, especially multiemployer pension plans. There are two points to be made here: if the system is in good shape, we must verify the fact, monitor trends, and spread the word; and secondly, increasing restrictions on the private pension system will only put more pressure on Social Security. Both phenomena will affect the future of Social Security.

Even assuming the retirement portion of the system is in good shape, no one is saying that the Medicare portion of Social Security is adequately financed or in good shape. How this “financial crisis,” which will soon be upon us, is resolved will bear watching. Raising Medicare premiums and introducing a “so-called” means test, a fairly radical step I believe, has already been suggested. There is also evidence that cost containment is taking place. The Prospective Payment System (PPS) of Social Security with its DRGs (Diagnostic Related Groups) is a bold effort. The fear, however, in the private sector is that the Medicare solution may contain some elements of cost-shifting in addition to cost-containment; as the government pays less, private plans will pay more. One element of cost-shifting has already taken place: private plans are now the primary insurers of workers who work beyond age 65. This is a recent change and employers hope that this does not constitute a trend.

Finally, and related to the Medicare crisis, I think the 1983 Social Security amendments, which were necessary to put the Old Age, Survivors and Disability Income portion of Social Security in secure financial shape, must be mentioned in any discussion of the future of Social Security.³ I don’t have enough perspective or knowledge to judge the radicalness of the amendments, but I do sense that they are important changes and are evidence that if things are bad enough, “sacred bullets” will be bitten. These amendments, amongst other things, did the following:

- Subjected certain Social Security benefits to federal income taxes.
- Raised, albeit gradually, the normal retirement age from 65 to 67.
- Delayed the 1983 cost-of-living adjustment.

³ Martin E. Segal & Company, Inc. (1983). Much of my material in this section comes from this publication.

- Provided for a substitute, under certain circumstances, for the CPI as a measure of the cost of living.
- Widened the FICA tax base by including income tax deferred compensation.

In short, the amendments modified (albeit not drastically) essential elements of the system and in my view added some uncertainty to aspects of the system many considered certain.

If you consider these changes as being brought about by changes which may recur, and view them as precedents, and couple these facts with the fact that Medicare is in trouble and a “means test” has been suggested, then I submit it is very difficult to predict what a panel like this one 50 years from now will be discussing.

In conclusion, I would like to thank our distinguished panel for stimulating my thoughts about this important subject. I hope that they will continue to comment on and help shape the future of Social Security.

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DISCUSSION

BRUNO STEIN

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Cohen's paper is an enthusiastic tribute to the Social Security system that he helped to put in place and with which he has been associated for so long. I share most of his enthusiasm and much of his optimism for the future. Historically at least, western social insurance systems have been remarkably resilient in the face of political and economic stress. I am put in mind of my aged aunt, who is currently collecting a pension for the military services that her late husband rendered to the Austrian Imperial and Royal Army in 1914–1918. Since the rendering of those services, Austria underwent a revolution (1918), violent overthrow of the government (1934), annexation by Germany (1938–1945), war (1939–1945), and four-power occupation (1945–1955), not to mention hyperinflation and depression. Evidently, nothing could stop that pension when it became due and payable.

The past, especially other peoples', is no guarantor of the future. As Ball points out in his paper, a significant proportion of younger workers lack confidence in the future of the system. Ten years of crises in Social Security have left their mark on our political psyche. It is understandably difficult to persuade people that the 1983 repairs were as effective as these things can be, in contrast to the poor job done in 1977. And younger people have some cause to be nervous or dissatisfied, since they are scheduled to pay more and receive less than their predecessors.

No one can plan for perpetuity. Even the 75-year projections used for the cash transfer segments of Social Security necessarily contain elements of hope and sheer guess work. It is in the nature of social insurance systems that they must be monitored for problems as reality deviates from the actuarial assumptions made at an earlier time. In most cases, there is enough time to make adjustments, if the political will to do so exists. For example, I agree with Weaver that it may already be time to begin to worry about the fertility rate assumptions

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in the current set of projections, and to consider alternative courses of action if the rate does not turn up as projected.

In the case of the Medicare component, the alarm signals are loud and clear. Cohen's paper points to this problem. There is a lot to be said for attempts to contain the rise in medical costs. Realistically, however, cost containment is likely to lead to a lower quality of care, or, as Vaughn points out, to some cost-shifting. The Prospective Payment System provides a strong incentive to undertreat patients. I am too much of an economist to believe that some government rules about patients' rights will overcome these incentives.

At some point it will become evident that quality medical care is expensive and unlikely to become cheaper. A policy choice will have to be faced: Should Medicare become a sort of minimum on top of which higher income people will buy protection in the private insurance market, or does the nation want to tax itself more to make quality care available to all older people (and, possibly, to all people regardless of age). It will be a painful choice, indeed.

I turn now to the paper by Weaver. She raises a lot of stimulating issues, and I can only touch upon a few in this space. I think that her fear of large transfers from the Treasury to the Trust Funds is misplaced. The transfers are interest which must be paid on government bonds regardless of who holds them. Budgetary deficits are not and should not be created simply to provide Social Security with investment vehicles. The large surpluses that the Social Security Trust funds will run over the next three decades are worrisome to her because they present temptations to politicians to reduce other taxes, or increase benefits. It is only if surpluses are used to retire outstanding federal debt that the surpluses would become real saving that could enhance future economic growth and increase our ability to pay future benefits.

She is right, of course. It was this fear of fiscal sin that led the conservatives of the late 1930s to prefer pay-as-you-go to advance funding. It should be noted, however, that Weaver does not really advocate pay-as-you-go; there is a hint at the end of her paper that she harbors a preference for private provisions for old age income maintenance. I think that I am less confident than she in the ability of private pensions and savings to replace much or all of Social Security, but that is an issue to be discussed at another time and place.

The last point I want to touch upon in Weaver's paper is the question of equity. Some of the intragenerational inequities pertaining to the treatment of wives may well rear their political heads in the

intermediate future. Weaver fears that the “tempting” surplus may be used to correct these inequities. She may be right, but, of course, there are other ways—perhaps more painful ones—to make the needed adjustments. For example, income splitting is an idea whose time may yet come. Intergenerational equity, which she expresses as the falling implicit rate of return on Social Security taxes, is a more difficult matter. Historically, younger generations were generally better off than their eiders. This may be changing, although it is too early to tell whether the change is permanent. The best consolation that I can offer to the younger cohorts is that the ratio of working to nonworking population will not change appreciably between now and the middle of the next century. The greater burden of providing for the aged will be offset, at least in part, by the diminishing burden of providing for the young. Cohen’s paper mentions this, but it must be remembered that this kind of a resource shift will involve political problems of its own.

Social Security will continue to face problems, and its ability to fulfill its role will depend on its adaptability. That role—the provision of dignified income maintenance for aged and disabled workers and for survivors—is a worthwhile one. Cohen, Ball, and the others who developed Social Security deserve our thanks. The system changed under their tutelage. It will continue to change. I do not think it will disappear.

DISCUSSION

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When President Roosevelt signed the Social Security Act on August 14, 1935, the U.S. had been 46 years behind the 1889 initiation of the German Old Age Insurance statute. At that time more than 20 countries, some in Latin America, had already established similar programs which the drafters of the U.S. system had studied. Among the drafters were a number of well-known university professors who had specialized in social security as well as business leaders (including some from the insurance industry) and labor leaders with experience in government. Many of them were members of advisory committees to the Committee on Economic Security. Wilbur J. Cohen, today's chairman, was the principal research assistant to Edwin E. Witte, the executive director and himself a member of the executive staff of the main committee (Booth 1973, pp. 6-8).

The quite intensive studies of some of the foreign systems, as for instance the British, the German, and the Belgian old-age coverage together with Switzerland's unemployment insurance system (U.S. Committee 1937, App. xiii-xiv), led some observers to believe that the U.S. program was an amalgam of foreign programs. Currently the view prevails that the American Social Security program is entirely home-grown and has developed independent of foreign (international) influence.

This commentator believes that the knowledge of foreign social security systems played an important, but not the only, role in the initiation of our Old Age, Survivors, Disability and Health Insurance (OASDHI) program. I hold the view that the U.S. Congress continues to demand information on how other countries handle problems that affect a large part of the world's social security laws and their implementation whenever it has to amend our Social Security program, and that with the expansion of bilateral social security (total-

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isation) agreements, the Administration requires information on the substance and operation of the foreign systems. Such information is also necessary in the administration of technical assistance in the social security field and in the briefing of U.S. delegates to international organizations concerned with social security.

The economic plight of the aged and the growth of the ratio of older persons in the population and in the labor force attracted the interest of academics, associations, and state governments as early as 1925. Proposals for governmental action abounded. With the onset of the depression of the 1930s, publications in the U.S. and in nearly all industrialized countries as well as by the International Labour Organisation (ILO) increased. Proposals like the Townsend Movement (a \$200 monthly grant for all people over 60) or the "Share the Wealth" plan of Senator Huey Long of Louisiana gained in number and political importance (Greensbough and King 1976, p. 70). They probably played a role in President Roosevelt's readiness to reach for a Social Security Act.

The executive staff, other subcommittee personnel, the consultants, and literature brought out more about the problems facing such an undertaking by on-the-spot examination of foreign programs. For instance, they rejected the 12 examples of noncontributory old-age assistance laws, which had also been studied, in favor of the 20 compulsory, contributory and mostly national old-age insurance schemes.

On the other hand, the socioeconomic and political decisions against contracting out or against subsidized separate employer, union, municipal, or state-wide funds were all based on the experience collected in the American states and in private insurance programs. So were decisions in favor of a national solution for a weighted benefit formula which favored low-income receivers, for a percentage rate-of-earnings contribution as against a book-of-stamps type collection, etc. (Brown 1969, pp. 11-12).

In short, some of the basic decisions in the formulations of the 1935 statute were based on the solutions found in the international arena. Others were reached on the basis of U.S. institutions, the political power relations in Congress, the anticipated reaction of the courts, and other national factors.

To encourage the administration to canvass similar systems abroad was quite understandable. For the United States a national old-age insurance system installed by the federal government, or a federally co-determined unemployment compensation scheme in all of our

states, was a new undertaking which could benefit from a study of the success or failure of other countries. This attitude carried over each time Congress was amending our system, be it the introduction of disability coverage, the establishment of Medicare, or introducing the cost-of-living adjustment (COLA).

The International Staff of the Social Security Administration, which keeps current the information on foreign social security systems, also advises the administration whenever U.S. delegations encounter foreign social security programs in international and regional meetings. Examples of these are the meetings of the ILO, the International Social Security Administration (ISSA), the Organization for Economic Cooperation and Development (OECD), and the Inter-American Permanent Committee on Social Security. This holds particularly true for the ILO meetings which lead to conventions binding on the ratifying members.

The International Staff briefs the experts selected to assist foreign—mostly less developed—countries in improving their programs. It does the same for those who meet foreign officials invited to observe SSA implementation.

A relatively new chapter for the necessity of knowledge of foreign systems arose with the start of bilateral international agreements in the 1970s. Their purpose is to assist workers and their families who move from one country to another for employment to receive some or adequate social security benefits (Yoffe 1973, Chs. ii, vi-vii). This refers also to persons who may not have contributed for sufficient time, or earned credits for pensions in one or either of the countries in which they worked before a contingency arises. The U.S. negotiates with the foreign system an arrangement which permits the claimant to total his or her earned credits if that leads to a pension entitlement. In that case each of the two or more countries finance the pension on a pro-rata basis. Negotiations of such a bilateral international totalisation agreement requires full knowledge of the respective laws and practices. The same holds true for the implementing agencies of both countries.

Conclusion

Although it is equally wrong to assert or to deny a decisive role for the knowledge of foreign systems in the formulation of the U.S. Social Security system, it certainly was and is one factor that contributed to its current form. Such information also plays a part in the participation of the U.S. in international and regional meetings. This is of particular

significance if the meeting produces a convention subject to ratification—rare in the U.S.—which would be of a binding nature. The rise of technical assistance to less developed countries requires a briefing of the U.S. personnel on the nature of the respective social security systems. Totalisation agreements negotiation and administration necessitate a quite detailed analysis of the other country's system.¹ In short, the importance of the study of the international aspects of social security—that is, the study of the various solutions offered to common problems like the effects of a world-wide recession and unemployment—was recognized in 1935 and is still significant at present.

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¹ Totalisation Agreements are now in force with Belgium, Canada, West Germany, Italy, Norway, Switzerland, and the United Kingdom. (In these cases benefits will start in 1988.) Negotiations, expected to mature in 1986, are being held with Austria, the Netherlands, Portugal, Spain, and Sweden. Negotiations with Brazil, France, and Japan require further adjustments.

VIII. MANAGEMENT APPROACHES TO COLLECTIVE BARGAINING: THE DYNAMICS OF CHANGE IN THE U.S.

Airline Labor Relations Under Deregulation

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Over the past six years, the process of deregulation has placed great stress on the system of industrial relations in the airline industry. Numerous commentators have described the scenario by which deregulation has led to an increase in competition in the product market by encouraging new entrants and by allowing existing carriers to expand their routes. Some of the new entrants have successfully operated on a nonunion basis and, as such, have enjoyed significant cost advantages due to lower wages, lower benefit costs, and less stringent work rules.¹ This, in turn, has created industrial relations pressures on established carriers with unionized operations to seek significant concessions from unions in order to compete with the nonunion entrants.

Professor John T. Dunlop has properly asserted that the industrial relations problems created by deregulation have been exacerbated by the fact that prior to deregulation, inadequate consideration was given

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¹ See *In re: Continental Airlines Corp.*, No. 83-04019-H2-5, slip op. at 4 (Bankr. S.D. Tex. Aug. 17, 1984). In addition, some new entrants have cost advantages that are not labor related, for example, lower overhead due to their ability to use secondary airports. See Address by John T. Dunlop, National Academy of Sciences, Transportation Research Board, January 14, 1985 (hereinafter "Dunlop Speech").

to the question of how deregulation would impact the relevant labor markets and the process of collective bargaining.² From the beginning, the theoretical case for deregulation focused on the need for competition in the product market. Little attention was paid to the fact that collective bargaining in the airline industry traditionally operated as a form of labor market regulation that allowed unions to capture a portion of the monopoly profits generated by regulation of the product market. As a consequence, Congress, the relevant administrative agencies, labor, and management did not anticipate the disequilibrium that followed the withdrawal of product market regulation.

Finally, in examining the impact of deregulation on industrial relations in the airline industry, it is important to remember that much of the process of deregulation took place during one of the worst economic recessions in recent memory. This economic downturn undoubtedly compounded the industrial relations problems created by deregulation.

The Early Impact of Deregulation

Early in the process of deregulation, the disequilibrium described above presented a severe threat to the traditional economic power of certain airline unions. Additionally, there were events that caused some to express concern over the continuing viability of the process of collective bargaining under the Railway Labor Act.

The experience at Continental Airlines reinforced these perceptions. On September 24, 1983, Continental, the eighth largest passenger airline in the United States, filed a petition for bankruptcy under Chapter 11 of the Bankruptcy Code. Pursuant to its perceived powers under Chapter 11, Continental unilaterally implemented drastic changes in wages, benefits, and work rules.³ In response, the Air Line Pilots Association (ALPA), the International Association of Machinists (IAM), and the Union of Flight Attendants (UFA) undertook strike action. Although these strikes dragged on for many months, they did not halt Continental's operations and they eventually were discontinued without a restoration of prepetition wages and benefits.

² See "Dunlop Speech," *supra*.

³ For example, Continental decreased average earnings for pilot Captains from \$90,000 per year to \$42,000 per year. Similarly, "hard hours" for Captains were increased from 52 per month to 68 per month. See *In re: Continental Airlines Corp.*, Findings of Fact 30-38.

A surprising aspect of the Continental experience was that significant reductions in wages and benefits were imposed unilaterally and outside the traditional process of collective bargaining. To support the assertion that the Continental case was perceived as a threat to the entire process of collective bargaining, one only need recall the vigor with which both NLRA and RLA unions sought Congressional action to amend the Bankruptcy Code to prevent repetitions of the Continental initiative.⁴

Moreover, union setbacks were not limited to the bankruptcy context. During late 1983, the Allied Pilots Association, as representative of American Airlines' pilots, agreed to a two-tier wage scale. The two-tier scale reduced pay for new hires by nearly 50 percent.⁵ In addition, the two-tier scale at American did not merge at any time in the future. New hires remained permanently on a separate and lower scale.⁶ In the wake of the American agreement, Eastern, Delta, Western, Republic, and Pan Am also sought concessionary packages.

More Recent Developments

In recent months there have been significant developments in airline labor relations that may indicate a trend toward stabilization of labor relations in the airline industry. First, it appears that Chapter 11 no longer exists as an easy method to reduce labor costs without undertaking the rigors of concessionary bargaining. In 1984, Congress amended the Bankruptcy Code by adding Section 1113, regulating the rejection of collective bargaining agreements.⁷ Although this is not the occasion for a thorough review of Section 1113, two points are significant. First, as a prerequisite to the rejection of any collective bargaining agreement, an employer must engage in collective bargaining with its union. The new statute specifically requires that an employer seeking rejection must (1) make a proposal to the union; (2) provide the union with information necessary to evaluate that proposal; and (3) engage in good-faith negotiations prior to rejection.⁸

⁴ See BNA, *Daily Labor Report*, No. 193 at p. A-6 (Oct. 10, 1983).

⁵ See BNA, *Daily Labor Report*, No. 217 at p. A-7 (Nov. 8, 1983).

⁶ The system at American Airlines was subsequently changed so that the two tiers of the wage scale merged after 17 years. See "The Pilots Are Finally Throwing Their Weight Around," *Business Week* (October 28, 1985), pp. 36-37.

⁷ See 11 U.S.C. §1113 (1984 supp.).

⁸ See *In re: Wheeling-Pittsburgh Steel Corp.*, 50 B.R. 969 975 (Bankr. W.D. W.D. Pa. 1975). It is unlikely that the bargaining requirements under Section 1113 will be interpreted to require exhaustion of the procedures under the Railway Labor Act prior to the rejection of a collective bargaining agreement. Cf. *id.* at 976.

Second, if this bargaining is not successful, an employer must seek court approval before unilaterally changing the contract.⁹ In short, the type of swift, unilateral action undertaken by Continental Airlines is no longer a possibility.

In addition to these changes in the applicable legal framework, there have been significant changes in the labor market, particularly the labor market for pilots, that would make it very difficult for another carrier to duplicate the coup accomplished by Continental. One of the keys to Continental's success in the face of ALPA's strike was its ability to hire outside replacements.¹⁰ Today, many airlines are experiencing a shortage of qualified pilot applicants. Indeed, the market is so tight that some carriers have been forced to reduce qualifications and increase pay.¹¹

If a carrier were to attempt to reject its collective bargaining agreement in this type of labor market, ALPA probably would be able to mount a more effective strike effort. Moreover, the recent experience at Wheeling-Pittsburgh suggests that the rejection of a collective bargaining agreement under the Bankruptcy Code may not result in tremendous cost savings if a union is able to conduct an effective strike in the face of that rejection. In short, for both legal and economic reasons, it is unlikely that another carrier would be able to duplicate Continental's experience.

Other recent developments in airline bargaining indicate that airline unions may be regaining a measure of their former vigor and that it may become more difficult for carriers to exact cost-saving concessions. For example, since late 1984, ALPA has undergone something of a transformation. Most significant in this regard is that the international union has attempted to assert greater control over the substance of collective bargaining agreements negotiated by Master Executive Councils, the subordinate ALPA groups existing at each carrier. To this end, the international union has adopted guidelines for

⁹ See 11 U.S.C. §1113(f).

¹⁰ See *In re: Continental Airlines Corp.*, No. 83-04019-H2-5, slip op. at 23; see also Alton K. Marsh, "Continental Luring Passengers With Low Fares, Credit Plans," *Aviation Week* (November 7, 1983), pp. 31-32, describing hiring efforts by Continental.

¹¹ The shortage of pilots can be explained by a combination of two factors: (1) major route expansions, and (2) a dramatic reduction in military training activities. See *The Wall Street Journal*, August 5, 1985, at 6, col. 1.

crisis or concessionary bargaining.¹² ALPA also amended its constitution to give its president the right to approve all pilot contracts before they take effect and to put dissident locals into trusteeship. Finally, ALPA has undertaken a program to improve communications with members. During the recent strike at United Airlines, ALPA engaged in a series of nationwide "teleconferences" to keep pilots informed about the latest developments and to secure support for the strike.

The experience at United Airlines supports the view that it may become increasingly difficult to exact concessions from ALPA. United began negotiations with three announced goals: (1) a two-tier wage scale that did not merge for 20 years; (2) a 20 to 50 percent cut in wages for new hires; and (3) a wage freeze for existing pilots.¹³ To resist these demands, ALPA engaged in a strike that received significant support from its pilot members. Only after a 29-day strike did ALPA settle for a two-tier wage scale of five years' duration (with subsequent years to be settled through negotiation or binding arbitration), a more moderate reduction of wage rates for new hires, and a 9.5 percent wage increase over three years for existing pilots. With the United experience in mind, some industry observers have predicted that ALPA will successfully "hold the line" in upcoming talks with Delta and other carriers.¹⁴

Predictions for the Future

Some time ago Professor John Dunlop predicted that the significant disruptions in airline labor relations caused by deregulation and concessionary bargaining would be concentrated in a transitional period.¹⁵ The foregoing discussion indicates that the airline industry may be approaching the end of this transitional period and entering a new stage of relative stability.

A review of some of the important economic developments in the industry would support this view. It appears that the generally tight market for pilot labor has created a market equilibrium between

¹² The ALPA guidelines require: (1) that locals demand exhaustive financial proof from a carrier demanding give-backs; (2) what when concessions are granted, provision must be made for wages to "snap back"; (3) that the union secure improved job security provisions as part of the quid pro quo for concessions; and (4) that multitiered wage scales be avoided. See "Airline Pilots May Finally Start Flying in Formation," *Business Week* (December 31, 1984), p. 49.

¹³ See BNA, *Daily Labor Report*, No. 114 at p. A-12 (June 13, 1985).

¹⁴ See "The Pilots Are Finally Throwing Their Weight Around," *Business Week* (October 28, 1985), p. 36.

¹⁵ See "Dunlop Speech" at p. 7.

organized and unorganized carriers and has slowed the downward spiral of concessionary bargaining. In addition, some industry analysts have indicated that the era of new entrants into the airline industry has come to an end.¹⁶ A reduction in the number of new entrants should moderate the need for existing carriers to reduce labor costs.

However, the end of this transitional phase may not mean a return to business as usual. Another aspect of industry deregulation is a new freedom to merge and acquire. In recent months there have been a number of significant mergers and acquisitions in the airline industry, indicating a distinct trend toward increased industry concentration. For example, People Express recently acquired Frontier Airlines; Piedmont acquired Benson and is acquiring Empire; USAir acquired Pennsylvania Air, and United acquired the Pacific routes formerly operated by Pan Am.

This trend will create a whole new set of problems for labor and management in the airline industry. Whenever an acquisition or merger occurs, there are obvious questions concerning job security. A consolidation of workforces also raises difficult questions concerning the restructuring of jobs and the merging of seniority systems. The merger of a union and a nonunion carrier causes additional difficulties. Moreover, recent indications from the Department of Transportation are that these issues will not be addressed through the imposition of labor protective provisions.¹⁷ Rather, the parties will be left to solve these problems through collective bargaining or litigation.

To address these difficult problems, labor and management will have to bring significant flexibility and creativity to bear in their relationship. As two Railway Labor Act practitioners recently observed, the bargaining process under the Act is dynamic and ongoing.¹⁸ As such, this process is ideally suited to foster the type of communication and compromise that is necessary to deal with the fast-paced changes that often accompany merger and acquisition activity. However, the process can work only to the extent that practitioners

¹⁶ See "Financial Analyst Surveys the Air Transport Scene," *Interavia Air Letter*, October 21, 1985, p. 3.

¹⁷ Prior to deregulation, the Civil Aeronautics Board regularly imposed the so-called "Allegheny-Mohawk" labor protective provisions as a condition for approval of mergers and acquisitions of carriers. More recently, the Department of Transportation has indicated that labor protective provisions will be imposed only "where necessary to prevent labor strife that would disrupt the air transportation system as a whole." See *Midway-Air Florida*, Order 85-6-33 at 2.

¹⁸ See Arouca and Perritt, "Transportation Labor Law and Policy for a Deregulated Industry," 1 *The Labor Lawyer* 617 (1985).

choose to bargain, forgoing the alternatives of litigation and unilateral action.

One closing comment on "creativity" is in order. Recent events have provided an excellent example of creative problem-solving in the labor-management context. Traditionally, unions have responded to mergers and acquisitions in a passive manner, seeking labor protective provisions after the deal was consummated. During the takeover battles at TWA and Frontier Airlines, the unions perceived a threat to their institutional continuity because one of the potential buyers appeared to be "antiunion." At both Frontier and TWA, the unions went beyond their traditional role and became actively involved in the determination of which of a number of potential buyers would ultimately succeed. Although the unions were forced to grant concessions in both situations, they were able to minimize the perceived threat to their institutional continuity by affecting the selection of the successful bidder.

In the long run, the process of collective bargaining is the most effective mechanism for settling disputes between labor and management. By turning to the bargaining process with an attitude of cooperation and a spark of creativity, labor and management will be able to achieve mutually acceptable solutions to the problems created by deregulation.

Changes in U.S. Labor-Management Relations

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Relations between management and unions in the United States are traveling on two parallel tracks, but poles apart in their ultimate destination. One track represents a negative throwback to the dinosaur period of fierce management resistance to unions and the legislatively established social policy rooted in support for collective bargaining as the instrument to resolve industrial conflict. The other track is moving toward the positive implementation of joint labor-management processes which reflect a mutuality of interest in solving problems of common concern. One sector of management aggressively battles to maintain a union-free environment. The other embraces the notion that labor and management are partners in enhancing job satisfaction and advancing the health of the business organization, thus simultaneously improving the quality of life and enriching the economy at large.

This paper will be devoted to the positive aspects of labor-management relations exemplified by the thrust toward adoption of the joint action approach.

From the outset, it should be recognized that adversarial collective bargaining over controversial issues will not disappear from the scene. Determining the employees' equitable share of the profits of the company, the nature and content of the benefit structure, the conditions of work continues to be subject to hard bargaining and occasional conflict. There is, however, a growing list of labor-management issues that are subject to joint, cooperative solution and implementation. Just to recite some of these issues suffices to establish the point.

- Apprenticeship training programs, jointly fashioned and implemented, assure the adequate availability of skilled trades people properly trained and competent.

- Jointly administered health and safety programs help reduce the incidence of occupational accidents, illness, and deaths.
- Employee assistance programs, jointly designed and jointly executed, help rehabilitate employees suffering from the illness of alcohol or drugs, restoring them to productive work and wholesome citizenship at home and in their community.
- Jointly developed attendance programs help reduce absenteeism and avoid the assessment of discipline or discharge against the offender.
- Negotiated benefit programs are jointly managed to assure that employees receive what is their just due and to curtail possible violation of the terms and conditions of the benefit structure.
- Joint orientation and informational programs are initiated to assist newly hired employees to acclimate themselves to their new work environment, and other such informational programs prepare prospective retirees and their spouses for the abrupt change from a life at work to a life at leisure.
- Jointly developed training programs prepare employees for the introduction of new, advanced technology in a swiftly changing world of work.

Over the past dozen years or so, various types of joint action processes designed to involve employees and their union representatives in the decision-making process at the workplace have been evolving, with varying degrees of success. They represent a sharp departure from the decades-long adherence to the precepts of authoritarian control of the workforce espoused by Frederick Taylor and almost universally adapted by management to fit its notion of highly centralized work organization. Underlying the shift from authoritarian domination and control of life at work to an enlightened recognition and acceptance of participative management principles is the realization that, indeed, the employees are the firm's most valuable asset; that they are vital resources to be developed rather than simply variable cost items to be treated as adjuncts to the tool; that they have knowledge, experience, innate capabilities and intelligence to bring to the workplace and its operation; that their direct input and their penchant for creativity should be nurtured, the better to insure enhanced job satisfaction and a heightened sense of self-worth and self-fulfillment.

Labor and management representatives are more and more frequently pointing to the humanistic approach to worklife as the wave of the future of labor-management relations.

Among the very first companies in the U.S. to move, jointly with the union, away from the traditional autocratic control of the workplace to a participative system was the Jervis Corporation (later to become Harman International Industries). Sidney Harman, chairman of the board, took leadership among business executives in advocating a joint action approach to employer-employee relations. In testimony in 1972 before Senator Edward Kennedy's Subcommittee on Employment, Manpower and Poverty, Harman expressed the point of view that "the worker has been deprived of real independence in the sense of personal value in order to increase the company's control over the worker"¹ He noted that steps must be taken to enhance the dignity and self-respect of the worker and to bring values into the workplace which are meaningful to him.

As a fitting response to this "outmoded" relationship, Harman proposed that joint labor-management processes could lead to a more incisive understanding of workplace problems, find their solutions, and lead to new modes of work and job design.

That same year Richard Gerstenberg, then chairman of the board of General Motors Corporation, a company noted for its tight control of the production process and its authoritarian hierarchical structure—a prototype of U.S. industrial management—publicly declared:

. . . We must improve working conditions and take out the boredom from routine jobs. . . . We must increase an employee's satisfaction with his job, heighten pride of workmanship and—as far as is feasible—involve the employee personally in decisions that relate directly to his job. . . .²

Some ten years earlier, Walter P. Reuther, as president of the UAW, in an often repeated philosophic context, called for a new spirit of joint action:

The American economy is freedom's greatest material asset.
Free labor, free management and a free people, working

¹ Testimony before Senator Ted Kennedy's Subcommittee on Employment, Manpower and Poverty of the Senate Committee on Labor and Public Policy, July 26, 1972, p. 116.

² Remarks at Annual Meeting of the American Publishing Association, New York City, April 26, 1972.

together within the framework of our free society, must develop new forms of cooperation in creating and sharing the unprecedented abundance that our developing science and technology make possible.³

The recent AFL-CIO report on the Evolution of Work, a document which projects new paths for the labor movement, aimed at meeting the challenge of technological and cultural changes in our society, points to the desirability of the joint action process in labor-management relations and notes:

There is a particular insistence voiced by workers, union and nonunion alike, to have a say in the “how, why and wherefore” of their work. These needs and desires are being met in some cases by union-management programs affording greater worker participation in the decision making process at the workplace. Several major unions have developed such programs and report a positive membership response. The labor movement should seek to accelerate this development. Quality of work life programs can only serve their humanizing purpose when they are based on the concept of work dignity and equality and grounded in collective bargaining.⁴

While the first major experiment in the U.S. industry directed toward involving employees in participative decision-making occurred between the UAW and Harman International Industries at its plant in Bolivar, Tennessee, the impetus for the spreading development of such joint action processes was spurred by the agreement between the UAW and GM in 1973. That agreement established a Joint UAW-GM National Committee to Improve the Quality of Work Life. From these beginnings has grown a veritable wave of union and management cooperative practices characterized by joint endeavors which are gradually creating an innovative and new kind of social contract.

For the most part these joint ventures concern inventive plans to involve groups of employees and their union representatives in detecting problems that affect them at their work and searching out solutions that make worklife easier, more comfortable, while simultaneously improving efficiency of operational procedures.

³ Speech before the Federal Bar Association Convention, September 26, 1963.

⁴ *The Changing Situation of Workers and Their Unions*, AFL-CIO Report, released February 21, 1985, p. 14.

Recently, moreover, the early successes of these participative processes in managing the workplace have led to broader joint decision-making in areas of traditional management control that are in certain respects correlated with managing the enterprise.

The highly publicized Saturn agreement between the UAW and General Motors Corporation epitomizes the departure from old-line practices of the customary rivalry between management and labor and points to the positive relationship of co-equal partnership in introducing a brand new automobile in its various stages, from design and production to plant layout and manufacturing process.

The agreement contains provisions covering the usual collective bargaining subjects: wages, benefits, complaint procedures, etc. Its uniqueness is characterized by the repeated references to joint decision-making at the various levels of the organization's structure. Emphasis is placed on "consensus decision-making." Work Units of approximately 6-15 members (all who will be working for Saturn are called "members") will be "self-directed, integrated horizontally and reflect synergistic group growth." The Units will be responsible for meeting production schedules, quality performance, budget, housekeeping, safety and health, equipment maintenance, material and inventory control, training, job assignment, repairs, scrap control, and absenteeism. They will determine the supplies they need, keep records as necessary, seek resources they require to perform their function—in other words, they will manage the workplace.

The full participation of the union in the strategic and operational management of the enterprise is assured through participation in the top-level Strategic Advisory Committee, deciding long-range goals in managing the enterprise, the Manufacturing Advisory Committee, and in so-called Business Units. In other words, at all levels of running the business the basic philosophic approach is predicated on a system of consensus and joint action.

Prior to 1973, the UAW and GM lived in the traditional world of labor-management relations in which the corporation made the basic managerial decisions. The corporation acted and the union reacted. The 1973 agreement set the stage for introducing the notion of a participative structure in workplace decision-making. The Saturn agreement of 1983 moves to a new, higher level of sophistication in which union and management, acting by consensus, join in managing the enterprise.

Saturn points to the future as an unconventional, progressive, unprecedented, and novel social contract between management and

labor. It may well be the harbinger of a revolution in labor-management relations that will provide one—though obviously not the only—answer to restoring to the U.S. a competitive edge in our global economy.

The Effects of Management Industrial Relations Strategy: Results of a Recent Survey*

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As industrial relations in the U.S. continues to experience rapid change even as the economy improves, it is becoming clear that market pressures are not the only forces driving these changes. In particular, the growing variance in labor practices within industries suggests the need to look not only at pressures from the environment, but also at the different strategies and tactics introduced by the parties at the firm level. Many argue that the most important of these currently operate from the management side. The arguments below examine some of the strategies pursued by management and their effects on industrial relations outcomes using a unique set of data on management practices collected by The Conference Board.

Tactics and Strategies from the Past

Lipset (1963), Bendix (1956), and others have argued that aspects of the American experience such as the emphasis on individual achievement have made management more resistant to unions here than in other Western countries. But, as Bendix argues, the attitudes of employers toward workers and their organizations varied over time not only with economic pressures, but also with changes in academic thinking and with changes in public opinion.¹ These attitudes, in turn, affected the tactics that management used in dealing with unions.

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¹ It is an open question as to whether management was concerned about public opinion per se or about consequences from it such as a consumer backlash.

The most dramatic change in management's handling of trade unions followed the New Deal as violent opposition turned, in some cases, to voluntary recognition of unions. Government intervention and improving markets played a role as World War II drew near, but the change in management's position was also driven at least in part by changes in the accepted view of unions and their role in the economy. As Piore (1983) points out, trade unions were given an important role in stabilizing the economy under the popular New Deal programs; the more violently employers opposed unions, the more they would appear to be resisting the progress of the New Deal.²

Recent developments suggest a shift in management tactics back toward more aggressive resistance to unions. Economic pressures caused by the recession, foreign competition, and growing union wage differentials in the 1970s played a role, as did the long-term erosion of public support for the labor movement and its role in the economy. The macroeconomic justifications for unions eroded during the 1970s as wage inflation that persisted in the face of weak demand became the important economic issue. During the recession, unions took some of the blame for the hard times facing their industries. Together, these pressures led to a harder management line in collective bargaining. For example, some employers used the current unpopularity and weakness of unions to demand concessions even where the need for them was not great (Cappelli 1985).

Another recent and controversial change in management tactics has been the hiring of replacements for striking employees (e.g., Phelps-Dodge, Greyhound), a practice that had been uncommon in the postwar period. Hiring replacements became increasingly acceptable as popular support for unions eroded. The decision by President Reagan to replace the striking air traffic controllers appeared to many to legitimize the practice even though the circumstances in the public sector were quite different.

Avoiding Unions

The most important of management strategies may be the decision to try and avoid unions altogether. One of the more controversial of such efforts is the use of aggressive campaigns in representational elections. These often include management unfair labor practices

² The pressures of popular opinion may play themselves out in interesting ways. Some historians speculate, for example, that Henry Ford's change in labor tactics was driven in part by the fact that his wife threatened never to speak to him again unless he ended the violence on the picket lines.

which, as Weiler (1983) points out, have increased five-fold since the 1950s. The upward trend in management unfair labor practices parallels quite closely the decline in public support for unions over this period.³

In many ways, the more desirable strategy for management would be to avoid representational campaigns altogether. What such strategies have in common is an effort to move production away from current areas of union strength which may make it possible to avoid dealing with unions at all. Kochan, McKersie, and Cappelli (1984) argue that these strategic decisions which help shape union-management relations take place outside of collective bargaining; the most important appear to be management decisions at the corporate level.

Perhaps the most famous of such practices was General Motors' southern strategy. Many manufacturing firms followed this general plan—establish nonunion capacity in southern and right-to-work states where union support was difficult to muster and try to maintain its nonunion status with progressive personnel policies. Kochan and Verma (1985) point out that a concomitant of this strategy in some firms was to shift investment from union to nonunion plants, effectively shifting business and employment from the former to the latter. Where capacity cannot be neatly divided between nonunion and union in the same firms, as in construction and transportation, employers may establish double-breasted operations which create parallel, nonunion subsidiaries. In addition, firms may subcontract operations or change technologies to avoid unionization. Because such actions are outside collective bargaining and appear to be within management's unilateral authority for business decisions, they appear to be less subject to the pressures of public opinion that help determine the tactics described earlier. One might therefore expect the determinants of such strategies to lie more clearly with characteristics of the firm.

Explaining Union Avoidance

Of course, no employers actively seek to be organized, but neither do all pursue the kind of strategies outlined above or to the same degree. Given the potential effects of these strategies on industrial

³ The first sharp increase occurs in the late 1950s when union corruption came to the public's attention, culminating in the McClellan Hearings and the Landrum-Griffin Act. The next sharp increase occurred in the early 1970s when any macroeconomic justification for unions was eroding.

relations, it would be important to be able to explain what factors cause firms to pursue them. A unique survey of management industrial relations by The Conference Board in 1977 and 1983 may help answer that question. The survey asks about a range of organizational characteristics, labor relations practices, and outcomes in unionized firms. It also asks about the priority given to union avoidance. Is it a higher priority than achieving favorable outcomes in collective bargaining?⁴

Table 1 shows the breakdown of responses for the 228 unionized firms answering in both 1977 and 1983. As one might expect, the priority shifts toward union avoidance in 1983. When one looks at

TABLE 1
Breakdown of Union Avoidance and Best Bargain Responses
by Year and Strategy

	Strategy			
	Same Strategy 1978 and 1983		Switched to Stated Strategy in 1983	
	%	N	%	N
Union avoidance	25	56	20	46
Best bargain	49	111	6	15
Total	74	167	26	61

those firms whose position was consistent in both years (56 firms union avoidance, 111 best bargain), several factors seem to explain their decisions. One set of factors concerns the ability of unions to counter union avoidance strategies. The United Auto Workers, for example, got General Motors to agree to be neutral in representational campaigns in its southern plants and recently secured agreements to limit subcontracting; airline and trucking unions have secured restrictions on double-breasted operations.

Cappelli (1984) argues that unions are able to secure such agreements, often in exchange for concessions, only where they have the bargaining power necessary to force the issues into collective

⁴ The question asks, "Which is more important to your firm, keeping as much of the company as possible nonunion or achieving the most favorable bargain possible?" It is not asking which situation they would prefer. We recognize the possibility that a firm's reply may simply be a proxy for existing practices rather than an independent statement of policy that will influence labor relations decisions. Our purposes are served, however, as long as it is an accurate proxy for those decisions. See Freedman (1985) for a description of the survey and the overall conclusions from it. Kochan, McKersie, and Chalykoff (forthcoming) investigate some of the survey's important results in detail.

bargaining. This is likely to be the case where bargaining structures are centralized and where the union covers a large percentage of the workforce. Because these union avoidance strategies are conducted at the corporate level, only centralized bargaining will bring these issues to the firm level, and only the threat of a substantial, firm-wide strike will bring the pressure on management to force a change in tactics. Also, collective bargaining outcomes are a more important priority where they cover more employees. The number of new plants opened, on the other hand, may represent part of the opportunity for firms to pursue a union avoidance strategy. (Of course, it could in part be a consequence as well of past strategies.)

Table 2 presents the statistical association between these three variables and the priority attached to union avoidance for firms whose strategy was the same in 1978 and 1983. We concentrate on these firms not only because of larger sample size, but also because of greater

TABLE 2
Results of Discriminant Function Analysis,
Union Avoidance and Best Bargain Firms

Predictor Variables	Correlations of Predictor Variables with Discriminant Function	Univariate
Percent of firm's workforce organized in 1983	.997	226.0
Plant by plant bargaining structure	-.245	13.73
Number of new establishments opened since 1975	-.220	11.09
Canonical <i>R</i>	.767	
Eigenvalue	1.429	
$X^2 = 139.82,$ $p <$.001	

confidence in the accuracy of responses that are consistent over time. The results suggest that the association is strong, especially with the percent of the firm's workforce organized. A separate discriminant analysis finds that these three variables correctly classify 91 percent of the union avoidance and 88 percent of the best bargain firms.⁵

⁵ Those firms who switched to a union avoidance strategy in 1983 also had significantly lower union coverage and less centralized bargaining structures than best bargain firms, perhaps suggesting that these variables also influence the ability of firms to switch to a union avoidance strategy.

Consequences of Union Avoidance

Perhaps the most important and most obvious consequence of a union avoidance strategy is its effect on union membership and growth within unionized firms. Overall, unionization in union avoidance firms dropped on average from 23.5 percent in 1977 to 18.6 in 1983 as compared to 63.5 to 60.5 percent for best bargain firms over the same period.⁶ Because union coverage was substantially lower in the former to begin with, its decline in percentage terms is much more substantial—a 20.8 percent decline in coverage for union avoidance firms as compared to a 5 percent decline for best bargain firms.

Some indication of how this decline came about is suggested by the data in Table 3. As measured by plant openings, the union avoidance firms—which are less unionized—appear to be growing about twice as fast as the best bargain firms. As noted above, this may be a cause as well as a consequence of this strategy. More importantly, union

TABLE 3
Representational Election Outcomes by Strategy

	Union Avoidance		Best Bargain	
	Mean	N	Mean	N
Average number of representational elections held in last five years	4.03	56	2.22	111
Percent of representational elections won by union in last five years	.177	45 ^a	.379	62 ^a
Average number of new plants opened since 1975	4.51	56	1.97	111
Percent of new plants organized	.076	43 ^b	.439	58

^a Only companies with representational elections held in the last five years are included.

^b Only companies with new plants opened since 1975 are included.

election victories occur half as often in union avoidance as in best bargain firms. This is consistent with Seeber and Cooke's (1983) and Lawler and West's (1985) emphasis on the importance of management opposition as a strategy in election campaigns. It is perhaps surprising, therefore, that unions do not appear to be concentrating their

⁶ We recognize the possibility that independent factors associated statistically with this choice of strategy could be behind these results. Attempts to find statistical associations between the choice of strategy and potential sources of influence other than those in Table 3, such as the nature of the industry, proved insignificant.

organizing efforts at the best bargain firms. The ratio of elections to plant openings is about the same for both sets of firms.⁷ This suggests, if anything, that more union resources are directed at the union avoidance firms as one would imagine that it is more difficult and costly to secure elections in them.

Overall, new plants at best bargain firms are almost six times more likely to be organized than their counterparts at union avoidance firms.⁸ This difference seems very large given that the overall union win rate is only twice as great in the former—especially if we assume that the ratio of elections to new plants is roughly similar for firms in both groups.⁹ The explanation could be that union avoidance firms run election campaigns that are much more successful in their new plants than in their old ones. While this may play some role, it seems more likely that the great difference in organization rates at new plants is due to the greater ability of union avoidance firms to keep representational campaigns away from their new plants.

Differences in collective bargaining outcomes are also associated with the union avoidance priority. For example, the survey results suggest that union avoidance firms pay lower wages to their union employees, other things equal. Even though best bargain firms are concentrating their efforts on collective bargaining, the lower union coverage of union avoidance firms appears to give them greater bargaining power vis-à-vis their unions and leads to lower settlements.¹⁰

Conclusions

The results above suggest that much of the overall decline in union coverage in the U.S. may be due to the decline of unions within partially unionized firms. Further, the remaining areas of union coverage are being concentrated in the older sections of firms as new plants remain union-free. These developments appear, at least in part,

⁷ Of course, established plants can also be targets for organizing. The assumption here is simply that union campaigns are directed at new plants in roughly the same proportion for both firm groups.

⁸ Firms that switched to union avoidance also won more elections and had fewer new plants organized than did best bargain firms.

⁹ If the proportion of elections held at new plants was in fact the same for both union avoidance and best bargain firms, the latter would be only two and one-half times more likely to be organized, given average win rates: ratio of elections to new plants over five years is 1.43 *UA* and 1.8 *BB* x Pr(average union wins—.177 *UA* and .379 *BB*) = percent new plants organized—.25 *UA* and .63 *BB*.

¹⁰ The regression results supporting this conclusion are available upon request. See Chalykoff (19 5) for other outcomes associated with this variable.

to be associated with the decision to pursue union avoidance as a top priority.

Unlike other management strategies for dealing with labor, many of the tactics associated with a union avoidance priority operate outside of collective bargaining through business decisions where management is presumed to have unilateral authority. As the effects of these union avoidance strategies become clearer, it should not be surprising to find unions attempting to counter them—first, by trying to bring these decisions into collective bargaining in situations where unions are powerful (as the United Auto Workers did with GM's southern strategy), and second, by trying to bring them to the public's attention through corporate campaigns where the force of public opinion broadly defined may perhaps alter management's strategies (as the textile unions did with J.P. Stevens' unfair labor practices). This adaptation by unions should take labor relations further into new terrain.

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DISCUSSION

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The papers presented in this session were well chosen for they represent the three basic strategic options management faces in the conduct of contemporary U.S. industrial relations. Those options are union avoidance, cooperative reform, or maintenance of the traditional collective bargaining system (what could be called the status quo option). I will briefly review some of the evidence presented in this session regarding these strategies and then discuss my own views concerning the likely course of future events.

The continuing decline in union membership reveals that operating nonunion is becoming more common in the U.S. The Cappelli-Chalykoff paper clarifies, with an interesting analysis of Conference Board data, the sizable growth of nonunion plants in firms that previously were fairly heavily organized. Those who believe that the unions' central problem is that they cannot organize completely unorganized firms in the new and growing industries such as high technology should take note of the Cappelli-Chalykoff evidence.

Cappelli and Chalykoff show that across partially organized firms the growth of nonunion plants is faster where unionization is initially lower, where bargaining is decentralized, and where more new plants are being opened. This is interesting and important evidence. The intriguing question that remains concerns how management is able to remain nonunion. Is it through aggressive campaign tactics or through the effective use of sophisticated human resource management policies? New evidence regarding the latter is provided in another recent paper by Chalykoff.

In some cases (primarily where unions maintain a substantial amount of bargaining power) they have been able to block the nonunion option and have joined with management to cooperatively reform labor relations. The auto industry represents a good example of this strategic option. In a few auto plants these cooperative reforms

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include a major restructuring of labor relations and, as Bluestone points out, even greater change appears in the recent agreement covering GM's proposed Saturn plant. Where Saturn is so bold is the extent to which it integrates changes in compensation, job security, work organization, and worker and union participation. At the same time, the importance of Saturn should not be overestimated for Saturn is years away from production and it remains to be seen what kind of labor relations actually emerge at Saturn. The real challenge confronting labor and management is whether they will be able to reform labor relations in *existing plants with long-standing traditions*.

Curtin argues that airlines bargaining has passed through the tumult induced by deregulation and has begun to stabilize and return to traditional collective bargaining (although some novelties such as two-tier pay scales remain). If this were so, then airlines would illustrate a third strategic option for management, namely, the choice of restabilizing industrial relations around traditional practices. I am not convinced, however, that labor relations in the airline industry are restabilizing or are likely to restabilize in the near future. In my view the effects of deregulation are likely to last and will continue to put pressure on the parties to restructure labor relations to fit with the new conditions of competition. Even if the effects of deregulation could be overcome by largely restoring traditional collective bargaining practices, it should be noted that the airline industry represents a special case. Few American industries are as heavily organized as the airlines industry which, even with the entry of new nonunion carriers, remains nearly 90 percent organized. Furthermore, the domestic airlines industry does not face the pressure from international competition which confronts many other industries. As Cappelli points out in his provocative recent paper in *Industrial Relations*, the interesting question is why airlines unions were so disadvantaged by deregulation given the high degree of unionization in the industry.

Which one of these strategic options is likely to dominate the future course of American industrial relations? My view is that management will choose either union avoidance or cooperative reform. I don't see how a return to traditional collective bargaining will answer all of the environmental pressures that confront American industry. Whether and where cooperative reform will succeed to the point that the union avoidance option becomes less attractive or less available is a topic worthy of future sessions of the IRRA.

IX. CIO—50TH ANNIVERSARY

Summary Notes on the Panel Discussion

LOIS S. GRAY, RAPPORTEUR
Cornell University

Ben Fischer, Director of the Center for Labor Studies, Carnegie-Mellon University, chaired the session, and Lois Gray, Associate Dean and Director of Extension, New York State School of Industrial and Labor Relations, Cornell University, served as Rapporteur. Panel members were B. J. Widick, Retired Professor, Columbia University; Solomon Barkin, Professor Emeritus, University of Massachusetts; Harry Fleisher, Consultant and former Editor of *CIO News*; and Edward Gray, retired Director, Region 9, United Auto Workers.

B. J. Widick recounted his experiences in the founding of the United Rubber Workers Union in Akron, Ohio, where he was employed as a newspaper reporter and later became Research Director of the union. The first major strike victory for the CIO was the Goodyear walkout in 1936, led by militant but inexperienced workers and brought to a successful conclusion through the intervention of John L. Lewis and the staff of the CIO.

Akron was an open shop town. Its working population was drawn from the rural South, derisively called "hillbillies," and the Ku Klux Klan was a powerful influence. Growth of union sentiment in Akron was encouraged by the establishment of a Labor School, which grew out of the workers education movement of that era. The school, modeled after Brookwood Labor College, trained the future leaders of the Rubber Workers Union.

Layoffs and pay cuts during the 1930s spurred rubber workers to sign cards in AFL federal locals. However, their demands for

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industrial unionism were rejected. When the Akron locals took strike votes and urged a national strike, William Green signed a "Teacup Agreement" with the rubber companies which did not call for union recognition. A core of militants formed the United Rubber Workers. Response to further company cutbacks was a spontaneous sit-in which brought John L. Lewis into the picture. Five weeks later, the CIO achieved its first contract in the rubber industry.

Widick stressed the importance of effective leadership from CIO in achieving this victory. Most important, in his view, was the role of the CIO in breaking the hold of the Ku Klux Klan in Akron. "The day of the open shop and disdain for 'hillbillies' was over."

Henry Fleisher analyzed the contribution of the CIO beginning with its early days when he was one of eight staff members working for John L. Lewis. In his view, the AFL "stubbornly, persistently refused to answer the door when opportunity knocked." It was too bound up in its traditions to take the necessary steps to organize working people during the crisis created by the Great Depression. The 1934 convention worked out a compromise. But the 1935 convention was "a study in frustration," with promises, pledges, and little action. Within a month eight union leaders formed the CIO with a spirit of "can do" optimism which made mass organization a reality.

In comparing today with 1937, Fleisher found both similarities and differences. The role of women has changed from women's auxiliaries to women as members and leaders. The overriding issues facing the labor movement in 1937 were low wages and unemployment; today, the main issue confronting organized labor is low-wage competition from unorganized sectors in the South and from foreign countries. The NLRB has changed from a neutral body, which supported the right to organize when the CIO was founded, to a government agency that is "dominated by management." Concerns with occupational safety and health and consumer issues are continuing as themes over the 50 years.

Fleisher noted that one of the accomplishments of the CIO was its emphasis on communications with the public and with the membership. The CIO, in contrast to the AFL, established effective linkages with newspaper reporters who helped to spread labor's story to the general public. AFL internal publications were dull, while CIO communications to members conveyed excitement, which influenced the future of labor journalism.

What all this suggests is that every organization—labor unions and others—requires periodic episodes of self-examination and renewal. The "old way"—hallowed by tradition, solidified in practice,

sanctified in philosophies or rationalizations—every so often proves not to be the best way. Opportunity may not always knock as many times as it did for the AFL in the mid-thirties, and the penalties for not responding may be even more severe than they were for William Green and the powerful craft unionists who dominated the American Federation of Labor half a century ago.

Solomon Barkin called for a reexamination of the CIO experience. He suggests the following questions: (1) What fundamental impulses catapulted the organization into being? (2) What innovative role did it play on the trade union scene? (3) What forces tended to level out the differences between the AFL and CIO and how close were they by the time of the merger? (4) What resistances developed in the CIO to the merger proposal and why did they not prevail? (5) When did the CIO unions expand their innovative and insurgent influence within the trade union movement and the industrial relations scene? (6) What internal and external forces were responsible for the retrogression experienced by the movement?

Barkin, looking back at the forces giving rise to the CIO, concludes that AFL leaders were totally unprepared for the changes in the political atmosphere occurring with the inauguration of the Roosevelt administration. In contrast, union leaders later associated with the CIO actively advocated union participation in decision-making and in the nation. They saw government as a constructive force, a view not shared by AFL leaders. Further, those leading the AFL could not perceive the depth of unrest and potential for organizing blue-collar workers, because their “past experience had been so negative.” “They gave a higher priority to maintaining their political position and the homogeneity of their membership than expanding their ranks.” The CIO leaders, in contrast, understood the opportunities and offered vigorous leadership to organizing. The basic agreements in the industries which they organized became patterns for the remainder of the American workforce.

Barkin asserts that in the merger of the AFL and CIO, the original AFL orientation predominated, citing evidence of growing unrest among union ranks in the 1950s and 1960s.

Throughout the 50-year period since the founding of the CIO, management’s resistance to unions has remained a persistent challenge. The form of resistance changes from “brute force” as recorded in the La Follette Committee hearings to new approaches and techniques which unions are less well prepared to combat. These include: (1) weakening of the legal protection of unions through

amendments to the NLRA and changes in its administration; (2) insistence on “legalistic” rather than problem-solving approaches to the bargaining process; (3) refusal to share in decision-making on prices, markets, and sales policies, thereby shifting the public blame for results to the unions; (4) adopting human relations and organizational behavior approaches designed to prevent or undermine the influence of unions; (5) multiplication of complicated personnel techniques, such as time study, job evaluation, and wage incentives while maintaining a monopoly on the records required for union participation in work-related decisions; and (6) organizing auxiliary groups—the National Right to Work Committee, for example—to fight unionism.

Barkin concludes his plea for further research on the implications of what he sees as the rise and fall of the CIO by calling for a revival of the CIO spirit.

Ed Gray, from the perspective of participating in the organization of the United Auto Workers during the 1930s, assessed the lasting contribution of the CIO to the American labor scene. Recalling the compelling reasons for organization of industrial workers in the 1930s—low wages, “shape up” for the few jobs available, dehumanizing treatment, and lack of protection against the risks of illness, unemployment, and old age—he attributes success in organizing to the “clarion call” of John L. Lewis and the CIO. To overcome the resistance of employers to unionization, the protection afforded by the National Labor Relations Board was critical. Even with this legal protection, bitter struggles were required. Workers risked discharge, black-listing, and beatings as exemplified by the terror engendered by Harry Bennett’s Ford “Service Department” and the attempted assassinations of Walter and Victor Reuther. Gray described his experience in the Bell Aircraft strike in western New York, in which local law enforcement agencies collaborated with the company to arrest all of the strike leaders as a means of demoralizing the strikers. These struggles suggest that militant tactics, including sit-down strikes and mass picketing, constitute another lasting contribution of the CIO to American labor history.

Finally, Gray noted the contribution of the CIO to raising labor consciousness of the need for political action. Leaders of the old AFL generally opposed political activity, opting for solving the problems of workers through agreements with individual employers. For example, the AFL originally opposed worker compensation and unemployment insurance legislation, preferring to bargain for those benefits. John L.

Lewis, in contrast, while head of the CIO, sponsored Labor's Non-Partisan League, and Sidney Hillman, the American Labor Party—both political voices for labor. The experience of the Bell Aircraft strike, where workers faced the combined forces of government and employer, illustrates what Walter Reuther called “the link between bread box and ballot box.”

Ben Fischer, drawing on his experience in the United Steelworkers, compared the labor themes of today with those which served as rallying cries of the CIO. In particular, he stressed the drive for industrial democracy which was an explicit goal of USA under the leadership of Phil Murray and formed the theme of speeches delivered by Walter Reuther. Fischer contends that unions were forced to accommodate to the lack of industrial democracy. While they achieved an institutionalized labor relations system which invaded a few management rights, providing worker protection in seniority and grievance procedures, management retained the basic authority to rule the workplace. Unions accepted and even subsidized the introduction of new technology, adjusting their sights to a limited role in decision-making.

Today employers are seen as advocating worker participation. Thus, early union themes are reemerging for different reasons and under different auspices in unionized and nonunion environments.

Fischer urges that union leaders today learn from the lessons of the past and be ready to take action when the opportunity knocks. One of the lessons of the CIO was that workers organized themselves and were not organized by the leaders. “The unorganized will be in unions when they want to be. When unions are perceived by nonunion employees as meeting their needs and desires, unions will prosper. The new shapes and functions of unions may not satisfy some traditional views of what unions ‘should’ be. Just as the CIO did not conform to what the experts and traditionalists of the 30s prescribed, so the coming wave of employee organization will reflect the current environment and not the values of the past.”

Discussion

Bert Seidman, Director of Social Security for the AFL-CIO, responding to Barkin's questions about merger, pointed out that the merger was possible only because (1) the CIO expelled “Communist dominated” unions and (2) the AFL cracked down on “racket controlled” unions. *Fred Livingston*, attorney, noted that the CIO organized millions who had been neglected, and the current decline of

unions is due to international competition which has abolished jobs rather than a defection of union members.

Israel Kugler, AFT, agreeing with the loss of idealism thesis advanced by Barkin and Fischer, pointed to the contrast between earlier goals of the guaranteed annual wage and a public review board and the current scene where unions are fighting each other in organizing campaigns. Other participants cited the role of radicals in the early days and questioned whether the young idealists are being attracted to the labor movement today.

Lois Gray, in summarizing the session, dealt with factors that gave rise to the CIO and its long-term impact. The desperation of workers in the 1930s combined explosively with the hope created by the New Deal. Failure of the AFL to respond with sufficient vigor and imagination gave rise to the CIO which provided the leadership essential to successful organization of industrial workers. Lasting contributions of the CIO to American labor practice and traditions include not only the organization and negotiation of improved wages, working conditions, and benefits for industrial workers, but innovative new approaches to attaining labor's goals—including communication with the public and political activity. In addition, the CIO took the lead in civil rights, undermining support for the Ku Klux Klan, a tradition later reflected in AFL-CIO efforts to win equal opportunity legislation. Labor's unfinished agenda includes the concept of industrial democracy. Whether management efforts for "quality of work life" offer opportunities to move toward democratization of the workplace remains to be seen.

Scholars should continue to examine the CIO experience for insights on labor adaptation to change. Panel members in this session, with a touch of nostalgia, called for a revival of the "CIO spirit." What is needed is the modern equivalent of the CIO—the evolution of radically new approaches to meet the challenges that labor faces today.

Selected Aspects of the CIO Experience

SOLOMON BARKIN
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Reinterpretation of Trade Union History

The 50-year span of experience following the founding of the Committee of Industrial Organization in 1935 is filled with many incidents and episodes relevant to the understanding and resolution of the basic problems now confronting the American trade union movement. To achieve these ends, an introspective historical analysis focusing on current dominant issues will serve far better than the chronologies which now abound. What gives added poignancy to this undertaking is that the American trade union system, which is being battered by its opposition, stands out in sharp contrast to the continuing high level of influence, bargaining power, and status enjoyed by unions in other Western countries. In the latter there has been no concurrent joint effort by management and government to destroy unions, and the organizations have been able to resist individual programs. Some have suffered slight losses in membership because of economic reverses, but others have recorded small, and still others significant, growth.

While many different hypotheses have been offered about developments in the organization, of great value would be in-depth studies which would address themselves to the following questions about the history and operation of the CIO. What fundamental impulses catapulted the organization into being? What innovative role did it play on the trade union scene? What part did it have in coalescing the diverse forces and groups which built the organization? How significant was it in stimulating the AFL to engage in new organizational ventures in the latter part of the thirties? What changes in policies did the AFL unions make to advance this organizational move? What distinctive complexions did the unions in the two federations acquire? What forces tended to level out these differences,

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and how close were they by the time of the merger? What resistance developed in the CIO to merger proposals, and why did they not prevail? When did the CIO unions spend their innovative and insurgent influences within the American trade union movement and the industrial relations scene? What were the evidences of this trend, and what impact did the influence of the bureaucratic systems within the movement have on effecting this result? What internal and external forces were responsible for the retrogressions experienced by the movement?

Contrasting Features of the AFL and CIO in the Days of the Schism

Two contrasting features and attitudes of the leadership of the two federations are particularly relevant since they suggest essential characteristics for current operations. The first relates to their philosophy and preparedness for the changes in the political atmosphere occurring with the inauguration of the Roosevelt administration. While the decade of the twenties was dominated by a conservative political mood reflected in the Republican administrations of the period, labor and reform groups promoted change and sought to generate new philosophies about the role of government in the conduct of the economy and society. Many people recognized it essential to correct widespread injustices and obsolete social legislation such as the poor laws, and to introduce economic reforms. Instabilities in the economy had to be corrected through governmental and private means. Proposals were offered for social insurance, such as old age pensions and unemployment insurance. The evils and inequities created by technological displacement and the "scrap heap at forty" had to be remedied. New programs for economic expansion suggested ways of stimulating purchasing power and increasing public works projects in periods of flagging economic activity. National economic planning was widely considered. These groups increasingly recognized the legitimacy of unions and the need for their protection from employer and legal onslaughts. Union representation on public bodies would contribute to balancing the interests in society.

In preparing these programs at the end of the twenties and early thirties, union leaders later associated with the CIO actively advocated union participation in decision-making in industry and in the nation. They saw the government as a constructive force in the economy and society. But this view was not shared by leading AFL spokesmen. This contrast stood in the way of shaping a unified movement in the thirties.

This distinction also evidenced itself in their respective responses to the grant of legislative protection for workers' rights to organize and bargain collectively proclaimed in Section 7a of the National Industrial Recovery Act. The AFL leadership appeared unable to close the gap between their orientation and the expectations of hundreds of thousands of workers who spontaneously created their own unions during the 1933–1934 period. The former could not perceive the depth of the prevailing unrest and the strength of the commitment of the blue-collar workers to unions. The AFL leaders despaired of the possibility of forming unions as their past experience had been so negative. They held out little hope that the new moves would be any more successful. When confronted with the avalanche of the newly organized, the best they could offer them was a secondary position within their unions with limited rights and benefits. They gave a higher priority to maintaining their political position and the homogeneity of their membership than expanding the size of their ranks. Parochialism, particularism, and self-interest characterized their convictions. They would not underwrite the new unions with either funds, loans of experienced leaders, or sponsorship. A strong and vigorous leadership at the central headquarters was lacking.

In sharp contrast were the new leaders who later constituted the core of the CIO structure. They showed an understanding of the opportunities offered by the new situation by addressing themselves to the reconstruction of their own organizations. They initiated recruitment drives, called strikes when they deemed them necessary to display their newly assembled strength, and promoted employer organizations to create the structure for industry-wide collective bargaining. Their agreements became the standards for their labor markets, thereby advancing industrial stability. The success in organizing in the mining and garment industries set the models for American workers. They made real the promise for protection of unions offered by the NIRA. As their own organizational goals were realized, they recognized their responsibility for helping workers in other industries and areas. The security of their own achievements was dependent upon the spread of unionism in associated industrial and geographic areas. They began by offering funds and manpower; they became models of dedication for other leaders. Their skills, experience, counsel in strikes, and services in negotiations became available to other unionists. Their achievements made them public figures who could help others make breakthroughs in their organizing efforts. They underscored the critical thesis that unions had to be set

up on an industrial basis so as to minimize the competitive labor factor. The basic agreements of these newly organized industries became the patterns for the remainder of the American workforce.

The accent of these leaders was upon ushering in a new industrial era for the American people and not enriching their own organizations. The new central organization, the CIO, would employ its resources and enlist the aid of its constituent bodies for advancing new organizations and assist in bargaining with management. It was not a particularistic effort; it was a collective project.

The AFL-CIO Shed the CIO's Attributes

After the merger of the two federations, the new organization reflected the outlook of the original AFL orientation rather than that of the CIO. Two developments will be cited to illustrate this trend. The period of the late fifties and sixties witnessed much rumbling and unrest within union ranks. Stoppages occurred in organized plants, complaints mounted about ineffective administration and grievance systems, contracts were rejected, and defeats of incumbent union leaders were registered with increasing frequency. Individual critics not only recorded their dissatisfaction in tomes enumerating their criticism and the omens of decline, particularly after the depression of 1958-1959, but also offered and pleaded for reforms in the internal structure and policies. But these were bluntly rejected. Little serious thought was devoted to them. The president of the AFL-CIO in 1972 proclaimed his lack of concern for the existence of large segments of unorganized workers.

The major exception to this indifference was the initiative taken by the Industrial Union Department in promoting conferences to advance coordinated bargaining among unions with bargaining rights for units of the same company. The rest of the structure continued to follow the ways of the past. The degree of commitment and innovativeness of more recent efforts are still to be established.

Unions Face Continuing Management Opposition and Unilateralist Techniques

Management's resistance to unions remained a persistent challenge throughout the entire period, though the forms varied with time. In the thirties the disapproval assumed brute force—direct physical attacks on union representatives and supporters, resulting in many casualties in the ranks of unionists. The CIO unions were the primary targets. As these acts were publicized and recorded by the La Follette Senate

Committee (1936-1940), they were largely replaced by an ever-changing group of new approaches and techniques, all directed to the same objective—the undermining of unions. Union leaders devised responses to the former, but were less effective on the whole in shaping answers to the latter. They never defined their own orientation respecting them and the threat they represented. Nor did they display the determination, insights, skills, and expertise needed to contend with management's innovations or to design alternative approaches to better serve the mutual interests of the two parties and advance the protection and benefits of their following. They continued to pinprick rather than formulate strategies or countermeasures. This dismal record in part grew out of the discomfort felt by union leaders with these technical problems. Staff specialists assigned to these issues worked in isolation from both their principals and their peers in other unions. The national federations were inhibited from seeking to coordinate these efforts. Few precedents existed for them to intrude in fields related to collective bargaining and contract administration, considered the responsibility of individual autonomous unions. These distressing results stand out in sharp contrast to the record of the Swedish union which enlisted the aid of technicians and supported independent technical institutions to evaluate the techniques, develop a deeper unionist understanding of their application, and evolve distinctive approaches and measures for effective bargaining with management.

As noted, management resistance to unions assumed many different forms, the earliest being that of direct assault. Then followed the challenges to proposed industrial relations law to encourage unionization and bargaining collectively. Where this opposition failed, employer groups subsequently attacked the administration, seeking first to obtain amendments to enfeeble the original law, as witness the passage of the Taft-Hartley Act of 1947 and later the Landrum-Griffin Act of 1959. They successfully resisted labor's efforts to strengthen the administration of the basic act. Administrators who issued or supported decisions favorable to union positions were personally attacked and their replacement demanded. The first fruit of this campaign was registered in 1940 with the appointment of new members of the National Labor Relations Board who favored less vigorous enforcement and application of the principles of the legislation. The process of replacement persisted throughout subsequent years, reaching its climax with the appointment of the present Reagan Board. Trade unionist distress with the operations of

the Board attained a high point in the recent declarations that unions might well consider abandoning the use of the labor relations legislation and pursue their objectives without the encumbrance of the laws and administrators.

In the negotiations process, management in the thirties introduced another vise which sharply restrained unions in their search for a more significant role in the administration of labor relations at the workshop. Trade unions had historically conceived of collective bargaining as a problem-solving procedure. But management forced upon the participants a more narrowly conceived legalistic orientation, employing attorneys, the artisans of the technique, to implement their wishes. Lawyers chiseled the contract language to narrowly constrict concessions granted in bargaining. Worker rights were sharply limited and their expansion obstructed by management claims on all residual rights; issues not specifically covered in an agreement remained within management's jurisdiction. Differences arising between the parties during the administration of an agreement were converted into legal bouts on the meaning of contract language. Only grievances—complaints charging violation of contract terms—could be processed. Arbitrators were restrained from viewing issues from perspectives other than in the terms set down in the contracts, however costly that slant may prove to be to the state of industrial relations. Adversarial relations were fostered and thereafter beclouded labor-management relations. Problem-solving was replaced by litigation.

Another landmark in the pursuit of management's determined effort to contain the areas for union bargaining was the 1946 agreement between the General Motors Corporation and the United Automobile Workers of America, ending a 113-day strike in 1945-1946. It ruled out union rights to intervene in the operations of the plants and to share in decision-making on prices, market and sales policy, and product determination. But as became evident in the latter part of the fifties, the public did not erase its suspicions and drop charges of collusion between management and unions on matters of price determination, particularly as price increases followed directly on the conclusion of wage increases. This perception haunted unions and estranged the liberal middle class from its former sympathies for the trade union movement. Moreover, the movement made no effort to cleanse itself of this public illusion.

Another front on which management operated to promote its views within the workplace was that of personnel philosophy and techniques. The object was to cultivate an acquiescent workforce.

Human relations and organizational behavior became the labels for the new orientations. Its contents were systematized by schools of management through research, writing, and textbooks. Their graduates became the administrators of these programs. In recent years some academic writers have taken these views a logical step further by insisting that nonunion managements are even more innovative and experimental and therefore more progressive in their operations than those engaged in collective bargaining, overlooking the realities, as some of these men had previously written, that these programs were often deliberately designed to strengthen the resistance to unions and to enable managements to combat union organizational efforts. The climax of this trend has been reached with the subordination of collective bargaining to be one of four alternative systems of industrial relations. The other three are laws, civil service regulations, and unilateral employer administrations of industrial relations.

Another development which reinforced management authority within the shop has been the multiplication and concentration of personnel techniques within the structure of personnel administration. Unlike earlier arrangements of collective bargaining in which union business agents and shop stewards possessed the records and operated administrative procedures, these functions are now lodged largely with management. To obtain information, unions have to fight for their rights through government boards and courts. Time study, job evaluations, and wage incentive systems are now almost entirely administered by management personnel, thereby guaranteeing them the initiative in wage-setting, work assignment definitions, and work target-setting. To gain a role in these processes, unions must challenge management in negotiations or through the grievance system. But cases thus processed account for a miniscule proportion of the total determinations made in these areas. Few unions have made the moves necessary to call the assumptions underlying these techniques into question. They have been too preoccupied with controversies over single rates or job assignments. Nor have they considered offering alternative procedures for reaching these determinations. Where union technicians have presented such proposals, they have gained little attention or support. No overall union-based research institutions have been created to assist unions in defining more congenial approaches which would answer the needs and views of both parties. A similar inadequacy of union response has been observed as respects the introduction of quality of work life and group dynamic techniques,

which have even more profound and troublesome effects on defining the union's role in industry. Small shop groups organized to implement these programs are designed to become self-contained, in their decision-making, usually controlled by the management leaders, and independent of the central union agencies, without provision for equalizing knowledge and skills of the parties and insuring a balance in bargaining strength. Few arrangements are set up for the reconciliation of the interests of local groups and the overall employee collectivity. While unions in some instances retain the responsibility for monitoring the administration of these programs to protect the general standards set down in the agreements and union objectives, these procedures generate conflicts between the union and its members such as have been witnessed in the operation of the German works council system.

Management has remained determined in both organized and nonunion plants to retain its unilateral dominance of the business enterprise. National unions have hardly begun to wrestle with the significance of these innovations for the design of their policies and structures. They have dealt with them on an ad hoc basis, leaving local unions stranded and often helpless in the face of management's aggressive pursuit of its objectives. The CIO unions have been particularly faced with this challenge but have generally been reluctant to come to grips with these issues.

No enumeration of this phase of the American collective bargaining scene can be concluded without a reference to the auxiliary agencies created by management to conduct its combat with unions. The most prominent of these has been the National Right to Work Committee which has determinedly sought to contain union rights and progress.

Conclusion

The CIO introduced and experienced many unique dimensions in the evolution of the American labor movement. It responded to the desires, aspirations, and demands of the American industrial working population, thereby affecting the industrial, political, and social history of the country. But most of these events and episodes have not been reviewed or assembled. Integrated evaluations have still to be made. Many current hypotheses circulating among participants in this history have to be evaluated and many others introduced. Such an analysis is vital to the achievement of the renaissance of the movement.

This paper has dealt with a limited number of aspects of the total panorama. Others have to follow with efforts to encompass the vast array of experiences. Only then can we achieve a profound understanding of this major event in American labor history.

X. EMPLOYEE OWNERSHIP—UNION MANAGEMENT CASE EXPERIENCES

Saving Jobs Through Worker Buyouts: Economic and Qualitative Outcomes for Workers in Worker-Owned, QWL, and Non-QWL Supermarkets*

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AND VIRENDRA SINGH
Temple University

In March 1982, A&P announced it was closing its 40 Philadelphia supermarkets, putting 2000 employees out of work. UFCW 1357 quickly proposed to A&P that the workers would buy 21 stores. By late May, a new contract was signed: workers would buy up to four stores, and give up \$2/hour in wages and lose some benefits; A&P would reopen 20 "SuperFresh" stores with a QWL program and bonus sharing, and create a fund to help employees purchase more stores. This situation is a unique, naturally occurring field experiment comparing two different methods of job sharing—worker buyout and labor-management concessions. The setting also allows for comparison of the effects of worker ownership and worker participation programs such as QWL.

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* These data are part of a larger project funded by the Upjohn Institute, Temple University, The Fels Fund, UFCW 1357, and SuperFresh, Inc. Members of the research team include the authors, Judith Goode, Arthur Hochner, and Elaine Simon, all of Temple University.

This paper reports preliminary findings of a two-year follow-up of qualitative and economic outcomes for former A&P workers in three different settings: worker owners in the new "O&O" (owned and operated) stores, SuperFresh workers in stores with a QWL plan, and SuperFresh workers in stores which had not yet instituted QWL.

The Research Model

The overall model relating ownership and participativeness to store and worker outcomes is illustrated in Figure 1. An ongoing research project is aimed at supporting the complete model. This analysis focuses on the extent to which organizational processes (participativeness and store functioning) influence personal outcomes such as income and satisfaction. Operationalization of the portions of the model tested here is described in the hypotheses below.

Data Collection

All 38 worker-owners were asked to participate and 100 SuperFresh workers who had formerly worked for A&P were randomly sampled after stratification for department, department-head status, and sex. Written questionnaires were collected from 21 employees (66%) of two O&O stores, 32 employees (34%) of two QWL SuperFresh stores, and 43 employees (67%) of two SuperFresh stores that had not yet implemented QWL. Of the 96 workers in the sample, all but eight have at least a high school education, 65 are married, 43 are female, 93 are white, 58 are Catholic, and 33 are Protestant.

Workers were asked to describe their jobs, their economic circumstances, their perceptions of participation, and their life and job satisfaction. Exact wording of each question is available from the authors. Data on store characteristics were obtained from store managers, public records, and SuperFresh corporate headquarters.

Descriptive Results

Mean differences between workers and stores with different types of ownership and participation are shown in Table 1. The O&O employee-owners want to provide themselves with full-time jobs, influence over decision-making, and return on their investment. About 44 percent of O&O workers are full-time, compared to only 16 percent at SuperFresh. They are most likely to believe that they have influence over long-term decisions such as capital investment and shutting down the store, and decisions about daily work such as hours and tasks. The O&O stores had the lowest profit and highest unit labor costs in fiscal

FIGURE 1
Research Model for Overall Study

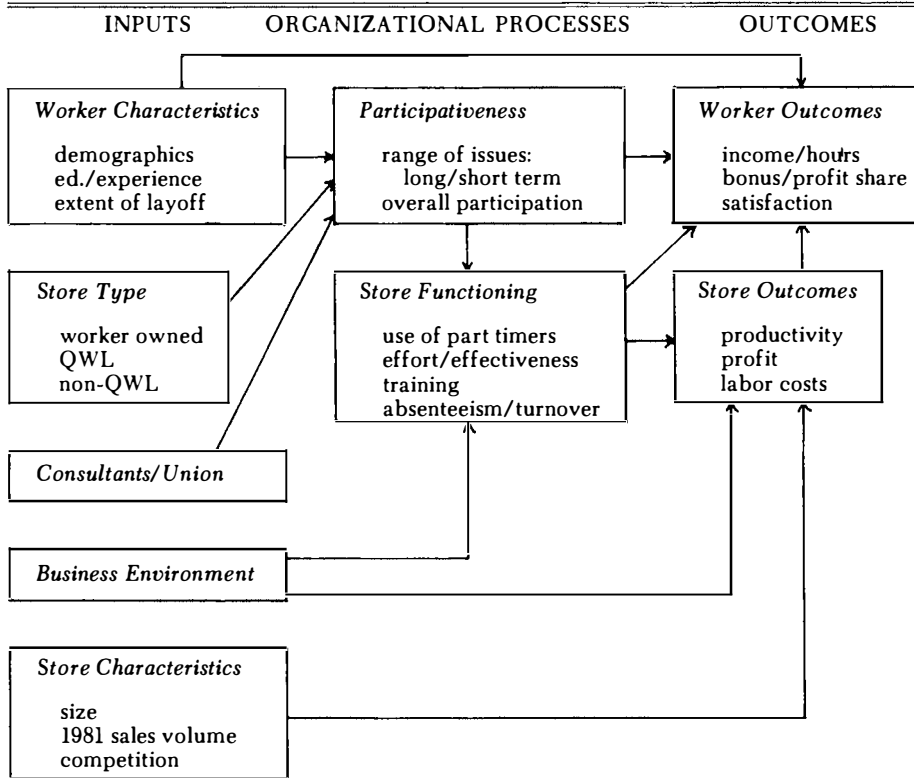


TABLE 1
Mean Differences in Store and Worker Characteristics

	O&O		QWL		Non-QWL	
	(N=19)	(N=2)	(N=12)	(N=20)	(N=21)	(N=22)
<i>Worker Characteristics</i>						
No. dependents	2.50 ^b		1.41 ^{ac}		2.27 ^b	
Full-time/Part-time	2.37	5.00 ^{bcd}	2.17	0.95 ^{acd}	2.57	1.95 ^{ab}
Years of education	13.00		12.75		12.28	
FT/PT	12.68	16.00 ^{bcd}	12.92	12.65 ^a	12.77	11.76 ^{ad}
Yrs. seniority-mkts	18.62 ^b		12.47 ^{ac}		21.44 ^b	
FT/PT	18.79	17.00	19.75	8.10 ^{cd}	22.82	20.00 ^b
No. jobs know how to do	8.90 ^c		6.59		6.23 ^a	
FT/PT	8.74	10.50 ^{bc}	10.33	4.35 ^{ad}	8.23	4.14 ^{ad}
Months of layoff	5.55		3.40		5.67	
FT/PT	5.71	3.00 ^c	2.08	4.28 ^c	3.05	8.71 ^{abd}
<i>Store Characteristics</i>						
No. employees	40.86 ^{bc}		131.80 ^{ac}		100.55 ^{ab}	
Sq. feet (000)	18.57 ^{bc}		27.53 ^{ac}		25.79 ^{ab}	
% married	76.20 ^b		46.90 ^{ac}		79.10 ^b	
% full-time	44.10 ^{bc}		15.31 ^a		16.02 ^a	
% female	23.80 ^{bc}		46.90 ^a		53.50 ^a	
<i>Participativeness</i>						
In daily decisions ^c	14.43 ^{bc}		9.42 ^a		9.63 ^a	
FT/PT	14.47	14.00 ^{bc}	12.64	7.65 ^{ad}	13.14	5.95 ^{ad}
In long-term decisions ^c	8.38 ^{bc}		2.43 ^a		3.00 ^a	
FT/PT	8.53 ^{bc}	7.00 ^{bc}	2.00 ^{ac}	2.55 ^a	3.64 ^{ab}	2.33 ^{ad}
Overall influence ^c	7.05		6.94		7.12	
FT/PT	6.94	8.00	7.50	6.60	7.76	6.42 ^d
<i>Store Functioning</i>						
Av. hrs/wk part-time	19.29		20.13		20.02	
Absenteeism (weekly)	1.86 ^b		6.72 ^{ac}		2.56 ^b	
Turnover (annual)	8.28 ^{bc}		150.16 ^{ac}		75.72 ^{ab}	
Consultant/union help	7.43 ^{bc}		2.59 ^{ac}		1.00 ^{ab}	
Training ^c	9.37 ^c		8.43 ^c		3.44 ^{ab}	
FT/PT	9.55 ^c	6.00 ^{cd}	10.00 ^c	7.39 ^c	4.24 ^{ab}	2.60 ^{ab}
Effort after part. in DM ^c	7.24		6.10		6.55	
FT/PT	7.47	5.00	7.36	5.40 ^d	7.86	5.24 ^d
Individual effectiveness ^c	9.00		9.03		9.32	
FT/PT	9.26	6.50 ^{bcd}	8.83	9.17 ^a	9.14	9.52 ^a
<i>Store Economic Outcomes</i>						
Profit 1981	.05 ^{bc}		.08 ^a		.09 ^a	
Profit 1983	.10 ^b		.07 ^{ac}		.10 ^b	
Unit labor costs 1981	.69 ^{bc}		.59 ^a		.58 ^a	
Unit labor costs 1983	.44 ^{bc}		.56 ^{ac}		.50 ^{ab}	

Note: Numbers in the first line of each classification are the sample means.

^a Significantly different from O&O.

^b Significantly different from QWL.

^c Significantly different from non-QWL, comparing FT to FT and PT to PT across store type.

^d Significantly different from full-time workers in same store type: $p < .05$.

^e Multi-item scales composed using factor analysis.

TABLE 1—Continued

	O&O		QWL		Non-QWL	
	(N=19)	(N=2)	(N=12)	(N=20)	(N=21)	(N=22)
<i>Worker Outcomes</i>						
Job income	\$19,940		\$15,630		\$15,884	
FT/PT	19,057 ^{bc}	13,211 ^{bcd}	24,692 ^a	9,907 ^{ad}	22,492 ^a	8,944 ^{ad}
Hours/week	45.09 ^{bc}		28.31 ^a		30.21 ^a	
FT/PT	47.00 ^{bc}	27.00 ^{bcd}	41.75 ^a	20.25 ^{ad}	41.00 ^a	18.90 ^{ad}
Bonus	\$313.33 ^{bc}		1731.76 ^a		1459.43 ^a	
FT/PT	313.33 ^{bc}	—	2485.27 ^{ac}	1271.28 ^d	1943.80 ^{ab}	949.58 ^d
Job satisfaction ^e	23.62		23.90		24.72	
FT/PT	23.89	25.67	25.67	21.00	26.09	22.57
Life satisfaction ^e	24.28		25.03		25.93	
FT/PT	23.68	30.00	24.58	25.32	25.45	26.47
Economic well-being ^e	19.31 ^c		17.55		15.62 ^a	
FT/PT	19.22	21.00 ^{bc}	20.42	15.53 ^{ad}	17.48	13.58 ^a

Note: Numbers in the first line of each classification are the sample means.

^a Significantly different from O&O.

^b Significantly different from QWL.

^c Significantly different from non-QWL, comparing FT to FT and PT to PT across store type.

^d Significantly different from full-time workers in same store type: $p < .05$.

^e Multi-item scales composed using factor analysis.

1981, but they had the highest profit and lowest unit labor costs in fiscal 1983. The reduction in costs and gains in profit have not been obtained without personal cost, however. While average hours and average income for *all* O&O workers is higher, the *full-time* O&O workers have a lower average job income and bonus, and they work more hours than other full-timers.

The SuperFresh *full-time* workers resemble full-time O&O workers in many ways including education, number of dependents, seniority, number of jobs mastered, and layoff time. They also believe they have as much influence overall and in daily decisions. The biggest difference between O&O and SuperFresh stores is that SuperFresh stores have many more part-time workers. About half of the part-time workers never worked for A&P. Those who did have fewer years of education, know how to do fewer jobs, and believe they have less influence in short- and long-term decisions than O&O part-timers. They believe they have less influence in decisions about their daily work than the full-timers in their own stores. These part-timers also do not feel as well off economically. However, all workers, regardless of their current job situation, have equivalent levels of job satisfaction

and life satisfaction. QWL SuperFresh stores do have more training for all workers than non-QWL stores, but this training and participation by full-timers has not stopped high turnover, absenteeism, and labor costs in these stores.

Results of Model Testing

The 3SLS econometric analysis focuses on identifying significant influences on worker outcomes—income from this job, hours worked per week, size of bonus, perceived economic well-being, job satisfaction, and life satisfaction. Because the workers surveyed have similar experience and similar contract wages, we expect the variability will result from differences in organizational processes such as participation in decision-making and effects participation has on store functioning—interpersonal processes, efficiency—as well as labor strategies adopted by the stores.

We hypothesize that worker-owners perceive the greatest participativeness, those in non-QWL stores the least, when individual characteristics (education, seniority, department-head status, and layoff) and consultant help are controlled. With respect to worker outcomes, we hypothesize that more participativeness will increase hours and thus job income and bonus, as well as perceived economic well-being and job and life satisfaction. Participation is also expected to influence store functioning by decreasing absenteeism and the use of part-time workers with few hours, and increasing training, effort, and effectiveness. These are expected to have positive effects on worker outcomes. Human capital variables (education, seniority, sex, and dependents) as well as store profitability are also included for other hypothesized influences on worker outcomes.

The specific numerical results of the econometric analysis are not included because of space limitations, but are available from the authors. Significant effects described below indicate, first, the effect of worker and store characteristics on participation, and second, the effects of participation and store functioning variables on each of the worker outcomes, holding all other variables constant. Because the objective of the worker outcome equations is to identify the effects of organizational process, rather than to explain as much variance as possible, we have included only the participation, store functioning, and control variables mentioned in the hypotheses. All analyses were conducted for the total sample and for full-time workers only; the part-time sample was too small and too unrepresentative of all part-time workers to be meaningful.

Worker ownership has a positive effect on participativeness in daily and long-term decisions. Contrary to expectations, QWL has no effect on perceived participation in daily decisions and it has a strong negative effect on feelings of participation in long-term decisions. Also contrary to expectations, there are no significant differences among different types of stores regarding overall influence in decision-making. Within store types, people with more education perceive greater participativeness on all measures and perceptions of worker participation in daily decisions increase with skills and department-head status, and decrease with length of layoff.

Participation in decisions about daily life positively influences hours and thus income and bonus for all workers, as well as job and life satisfaction for full-time workers. Worker participation in long-term decisions also has a positive effect on hours and a negative effect on bonus. Overall influence has a strong positive effect on life satisfaction for all and on income for full-time workers.

Few indirect effects of store functioning are significant: average hours worked by part-time workers has a positive effect on bonus; ironically, workers who believe working hard is effective receive the lowest incomes; and those who believe participation leads to trying harder have lower life satisfaction. Workers who receive larger bonuses have more positive perceptions of their economic well-being.

Discussion

Our overall theoretical framework posits that stores with more worker participation in decision-making will achieve cost savings through investment in training of workers, increases in the effectiveness of individual workers, higher effort levels, and less absenteeism. They will be more inclined to give individual workers higher incomes and bonuses by increasing store profitability and by increasing the number of hours worked. Increased participation is also expected to increase job and life satisfaction by providing opportunity for workers to influence their jobs.

We expected that an increase in participativeness through employee ownership would have a positive effect on worker outcomes and it did. The employee-owned stores were more participative, more profitable, and provided more hours and thus income for *all* workers. The lower O&O bonus is determined by a vote of worker-owners rather than by the union contract as it is in SuperFresh stores. The O&O workers do have an economic benefit,

not captured by these data, in the growth of equity accumulating through the \$5000 each contributed to become an owner. A percent of profits is distributed to each shareholder's account, based on the number of hours worked, but the workers are not free to withdraw this money until they leave the store or until they have retired the debt assumed when the store was purchased.

Participation through QWL was also expected to have a positive effect in SuperFresh but this was not observed, resulting in few effects of store functioning on worker outcomes. One possible explanation is that certain provisions of the SuperFresh-UFCW contract have effects opposite those expected through increased participation. The contract establishes a two-tiered wage system and stores that keep yearly labor costs below 10 percent of their gross sales receive 1 percent as a bonus apportioned among employees according to the number of hours worked. The bonus is reduced if the labor costs exceed 10 percent and increased if they fall below 9 percent. These contract provisions have encouraged the establishment of a dual labor force within the stores: a small elite of full-time workers who benefit from participation but who also have a large financial incentive to identify with management's goals, and a larger complement of disenfranchised part-time workers.

This has occurred in part because the SuperFresh strategy is one dimensional: hire low-wage workers in part-time jobs and turn them over rapidly. But unit labor costs can be low even if wages are high, if productivity is also high. Participative QWL and worker ownership plans permit both high wages and low unit labor costs through improvements in productivity and reductions in absenteeism and turnover. Even within the small sample of SuperFresh stores we surveyed, those with less turnover and less absenteeism also had lower unit labor costs.

Two changes in the contract could have a less perverse effect on productivity and worker outcomes. First, labor costs should be calculated by taking payroll as a percentage of value added (gross sales - cost of goods sold) to be fair to stores in both rich and poor neighborhoods. More importantly, the bonus could have been linked to the store's profits rather than to reductions in labor costs. Pegging the bonus to the store's profits would focus attention on a variety of strategies—responsiveness to shoppers' needs, innovations in work methods and job design—successfully used by O&Os and far more consonant with QWL provisions in the SuperFresh contract.

Conclusion

This article reports results from a survey of former A&P workers now employed in one of three settings—a worker-owned store, a SuperFresh store with QWL, or a SuperFresh store without QWL. Primarily positive effects of participation on store functioning and worker outcomes occurred in employee-owned stores, but these effects were counteracted in the QWL stores by other contract provisions which promoted inefficient use of many disenfranchised part-time workers. Preliminarily, we may conclude that worker ownership can give the average worker a good chance for a full-time job with a future return on investment. Joint labor-management concessions may also work to save jobs but, in the SuperFresh case, have resulted in benefits for a minority of workers. The combination of worker ownership and participation appears more likely to insure full benefits to workers and firms.

The History of the Rath Buyout: A Role Expectations Analysis*

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The Rath Packing Company, founded in 1891, was one of the largest and most modern slaughtering and meat packing operations in the U.S. in the 1940s. By the mid-1960s, it was in serious financial difficulties, and by the end of the 1970s, a plant closure was imminent. At that time, Rath employed some 3,000 workers at its headquarter location in Waterloo, Iowa, and smaller facilities throughout the Mid- and Southwest. Its yearly sales were in excess of \$400 million. The workforce was represented by the United Food and Commercial Workers.

Rath's economic problems were partly industry-wide, partly company-specific. Unionized packing houses faced high raw material (hogs) costs, lower consumer demand for pork products, and increased competition from nonunion packers able to operate with substantially lower labor costs in a shrinking market. Problems specific to Rath were large unfunded pension obligations, long-term financial debts, a costly fringe benefit package, and an old and inefficient physical plant.

The Employee Ownership Plan

Rath's financial condition required an immediate infusion of capital for operating purposes and new equipment. To save the company from bankruptcy, a financing package was arranged which included a \$4.6 million Urban Development Action Grant to the city of Waterloo, passed through to Rath as a loan, and deferrals by the employees of one-half of the number of paid vacation and sick leave days and 50 cents per hour of any increases in wages and fringe benefits established by the packing industry's master agreement

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* Information for this paper comes from documents, interviews, and observations of the Rath board of directors and the local union from 1980 to 1985, during which time the author served as a member of the board. The paper was written based on discussions with Steven C. Currall, whose assistance is gratefully acknowledged.

(which the parties at Rath had previously followed). It also included a \$20 per week payroll deduction for all employees (management and labor) who chose to participate, used to purchase \$1.8 million shares of Rath stock.

The employee stock purchase plan (ESOP) entailed the transfer of 60 percent of company stock to workers over a two-year period. All participants owned an equal number of shares, which were held in an employee stock ownership trust (ESOT), managed by a board of trustees.

As part of the economic cooperation between management and labor, the union (Local 46) negotiated three mechanisms for worker participation to be implemented at Rath's headquarter facility: three worker members of the five-person ESOP board of trustees (ESOT); three worker members and seven outside, union-nominated representatives to the board of directors; and a series of labor-management productivity committees for direct shopfloor involvement in decision-making. The agreement which was drawn up before the buyout started between Local 46 UFCW, representing the nonmanagerial worker owners, and the company management gave the workers majority representation (10 out of 16 members) on the board of directors.

The negotiations over the employee stock purchase plan began in 1978. The plan was approved by stockholders in June 1980 and completed two years later (June 1982). Rath closed as a packing house in January 1985. Economic difficulties had forced a petition for reorganization (Chapter 11 of the U.S. Bankruptcy Code) in November 1983. When several attempts at internal and external reorganization failed, the board and the management began to liquidate assets to settle debt obligations (Chapter 7) in July 1985. In October 1985, the Rath Packing Company dissolved as a corporation.

The Framework for the Analysis

The five years of employee ownership at Rath were marked by financial turbulence, changes in top management, and a relationship between the union and management which alternated between cooperation and conflict in several waves.¹

This paper will describe some of the events that took place at Rath, and explain in part why positive predictions for union-management

¹ Detailed description and an analysis of the labor-management relationship are given in Hammer and Stern (1986).

cooperation in employee ownership were not realized. The focus is on differences in labor's and management's assumptions about the theoretical and practical meaning of worker ownership and the conflicting role expectations each party had.

Worker ownership and participation at Rath was met by many with enthusiastic optimism. Statements like the following illustrate their perceptions: "A new principle of governance has been laid down . . . the union has recognized the importance of uniting its new power [economic ownership] with management's power toward the end of a more effective and productive Rath."² What happened to this experiment which had such promise?

Events in the Life of the Rath Packing Company

The first year of worker ownership (June 1980–June 1981) contained some positive signs of labor-management collaboration—primarily in the growth of shopfloor worker participation, improvements in productivity, and the hiring of a new chief executive officer acceptable to both the union and management. But workers and union leaders were disappointed by continued economic losses and disillusioned by the very limited role they perceived themselves as having in company decision-making.

The second year (July 1981–June 1982) began with improvements in labor-management relations with the new CEO's publicly stated commitment to worker participation and ownership. Over one hundred accumulated grievances were settled informally between the CEO and Local 46's chief steward. The union president was elected to the board of directors. Union and management officials joined forces to hold a series of meetings with the rank and file discussing the company's future. On the negative side were continued financial losses, requests by the company during regular contract negotiations for wage concessions, and discussions between management and the union about the necessity to terminate Rath's pension plans.

The third year (July 1982–June 1983) brought major changes for both Rath and Local 46. It began with the termination of the pension and acceptance of a new three-year contract which froze COLA and wages and continued an arrangement of \$20 per week payroll deduction (used to purchase stock up until June 1982). It continued with the union president resigning from his union office to become a corporate officer in charge of plant operations, and the election of a

² Letter to William F. Whyte from a fellow researcher, 1980.

new union president. In the wake of continued losses, salaried and hourly workers had to accept a \$2.50 hourly wage cut, the CEO was asked to resign, and the former union president (now executive vice president for plant operations) was appointed by the board to the CEO position. The year ended with labor problems: the international union filed an unfair labor practice charge against Rath for illegally by-passing the international in securing the \$2.50 hourly wage cut, workers at a subsidiary plant struck the company over the cut, and the new CEO met the strike by hiring replacement workers.

During the fourth year (July 1983–June 1984) union-management relations deteriorated sharply which made future cooperation to stem the economic losses impossible. Efforts by the board and top management (1) to turn Rath from a national into a regional packer, (2) to streamline production, sales, and marketing, and (3) to further reduce labor costs by cutting health and medical benefits, were only partially successful. The union refused to consider further concessions. A one-day wildcat strike embroiled the CEO and the chief steward in a past-practice dispute. From the union's side, all interest in and efforts at maintaining the shopfloor participation program died. With the filing for bankruptcy in November 1983, the workers lost their contract and began to work under new workrules and with reduced wages and benefits. Union leaders' call for a strike vote to get the contract back failed to get a two-thirds majority, so in an alternative power move, they convinced the ESOP trustees to mount a proxy fight to oust four directors, including the CEO, from the board.

The local union grew increasingly factionalized during this time. A petition to decertify the union was filed with the NLRB. Work stoppages and walkouts took place in several departments in the plant. The year ended with the annual stockholders' meeting, in which the CEO and the chairman of the board lost their board seats. The union leaders ultimately failed in their attempts to remove the CEO from the board, however, because the board in a counter-move voted to expand, and immediately elected the newly defeated CEO as a new director.

The last year of employee ownership (July 1984–June 1985) began with a failed attempt to sell Rath to an outside buyer. During the fall, the company scaled down operations, laid off workers, and closed subsidiary plants. In January, production at the headquarter facility stopped as well.

The Meaning and Expectations of Employee Ownership

In theory, majority worker ownership provides a unique opportunity for worker involvement in, and influence over, organizational decision-making. In reality, share ownership in worker buyouts has not led to widespread worker participation, in part because so little attention was given by labor and management to the development of structures for involving worker-owners in company governance.³ Rath was different. There, negotiations over ownership included provisions for both board of director and shopfloor level participation.

Labor-management agreement on participative structures is not the same as agreement on power distribution between management and labor. At Rath, union leaders and managers had agreed on the former, but they had not agreed on how much influence the worker-owners should have over organizational decisions. It is doubtful that they had even faced the issue of the distribution of power in the organization. The incomplete negotiations meant that both the union and management began their collaboration with very different perceptions of workers' rights under worker share ownership.

To Rath's top management, worker ownership meant that workers had joined management in a common interest group—that of capital owners—and that their behavior at work would reflect their new economic interests. Management believed that ownership would obligate the workers to abandon restrictive workrules and excessive wage demands (felt to have been imposed on Rath by a strong union), to abandon shopfloor anarchy, and to help restore order and discipline.

An important part of management's definition of worker ownership was what it did not include: direct worker control over organizational decision-making. Rath would be run by a management responsible only to the board of directors. The workers' voice should be their representatives on the board. The union had no place in company governance outside of traditional collective bargaining.

The union leaders' definition of employee ownership differed considerably from management's. First, it contained no assumption about a common interest group of capital owners. Second, worker ownership meant worker control over all aspects of the company

³ For a description of worker participation in early buyout cases, see Whyte et al. (1983).

which could affect stockholder equity. Managerial authority would be subservient to stockholder authority, which, in Rath's case, meant the workers. Third, they did not believe that worker power should come through representation on the board only. It should also come through the union, whose leadership would be actively involved in organizational decision-making at all levels to protect the interests of the members (the shareholders). In particular, the union president saw the union as the ultimate power at Rath and believed strongly that the membership's wishes should be carried out by the management and the board. Furthermore, he believed that it was *his* right to intervene on behalf of the worker-owners to protect their property.

Both the union leadership and Rath's management interpreted employee ownership in terms which favored their own power positions. These different interpretations meant that union leaders felt they were up against a recalcitrant management who refused to grant the workers their full ownership rights, while management felt they had acquired a nine-headed gorgon which kept poking its fire-breathing heads into places and matters where they did not belong.

From the divergent definitions of worker ownership followed the role expectations about how management, worker-owners, and union leaders should behave in the plants and in the board room. Management's role expectations meant essentially that there would be as little change as possible in role behaviors with the transfer to employee ownership: managers would manage and workers would work. This was reinforced by expectations from outside role senders, such as the banks, the suppliers, and customers. The union leaders' role expectations meant change, and this was reinforced by *their* outside role senders, primarily the local union members whom they had convinced to vote for the employee stock ownership plan.

Role Expectations of a CEO

The conflicting expectations account to a large extent for the considerable disillusionment with shareownership and worker participation at Rath. The parties behaved very much in line with their role expectations of themselves and had great difficulty understanding and accepting the behavior of the other party. The role conflict and its repercussions were accentuated by one financial crisis after another. The constant financial pressure on both management and union leaders, with subsequent demands for further concessions and

sacrifices, brought the issues of ownership responsibilities and shareholder rights into the foreground. Instead of having the conflicts solved through a gradual change of role definitions,⁴ ownership definitions crystalized. Expectations which had not been clearly conceptualized while the buyout was negotiated took shape both cognitively and verbally. By the time the union president became the CEO, it would have required a miracle to make the role expectations of management and labor congruent. Why was not the former union president that miracle?

Because he seemed to fall right into the managerial role as soon as he received it. In fact, he appeared to become more of an antiunion manager than those who preceded him, taking a firm antiunion, promanagement stand on labor disputes: he hired replacement workers, refused to acknowledge past practice workrules, applied to the Bankruptcy court for relief from the union contract, and fired shop stewards accused of instigating walkouts.

It is difficult to understand how a respected trade unionist could turn against his own union. The question one asks is whether the managerial role so dominated the person that underlying values and beliefs about worker and union rights were completely suppressed as the causes of behavior. There is no doubt that important role senders in the CEO's role set maintained their expectations that he behave like a manager. Lenders, suppliers, customers, Rath management and part of the board, as well as business people in Rath's community, all communicated messages about the necessity for a lower labor wage bill, labor stability, and improved productivity.

However, part of the explanation lies elsewhere. The behavior demonstrated by the CEO was a continuation of behavior in a *leadership* role which he had occupied for at least 12 years as union president. He ran the union in an authoritarian fashion, defining his leadership role as that of a guardian. His mission when Rath was in deep economic trouble was to stave off a plant closure to save his members' jobs. As the CEO, he kept his authoritarian leadership style and defined his role as that of a guardian whose goal it was to save as many jobs for as long as possible. While the expectations others held of the occupant of the CEO position undoubtedly accounted for part of his actions, there had been a merger of the person with the

⁴ For a discussion of management and union role changes in cooperative programs, see Kochan et al. (1984).

authoritarian leadership role long before he became a company officer.⁵ Therefore, although his position at Rath changed, his fundamental definition of himself as a leader did not change when he became the CEO.

The problem he encountered with labor as CEO was that the union was not as willing to be his ward as it had been when he was the union president. New union leadership did not want what amounted to a company union. The CEO began cognitively and behaviorally to distinguish between union leadership and the worker-owners (echoing former top management at Rath), and defined the union leadership as major road blocks in his fight to save the workers' jobs.⁶

Conclusion

In this paper I have shown how union-management collaboration in worker ownership and participation at Rath suffered from conflictual role definitions of management, union leaders, and worker-owners. Despite the detailed early negotiations on the cooperative structures, expectations about the *behaviors* in those structures were not clearly conceptualized by the time the employee stock ownership plan began. The expectations were certainly not verbalized, and therefore not communicated, to the different parties. The resultant role conflict helped to undermine collaboration at Rath.

But an adversarial union-management relationship cannot take the blame for Rath's closure. Factors like market difficulties, credit limit restrictions, lack of alternative lending sources, and shortage of competent management combined with labor difficulties to make reorganization impossible. Worker ownership of Rath allowed the company to stay in business providing employment for an extra five years. During that time, worker-owners never had their envisioned worker power, but they did have jobs.

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⁵A theory of person and role identification is given in Turner (1978).

⁶This is an incomplete explanation of a very complex set of events. There were a number of motives behind the CEO's behavior vis-à-vis the union, including political power moves and counter-moves, practical constraints from economic difficulties, and limitations on actions placed by the legal constraints of bankruptcy. The reason for emphasizing the continuation of the leadership role here is to dispel assumptions about the domination of role expectations.

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Creating the Idea of Ownership: Lessons from Employee Ownership Success Stories

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Employee stock ownership plans (ESOPs) were legislated as an employee benefit in 1974. There are now approximately 7000 ESOPs. Union involvement in establishing these plans has been limited almost entirely to buyout situations, that is, using ESOPs to save firms which would have otherwise closed. This use of ESOPs has occurred in about 70 companies. Buyouts using a cooperative structure have also occurred in a few instances. It was mostly union locals that initiated these buyout efforts, using an ESOP or a cooperative; the internationals wanted to straddle the fence. They didn't want to set a precedent which might compromise national agreements; yet they did not want to be responsible for losing jobs. So they didn't help, but they didn't interfere either.

By the early 1980s, however, unions were finding ESOPs hard to ignore. Employers were coming in droves seeking concessions. If they wanted employees to make an investment, more and more union locals reasoned, then why shouldn't workers be stockholders? The result was the establishment of substantial employee ownership plans at dozens of major airlines, trucking and steel companies, as well as firms in many other industries. At the same time some local unions were beginning to explore ways to use employee ownership to start their own unionized companies, especially in the construction trades.

In the meantime, more and more companies were learning about ESOPs and setting up plans to satisfy their needs of providing capital for growth, supplying a market for the stock of a retiring business owner, enhancing cash flow, affording employees an additional benefit, and so forth. The press got in on the act, also, focusing mostly on buyouts. States started to pass laws to promote the idea. By 1983, unions were facing a new twist: the growing number of large

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leveraged buyouts of public firms in which an ESOP was used to purchase a large portion of the stock. Often these plans allowed managers to buy stock much more cheaply, and gave the workers no control over the stock they owned.

So, employee ownership has been a dilemma for unions. Like the proverbial mermaid, it sat beckoning seductively. It seemed to beat drowning, but who knew what the long-term consequences of embracing it would be? As unions grappled with this dilemma, many difficult issues emerged. Should unions actively bargain for ownership, and if so, should they bargain for it only as an additional benefit or should they be willing to make concessions for it? Where companies demanded concessions, should unions agree to consider them in return for ownership, or should they insist on preserving the contract pattern? Where plants would close, when would buyouts make sense? What role should union leaders play in representing employee-owners on boards of directors, and would this undermine them as unionists? All of these are difficult questions, but an even more basic issue was still more the subject of speculation than research: What do employees think about being owners?

Who knew how employee stock-owners were supposed to act, or what they even thought about ownership? ESOPs were growing, as many things do, without a lot of thought given to its by-product. The by-product in this case was that role expectations of the actors were changed. Managers expected workers to “act like owners,” that is, to be more efficient and more productive because they had a stake in the company. Workers expected to be “treated more like owners,” that is, allowed more say in company affairs. However, neither party seemed to have thought through what “acting more like an owner” or “being treated more like an owner” meant.

What unions and managers were learning was that employee ownership has connotations beyond merely having stock held in an account somewhere. But in many companies, whether the idea was management- or union-initiated, efforts are made to encourage and nurture ownership feelings. What happens at these success stories tells us a great deal about what workers expect from ownership and thus what role unions can play in assuring that employee ownership delivers what it promises.

How ESOPs Work

Most ESOPs are set up in profitable private companies to buy the

stock of an owner, in public or private companies as an additional benefit plan, or as a means to borrow money more inexpensively, using special ESOP borrowing provisions.

In almost all ESOPs, employees receive stock as a company contribution. They almost never buy it themselves, and usually do not give up anything to get it. ESOPs are not commonly used to replace defined benefit pension plans and, as best we can tell, relatively few companies (we would estimate between 10 and 15 percent) that have ESOPs would have set up a conventional pension plan if they did not set up an ESOP.

In an ESOP, stock or cash to buy stock is contributed to a trust, where it is allocated to employees, usually on the basis of relative pay (but the formula can be more equal). Generally, all full-time employees are covered, but unionized employees can be excluded, provided the employer bargains in good faith about the plan. Stock accumulates in the plan subject to gradual vesting, and the employee receives it at separation or retirement. Private companies must repurchase it at an appraised fair market value. Employees must be able to vote their allocated shares on all issues in ESOPs in public firms and on issues which require more than a majority vote in private firms. According to a 1980 survey, about 15 percent of private companies pass through full voting rights anyway (Marsh and McAllister, 1981). We, at the Center, estimate that about 1000 companies are majority employee-owned, and that about half of these pass through full voting rights.

Two Success Stories

Between 1981 and 1984, the National Center for Employee Ownership conducted 45 case studies of employee ownership companies, including surveys of their 3800 employees. The purpose of the study was to find out what made employees feel most like owners. The results have been published in detail elsewhere (Rosen, Klein, and Young, 1985), but, in brief, we found some very clear results.

The most important factor to employees was how much stock they received in their ESOP every year. In the highest scoring companies, this averaged about the equivalent of 14 percent of pay per year. In fact, the average employee in the typical ESOP will accumulate \$31,000 after ten years, so the magnitude of the financial benefit of an ESOP is potentially significant (Rosen and Feldman, 1985). Given this, the employee focus on the size of the contribution is not surprising. But three other factors mattered as well, although not as much: the attitude

of managers towards employees as owners, the opportunities for employees to participate at various levels in the company, and the degree to which the company shared information with employees. By contrast, company size, line of business, or region did not matter, nor did workforce characteristics. Voting rights were not a key factor in whether employees really felt like owners (although voting rights might be important on other grounds), nor was the percentage of the company they owned. These and many other seemingly “obvious” factors simply did not correlate.

Two companies, one unionized and one nonunion, illustrate these lessons well.

Quad/Graphics

Quad/Graphics, Inc. (nonunion) in Pewaukee, Wisconsin, is one of the companies in which feelings of ownership are not only encouraged, but are practically demanded. Quad/Graphics was founded in 1971 by Harry Quadracci and ten other people. Quadracci told us in an interview that he “always thought that it [employee ownership] was a good idea.” His commitment to this idea shows up in the way Quad/Graphics is organized and run. Though Quadracci strongly believes that workers should be partners in a literal sense, he also strongly believes workers have to be trained to be partners. New hires become “students” in the Quad/Graphics “school,” where senior workers (including Quadracci) teach both printing and Quad/Graphic culture. This is just one of the equalizers at Quad/Graphics. Trust and responsibility are key words at Quad. The workers are trusted (after “boot camp,” as Mr. Quadracci refers to the orientation period) to be responsible, and they, in turn, apparently respond to this trust. “Anybody who sees that something needs to be done ought to assume the responsibility for doing it,” Quadracci says. In other words, people are expected to act like owners. When people are owners and are told they are owners and are shown they are owners, they are likely to act like owners. That’s it. There’s no magic formula. But don’t be fooled. *It is not easy.*

Not only do workers attend classes where acculturation is emphasized, they have a mentor with whom they can relate and from whom they can learn about their job and about the company. These relationships can last formally from two months to two years, informally for a lifetime. Press crews are autonomous (an unusual practice). Therefore, each first pressman is responsible for keeping daily records of production levels and downtime. They also hold

almost total authority for cost containment, quality control, and customer relations and have a say in hiring, firing, and work schedules at their press. As a matter of fact, the entire training program got started by a group of first pressmen who saw a need for a formal mechanism for sharing information. So, they put together the curriculum and began holding classes, without consulting Mr. Quadracci or anyone else.

In short, though responsible behavior is expected, it is not expected that such responsibility go unsupported. Quadracci says that most workers do feel overwhelmed at first and fear they can't handle the expectation. However, they find they can handle it and like it.

Much of Quad's profits are turned back to the employees, not only in stock contributions but in facilities and events. There is an on-site sports center for employees; on-site college courses are offered; financial management classes are also provided; a "Think Small" dinner is hosted at the Quad lodge (owned by the company) every year for all employees in groups of about 12 employees at a time; and a recent addition to the list of ownership rewards is a 40-acre campground and recreational park, where the annual picnic will be held from now on and the Quad kids can attend camp.

Quad/Graphics is a success from any point of view. At the end of 1983 it had an annual compound growth rate of more than 50 percent. In 1971 Quad had 11 employees; in 1976 it had 60 employees; in 1985 it had over 2000 employees. It now has five sites around the country and prints nearly 100 weekly news magazines. These include *MS*, *Time*, *U.S. News and World Report, Inc.*, *Newsweek*, and *Mad*. A number of awards have been bestowed on Quad/Graphics. It was named in *The 100 Best Companies to Work for in America* in 1984. Harry Quadracci was named "Outstanding Wisconsin Businessman" in 1984 and also one of the most memorable businessmen ever interviewed by *Inc.* magazine in the same year.

Riverside Construction Company

Riverside Construction Company is another of our success stories among the companies studied and reported in *Employee Ownership in America*. The employee attitudes on ownership, job satisfaction, and organizational commitment were among the very highest of any of the companies looked at. Why is that?

Riverside set up its plan in 1976. At the end of 1983 the ESOP held 23 percent of the stock. Riverside has made a healthy contribution to the plan every year. Its profits and growth have been healthy as well.

However, this alone cannot explain the high scores. Nor can the strong financial performance of the company. But, as at Quad/Graphics, a cohesiveness among the workers and to the company has been created. This is what William Ouchi (1980) refers to as the clan control mechanism. How has this been accomplished? First of all, though 85 percent of the workforce at Riverside is unionized, according to our management interviewee, there is no distinction among workers. Mr. Lounsbury, Secretary-Treasurer, said, "We like to feel it's [the company] all one unit. It wouldn't be fair to exclude the unionized workers from participating in the plan."

The seasonal nature of construction work contributes to layoffs. Riverside's plan is structured to compensate for this by allowing workers to remain in the plan with as few as 50 hours of work in a year. A thousand hours a year is the usual requirement. Lounsbury credits the ESOP with encouraging employees to return to the company after a layoff. There are no formal participation or regular communication efforts at Riverside. However, the president does spend about 50 percent of his time in the field just talking to the workers. He is on a first-name basis with everyone. And the workers feel free to stop in at the office at the end of a workday to "shoot the breeze."

The common threads at Riverside are again, as with the other success stories, (1) workers can see their account growing at a meaningful rate, (2) management is sincerely committed to the idea of employee ownership, and (3) that commitment is communicated to the workers. Workers get the idea that they are important to the company because they are treated like they are important to the company.

Lessons

Riverside and Quad/Graphics illustrate some important lessons about what unions might focus on in dealing with ESOPs. First, ESOPs must be a substantial benefit if workers are really to feel like owners. Unions traditionally have focused their bargaining efforts on obtaining financial benefits for workers, and our research gives us no reason to believe that that effort should be any different with respect to ESOPs. At the same time, it is important for employees to have a significant role in the company. Voting rights per se, however, are not the key issue in most companies, perhaps because shareholders rarely vote on anything significant in most firms, including the board, which is often more advisory than decisive. Instead, unions need to look at the structure of influence in the company, the day-to-day ways in which

employees can have a say in those matters which concern them the most, and find ways to facilitate that. It will be different in every case. Sometimes it will mean employee control of the board, sometimes it will mean an active participation program at the job level, sometimes it will mean something else.

A union that can bargain for a plan with these features, our research suggests, will be one that is accomplishing a great deal for its members.

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Capital Strategies for Labor

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Ball, Kiernan, Livingston and Smith

There are some who would say these are terrible times for the labor movement and for those in public service and for those in business. Indeed, these are difficult times, but they are exciting times as well. I would like to discuss how employees, their unions, and community leaders at three companies have, out of necessity, forged new tools to deal with the problems their companies and communities face.

The first is Atlas Chain Company in the beautiful but impoverished coal mining area of northeastern Pennsylvania. In 1983, the plant closed, throwing more than 220 workers out of their jobs. The average age of the worker was 47, and most of the workforce had worked at Atlas for their entire lives.

The second company is TWA, the troubled airline. TWA was, as you remember, faced this past summer with a hostile takeover from Carl Ichan, the New York corporate raider.

The third company is Facet Enterprises where in 1984 more than 500 UAW members went on strike. The company hired strike replacements and moved most of the production facilities down to a Southern nonunion plant. More than 300 UAW members ultimately lost their jobs as a result of this labor conflict.

Each of these companies—Atlas Chain, TWA, and Facet Enterprises—in different ways, evidence the decline of American industry. The solutions suggested for this decline by the Republican Party are that government should stay off the back of big business and lower corporate taxes. Well, the Republicans in Washington have lowered taxes and cooperated with big business; yet the decline continues—not just in auto and steel, but also in high tech businesses like semiconductors and communications equipment. As the federal and trade deficits soar out of control, President Reagan mouths empty platitudes about the wonders of the free market and free trade. Our friends on the Democratic side of the aisle are too busy “me-tooing”

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the Republicans to really develop a clear strategy. For while the Democrats love the jobs business creates, they have few answers as to how to deal with corporate irresponsibility in an economy which is driven solely by profit. Plainly, both the Republicans and the Democrats have failed to sculpt a vision as to how America is going to compete in the 21st century.

Citizens throughout America are developing such a vision—a vision of capital strategies for this nation's citizens.

At Atlas Chain, the UAW leaders Bill Scott and Dom Dente understood this vision when they were faced with their industrial chain plant being shut. From the very beginning they received the UAW's unqualified help. The UAW provided money and technical and legal assistance, gave political help in Harrisburg and Washington in order to get low interest loans, and, most importantly, the Regional Director of the UAW went to the banks with us to raise the money that was necessary to put the buyout together. Ten months later Atlas Chain reopened as an employee-owned company which had been financed by an ESOP leveraged buyout.

The way we did it was to put \$100,000 down and borrow \$6 million. Just like buying a house, you put a little down and you pay the rest off over a period of years. As the debt is paid off, the stock passes from the ESOP into the accounts of the individual workers. At the end of ten years, the workers will own the company.

Now there are two advantages to an ESOP. The first is that the company repays the debt principal in pre-tax dollars. In terms of repayment of a house mortgage, that would mean you deduct both the interest and the principal from your pre-tax income. The second advantage is that the bank which lends the money pays taxes on only one-half of the interest it receives for that loan. As a result, banks lent money in two Ohio deals at interest rates as low as 82 percent of prime interest rate or about 8¼ percent. My guess is that if most of you had a chance to work for one of two companies and one of the companies had a tax break which enabled you to pay taxes on only half your income, you would probably choose to work for that company. Well, the banks feel the same way about these ESOP loans.

As a result of the union's seizing the initiative at Atlas Chain Company and keeping it, we set up one of the most democratic companies in the United States. The union participated in choosing the president of the company as well as four out of seven seats of the Board of Directors, three of whom are union officials, and stock is distributed on the basis of service with the company rather than on the

basis of salary. At its August 1986 UAW meeting, the union will elect the entire Board of Directors of Atlas Chain.

The second company where the union had this new vision is TWA which, I am sure you remember, was faced with a hostile takeover this past summer by Carl Ichan. While the unions were worried that Ichan's real interest was to buy TWA and sell off some of its major assets, they were horrified that Frank Lorenzo's Texas Air bid for TWA might succeed. Lorenzo had, as you know, been the union-buster who had cut wages up to 50 percent at Continental, forced a strike, and then hired strike replacements. The unions there rapidly assembled a team which was able to offer concessions to Carl Ichan and in return got 20 percent of the stock of the company and a 20 percent share of future profits. Most importantly, as a result of their literally going to the Board of Directors of TWA and threatening the board with labor strikes, the likes of which they had never seen, the TWA board voted to sell the company to Carl Ichan rather than to Frank Lorenzo. The final act of the TWA ploy is yet to be written. Plainly, Frank Lorenzo is an enemy of labor and working people. Carl Ichan, however, has yet to demonstrate that he is our friend.

The lessons to be learned from Atlas and TWA, from Seymour Specialty Wire, from Eastern Airlines to Wierton Steel, from Franklin Forge in Michigan to E. W. Bliss in Ohio, are lessons that are as simple to state as they have been difficult to accomplish. Worker ownership, control, and shopfloor participation will be achieved only through strong democratic unions with the active support of local, state, and federal governments. This means that the employees, the unions, and their community supporters must initiate and continue to be the leading force in the buyout. The unions and the employees alone should raise the money necessary to hire the consultants for the feasibility study, and if that study is positive, they must assemble the team of accountants, lawyers, investment bankers, and the deal-maker to put the deal together. The employees must assure the best possible management team in place and negotiate competitive salaries with them. The structure of the ESOP and of the new company should institutionalize employee participation.

The main task of structuring these companies is the raising of capital. Money makes the deal. That task should never be delegated by the employees, their union, or its counsel. More than any other part of the transaction, these negotiations with lenders and investors will ultimately determine the nature of the company and the power relations within it.

The lessons from TWA also must not be lost on us. Frankly, it is Carl Ichan who controls TWA today, not its employees. He controls it for one reason and one reason alone—his money and his ready access, his fast access, to a lot of other people's money. We too can play that game and we too can have access to huge sums of money. If we could get access to even a portion of the \$1 trillion in pension money in this country, we could play the role that Carl Ichan has played. If we had access and control of a portion of the \$500 billion that insurance companies invest with our premiums, then we too could play Ichan's game. The pension money is our deferred earnings. The insurance money is the investment of premiums. These two funds are the largest single source of capital in the United States, and it is time that we gained control of them. One of the ways to gain control is by having them invest in companies that communities and workers are trying to buy.

Right now a \$75 million ESOP leveraged buyout fund is being created which makes equity investments employee-owned, in union-led or community-sponsored buyouts of companies. As a result of the money that one can borrow after making these investments, a leveraged buyout fund of \$75 million would be able to bring to the table between \$1 and \$2 billion worth of debt. While the fund will be dedicated primarily to investing in healthy companies, it will allocate a limited percent of its resources to work-outs of troubled companies.

And how can this leveraged fund be used? At a company like Facet Enterprises where the UAW had a long, bitter, and unfortunately unsuccessful strike, the fund could have played a major role if it had been in existence then. Facet Enterprises is publicly held. In 1984 its stock was undervalued. With an investment of \$2 million from an ESOP leveraged buyout fund, a new company could have been created. The new company could have hired a management team and received the loan commitments from banks for another \$60 million. The new company could have gone to the UAW and negotiated a contract that the UAW could have lived with—a contract that provided that in return for productivity increases and other concessions, the employees would have gotten ownership in the new company utilizing an employee stock ownership plan. The new company would then go to banks which would have agreed to lend money at a low interest rate. At that point, with the union contract in hand, with the equity investment made in the new company by the ESOP leveraged buyout fund in hand, with the management in place, and with the bank commitments at the ready, the new company could

go to the public shareholders of Facet stock and say, "Your stock is selling for \$10 a share; we'll pay you \$12." The stockholders would make a profit and the new company would get control of Facet Enterprises. Instead of strike replacements, we would then have management replacements. If there is one thing that companies like Facet Enterprises and J. P. Stevens don't like, it's unions. If there is something they hate, it is hostile tender offers. Can you imagine how they will feel about a union-led ESOP leveraged buyout hostile tender offer?

Well, we have seen today how ESOPs and employee ownership can be effective tools for dealing with plant closings. We have learned from the TWA situation how employee ownership can be effective in keeping companies in relatively friendly hands. Finally, in the future, with the ESOP leveraged buyout hostile tender offer, we may see that employee ownership can be a powerful weapon for striking a blow against the enemies of labor, communities, and working people.

There are lessons to be learned from all of these companies—lessons that can be learned by those of us in the labor movement and by those of you in the academic and public sectors. Indeed, the lessons can be learned by the American people. The lessons are clear. If we stand watching, Wall Street's corporate gameplayers will continue to call the shots and we will, as a nation, continue to be the victims of their selfish games. It is time that we got into that game and began to play as tough as they do with the same tools they employ if we are to be sure that America can compete in the 21st century.

But worker ownership and worker control also represent a vision for America—a vision that America's unions and business and political leaders can bring to the American people; a vision that America will compete in the 21st century; a vision for America where companies can be run by competent management without having to worry about what their stockholders think every 90 days, but rather a vision where these same managers can concentrate on the 10- to 20-year interest of their employees who are also their stockholders.

Employee ownership and control represent a vision for America where what will be good for business will really be good for America—not just the few. It is a vision for America that is as American as apple pie—a vision for America which commands that this nation be run in the interest of working America, by its citizens, and for the future of our children. It is a vision for America where people work for companies they both own and control. It is a vision for America where, in tough times, people will tighten their belts and

in good times they will make a killing. It is a vision that will bring hope to the despairing auto workers in Pennsylvania, and it will give strength to frightened airline workers. It is a vision where Americans will own a piece of America and will have a voice in their own destiny.

XI. HISTORICAL ANALYSIS: INDUSTRIAL RELATIONS ERAS

Industrial Relations: Comparing the 1980s with the 1920s

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As a historian, I am usually reticent about hazarding direct comparisons between present and past. Such ventures, scholarly or not, too often result in distortion. The truth is quite plain: history does not repeat itself, and it is a truth that bears reiteration.

It is simply impossible to treat two eras separated by some six decades as analogous. Then, you might well ask, why seek to compare the industrial relations practices of the 1980s to those of the 1920s? That is a good question. Indeed, it is one that I am not sure I can answer. Let me, however, suggest in the most skeletal terms some reasons for comparing the 1980s to the 1920s.

I.

The surface similarities between the plight of organized labor in the 1980s and the 1920s are almost too obvious to cite. For example, Michael Harrington, in a *New York Times* op-ed piece of April 4, 1985, wrote that the echoes of the 1920s are in the contemporary United States "at the very least disturbing, even eerie." Harrington might have been thinking of two articles that appeared in that same newspaper's Labor Day edition the previous year. In one, a member of the UAW, a janitor employed by General Motors, complained about being overpaid and paraphrased Winston Churchill to condemn his union brothers and sisters: ". . . seldom have so many done so little for so

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much." And in the other, a journalist concluded: "Unions as we know them, however, seem more likely to prevent than insure future prosperity and justice—and one of these Labor Days we will admit it" (Sept. 3, 1984).

In the 1920s, as now, trade unions collapsed in core sectors of the economy. Today we are all familiar with the massive loss of members among the industrial unions spawned by the CIO. The automobile workers, the steel workers, the rubber workers, and the electrical workers have all fallen on hard times. Sixty years ago the same thing happened. In 1920 the United Mine Workers (UMW) was far and away the largest union in the nation. Ten years later it lay in shambles, having fallen from 600,000 members to well under 100,000 and having lost all its basic contracts but one. During and just after World War I, the nonoperating railroad workers had unionized much of the industry. Ten years later they had the barest presence on the nation's railroads. A similar fate befell many union members throughout the metal trades whose primary organization, the International Association of Machinists, suffered a substantial membership decline. Prohibition practically annihilated the United Brewery Workers, while the spread of subcontracting and internecine conflict nearly bankrupted the Ladies' Garment Workers. Not only, then, did some of the largest unions experience catastrophic losses of membership, but such declines were concentrated in what had been the labor movement's most militant, innovative, and socially conscious organizations.

Unions in the 1920s, as today, failed to penetrate the growth sectors of the economy. The heyday of mass production and mass consumption, the 1920s, saw the automobile, rubber, electrical appliance, and petrochemical industries grow and prosper. None dealt with unions or bargained collectively. All preferred the open shop and established union-free environments. Today, that history seems to be repeating itself in the high technology sector and in the bulk of the retail and service trades.

In such a hostile environment, the labor movement, then as now, seemed adrift. Almost nothing labor leaders did in the 1920s saved their organizations from criticism and defeat. When the coal miners and railroad workers acted militantly in 1922, they lost massive strikes. By the second half of the decade strikes had fallen to a level not experienced since such statistics were first recorded. In 1924 the labor movement halfheartedly participated in a third-party campaign for the presidency; the result was political disaster. Afterwards most labor leaders condemned radicalism, extolled Americanism, cozied up to

the American Legion, wooed businessmen, and lauded Coolidge Republicanism. To no avail. Strikes are following a similar trajectory in the 1980s, as is the behavior of labor leaders. In 1984 the AFL-CIO supported its own candidate in the Democratic primaries. We know the result, and also how the Democratic Party treats its trade union constituents.

I shouldn't, however, make the comparisons across time too precise because today's labor movement seems more aware of its shortcomings and more amenable to doing something about them. That, at least, is the message of the special report drafted this year by the AFL-CIO, *The Changing Situation of Workers and Their Unions*. And, if the research of Richard Freeman and James Medoff is to be believed, the trade unions have a more receptive audience among potential union members than they had in the 1920s (Freeman and Medoff 1984).

Even more eerie in their echoes of the 1920s are the attitudes and industrial relations practices of business people. The 1920s opened with business people lamenting the high wages and low productivity of their workers. The result, they claimed, was high inflation which priced American goods out of the world market. First, a brief but deep depression in 1920-21 caused mass unemployment and bled inflation out of the economy. Then, in 1922, companies took on the major unions directly in a number of strikes precipitated by wage cuts, threatened cuts, and altered work practices. For the remainder of the decade wages and prices stabilized, and technological innovation advanced unimpeded by union practices. The result was soaring corporate profits and increasing maldistribution of income. Warren Harding may have inherited his depression whereas Ronald Reagan made his. For corporations the result has been the same—battered trade unions, reduced wages, relinquished union workrules, and the promise of higher profits.

Business people also began the 1920s with a direct frontal assault on trade unions. They strove to extirpate unions root and branch. Where they had the power to do so, as in the basic mass production industries, corporate managers kept trade unions completely out. Where they lacked the power to remove unions entirely, business people drew the line at industry-wide bargaining and the union shop. In soft coal, employers had bargained on an area-wide basis and recognized the union shop for more than two decades before the 1920s. They fought the 1922 strike to end region-wide bargaining and to chip away at the union shop. By the middle of the decade most coal miners had lost

union security and bargained only with individual firms. The railroads and other similarly unionized sectors behaved in the same way, and they also succeeded in curtailing union power. Today, obviously, we see a similar trend in industrial relations practices.

During the 1920s, moreover, employers offered their workers an alternative to trade unions, which they called the American Plan, or welfare capitalism, or even industrial democracy. The largest, most profitable firms provided their employees with medical and retirement benefits; some offered special bonuses or profit-sharing; others sold company stock at reduced prices; some sponsored employee representation plans or company unions, which they peddled as forms of worker participation in the enterprise. Many proclaimed that labor relations are human relations, and they strove to humanize scientific management. The 1920s had their own form of quality circles, the informal workgroups that many employers encouraged in order to raise morale and productivity. The most successful exponent and practitioner of such industrial relations policies today, IBM, was during the 1920s the small, next-door neighbor of that decade's most assiduous practitioner of welfare capitalism, the Endicott Johnson Shoe Company.

The political-legal environment of the 1980s also resembles that of the 1920s, especially in its impact on trade unionism. Reagan's reaction to the strike by PATCO and his Draconian punishment of the participants reminds one of the Harding administration's war against the striking railroad shopcraft workers in 1922. Both instances of repression directed by the national state against strikers placed trade unions completely on the defensive. More interesting is the case of the current chairman of the National Labor Relations Board (NLRB), Donald Dotson, who has proclaimed publicly and repeatedly that he intends to restore to the Wagner Act its original meaning, which has been distorted over the years by the rulings of an antibusiness majority on the NLRB. Despite his rhetorical support for the Wagner Act, Dotson intends no less than to have his NLRB mandate as national labor policy the practices of Herbert Hoover. Today's federal judges also remind one of their predecessors on the bench in the 1920s. Sixty years ago judges outlawed most forms of picketing, declared sympathetic strikes and boycotts to be criminal conspiracies, ruled union shops and industry-wide bargaining to be violations of antitrust laws, and interpreted the law to protect the rights of the worker primarily as an individual, not as a member of a collectivity. Today, the Supreme Court and lower federal courts have ruled that employers

with union contracts may move their operations to nonunion sites, that firms may use bankruptcy proceedings to void union contracts, and that unions may not punish members who break discipline by working during authorized strikes (*New York Times*, June 4, 20, 28, 1985).

II.

Let us take a closer look at how the industrial relations systems of the 1920s actually worked in practice. First, we must keep in mind that insofar as industrial relations are concerned, the prosperity decade wore two faces. From 1920 through 1922 management and its allies in the state exhibited a grim visage. They waged war against "union monopoly," took strikes, defended "the right to work," rolled back unionism's gains of World War I. Having domesticated and disciplined trade unionism by 1923, management and public officials thereafter displayed their happy face. They extolled the American system of mass production and mass consumption based on high wages; they lauded an economy in which workers and bosses cooperated to promote the common interest; and they promoted the "American Plan," which guaranteed workers the right to a job regardless of union affiliation. Second, we must remember that the industrial relations policies of the 1920s depended for their success on the closest cooperation between corporate management and public officials. In cases in which private management lacked the power to break strikes or to defeat unionism, it relied on the state to remedy its deficiencies.

Management determined in 1919–1920 to stanch wartime inflation through wage cuts. It had already successfully held the line against union advances in the strikes of 1919. In those sectors, then, where unions had been defeated or had failed to score gains during the war, management in 1920–21 implemented wage cuts and the open shop. But in those sectors—coal mining and the railroads—in which labor had come out of the war stronger than ever, management determined to achieve its objectives through industrial warfare if necessary. The result was the great bituminous coal strike and the railroad shopmen's strike of 1922.

In those two massive national strikes, corporate management achieved precisely what it wanted. On the railroads, management totally routed its shopcraft workers. During and after the strike, the majority of the nation's largest railroads eliminated independent unionism as a choice for their nonoperating employees. Those few railroads, such as the Baltimore and Ohio, which preferred to accommodate trade unionism preserved the open shop and union

respect for managerial prerogatives on issues of workrules. The soft coal mine owners won a lesser triumph because they fought a more powerful adversary. The UMW declared the outcome of the 1922 strike a draw; it boasted of having protected wage rates, the union shop, and industry-wide bargaining. The truth was otherwise. The end of the strike left the UMW with its traditional strongholds in the Central Competitive Field, but with absolutely no gains in the large nonunion Pennsylvania coal fields and without a presence in Southern Appalachia. Over the next six years, the low-wage, low-cost nonunion mines devastated their union competitors, leaving the UMW a frail shell of its once mighty self.

Neither the railroads nor the mine operators could have achieved their aims without the assistance of the federal government. In both cases, federal policy insured that the strikes would fail. During the soft coal strike, federal officials, most notably Herbert Hoover, assisted the mine owners indirectly. Hoover, on the one hand, inveigled union operators to bargain with the UMW and to reach an accommodation; on the other hand, he promised to protect consumers from coal shortages, nonunion operators from the UMW, and nonunion workers from the closed shop. The Secretary of Commerce disclosed the basis of his neutrality in a letter to Lewis. "The administration," Hoover stressed, "is not injecting itself into the strike; it is trying to protect the general public from the results of the strike" (Dubofsky and Van Tine 1977, pp. 82-87). During the railroad strike, the government acted more directly and decisively to end it on management's terms. The Attorney General went to court and obtained an injunction which declared the strike to be a criminal conspiracy. President Harding's special message to Congress of 18 August 1922, which focused on the coal and railroad strikes, revealed precisely where the state stood on questions of industrial relations. Proclaiming himself a friend of both labor and capital, Harding directed all his harsh language at strikers and their unions. For the President, the railroad strikers had openly disclosed their "cruelty and contempt for the law," and their unions had failed to compel their members to observe the law. "There is," Harding proclaimed, "a state of lawlessness shocking to every conception of American law and order and violating the cherished guarantees of American freedom." The President, moreover, had especially harsh words for those who believed in union security and solidarity. "If free men can not toil according to their own lawful choosing," Harding emphasized, "all our constitutional guarantees born of democracy are surrendered in mobocracy . . ." (Richardson

ed. 1898–1928, XVIII, pp. 9137–47). For the President and his Secretary of Commerce, the “right to work” was the highest and most sacred of constitutional guarantees. Put another way, the American Plan and the open shop were state as well as corporate policy. A labor newspaper caught quite well how the Republicans in national power acted toward management and labor. “One is censured as ‘disputants,’ the other is ‘outlawed’ as criminals” (Wolf 1927, p. 328).

The close fit between corporate industrial relations systems and state labor policy suggested by the events of 1922 prevailed for the remainder of the decade and served to restrict the influence and power of trade unionism. What the historian Robert Murray wrote about the relationship between Samuel Gompers and the Harding administration proved true of that between the successors of both men: “There is little real communication and no bond of understanding” (Murray 1969, pp. 230–31). Coolidge rarely communicated with labor leaders, and while Hoover did, his correspondence revealed a lack of understanding.

The system of industrial relations put into practice after 1923 curbed the labor movement effectively. Trade unions thrived only where they dealt with small local businesses, functioned in noncompetitive local markets, and thus threatened neither corporate profits nor the nation’s role as the dominant world economic power. The locally based building trades, printing, and trucking unions all thrived during the 1920s. They added members as other unions lost members, and they became the dominant core of the AFL, a development that would lead to grievous results ten years later.

The areas of union decline were equally clear. Where large business held sway, trade unions retreated. The soft coal mines went from one of the more highly unionized sectors of the economy to one with a minimal union presence by 1929. As one mine owner informed the Secretary of Labor in 1928, “It is my sincere belief that freedom from union domination is the best assurance of future stability and peace for the industry and for the public.” Whatever influence the UMW retains, he added, “should be devoted to releasing the few members they have” (Dubofsky and Van Tine 1977, pp. 146–47). The same thing happened across much of the metal trades and the clothing trades.

The core mass-production sectors of the economy met little union resistance in maintaining their longstanding approach to industrial relations. Almost all the major corporations played minor variations on a single theme of industrial relations. They practiced corporate

autocracy, with or without welfare. They created union-free environments. For public relations purposes, however, they asserted that they hired workers without prejudice. Their labor policies in no way diverged from those of Herbert Hoover. Like Hoover, corporate leaders defined the right to work free from union tyranny as a constitutional guarantee. They, too, extolled new era capitalism as a cooperative endeavor between managers and workers in which higher productivity brought higher real wages, steady prices, and an ever improving standard of living. Some of the more liberal and imaginative large firms, especially those in the ambit of the Rockefeller interests and the Conference Board, promoted limited forms of industrial democracy, either through employee representation plans or company unions. The same firms pioneered more sophisticated personnel practices, heeding the advice of industrial sociologists and psychologists that industrial relations are human relations. But throughout the decade such enlightened nonunion firms were always a relatively small minority of the corporate world. Most large enterprises preferred to keep unions out with as little "welfare" as possible, and they certainly preferred not to encourage any form of worker participation or industrial democracy. And some firms even followed the trajectory of the Ford Motor Company, shifting from a mix of paternalistic welfare programs to outright autocracy in their dealings with labor.

Finally, there were the exceptions that proved the rule—the rare cases of union-management cooperation. These were almost all marked by the same characteristics. Wherever enterprises, mostly small, and unions had fallen on hard times, they united to salvage a few saving remnants from economic catastrophe. Adversity brought management and labor together temporarily and opportunistically. Yet the instances in which companies and unions were simultaneously threatened and in need of each other's mutual support were rare indeed.

In the late 1920s, the state acted as the equilibrator of the prevailing system of industrial relations. State policy ensured that employers curbed their worst antilabor instincts, that "responsible" unions survived, and that no unions functioning in national market sectors of the economy achieved real, or "monopoly" power. Yet the federal government never equated the rights and responsibilities of capital and labor. Capital had rights, labor responsibilities. This was illustrated graphically in the sector of the economy in which the state intervened most often and completely, bituminous coal mining. In

1924 Herbert Hoover served as matchmaker for union and company negotiators in that year's collective bargaining. The Jacksonville Agreement of 1924 between the UMW and the operators of the Central Competitive Field was consummated to satisfy Hoover and Washington. Thereafter the union sought to honor its terms. The companies, unable to compete with nonunion coal, began to violate the agreement. John L. Lewis turned to Hoover to salvage a labor-management understanding the Secretary of Commerce had brokered. Hoover, however, washed his hands of the affair, leaving the UMW to its own devices and rapid decline as a union. Hoover behaved no differently as president, rhetorically lauding responsible unions as bastions of free-enterprise capitalism and operationally limiting their freedom to act (Dubofsky and Van Tine 1977, Chs. 5, 7-8).

What, if anything, does this rapid survey of the industrial relations history of the 1920s mean for us today? Perhaps, like Ecclesiastes, it shows that there is nothing new under the sun. The right to work and union-free environments have been with us as long as management and labor have been in conflict. So, too, have forms of company welfare, sophisticated personnel policies, and demands for worker-management cooperation in the interest of higher productivity. In the past also, public officials have proclaimed the virtues of the honest worker and the responsible union only to smash strikes and define as outlaws those workers with a different vision of reality and equity. Will the economic and labor policies of Reagan, Dotson, and company and their corporate enthusiasts result in a denouement comparable to that of the 1920s? Only the future, not the words of a humble historian, will tell.

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The Emergence of the American Welfare State: The New Deal and the New Frontier—Great Society

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The premise of this paper, contrary to received dogma, is that the United States is a welfare state. Although ours has many distinctly American features, in its essentials it differs little from the welfare states in other industrially advanced, capitalistic, democratic nations. One could argue, though I shall not do so here, that international events aside, the emergence of the welfare state in the United States is the most important historic change in our society in the past half-century. Quite obviously, this nation today, despite Reagan, is fundamentally unlike the country in the twenties when, excepting state workers' compensation systems, the United States was virtually bereft of social programs.

The elements of a welfare state, of course, are social and labor policies put in place primarily by statute and occasionally by presidential executive order. With minor exceptions, they were established in two very brief time spans—Roosevelt's New Deal of the 1930s and the Kennedy-Johnson New Frontier—Great Society of the 1960s. As I shall note later, they were, in fact, concentrated in only a handful of years even in these short periods. The secondary exceptions, one may note in passing, were the Progressive Era, particularly Wilson's New Freedom, and Truman's Fair Deal.

This concentration suggests the obvious, namely, that these policies confronted formidable political opposition. It came in part from those interests which felt threatened by these programs, mainly business and agriculture. But it arose as well from a deeply ingrained tradition of individualism which insisted that the market rather than the state should govern the distribution of income and property along with the status of labor unions, blacks, and women. This tradition gained support and respectability from a persistent commitment among some American economists to neo-classical theory.

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The essential elements of Welfare State I, that created the New Deal, were the following: unemployment relief established by the Federal Emergency Relief Acts of 1933 and 1935 and administered by the Federal Emergency Relief Administration (1933), the Civil Works Administration (1933), and the Works Progress Administration, including its offshoot, the National Youth Administration (1935); work relief for jobless young men through the Civilian Conservation Corps (1933); direct federal investment in the construction of large public structures under the Public Works Administration (1933); old-age pensions, unemployment insurance, and categorical assistance programs for needy unemployables—the aged, the dependent children of mothers without male breadwinners, and the blind—established by the Social Security Act (1935); a collective bargaining policy to assist workers to help themselves by forming unions to engage in collective bargaining under Section 7(a) of the National Industrial Recovery Act (1933), amendments to the Railway Labor Act (1934), and the capstone, the National Labor Relations Act (1935); a federal minimum wage, a standard workweek with overtime after 40 hours, and a sharp limitation on child labor provided by the Fair Labor Standards Act of 1938.

The essential features of Welfare State II, that erected by the New Frontier and the Great Society, were as follows: federal assistance to depressed areas by the Area Redevelopment Act (1961); significant increases in the minimum wage in 1961, 1963, 1967, and 1968 along with broad extensions of coverage of FLSA, particularly to blacks, women, and farm workers; assistance to the poor of the Third World with the establishment of the Peace Corps (1961); the launching of a manpower program by the Manpower Development and Training Act (1962); the establishment of federal public-sector collective bargaining with President Kennedy's Executive Order No. 10988 (1962); equal pay for equal work without regard to sex under the Equal Pay Act (1963); the adoption of a Keynesian employment policy with the tax reductions of 1964; a variety of programs to assist those in poverty under the Economic Opportunity Act (1964); food stamps for the poor (1964); prohibitions on discrimination in many areas of American life, including employment, in the Civil Rights Act (1964); the prevention of restrictions on the rights of blacks to vote in the Voting Rights Act (1965); national health insurance for the aged under Social Security—Medicare—and for the poor outside Social Security—Medicaid (1965); federal support for education at all levels to provide educational opportunity to the children of the poor through the Elementary and

Secondary Education Act and the Higher Education Act (1965); overcoming gaps in the state workers' compensation system in dealing with industrial injury and disease by the Federal Coal Mine Health and Safety Act (1969) and the Occupational Safety and Health Act (1970).

Although Welfare State I and Welfare State II were separated by 30 years, including the cataclysm of World War II, they were intimately connected in several ways. The fundamental idea behind both programs was identical: use of the power and resources of the federal government in order to redress economic and social inequities. Many people who cut their policy eyeteeth during the thirties came to high office in the sixties. Two illustrations will suffice. As a young man, Lyndon Johnson made his first mark as head of the Texas National Youth Administration and was profoundly influenced by Franklin Roosevelt. Edwin E. Witte, who served as executive director of the Committee on Economic Security, which drafted the Social Security Act, brought one of his students at the University of Wisconsin, Wilbur J. Cohen, to Washington with him in 1934. Cohen would become the architect of Medicare and Secretary of Health, Education, and Welfare in the Johnson administration. Perhaps most important, Welfare State I, though an immense forward step for its time, left many important gaps. For example, it did little for either blacks or women. In the original plan the Social Security Act would have established a system of national health insurance, which was dropped in the face of vigorous objections from the American Medical Association. Confronting formidable political opposition, Roosevelt accepted a Fair Labor Standards Act with enormous exemptions from coverage. The New Deal did not address industrial injury and disease at all. Welfare State II sought to fill these holes.

Asa Briggs, the noted English social historian, has offered, I think, the most perceptive definition of the welfare state:

A welfare state is a state in which organized power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions—first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain "social contingencies" (for example, sickness, old age and unemployment) which lead otherwise to individual and family crises; and third, by ensuring that all citizens without distinction of status or class are offered the best standards

available in relation to a certain agreed range of social services.

The first and second of these objectives may be accomplished, in part at least, by what used to be called a "social service state," a state in which communal resources are employed to abate poverty and to assist those in distress. The third objective, however, goes beyond the aims of a "social service state." . . . It is concerned with equality of treatment.¹

The New Deal policies addressed primarily the first of these goals—guaranteeing individuals and families a minimum income without regard to the market value of their work or property. This was the case with the unemployment relief programs—FERA, CWA, WPA, and CCC, in part with the public works policy of PWA, and of the minimum wage, hours, and child labor provisions of the NRA codes and the Fair Labor Standards Act. The encouragement of collective bargaining by the National Labor Relations and Railway Labor Acts indirectly served the same end. The Social Security Act sought to achieve the second objective, narrowing insecurity of individuals and families, with old-age pensions, unemployment insurance, and the categorical programs. Excepting labor unions, the New Deal dealt hardly at all with the third aim—ensuring all citizens equality of treatment without distinction as to status.

The New Frontier–Great Society reversed this emphasis. Now the stress was on providing equality of treatment for those who had earlier been overlooked—the poor, including those in underdeveloped countries, blacks, women, and, in a geographic sense, depressed areas. This was the thrust of the poverty program, of food stamps, of manpower training, of equal pay for equal work, of guarantees of civil and voting rights, of educational opportunity for the children of the poor, of the Peace Corps, of area redevelopment, of extensions in coverage of the Fair Labor Standards Act, and of Medicaid. The second objective, narrowing insecurity, received substantial consideration in the Medicare, Black Lung, and OSHA programs. The first goal, guaranteeing minimum incomes, if one excludes the employment effects of the 1964 tax reductions, was addressed only marginally by improvements in the minimum wage and the startup of federal-sector collective bargaining.

¹ Asa Briggs, "The Welfare State in Historical Perspective," in Charles I. Schottland, *The Welfare State, Selected Essays* (New York: Harper & Row, 1967), p. 23.

This shift in emphasis from economic security during Welfare State I to equality of treatment in Welfare State II was of profound significance in several ways. I shall mention only one. While the problems are formidable, experience has shown that it is quite possible to write, establish, and administer a high-quality old-age pension system in large part because it is wholly economic. By contrast, it is far more difficult to provide equal treatment, even in the labor market, to blacks and women because discrimination rests on a broad cultural base. The former takes years, the latter generations. Thus, most of the New Deal programs have proved more durable, better administered, more credible, and less vulnerable to political attack than those launched by the New Frontier and the Great Society.

The time distribution of this legislation is highly concentrated. The New Deal laws were passed overwhelmingly in two years—1933 and 1935, with a trailoff to 1938. During the Hundred Days in 1933, Roosevelt got whatever he wanted from Congress, including unemployment relief, the CCC, PWA, the NRA codes, and Section 7(a). After a massive victory in the 1934 congressional elections, the New Dealers in 1935 pushed through Congress the Social Security Act, the National Labor Relations Act, and the huge relief appropriation that launched WPA. Thereafter, the political weather turned stormy and FDR had to wait three years, endure a political ordeal, and pay a heavy price in coverage to get the Fair Labor Standards Act.

While the legislation of the sixties was also concentrated in time, it did not fall into so neat a pattern. Kennedy barely defeated Nixon in 1960 and he lacked firm control over Congress. His actual and modest accomplishments came primarily in 1961 and 1962—increases in the minimum wage, the Peace Corps, area redevelopment, federal public-sector collective bargaining, and manpower training. His administration, as well, laid the groundwork for much that would follow, but he would not live long enough to see those achievements. The Johnson legislation was concentrated in 1964 and 1965. In the former year he pushed the Kennedy bills through Congress—the poverty programs, the Civil Rights Act, and the tax cut, along with food stamps. Following his landslide victory over Goldwater that year, he persuaded a heavily Democratic Congress in 1965 to enact Medicare and Medicaid, the education legislation, and the Voting Rights Act. The trailoff this time was occupational safety and health—the Black Lung program in 1969 and OSHA in 1970.

Why, one may ask, did the American welfare state emerge during the thirties and the sixties? In the case of the thirties, there is no

mystery. The conjunction of the Great Depression, a sharp political swing to the left, FDR's vigorous leadership, a desire to catch up with other nations, and the ready availability of ideas and talented people compelled change and produced high-quality administration.

The sixties are much harder to explain and, not having studied the question carefully yet, I can offer only tentative answers. Obviously, there was no massive depression and no sharp political turn leftward. What, then, were the forces that gave birth to Welfare State II? The first, clearly, was strong presidential leadership in the traditional Democratic pattern by both Kennedy and Johnson. With the latter, this was joined to exceptional legislative experience and skills. The second was the civil rights movement. By the early sixties, black people had waited a century for the fulfillment of the promise of the Emancipation Proclamation and their patience was at an end. No democratic government could turn a deaf ear to their moral imperative, and both the Kennedy and Johnson administrations heard their call. The consequence was that aid to blacks was the dominant theme of the legislation. Third, women and the elderly also made demands and achieved gains. Fourth, the 1964 elections were of great importance. The maverick Goldwater candidacy undermined the Republican Party in all regions except the South and gave Johnson and his heavily Democratic Congress many options. Finally, as during the New Deal, ideas pushed upwards as from an oil strike—from the Congress, from the Council of Economic Advisers, from the universities, from the media.

American political history is a giant pendulum alternating between periods of reform and periods of digestion or reaction. The former tend to be brief, the latter considerably longer. In the twentieth century the reform cycles have taken about 30 years—from the Progressive Era to the New Deal to the New Frontier—Great Society. If this pattern holds, the next reform cycle will occur during the nineties. It will differ from its predecessors in seeking to repair the ravages of Reagan as well as in following the steps of its predecessors in devising new institutions to deal with new needs.

DISCUSSION

SANFORD M. JACOBY

University of California, Los Angeles

As one would expect, Professors Dubofsky and Bernstein have given us a pair of stimulating papers comparing labor relations in the 1920s and 1980s, and social welfare programs in the 1930s and 1960s. Rather than comment on each paper in detail, I want to focus my remarks on two areas that link these papers together: first, the relationship between organized labor and the welfare state, and second, the seemingly cyclical nature of social reform and social attitudes.

As compared to most of Western Europe, the American welfare state has had a distinctive history. Developed at a relatively late date, the two-tier American system has never been as extensive, expensive, or egalitarian as those found across the Atlantic. During the 1930s, the U.S. created the system's first tier, essentially an insurance program requiring labor force attachment for the receipt of benefits. Tacked on to this were means-tested programs for the poor and disadvantaged, which grew rapidly during the 1960s but have borne the brunt of recent spending cuts. This two-tier system stands in contrast to the European model of well-funded universal programs offering similar benefits to all.

Although no single factor can account for these differences, a good place to start is with organized labor. With their high levels of organization and political influence, the European unions have constituted an effective pressure group for the expansion of the welfare state, and they often play an important role in its administration. Moreover, strong socialist traditions in many of these unions have instilled a preference for public, as opposed to private, welfare programs and for universal, as opposed to means-tested, welfare benefits. Contrast this to the United States, where unions have always been much weaker, as well as more voluntarist, exclusive, and inegalitarian. American unions were suspicious of, or opposed to, a

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welfare state prior to the 1930s, and a number of them took a passive stance toward the programs for the disadvantaged that were launched during the 1960s.

As a consequence of these American peculiarities, the political backlash against the welfare state, although a worldwide phenomenon, has been relatively strong and mean-spirited in the United States. The two-tier system and extensive private benefits act to erode solidarity between the middle classes, broadly defined, and the poor. Also, union weakness makes it difficult to defend the welfare state and to counter claims that welfare spending and social equity are harmful to economic growth. Finally, the segmented American welfare system hurts organized labor itself by limiting labor's ability to form cross-class alliances on social issues. In turn, this reinforces the perception that unions are a special interest group with parochial concerns.

Turning to a different matter, how can we explain the parallels that Dubofsky sees in social attitudes toward unions in the 1920s and 1980s, and that Bernstein finds in social reform activity in the 1930s and 1960s? One possibility is that these parallels are due to an underlying, unchanging value system—such as the antiunion philosophy of American management—that persists over time but is more apparent in some periods than others. Another explanation is that of the swinging pendulum, in which political and social attitudes move in a cyclical fashion. While it would be fallacious to presume either continuity or change, there is some tantalizing, if not entirely convincing, evidence to support the cyclical explanation. For example, economists like Kondratieff and Kuznets devoted themselves to the study of long-term cycles in economic activity, and found that prices in the United States exhibited regular, long swings from inflation to deflation, with a full cycle (peak to peak) lasting roughly 50 years. Past peaks included 1873 and 1920, with troughs coming in 1896 and 1933. It is possible that 1981 marked another peak, since, although aggregate prices are still moving upward, some wages (e.g., in the union sector) and many commodity prices have been falling. A number of explanations for these cycles have been proffered, including Schumpeter's innovation clusters, Kuznets's economic-demographic interactions, and Kalecki's political business cycle, in which economic policy shifts from fighting unemployment, which causes inflation, to fighting inflation, which causes unemployment.

Paralleling these swings in economic activity and philosophy have been shifts in social attitudes and social policy. Inflationary periods, as from 1896 to 1920 (the Progressive Era) and from 1933 to 1970 (the

New Deal era), are associated with favorable public attitudes toward social reform and groups like organized labor; the reverse occurs during deflationary periods such as the 1920s and the present. (In this light, it is interesting to note the continuity between the 1930s and 1960s: During the 1960s, while the largest percentage growth in social spending was for the poor and disadvantaged, by far the largest *absolute* amount of increased spending was for New Deal-type social insurance programs.)

Despite the fact that each of today's papers is pessimistic about the present, let me play Pollyanna and mention some points for optimism. First, there are the states. It is important to recall that many of the New Deal programs enacted at the federal level during the 1930s were, in fact, modifications of programs first introduced by states as disparate and distant as Arizona, New York, and Wisconsin. This is true of old-age pensions, minimum wage laws, unemployment insurance, and labor measures like anti-injunction laws. With reform possibilities blocked at the national level, activity shifted to the states, even during Dubofsky's dark 1920s. The states have also led the federal sector during backlashes, as was true of the taxpayer revolt that started in the early 1970s. Hence we should be looking to the states for signs of a nascent reform cycle, and there is, indeed, scattered supporting evidence at that level.

Second, despite the Reagan reforms, the welfare state is not about to disappear; its rate of growth has slowed, and some programs have been gutted, but that is a far cry from the wholesale dismantling urged by Reagan during the 1960s and 1970s. Nor, for that matter, are checks on employer power in the workplace about to disappear, although their form is changing as legal restrictions supplant those imposed by private bargaining. Finally, it is appropriate to recall what Karl Polanyi identified as the "double movement": that, since the early nineteenth century, each expansion of the market economy has caused governments—universally and regardless of ideology—to adopt restraints and protections that remedy the market system's incapacity to regulate itself. Without doubt, this double movement is still a feature of our own market economy.

DISCUSSION

GARY M. FINK

Georgia State University

This session, I presume, was organized on the assumption that by comparing recent periods of industrial relations with earlier periods, we might learn something about the present and even, perhaps, say something insightful about the future. I am not sure this is a particularly valid assumption; or, in any predictive sense, a very useful one. What these two very interesting papers have demonstrated, rather clearly I believe, is that such comparisons inevitably tell us more about the past than they do about the present or the future.

Professor Bernstein uses the evolution of the American welfare state as the basis for a comparison of the thirties and the sixties. He notes that the welfare legislation of the thirties was more enduring, primarily because it emphasized providing a minimum level of economic security regardless of the market value of work performed. This as opposed to the welfare legislation of the 1960s which tended to emphasize equality of treatment for those traditionally overlooked—blacks, women, and the poor, among others. The former, Professor Bernstein concludes, was “wholly economic” and hence amenable to legislative adjustment. But the discriminatory treatment accorded the latter rested on a “broad cultural base,” which made efforts to correct it particularly vulnerable to political attack as the Reagan administration has so graphically demonstrated.

There is only one aspect of Professor Bernstein’s analysis with which I find myself somewhat uncomfortable. Does the National Labor Relations Act, with its emphasis on collective bargaining, legitimately belong in that category of measures broadly referred to as the welfare state? While collective bargaining is a conservative action to the extent that it does carry with it the implicit acceptance of the prevailing economic system; nevertheless, it also anticipates some adjustments in the existing division of economic and political power. No such expectation, either explicit or implicit, exists for most welfare state measures. In fact, the welfare state is designed, partially at least,

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to co-opt dissent through the creation of an essentially passive underclass of the poor, elderly, unemployed, and the like. While during the 1960s, as Professor Bernstein has noted, much was done to improve subsistence standards for the poor and dispossessed, neither the Republicans nor the Democrats were inclined to markedly increase the economic and political power of organized labor, hence the failure, even after the Democratic landslide of 1964, to repeal Section 14(b) or later to push labor law reform through the Congress.

Professor Dubofsky's comparison of the 1920s and the 1980s is also interesting and instructive, particularly about conditions as they existed during the twenties. Dubofsky points to several intriguing parallels between the two decades before reassessing the system of industrial relations that prevailed during the earlier period. But the connection between those parallels and labor-management relationships during the twenties is not clear, and Professor Dubofsky wisely resists any temptation to predict the future by examining the past. In addition to these comparisons, however, there are also important differences that might be noted. Whereas organized labor largely held its own with small business and the local building trades during the 1920s, it was unable to withstand the assault of big business, particularly in the industrial sector. Conversely, the building trades unions today are being badly mauled for the first time in a century, while organized labor, to this point at least, has been largely successful in defending its turf, shrinking though that turf might be, in the mass production sector of the economy.

As suggested earlier, however, these comparisons have limited value for understanding the present or predicting the future. Historically, of course, everything is out of sync. By comparing the thirties to the sixties and the twenties to the eighties, we have perverted the cause and effect relationship so important to historical analysis. What we have created here, I suspect, is an intellectual exercise that Professors Bernstein and Dubofsky have played with consummate skill but to no particular utilitarian end. After having observed certain interesting parallels between past and contemporary industrial relations, we have learned little, if anything, about current patterns or trends in these matters.

Rather than comparing selective periods of labor-management relations, a different analytical model is necessary—one that at least puts current patterns of industrial relations into a historical perspective even if it does not have much predictive power. Since the revolutionary agitation of the mid-18th century, there has existed in the

U.S., in approximate terms, a 50-year cycle of disruption and change in industrial relations (as opposed to the 30-year cycle of political reform identified by Professor Bernstein). Following the American Revolution, the next disruption began in the 1820s and culminated in the emergence of the first national labor movement during the Jacksonian Era. This was succeeded in turn by the bitter industrial conflicts of the 1870s, and the explosive growth of the Knights of Labor in the 1880s, culminating in the founding of the American Federation of Labor. Fifty years later, another newly organized labor federation, the Congress of Industrial Organization, made an equally spectacular appearance as it spearheaded the organization of mass production workers.

These upheavals in labor-management relations had several features in common. First, they accompanied periods of considerable disruption and change in the labor market, antagonizing workers and increasing class consciousness. Whether responding to the competition of British soldiers residing in colonial cities, the arrival of the merchant capitalist or the introduction of labor-saving machinery and assembly-line production, American workers sought protection and security through collective action that challenged existing patterns of labor-management relations. Closely related and equally disruptive of industrial relations was a period of increased economic competition which resulted in intense pressures to decrease the variable costs of production—particularly labor costs. A third feature shared by each period was a growth of protectionist sentiment. While perhaps most obviously and dramatically manifested in the nonimportation movement of the revolutionary period, American workers have traditionally viewed foreign competition as a threat to the established wage rate, job security, and the American way. Another constant through these five episodes of class antagonism was a notable increase in employer arrogance and intransigence when dealing with their employees. Whether the craftsman of the retail order shop, the merchant capitalist and the industrialist of the 18th and 19th century, or the business entrepreneur and scientific manager of the 20th century, the effect was usually the same—a condition in which heightened employer consciousness bred an increase in working-class consciousness, creating a confrontational industrial relations environment.

Viewed from this perspective, a new period of labor reform is not only due, but many of the traditional prerequisites are already in place. Robotics and other new technologies have revolutionized the

workplace in recent years, resulting in the elimination of many marginal production jobs and the radical transformation of others. Moreover, beginning in the late 1950s and accelerating rapidly thereafter, the development of an international division of labor has further disrupted the U.S. labor market, resulting in the export of industrial jobs and, indeed, entire industries, and producing an intense period of economic nationalist and protectionist sentiment within the American working class. Clearly, workers are becoming more militant and aggressive. The time of "givebacks" appears to be at an end as labor leaders are once again being pressured by rank-and-file militancy to deliver at the bargaining table or risk rebellion from below.

In dealing with these concerns, the established labor movement of today is as intellectually and programmatically bankrupt as it was 50 years ago when mass production workers disdained the established labor movement, the AFL, or as it was 100 years ago when unaffected trade union leaders failed to comprehend the intensity of the worker-control issue that arose in the face of scientific management and accelerated industrialization. Economic change and dislocation in those periods, as in earlier such periods, led to significant change in political institutions and practices and a convulsion in the organized labor movement. As Professor Dubofsky suggested earlier, only time will tell if the same holds true today, although some significant changes, particularly in the area of organizing government workers, has already occurred. Clearly, the industrial era in the U.S. is coming to a close, while an information society emerges that continues to transform the American economy, in general, and the workplace, in particular. While no one knows for certain what is going to happen during the next ten to fifteen years, it should, at the very least, be a very interesting period in the history of American industrial relations.

DISCUSSION

LAWRENCE ROGIN

George Meany Center for Labor Studies

I presume that I was asked to participate in this panel because I am old enough to have been active in unions during the period we are discussing today. My remarks therefore will be based on this experience rather than academic analysis.

In general, I am in agreement with the positions taken in the papers presented by Bernstein and Dubofsky. I will have comments on each, but most of my remarks will deal with the proposition that the United States established a welfare state.

There can be no question that what we have of a welfare state was established in the two short periods Bernstein defines. But I would suggest that was incomplete, leaving the country without the kinds of protection that exist in other Western industrialized democracies, while at the same time placing too great a burden on collective bargaining, particularly in a time of crisis such as we are now in.

Take the movement of the thirties, which established social security, unemployment compensation, government-supported welfare, and public housing, for example. Both the pensions and unemployment insurance were financed entirely without contributions from the general fund, the only such financing in Western industrialized society. As far as pensions were concerned, this created a certainty that, as they approached a decent level, the regressive taxation would put a burden on both workers and employers, while restricting pensions, so that for well-off workers, the public pension is secondary to the private, rather than the opposite.

The lack of public financing for unemployment compensation was compounded by setting up state systems, following the workers' compensation example, with all the problems of competition among states and pressures for restriction of benefits that are created. In addition, the acceptance of merit-rating—completely irrational in a modern industrial society—added to the pressures on funds, so that today only about one-third of the presently unemployed are receiving

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benefits. One has the feeling that if 2.7 percent of payrolls originally intended to finance unemployment compensation were available, there would be no difficulty in maintaining long-time benefits. Now the federal financing of extended benefits has lived such a precarious life that a measure phasing them out has been regarded as a liberal victory in the present Congress.

On another front, the promising start in public housing in the New Deal has been so corrupted by real estate interests, restricting public housing to the poorest of the population—unlike other Western industrialized countries—that, instead of a positive force, public housing has become a blight both for the nation and for those who live in it.

The thirties' welfare measures, and the sixties' as well, omitted a critical one—some form of universal health insurance. The result of this omission, and the wholly inadequate pensions, was to force strong unions to attempt to fill the gap through collective bargaining, creating the false impression that these protections were being provided privately, and governmental action was not necessary. This was false for two reasons: one, because only well-paid workers with strong unions, or whose employers were seeking to avoid unionism, could achieve adequate protections. Millions of workers in low-wage industries, with or without unions, could not gain anything approaching adequacy in pensions or health care—some, nothing at all.

In addition, the acceptance of U.S. medical practice, fee-for-service, in bargained and other private health care, built an inflationary push into medical costs from which all the country has suffered. Today, one of the critical issues complicating collective bargaining is health care cost containment, a burden that unions and employers do not face in our neighbor, Canada. Finally, the private health care system has collapsed in the present economic crisis, leaving millions of workers without any protection as their industries collapsed, and many others who will never have it because they are part-time or temporary workers.

In the sixties there was an effort to partially remedy the situation through Medicare and Medicaid, the latter added to the bill in the effort to defeat it, like the addition of sex to Title 7 of the Civil Rights Act. But those measures were like bargained health care, based on fee-for-service, and without cost or real quality controls, contributing to inflationary pressures and helping to create the health care mess we are presently in. Even when legal protections seemed strong, as in the

Civil Rights Act and the Safety and Health Act, we have seen how administrative obstruction can destroy intent.

While one cannot argue with the proposition that in the 1930s and 1960s there was an attempt to establish a welfare state in the country, it was only partially established, and in many instances in such a poorly worked out manner as to distort its purpose, failing to provide the protections common in other industrialized democracies.

I will have less to say about the Dubofsky paper, only amplifying on some of the themes. I feel that there is an important difference between the twenties and the eighties in the attitudes of unions. The attack of the 1920s came at a time when unions felt the optimism that accompanied World War I growth. The 1919 AFL convention was a demonstration of this—full of progressive plans for the future. The 1919 steel organizing campaign came as a result of the feeling the unions could reverse the defeats of the 1890s and 1900s. In the face of this optimism, the defeat of the steel strike and the failure of unionism in the other major strikes of the 1919–1922 period came as a shock that shook unionism.

There is one similarity, of course. The destruction of two public employee unions symbolized what was happening: Governor, later President, Coolidge breaking the 1919 Boston police strike, as Reagan broke the PATCO strike.

But, unlike the twenties, there was ample warning to unions, and the country, that the eighties were on the way. Large sections of U.S. manufacturing industry never accepted collective bargaining. Such was the case in the industry with which I am most familiar, textiles, in the section of the country where it still exists, the Southeast. While we think of the thirties and forties as the period of mass production organizing, this was only partially true. Like textiles, chemicals were never organized, nor furniture, nor cotton garments.

In the immediate post-World War II period ample signs were provided that unionism was in for a hard time. Lost southern textile strikes paralleled those of 1919–1922. The Taft-Hartley law was passed over the Truman veto. The strong economy that carried through the Korean War gave a false feeling of security to strong unions. Those of us in such industries as textiles had an uneasy feeling about the future. My colleague, Solomon Barkin, wrote a pamphlet for the Fund for the Republic. Its gloomy predictions stand up quite well.

In the early 1970s President Ed Carlough of the Sheet Metal Workers predicted a crisis for building trades unions worse than the Depression, but no one paid attention. And in 1973 Jerry Wurf, the

president of AFSCME, urged the AFL-CIO convention to take a close look at the declines in union strength that had already taken place and to make realistic plans for the future.

All of those warnings were ignored. It took the shock of PATCO and the blows to the bases of union strength in manufacturing, construction, transportation, and printing to inspire, or force, existing unions to examine that situation and try to plan for the future. Whether the shock will be enough to cause the kind of reorganization which is necessary remains to be seen.

I have a disagreement with Dubofsky on one minor matter. He suggests that unionism in the 1980s may be better prepared for the future because of the self-examination that is taking place among the leadership. I would argue that the self-examination which took place in the twenties, because of the open disagreement about fundamental union policy, was more constructive. Centralized responsibility for organizing, industrial unionism, more effective political action including support for social legislation, low initiation fees and dues, opposition to corruption and racism within unions, which formed the basis of the CIO campaign, all came out of the disagreements of the twenties. This open debate, which took place at every level of unions, better prepared the rank and file and all levels of union leadership to take advantage of the thirties than anything that is happening now.

XII. DISSERTATION ROUNDTABLE

Implementation of the Autonomous Group Model in a Unionized Plant: The Influence of Selected Process, Design, and Contextual Considerations on Participant Support*

ROGER L. ANDERSON
Montana State University

After more than 30 years of research on sociotechnical systems design, practitioners face an important practical dilemma. While the way forward would seem to lie with the design practices developed in new, innovative work establishments, the introduction of these innovations into existing plants has proceeded slowly at best; at worst the process has often had to be abandoned. The situation is such, in fact, as to lead the prominent design theorist, J. R. Hackman (1977, p. 96), to conclude, "The question of the moment is whether work redesign will evolve into a robust and powerful strategy for organizational change, or whether, like so many of its behavioral science predecessors, it will fade into disuse as practitioners experience failure and disillusionment in its application. The answer is by no means clear."

It is clear, however, that the application of these innovations must extend beyond a limited number of experiments in new, high

* This dissertation was completed at the Graduate School of Management, University of Oregon.

technology plants if they are to have a significant impact on organizational life. The general purpose of this study is to examine the particular challenges that face efforts to introduce the autonomous group model in unionized settings.

To date, the vast preponderance of research on this issue has been in the form of case studies. For the most part, these studies have looked to the tactics used to initiate changes as the major explicant of the resistance encountered. Such research apparently develops from the proposition that participant support for the autonomous group model hinges principally on the *process* used to introduce it.

The research presented here questions this assumption, suggesting that the *content* of the model, the character of the change itself, may also be at issue. In particular, it examines the possibility that unionized workers may view the introduction of the autonomous group model as denigrating rather than enhancing the quality of their work experience in certain important respects.

Preliminary data on this basic proposition were generated through interviews with approximately 60 production workers in three plants. Overall, these workers suggested that five issues may be especially problematic: (1) the impact of redesign on the rights of senior workers; (2) its potential as a vehicle to affect workforce reductions; (3) its potential as a mechanism to increase pressure for production; (4) its impact on the grievance procedure; and (5) its impact on relations among co-workers.

In the second phase of the research, the issues raised in the interviews were combined with questions suggested by the existing literature to develop 17 hypotheses dealing with the impact of selected "process," "design," and "contextual" considerations on participant support. These hypotheses were then tested using survey data generated at a site which was actually undertaking a field experiment involving implementation of the autonomous group model. A summary of the results of this phase of the research is presented in Table 1.

Beyond these particular results, the data analyses also strongly supported the underlying proposition that workers would view the positive changes brought about by the introduction of the autonomous group model as coming at the expense of certain traditionally valued practices. This suggests that practitioners will have to discover methods to reconcile the actions necessary to achieve the objectives of contemporary design models with the workers' desire to maintain the integrity of certain traditional structures. Whether such methods are

TABLE 1
Study Results

Issues	Relative Importance in Explaining Extent of Participant Support
<i>Process Considerations</i>	
- Degree to which the need for change was clearly established	High(+)
- Degree to which management allowed broad participation	Moderate(+)
- Degree to which management demonstrated commitment to change	Insignificant
- Degree to which union leaders were involved in the process	Insignificant
- Degree of advanced planning and training	Moderate(+)
- Degree to which expectations were carefully managed	Low(+)
<i>Design Considerations</i>	
- Degree to which redesign created more meaningful patterns of tasks	Insignificant
- Degree to which redesign increased task variety	Moderate(+)
- Degree to which redesign provided opportunities to learn new skills	Moderate(+)
- Degree to which redesign enhanced control over the work process	Low(+)
- Degree to which redesign promoted greater recognition	Moderate(+)
- Degree to which redesign provided more feedback	Low(+)
<i>Contextual Considerations</i>	
- Degree to which redesign interfered with seniority provisions	Low(-)
- Degree to which redesign resulted in reductions in the workforce	Moderate(-)
- Degree to which redesign increased pressure for production	Low(-)
- Degree to which redesign increased tension among co-workers	High(-)
- Degree to which redesign interfered with the grievance procedure	Low(-)

forthcoming may prove to be key to the success of the next generation of work redesign experiments.

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Pensions and Collective Bargaining: Towards a National Policy on Retirement Income Support*

TERESA GHILARDUCCI
University of Notre Dame

Employers and collective bargainers are served by the ambiguity and flexibility surrounding the cost and value of a defined-benefit pension promise. Employers have more control than unions or workers over pension finances and plan design, as well as a greater awareness of how the pension plan affects the covered group as a whole. This asymmetric power and information, coupled with the tendency of workers to overestimate the value of their pension benefit, creates a gap between labor costs and perceived compensation—workers think they are paid more than they are. This serves the interest of employers and the union who needs some latitude in bargaining.

Theory

The theoretical portion of the thesis develops a model of pension determination where pensions are demanded and supplied as insurance; some workers collect and others don't, but all pay premiums in the form of lower wages. Workers, chary of the risk of retiring without sufficient income, want pensions; employers, unilaterally, or as the result of union negotiations, provide pensions to satisfy that demand and to minimize costs. In this kind of market, insurance markets, asymmetric information and power cause potential moral hazard and adverse selection. The extent to which adverse selection and moral hazard exist depends upon the asymmetry between an employer's and a worker's estimated value of the defined-benefit pension promise and the ability to vary its worth. My model is in contrast to Richard Freeman's (1981) model of pension determination in which he assumes workers and employers calculate the same value for the same pension promise.

* This dissertation was completed at the University of California, Berkeley.

Findings

The research revealed that in contrast to popular management complaints that employees underestimate the value of fringe benefits, employees tend to overestimate their promised pension when their valuations are compared to an independent actuarial estimate and the employer's estimate. I identify the determinants of workers' overvaluation using the 1981 President's Commission on Pension Policy household survey. I use sex, age, education, job tenure, and unionization status as proxies for factors that determine workers' evaluation of their pension promises, which are: (1) access to pension information (tenure and unionization), (2) motivation to utilize available information (sex), (3) ability to calculate their benefit once informed (education and union), (4) the validity of the information (error term).

Based on regression analysis I find that being female was correlated highly with thinking the pension promise is more valuable than the employer does, whereas being a long-service worker reduces the gap. Neither union status nor education has a significant effect on the size of the gap between the worker's and the employer's pension value.

The second empirical section of the dissertation, using regression analysis, tests the following hypothesis: Since firms have the ability and the incentive to manipulate pension funds (this is buttressed in the thesis by theory, history, and reported cases), they will administer pension plans to serve their own needs. In fact, regression analysis of COMPUSTAT's data on pension funds and the Securities and Exchange data on corporate finances show that the assumed rate of interest (the assumed interest rate is used to calculate the present value of the pension fund which determines the firm's annual contribution to the fund) is correlated with profit levels and cash flow needs of the firm. These are convincing results that moral hazard exists and is taken advantage of by employers. Firms seem to consider their financial needs when establishing the assumed rate of interest (this practice is prohibited by ERISA). This may shift the risks of defined benefit plans between firms, between firms and workers, or to the Pension Benefit Guaranty Corporation.

Conclusion

The thesis directs its conclusion to union policy-makers. I argue that organized labor's demand for pensions may have been

compromised over time. World War II wage controls, the employer's paternalistic use of their own nonnegotiated plans, and the labor movement's failure to obtain adequate Social Security benefits, made pension bargaining, at one time, a convenient *organizing* tool. Currently, the "fudge factor," or ambiguity about the value of a pension promise, makes pensions a convenient *bargaining* tool. Yet labor's failure to gain joint control of pension fund investments and equal access to information may make pensions an expensive and distracting bargaining item. The costs and hazards of private pensions may outweigh their benefits to workers and the labor movement.

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Public-Sector Pay Bargaining Under Government Financial Restrictions in the U.S. and the U.K.*

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In the 1980s public-sector pay bargaining in both the U.S. and the U.K. has been subject to restraint. Governments at all levels have had to contend with fiscal adversity. The objectives of the dissertation are, first, to ascertain the extent to which wage raises were restricted by the financial climate; second, to explain the de-escalation of wage inflation in each country; and third, to contrast the experience of the U.S. and the U.K.

The theoretical framework used to guide the empirical work into the causes of the diminution of wage increases involves a view of pay determination that includes economic, political, institutional, and strategic factors. Budgets are seen as constrained by economic and political forces. Given the budgets, pay raises are influenced by the internal organization of parties, the bargaining structure, and pay-determination procedures. Within these constraints, compensation strategies based on preferred criteria, power, and internal organizational politics finally settle pay levels.

A triangulation of methods is used in order to cross-check the results and also to provide complementary evidence. Qualitative research involving analyses of organizational documents, including negotiations records, and published materials is supplemented with the results of over a hundred interviews with managements and unions in Massachusetts state and local governments and in the U.K. public sector. Econometric tests are also carried out, using pooled cross-section/time series data.

The results reveal that during the fiscal restraint of the 1980s, public-sector groups in both countries suffered real and relative

* This dissertation was completed at the School of Industrial and Business Studies, University of Warwick, Coventry, England.

declines in pay. In the U.S., according to BLS and ICMA data, state and local government settlements involved hefty real wage losses in 1979, 1980, and 1981. Relatively marginal real wage gains were made in the following two years. Relative to effective adjustments in the private sector, too, the public sector lost ground, except in 1983. The record of absolute wage gains also shows that state and local governments saw a greater percentage of workers affected by wage cuts and freezes in 1980 and 1981 than did the private sector.

In the U.K. real and relative losses were not as great. Average settlement rates were slightly below price increases from 1979 to 1982, except in the nationalized industries in 1979–1980. Small real wage gains were then made in 1982–1983. The public sector actually improved relative to the private sector in 1979 and 1980 following special dispensation through the Standing Commission on Pay Comparability (SCPC) to correct the effect of wage controls of the 1970s, though the untrammled impact of fiscal restraint was felt thereafter, reducing the newly won gains.

The causes of the restraint observed in the U.S. emanated from the political environment; while the growth of real public expenditure, especially on education, was slow, as it had been since 1973, economic circumstances were not the main cause of blame. To be sure, the OPEC-induced recession reduced activity and thus the revenue from sales taxes from 1979 to 1981 and restricted income tax growth in 1980–1981. However, bigger reductions were seen in less cyclically responsive revenues—namely property taxes and federal transfers—trends that had started in 1977 and 1978, respectively. In part, this reflected the changed attitudes of the participants in the political arena. The federal government made successive decisions to reduce its spending. Meantime, between 1978 and 1983, 17 states enacted limits on state finances, 14 introduced property tax limits on local governments, and seven others on total revenues or expenditures. The structure of the political market—that is, the groups influencing decisions—facilitated the passage of the restrictions. Governments had sovereign power to determine these matters, but faced more taxpayer lobbyists than heretofore. Unions increased their political expenditures substantially, but with little obvious effect. The laws governing the political market also changed in some states: for example, Massachusetts revoked the fiscal autonomy of school committees, making them subordinate to the city or town government.

Within the austere financial setting, pay restraint was encouraged by complementary institutional changes, such as a shift in the

distribution of organizational power toward the finance function and, in Massachusetts, by the abandonment of binding arbitration. Bargaining strategies generally recognized the diminished ability-to-pay, with management inspired by the PATCO episode and unions weakened by the economic and political climate and the lack of the strike weapon in most cases.

The U.K. experienced pay restraint for similar reasons. The political market structure aided government control. It was therefore able to pursue the goals of a smaller public sector and lower inflation by reducing public spending growth. In central government, the Conservative government was the only significant political actor, being responsible for both planning and controlling the total amount of finance going to authorities. This contrasted with the preceding Labour government's term of office when unions were directly involved in meetings with the government over pay increases and, hence, expenditure.

In the local government political market, the previously largely unfettered ability of authorities to raise and spend property tax revenue to augment central government grants was progressively limited. This was partly achieved by abolishing supplementary increases in property taxes during the year. More important, however, was the introduction of a system of financial penalties imposed for overspending beyond government-set targets.

In the public-corporation sector, borrowing was subject to tighter limits. Tougher targets were set for unit cost performance, making either lower pay raises or higher productivity growth a necessity. Greater profit targets meantime pre-empted more of the financial flexibility of authorities. These financial constraints were reinforced in some cases by the structure of, and trends in, economic markets. Some authorities faced more competitive market structures, such as in air and inland transport, while others faced deteriorating markets, such as steel. The energy and utility industries, however, were relatively immune in their monopoly situations, facing buoyant demand.

Institutional change also contributed to the disinflation, as in the U.S. In authorities, the finance function gained power. The SCPC was abolished and the civil service also saw their pay link with private-sector workers broken. Attempts were also made to end unilateral arbitration. More generally, bargaining strategies paid more heed to the ability-to-pay, while informal comparability relationships were frequently disregarded. The level of unemployment weakened the ability of unions to pursue their claims through strikes.

It is concluded, nevertheless, that important differences between the U.S. and the U.K. were evident, leading to less restraint in the U.K. Notably, U.K. pay-determination institutions remained more inflationary. Independent review bodies setting the pay of top-salaried workers, doctors and dentists, and the armed forces were left intact. The police and firemen, meanwhile, had their pay linked to indexes of earnings. In addition, the right to strike (possessed by all groups except the police) facilitated higher raises: industrial action was limited overall, but a few key groups, such as the water workers, were able to raise the general level of settlement.

DISCUSSION

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When I first read these three dissertation abstracts, I was impressed. After hearing the three presentations, that favorable impression is reinforced. I think we have heard summaries of three very good dissertations and can expect to see articles based on this work appearing in the journals soon. Although each of these abstracts is excellent, my comments are somewhat tentative because it is often difficult to understand all the complexities of a dissertation from a four-page abstract. Having stated this qualification, I will forge ahead.

In Professor Way's dissertation the public-sector wage trends and determinants of the United States and the United Kingdom are compared. This is an ambitious undertaking which he pursues with both qualitative and quantitative techniques. Much of the qualitative information is based on interviews with state and local government and union officials in Massachusetts and in the U.K. public sector. While I applaud the effort to enrich the quantitative results in this way, I think that there may be a problem in generalizing from the U.S. interviews. Systems of state and local public finance are much more diverse in the U.S. than in the U.K., so inferences should be drawn cautiously from the Massachusetts interview data. I think that it would be most interesting to see Professor Way extend these interviews to other jurisdictions.

A major finding of the study is that the real and relative wage declines in both countries were more the result of political than economic factors. While it is not possible to fully document this conclusion in an abstract, it appears to be based on recent initiatives to limit taxes or expenditures in some state and local jurisdictions and the fact that cyclical revenue sources declined less in 1979-1981 than noncyclical sources. I would be cautious about the problems of untangling the possible simultaneous influences of political and economic forces.

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Finally, the title of the study and much of the discussion addresses public-sector pay bargaining. This implies that collective bargaining is a significant determinant of pay levels in most state and local governments. While the impact of collective bargaining has increased, I think that for the majority of state and local government employees in the U.S. it is not the most significant determinant of pay levels.

Professor Ghilarducci has taken the empirical finding that workers and employers have different estimates of the value of defined benefit pensions and placed it in a novel theoretical context in which pensions are viewed as insurance policies. In this framework, the different valuations are important phenomena in the market for pensions and determining which factors influence these estimates of pension value becomes an important research question.

The results on the determinants indicate that overvaluation depends on access to and the validity of information, the motivation to use the information, and the ability to calculate benefits from the information. Further they indicate that women are more likely to overestimate the value of their pension and long-service workers are less likely to do so. Motivation to use information, ability to calculate benefits, and, possibly, access to information seem to be clearly related to length of service. However, the explanation of the results for women is less clear. I wonder if the results for women occur because most of the women in the sample are not long-service workers. Regression analysis does hold the effects of length of service constant when estimating the effect of sex on overvaluation. However, if most of the females in the sample are short-service workers who have a greater probability of overvaluing their pension, they may swamp the effects for longer service women who may not overvalue pensions to the same extent. The female variable could just be a proxy for length of service. This is clearly speculation on my part since a more detailed discussion of the results is not possible in an abstract. However, you may have a journal referee who wants to be convinced on this point.

Professor Anderson's dissertation addresses an important issue for innovations in the way workplaces are organized, namely, the relative importance to employee support of the content of an innovation and the process used to introduce it. Professor Anderson addresses this issue with respect to the autonomous workgroup model.

The results are based on interviews with workers at three different plants along with more extensive survey responses from employees in a plant implementing the autonomous workgroup model. All of the plants were unionized. The results indicate that innovations for which

a need is clearly established have the best chance of gaining support and those which significantly alter traditionally held values and/or increase tension among workers have the least chance of succeeding.

I was particularly interested in the results which indicate that changes in seniority are negatively related to participant support. Colleagues and I have just completed a study of skill-based compensation plans, a pay innovation in which workers' pay is based on the number of skills they have learned rather than the wage rate of the job they are currently performing. These plans significantly alter wage structures based on seniority, but our results have not found this to be negatively related to the success of skill-based pay. Although this differs from Professor Anderson's specific result on seniority, the fact that the two innovations differ in content possibly confirms the assertion that the content of a workplace innovation is critical to its success. I think that extensions of this insight will provide Professor Anderson with a fruitful research program.

In conclusion, I would like to congratulate each of you on your excellent work and encourage you to pursue it further. The diversity of your topics and the level of your work enriches industrial relations research.

DISCUSSION

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The autonomous work group (AWG) is one of several programs which seek to improve labor productivity and product quality by increasing the quality of worklife (QWL). Such programs are often stymied by managers and union leaders who fear loss of control. The attitudes of union leaders toward QWL experiments have been surveyed by the chair of this session and his co-authors (Kochan, Lipsky, and Dyer 1974). Professor Anderson's valuable contribution is to gauge the reaction of rank-and-file union members to an AWG. Some of the more interesting results from the Anderson dissertation are the following:

1. The degree to which union leaders were involved in the process had "insignificant" impact on whether workers supported the AWG concept or not. This finding conflicts with the widely held opinion that union cooperation is essential.

2. The degree to which redesign enhanced control over the work process garnered "low" worker support for the AWG. This finding seems at odds with the conventional wisdom that these programs should lead to substantial increases in worker satisfaction.

3. The degree to which redesign increased pressure for production caused only "low" opposition to the AWG. This finding is surprising because workers and their union leaders often view QWL programs as a disguised speedup.

4. Opposition to the AWG was "high" insofar as it increased tension among workers, a reaction which was also observed in a study of QWL experiments at American Telephone and Telegraph (Maccoby 1984).

It would be very useful if Professor Anderson could extend his study to address the ultimate question: Did this AWG increase product quality and labor productivity? A study of QWL programs at General Motors Corp. suggests that product quality rises but not labor productivity (Katz, Kochan, and Gobeille 1983). If there are not

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substantial payoffs to QWL innovations, union, management, and employee resistance to changes in the status quo will be very difficult to overcome.

In her dissertation on private pensions, Professor Ghilarducci argues that such plans may no longer be worth their cost to employees. This conclusion, certain to be controversial, is based on survey data from the President's Commission on Pension Policy which show that workers with little tenure (and women tend to be overrepresented in this group) place a greater value on their future pension benefits than do their employers. Although it goes against the common belief that workers are likely to underestimate the true costs of their fringe benefits, her finding is plausible. The employer, assisted by an actuary, takes higher turnover rates of younger workers as a group into account when considering current costs, whereas the individual employee may not. Professor Ghilarducci's introduction of this data set, which permits the matching of employee and employer evaluations of pension benefits, adds considerably to our knowledge of private pensions.

Professor Ghilarducci provides further empirical support for her thesis that private pensions may have outlived their usefulness as a fringe benefit. With regression analysis, she shows that the interest rate a firm uses to estimate the present value of its pension liabilities is correlated with profit levels and cash flow needs. This finding, she concludes, proves that moral hazard exists. In other words, some firms use a high rate to reduce the required annual contribution to the fund. Because this rate has to be approved by a CPA and an actuary as representing the expected yield from pension fund investments, firms using higher rates are probably making more risky investments. Should such investments sour, the firm could default on its obligations to its employees. Prior to the Employee Retirement Income Security Act, the employees did bear the risks of such managerial tactics. However, now that the risk has been transferred to the Pension Benefit Guaranty Corporation and, in part, to the employer, this potential disadvantage of private pensions to employees has been reduced.

In conclusion, I am less willing than Professor Ghilarducci to eliminate private pensions because: (1) pensions are part of a package of benefits and the package may distribute benefits fairly equally even if pension benefits are greater for older workers, and (2) pensions may be an important part of the implicit contract between worker and employer covering compensation over the employee's entire worklife.

As Lazear (1983) argues, pensions may constitute the severance pay associated with such contracts.

In the third dissertation, Professor Way compares the impact on the pay of public employees of the attempts by the Reagan and Thatcher governments to reduce the size of the public sector in their respective countries from 1979 to 1983. The study provides us with a wealth of information about how political and economic factors influence wages of public employees in the two countries.

I have two comments. First, there may be a problem of data comparability. State and local employees in the United States are compared to all public employees in the United Kingdom (UK), including the armed forces, the National Health Service, and the nationalized industries. The study would be more convincing if similar public workers in the two countries had been isolated for comparison. Second, the role of unions in maintaining the pay levels of UK workers could be emphasized more. Nearly all UK public employees have the right to strike. Furthermore, the shop-steward system, with its tendency to ferment militancy, has been extended to the public sector. According to Soskice (1984), the Thatcher government feared that the public employee unions, if they became discontented, might take concerted action with the private-sector unions. The latter were quite weak because of the unemployment resulting from restrictive monetary and fiscal policies. Therefore, the Thatcher government allowed pay increases in the public sector and kept terminations to a minimum. It was not until 1982-83 that the government was willing to take a strike.

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XIII. CONTRIBUTED PAPERS: UNIONS AND COLLECTIVE BARGAINING

Union Voting and Politics*

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After a period of neglect, industrial relations researchers have shown a renewed interest in politics. This resurgence has focused most directly on union involvement in political campaigns. Such issues are of fundamental importance, for the relative emphasis which the labor movement places on economic versus political objectives and means to a great extent defines the very nature of the labor movement. Researchers have begun to identify and test a number of critical hypotheses involving unions and politics. A neglected area within this growing body of research, however, concerns the reactions of workers to union efforts to exert a larger political influence.

In essence, two distinct questions are involved. The first might be stated as follows: "How do union political activities affect worker views of 'union political instrumentality,' or effectiveness in utilizing political mechanisms such as elections, legislation, etc. to obtain objectives?" The second question addresses the impact of union political instrumentality perceptions on worker support for unions: "Do higher levels of perceived union political instrumentality enhance worker support for unions?" It is this latter gap in our knowledge which this paper addresses. Specifically, this paper will address the role of union political instrumentality perceptions on voting intent in union representation elections.

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Politics, Instrumentality, and Union Voting

There is no question that union political activity has accelerated in recent years. As Masters and Delaney (1985) note, political activity is not new to unions despite traditional characterizations of U.S. unions, relative to their European counterparts, as apolitical. These authors and others (e.g., Wilson 1979) point out that politics have been a major concern of U.S. unions since at least the New Deal.

Sturmthal's (1973) distinction between political objectives and political means might be usefully called upon here. One could argue that although both American and European unions extensively utilize political means, American unions differ in placing greater emphasis on economic objectives. But Sturmthal himself notes that the political-economic distinction is not clear-cut, particularly in the case of methods. In 1973, Sturmthal concludes that Perlman seems to have prevailed over the Webbs. (He sees Perlman as forecasting reliance on collective bargaining rather than legislative methods and the Webbs conversely.) However, he also sees Perlman's "victory" as too readily overstated. In a comparative analysis of the U.S. and four other nations, Dunlop concludes: "The method of legal enactment is an increasing alternative to the method of collective bargaining" (1978, p. 8). Moreover, Wilson concludes that when European unions are "stripped of their pretensions, the political goals of organized labor in the United States and Europe are not so far apart as is usually supposed" (1979, p. 149).

In any case, calls for increased political activity on the part of U.S. unions are widespread. Although liberal critics of the U.S. labor movement have long chided unions for their preoccupation with short-term economic gains, calls for greater political activism now spring from a broader spectrum and from within the mainstream labor movement. Raskin states: "Labor's most consequential battles in the 1980s are likely to be fought in the political arena" (quoted in Thomson 1981, p. 337). Aaron makes the same assertion in a more urgent form: "Unions will be compelled to assume a more active political role *in order to survive*" (1984, p. 55, emphasis added). Masters and Delaney (1985), in an extensive review of research on labor and politics, conclude that "increasing political action has emerged as a salient, almost ineluctable strategic option" (p. 1). From within organized labor, Oswald (1984) refers to a "dual approach" emphasizing collective bargaining *and legislation* as the key to unions' future well-

being, but explicitly states that both approaches are to be directed toward economic objectives.

The reasons for union political activity and its new emphasis are beyond the scope of this study. At issue here is the effect of union political activity on worker views of unions and thereby, potentially, upon union membership levels. More precisely, inferences on this issue will be drawn via an examination of the impact of union political instrumentality perceptions on union voting preferences of nonunion workers. To facilitate this analysis our attention turns to research on causes of union voting intent and particularly the concept of union instrumentality.

Numerous studies have examined the correlates and causes of pro-union voting intent among nonunion workers. A persistent finding is the importance of union instrumentality as a determinant of voting intent (e.g., Kochan 1979). In general, union instrumentality is conceptualized as the belief that unions are able to improve wages, benefits, working conditions, fairness, etc., *through their collective bargaining and contract administration activities*. Given the significant and substantial influence of union instrumentality on voting intent reported in such studies, on the one hand, and the growing political activity of unions, on the other, the concept of union instrumentality is deserving of closer examination. Specifically, is there a role for the concept of political instrumentality within the broader concept of union instrumentality?

The concept of union instrumentality has long been a part of industrial relations thought. One of the earliest expressions of the concept can be found in Perlman (1928). Two aspects of Perlman's views are noteworthy for the present study. First, Perlman did indeed emphasize workplace objectives as opposed to social reforms, as is frequently noted. Second, however, and less frequently recognized, is that Perlman clearly does not rule out the possibility of political action to achieve job-oriented objectives. In fact, he notes an important limitation: "Joint political action will only be likely to evoke the response which is desired if the objective of the proposed common undertaking be kept so close to the core substance of union aspiration that Tom, Dick, and Harry could not fail to identify it as such" (1928, p. 277). Over time, however, subsequent researchers have tended to blur the distinction between objectives and means, and consequently the term "union instrumentality" has tended to be equated with the narrower concept of what could be called "workplace instrumentality."

The possibility that union instrumentality may be a multifaceted concept has not escaped notice completely. Youngblood et al. (1982) operationalize instrumentality in terms of "economic" and "noneconomic" variables. More pertinent is Chacko and Greer's (1982) classification of survey items on workers' union beliefs into "service" and "power" dimensions. Their "service" items are identical to those used by Kochan (1979) to form his "instrumentality" index. Their "power" dimension consists of most of the items which Kochan includes in an index of "big labor image," with the important exception that two items which clearly carried negative connotations about unions were omitted.

Frequently, potential measures of union political instrumentality are treated as involving only negative connotations. Craft and Abboushi (1983), for example, define five conceptual dimensions of union image: "membership identity," "internal governance," "union leadership," "instrumentality," and "external power." Their instrumentality dimension mirrors the narrower concept of "workplace instrumentality" described earlier. While, unlike Kochan (1979), Craft and Abboushi distinguish between union leadership and external power, they conceptualize external power in a negative vein.

The confusion of potential political instrumentality measures and negative image is more apparent in Kochan's (1979) concept of "big labor image." Table 1 presents the ten items from the 1977 Quality of Employment Survey (QES) from which Kochan forms his measures of instrumentality and big labor image. The column immediately to the right of each item's wording indicates the index to which Kochan assigned the item. The next column indicates the same information for Chacko and Greer's (1982) study. Finally, the last column in Table 1 indicates how these items are grouped for the present study in which political instrumentality and workplace instrumentality are viewed as parallel facets of a broader union instrumentality concept.

On a theoretical level, Kochan's grouping of items to form the "big labor image" is curious. It suggests that autocracy (requiring members to go along with decisions) and selfish leadership are *directly comparable* to influencing elections and legislation. Yet it is not difficult to conceive that workers would view autocracy and selfish leadership as undesirable but view influencing elections and legislation as desirable union features. This conceptualization would be particularly appropriate for public-sector workers.

In sum, previous studies involving the concept of union instrumentality have tended to define and operationalize the concept

TABLE 1
Alternative Classification of QES Items
on Beliefs About Unions

Survey Items: How much do you agree or disagree that unions in this country . . .	Kochan	Chacko & Greer	This Study
1. Have a lot to say about who gets elected to public office?	Big Labor	Power	Political instrumentality
2. Protect workers against unfair actions by their employers?	Instrumentality	Service	Workplace instrumentality
3. Improve the job security of workers?	Instrumentality	Service	Workplace instrumentality
4. Have a lot of influence over what laws are passed?	Big Labor	Power	Political instrumentality
5. Are more powerful than employers?	Big Labor	Power	Relative power
6. Improve the wages and working conditions of workers?	Instrumentality	Service	Workplace instrumentality
7. Give members their money's worth for the dues they pay?	Instrumentality	Service	Workplace instrumentality
8. Have a lot to say in how the country is run?	Big Labor	Power	Political instrumentality
9. Have leaders who do what is best for themselves rather than what is best for their members?	Big Labor	^a	Negative leadership
10. Require members to go along with decisions they don't like?	Big Labor	^a	Negative leadership

^a Not examined.

in narrow terms. The view proffered here is that workplace and political instrumentality are parallel constructs. An important implication of this view is that workplace *and* political instrumentality will enhance the desirability of union membership to workers. Specifically, the hypothesis to be tested below is that nonunion workers perceiving higher levels of political instrumentality will be more likely to indicate a pro-union voting intent.

Empirical Results

A number of authors have previously developed models of union voting intent (e.g., Hills, 1985; Kochan, 1979; Youngblood et al., 1982, 1984). These studies indicate that a wide variety of factors influence voting intent. (See Fiorito et al. [in press] for a recent comprehensive review of the "unionism" literature.) Since the objective here is to focus on instrumentality effects, the hypotheses underlying and results

for other causal factors will not be addressed. Still, in order to accurately assess the impact of worker beliefs on voting intent, these other causal factors must be included in the model. The data for this study are from the 1977 QES, the same data source used by Kochan (1979) and Chacko and Greer (1982).

Table 2 provides a test of the hypothesized effects via multivariate specifications. The first column of coefficients (and *t*-ratios) provide a benchmark in that only workplace instrumentality and the nebulous big labor image indices of union beliefs are specified. The results for this specification are quite similar to those reported in previous research (e.g., Kochan 1979): The workplace instrumentality measure shows a strong positive impact on pro-union voting intent, while the big labor image measure evidences a negative but insignificant impact. The second and third columns present results for the same specification but with the big labor image disaggregated into its political instrumentality, negative leadership, and relative power subdimensions. These results provide strong support for the hypothesized political instrumentality effect. Pragmatic and workplace-oriented characterizations of U.S. workers are still supported in that the coefficient for the political instrumentality measure is less than half that for the workplace instrumentality measure, but the political instrumentality coefficient is positive, substantial, and highly significant.

The last two columns present results separately for private- and public-sector workers. Small sample size for the public-sector cohort limits great reliance on these results, but the inherently political nature of public-sector employment makes this a compelling comparison. In particular, while the political instrumentality measure is only marginally significant ($.05 < p < .10$) in each sector, the relative sizes of the two coefficients lend further support to the political instrumentality hypothesis. The coefficient is roughly twice as large for the public-sector sample.

Discussion

Consistent with past studies of voting intent, this study indicates an important role for union instrumentality perceptions. However, this study suggests broader conceptions of union instrumentality than those in previous works. Union instrumentality is multifaceted; it has economic and noneconomic facets, workplace level facets and political facets. This study illustrates the usefulness of separating the

TABLE 2
Regression Results for Voting Intent Model^a

Variable	All Workers (1)	All Workers (2)	All Workers (3)	Private Sector (4)	Public Sector (5)
Workplace instrumentality	.18*** (7.5)	.16*** (6.1)	1.52*** (37.5)	.15*** (5.1)	.08 (1.04)
Big Labor image	-.01 (-.3)				
Political instrumentality		.07*** (2.6)	.52*** (7.1)	.05° (1.9)	.10° (1.9)
Negative leadership views		-.05** (-2.3)	-.34** (4.1)	-.06** (-2.2)	-.06 (-1.2)
Relative power perceptions		-.03 (-1.5)	-.27** (4.2)	-.06*** (-3.0)	.10** (2.5)
R ² (pseudo-R ² in col. 3) ^b	.34	.36	.31	.38	.60
Adjusted R ²	.29	.30		.31	.43
F-ratio	6.58***	6.64***		5.99***	3.49***
χ ²			207.63***		
N	471	471	471	361	110
Method	OLS	OLS	Logistic	OLS	OLS

Note: Values in parentheses are *t*-ratios (chi-squares in col. 3).

*** Significant at .01 level. ** Significant at .05 level. ° Significant at .10 level.

^a Control variables not shown include measures for age, gender, education, race, region, rural residence, former union membership, supervisory role, size of establishment, occupation, industry, desires for workplace influence, and perceptions of labor market conditions, work importance, job hazards, pay equity, and five job satisfaction facets. Self-employed, agricultural, and private household workers are excluded from the sample. Details on results and other issues are available from the author on request.

^b See Aldrich and Nelson (1984).

concept of political instrumentality from the more nebulous concept of big labor image.

In public-sector labor relations, the concept of union political instrumentality is and has long been fundamental. Analogously, in private-sector settings where government plays a larger role (e.g., defense and regulated industries) in affecting terms and conditions of employment, the concept has greater import. Given recent and prospective trends in union political activity, political instrumentality is likely to become a more general and important consideration in the future.

Granted, the evidence reviewed above does indeed support

traditional characterizations of U.S. workers as pragmatic in regards to unionization inclinations. But it also indicates an important role for activities some distance removed from the immediate workplace. Future research, using survey instruments incorporating a more general concept of union instrumentality, possibly including items to tap political objectives, should yield some very interesting findings. In particular, future research along these lines may provide greater insight into the separate effects of political activities, political goals, and their possible interactions on union voting intent. And, regardless of interaction effects, the role of union goals (e.g., political versus economic) as influences on voting intent should be investigated. Such an investigation may yield some valuable new insights on the appropriateness of the "pragmatic U.S. unionism" paradigm.

Given current trends and widespread calls for greater political activism, characterizations of U.S. unions as pragmatic and job-oriented should be qualified more carefully. The evidence reviewed above says nothing directly about the appropriateness or effectiveness of union political activity, but it does show that nonunion workers respond favorably to union effectiveness in the political sphere as well as in bargaining. Of course political instrumentality is a double-edged sword for unions. To the extent that the re-election of Ronald Reagan may have lowered workers' perceptions of union political instrumentality, prospects for organizing the unorganized are diminished. The recent round of elections was not without victories for labor-backed candidates, however, and unions show no signs of relinquishing their political roles. The results presented above suggest that unions may wish to give their political successes prominence in their organizing efforts, in addition to the traditional "bread and butter" message.

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Trends in Union Membership in the Postwar Period: The Case of the ILGWU*

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Aggregation obscures. When union growth and contraction is studied on the level of aggregation of the entire country, many systematic influences on union growth within particular industries are lost. This is both because union membership's sensitivity to these influences differs widely among industries, and because changes in the influencing factors are often distributed very unevenly among industries. One factor that will be particularly difficult to consider on a nationally aggregated level is imports. Imports have been blamed for the last decade's sharply decreasing unionization rate. To evaluate this assertion empirically, it is necessary to study the impact of imports in particular industries rather than the impact of the overall U.S. balance of trade on the national unionization rate.

A related reason to study union changes within specific industries is to separate the two kinds of factors that influence aggregate union membership: changes in the size of heavily unionized industries versus the strength of the unions within the industries. (See Dickens and Leonard (1985) for a consideration of the impact of changing industry sizes on the national unionization rate.)

This paper studies changes in the size of one specific industry and union, the International Ladies' Garment Workers' Union (ILGWU). (One of the few previous studies of time-series trends of unionization within a specific industry is Moore's 1976 study of teachers' union membership.) Further studies will compare the ILGWU with other unions.

The ILGWU is a mature union both with regard to age and waning strength, and is located in an industry undergoing many changes that

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* I would like to thank Steve Gruenwald for his help in all aspects of this work.

have weakened the union's position. Membership in the ILGWU has decreased sharply since 1970, both absolutely and as a percentage of industry employment.

Modeling Union Membership in the ILGWU

Econometric studies of aggregate national union membership began with Ashenfelter and Pencavel's (hereafter referred to as AP) seminal 1969 paper, which considered the impact of both economic and political factors. Numerous subsequent studies attempt to test this model and to increase explanatory power by changing both the dependent and independent variables. Do these aggregate models explain ILGWU membership adequately?

Equation 1 (Table 1) replicates for the ILGWU a model similar to AP's, but incorporating some modifications from the later literature. (See Fiorito and Greer (1982) for a discussion of this literature.) The time period covered is limited to post-1950, because of data availability. The lack of pre-World War II data on individual industries is a major drawback of moving to a disaggregated level to study union membership. It cannot be presumed that the model developed here would necessarily predict the pre-WWII growth period of the ILGWU.

In equation 1, the rate of change in ILGWU membership is modeled as a function of (a) the rate of change in the CPI; (b) separate variables for the (%) increases and decreases in the nondurable manufacturing unemployment rate, a variation on the AP model which originated with Elsheikh and Bain (1978) and has been adopted by subsequent authors; (c) the density or saturation of the industry (lagged one year). Density is measured as the inverse of the level of union density, or $[\text{ILGWU membership/employment in the women's apparel industry}]^{-1}$, following AP and several subsequent authors; (d) a political variable, the percent of Democrats in the House of Representatives. Because the model in equation 1 exhibits substantial serial correlation, the Cochrane-Orcutt technique was used to correct for first-order autocorrelation. Johnston (1984) describes this technique. The reestimated version appears as equation 2.

Neither model explains a large proportion of the changes in ILGWU membership. In contrast, the AP model and other subsequent studies of aggregate union growth explained as much as 75 percent of the 20th century variation in U.S. union membership. However, much of the explanatory power of the aggregate studies was derived from political variables that captured the effect of the Wagner Act. During the post-Taft-Hartley period, the political environment did not vary as

TABLE 1
Regression Results
(*t*-statistics in parentheses)

Indep. Variables	Dependent Variables					
	%MEM 1	%MEM 2	%MEM 3	%MEM 4	%MEM 5	C%MEM 6
<i>UP</i>	-0.0011 (-2.02)	-0.0010 (-2.11)	-0.0020 (-3.34)	-0.002 (-4.20)	-0.002 (-4.59)	-0.0016 (-4.20)
<i>UN</i>	0.0002 (0.39)	0.0001 (0.20)	0.0008 (1.43)	0.0008 (1.53)	0.0007 (1.44)	0.0005 (1.40)
<i>PCEMP</i>	-0.036 (-0.29)	-0.009 (-0.09)	-0.068 (-0.38)	-0.153 (-1.26)	-0.112 (-1.18)	-0.926 (-11.76)
<i>PCCPI(-1)</i>	-0.403 (-1.86)	-0.412 (-2.63)	0.298 (0.85)	0.317 (0.93)	—	—
<i>PCCPI(-2)</i>	—	—	-0.264 (-0.84)	-0.267 (-0.89)	—	—
<i>DENSITY(-1)</i>	-0.003 (-0.05)	-0.026 (-0.73)	0.056 (0.85)	—	—	—
<i>DEMOC</i>	-0.0007 (-0.68)	-0.0005 (-0.65)	0.0002 (0.23)	—	—	—
<i>IMPORTS(-1)</i>	—	—	-0.492 (-2.34)	-0.354 (-3.34)	-0.373 (-4.84)	-0.216 (-3.28)
<i>K/L(-1)</i>	—	—	0.638 (3.06)	0.609 (3.20)	0.655 (3.80)	0.368 (2.53)
<i>LC/TC(-1)</i>	—	—	1.452 (2.66)	1.607 (3.18)	1.660 (3.47)	1.026 (2.54)
<i>PCNW(-1)</i>	—	—	-0.476 (-1.47)	-0.545 (-1.80)	—	—
<i>PCNW(-2)</i>	—	—	0.472 (1.45)	0.544 (1.94)	—	—
<i>PCRW(-1)</i>	—	—	—	—	-0.495 (-1.77)	-0.308 (-1.33)

Definitions:

(-1) denotes a one-period lag.

%MEM: percentage change in membership of ILGWU.

C%MEM: change in percentage of women's apparel industry unionized.

UP, UN: increases and decreases, respectively, in the nondurable manufacturing unemployment rate.*PCEMP*: percentage change in employment in women's apparel industry.*PCCPI*: percentage change in the consumer price index.*DENSITY*: defined in text.*DEMOC*: percentage Democrats in the House of Representatives.*IMPORTS*: imports/value added in the apparel industry.*K/L*: investment in machines and equipment/employment in women's outerwear.*LC/TC*: ratio of labor costs to total costs in women's apparel industry.*PCNW*: percentage change in nominal wage in the women's outerwear industry.*PCRW*: percentage change in real wage in women's outerwear.

TABLE 1—Continued

Indep. Variables	Dependent Variables					
	%MEM 1	%MEM 2	%MEM 3	%MEM 4	%MEM 5	C%MEM 6
PCRW(-2)	—	—	—	—	0.431 (1.97)	0.215 (1.17)
CONSTANT	0.062 (0.82)	0.076 (1.44)	-0.170 (-1.59)	-0.106 (-2.58)	-0.112 (-2.93)	-0.065 (-2.01)
Autoregressive correction term	no	yes	yes	yes	yes	yes
R ² adj.	.30	.43	.64	.66	.69	.87
DW	2.78	2.54	2.51	2.59	2.69	2.57
Time Range	1951-81	1951-81	1953-81	1953-81	1953-81	1953-81

Definitions:

(-1) denotes a one-period lag.

%MEM: percentage change in membership of ILGWU.

C%MEM: change in percentage of women's apparel industry unionized.

UP, UN: increases and decreases, respectively, in the nondurable manufacturing unemployment rate.

PCEMP: percentage change in employment in women's apparel industry.

PCCPI: percentage change in the consumer price index.

DENSITY: defined in text.

DEMOC: percentage Democrats in the House of Representatives.

IMPORTS: imports/value added in the apparel industry.

K/L: investment in machines and equipment/employment in women's outerwear.

LC/TC: ratio of labor costs to total costs in women's apparel industry.

PCNW: percentage change in nominal wage in the women's outerwear industry.

PCRW: percentage change in real wage in women's outerwear.

much, and the aggregate models performed more poorly, explaining between 40 and 63 percent of the variation (adjusted R^2). For the ILGWU, the comparable equation (equation 1) explains even less of the variation in membership change, with an (adjusted) R^2 of only 30 percent.

Moreover, the only variables in the model with any degree of explanatory power are *UP* (increases in the unemployment rate) and *PCCPI*(-1) (lagged prices), both of which significantly decrease ILGWU membership. Aggregate studies have found insignificant coefficients for the other variables in the postwar period as well.

We can explain far more of the growth in ILGWU membership by including other industry-specific factors in the equation. I report several models of ILGWU union membership in Table 1. There are two versions of the dependent variable: the first is the percentage

change in union membership ($\%CMEM$), which is used by most aggregate time series models (including AP); the alternative is the change in the percentage of all (production) workers in the female garment industry unionized ($C\%MEM$). The latter is conceptually a better measure of the unionization of the industry, since it focuses on the percentage of the industry unionized. However, movements in this variable are generally caused by short-term cyclical shocks in the denominator, employment level, since this varies more than union membership. Therefore, since $C\%MEM$ may simply be measuring movements in employment, I concentrate on the alternative dependent variable, $\%CMEM$.

The models reported also differ in the explanatory variables included. All versions correct for first-order serial correlation.

Of central interest here are the explanatory variables that do not appear in studies of aggregate time-series union growth and are expected to affect the elasticity of demand for labor in the ladies garment industry. The first of these is the level of imports, which is claimed to affect unionization adversely. Imports are measured as the ratio of clothing imports to the total value added in the U.S. apparel manufacturing industry, lagged one year to avoid simultaneity problems. All of the specifications corroborate the widely held perception that foreign competition has substantially weakened the ILGWU. The coefficient on imports is large and statistically significant in all equations. Indeed, if *only* imports are included in the regression, 25 percent of the variance in the change in union membership is explained.

A second factor that can weaken unions is the substitutability of capital for labor. There is no straightforward way to measure this substitutability. However, the capital/labor ratio may indicate future opportunities for substitution, since if the capital/labor ratio is already high, future capital substitutability is not a substantial threat. Thus, the capital/labor ratio is expected to be positively correlated with union membership. The variable used to measure the capital/labor ratio, K/L , is the lagged change in the capital stock of the industry divided by the employment level. (The exact measure is new capital expenditures on machines and equipment in women's outerwear deflated by the GNP deflator for nonresidential fixed investment in producers' durable equipment and divided by employment in the women's outerwear industry. Women's outerwear is only part of the industry covered by the ILGWU, but it does comprise the majority of that industry.) The expected positive relationship is confirmed by all specifications.

A third factor that should affect the elasticity of demand for labor, and thereby have an influence on union strength, is the ratio of labor costs to total costs. Unions have more strength when the demand for their labor is inelastic, and a smaller ratio of labor costs to total costs is one factor that leads to inelastic demand for labor. (This is one of "Marshall's rules" of labor demand elasticity.) Therefore, we expect a negative relationship between the (lagged) ratio of labor costs to total costs, or LC/TC , and union membership. However, the empirical results measure a significant positive relationship. One possible explanation for this result is that firms may hire more workers when they anticipate that union strength may be growing, in order to dilute union gains. (See Dickens 1984.) Alternatively, the LC/TC variable may be measuring an unemployment effect in the apparel industry that is not already being captured by the less specific nondurable manufacturing unemployment rate variables.

Equation 3 also includes all variables in the AP model. As in the simpler specifications, a positive increase in unemployment rates consistently causes ILGWU membership to fall, while decreases are never significant. Increases in unemployment rates deter unionization both because workers are concerned about being laid off in the downturn and because they realize that the chances of finding a job if laid off are higher when unemployment rates are higher.

The sign on the lagged saturation (or density) variable used by AP, defined above, is positive as expected, but not significant at any conventional level. Both because of the insignificant result and because there are theoretical problems in using and interpreting this variable, since it is basically a lagged version of the dependent variable (percent unionized), it was not included in subsequent specifications. The Democratic percentage of Congress has no effect on ILGWU membership, so it too was dropped from further specifications.

As in many of the aggregate time-series studies, I have included a measure of actual wage levels (in women's outerwear). In specifications 3 and 4, nominal wages and prices are included in the specification separately, allowing nominal and real wages to have differing effects. In specifications 5 and 6, only real wages appear, thus constraining nominal wages to have no separate effect. This constraint cannot be rejected, i.e., real wages are the only wage variable that significantly affects ILGWU size.

Both definitions of wages are lagged to avoid measuring the direct effect of unionization on workers' wages. Rising prices erode workers' earning power and are expected to create incentives to unionize;

falling wages in the apparel industry may have the same effect. However, in a heavily unionized industry, falling wages may indicate that the union has not been successful in achieving its goal, and inhibit further unionization. In fact, results in specifications 3 through 6 weakly indicate that last year's wages may be negatively related to union membership change, while wages two years ago may be positively related. (Recall that with the degrees of freedom in the model, for .95 significance the t statistic must be larger than 2.1.)

The percentage change in industry employment, $PCEMP$, has a different interpretation and expected sign with the two different dependent variables. When $\%CMEM$, the percentage change in union membership, is the dependent variable, the change in employment measures the increase in potential membership. It is expected to have a positive sign, yet is insignificantly different from zero in specifications 1 through 5. Other specifications not reported in Table 1 also included a (1-year) lagged percentage change in industry employment, or $PCEMP(-1)$; this coefficient was also indistinguishable from zero at any conventional significance level. These results suggest that during the postwar period, increases and subsequent decreases of ILGWU membership were not affected by changes in the available pool of unionizable workers. People entering the industry did not immediately enter the union, and new plants were not immediately organized. Instead, the size of the membership depended completely on prospects for the union's bargaining strength.

In equation 6, the dependent variable is $C\%MEM$, the change in the percentage of the industry unionized. This equation includes the independent variable $PCEMP$, percentage change in industry employment, to capture changes in the denominator of $C\%MEM$ caused by short-term fluctuations in the employment levels. The sign as expected is negative, i.e., higher industry employment increases the denominator of the dependent variable.

Summary and Conclusions

ILGWU membership in the postwar period does not depend on the size of the potential membership in the industry. Instead, union membership in women's clothing industry varies strongly with imports of clothing: increased competition from imports has had a substantial deleterious effect on the union's strength. Other industry-specific

effects are also shown to be correlated with the changes in ILGWU membership. The variables specific to this industry have much more explanatory power for the postwar period than the variables generally available for time-series studies of aggregate union membership.

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Cooperative Labor Relations and the Collective Bargaining Environment*

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In recent years there has been an explosion of interest in cooperative labor relations, much of which has centered around the operation of particular programs or committees designed to improve the overall relationship between labor and management. Employee participation programs, gainsharing programs, and joint labor-management committees of various types have all received considerable scrutiny (Locke and Schweiger 1979; Siegal and Weinberg 1982; Schuster 1983 and 1984; Katz et al. 1983; Kochan et al. 1984).

While there has been discussion of the economic circumstances which lead the parties to experiment with such programs (Jacoby 1983), there has been less recent consideration of the extent to which the collective bargaining environment is itself separately and systematically related to the type of labor relations that typically emerges. This is surprising insofar as the influence of economic and organizational factors on labor-management relations was discussed at length by an earlier generation of industrial relations scholars and practitioners. In fact, the earlier scholarship concluded, on the basis of numerous case studies, that the environment was extremely influential and probably set the limits of union-management cooperation in any particular firm (Harbison and Dubin 1947; Lester and Robie 1948; Kerr 1955; Dunlop 1955). Of course, even in the fifties some academics emphasized the importance of the attitudes and practices of the

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parties in contributing to what was then termed "constructive labor relations" (McGregor 1955; Myers 1955).

The question of whether the labor relations climate is largely determined by the economic and organizational environment is not merely an academic matter. If environmental factors are very influential, they may constrain the success of programs to improve labor relations since these programs, typically, focus on the attitudes and practices of the employees, the union, and the management rather than on more fundamental aspects of the economic environment or the organization. Moreover, continued research on the success or failure of such programs will have to carefully control for major environmental influences if they are indeed significant.

This paper explores the impact of certain environmental variables on the overall labor relations climate of the firm as it is perceived by management. The variables are selected after careful review of the earlier literature. Hypotheses concerning each variable are tested using a multiple regression equation context and cross-sectional data gathered by the author.¹

The Data

The data used in the study are from an anonymous mail questionnaire sent to a sample of managers of unionized Wisconsin firms in the Autumn of 1984.² All firms had bargaining units of at least 50 employees. Managers were asked about labor relations in a specific bargaining unit identified in an accompanying letter.

Initially 624 questionnaires were distributed. Managers were asked to return a separate business-reply postcard giving their name and address and stating that they had either returned the survey or that they did not wish to participate. This procedure permitted the removal of persons from the mailing list who had either completed the questionnaire or refused to participate; two follow-up mailings went to nonrespondents. The procedure resulted in a high response rate without jeopardizing respondents' anonymity or producing a number

¹ It is recognized that this statistical approach is a departure from the case study method which has long characterized this area of research. The goal is not to supplant that methodology, but to complement it by determining whether or not certain economic and organizational factors are statistically related to the type of labor relations existing in a large number of firms.

² The sample was drawn from the "reopener notices" filed in fiscal 1983 or 1984 with the Wisconsin Employment Relations Commission. Employer bargaining associations were excluded from the sample.

of duplicate questionnaires.³ Ultimately, 379 questionnaires were returned, for a response rate of 61 percent of the original mailing.⁴

Managers were asked to categorize the overall relationship existing between their company and the union representing employees in a bargaining unit identified in an accompanying letter as either (1) exceptionally good, (2) very good, (3) fairly good, (4) neither good nor bad, (5) fairly poor, (6) very poor, or (7) exceptionally poor.⁵ This question, and the questions on key firm characteristics used in the current analysis, were answered by 339 managers. While there is always some self-selection in survey data, more than 50 percent of the managers in the initial sample produced the assessment of their firm's labor relations which is used in this research. Consequently, these data provide a reasonable basis for the test of a number of hypotheses about the impact of the environment on labor relations, at least insofar as the overall union-management climate is perceived accurately by managers.

The Model and the Specific Hypotheses

Because the managerial assessments of the overall union-management relationship were categorical, a simple probit model was adopted in the initial analysis.⁶

(1) $I^* = g$ (economic environment, firm characteristics, union characteristics)

where $I^* = 1$ if the assessment was that the firm had exceptionally good, very good, or good overall labor relations, and $I^* = 0$ if the assessment was otherwise.

The coefficients produced by maximum likelihood estimation of such a probit model can be interpreted as measuring the impact of each economic or organizational variable on the probability that the firms will be perceived to have good or better labor-management relations. The specific hypotheses about the important environmental

³ I'd like to thank Randall Dunham for suggesting this procedure to me.

⁴ Further elimination of those responses that did not meet the criteria used to draw the original sample produced 347 responses available for statistical analysis. Bargaining units with less than 50 employees constituted almost all responses so eliminated.

⁵ Following is the proportion of employers responding in each category: exceptionally good, .110; very good, .384; fairly good, .393; neither good nor poor, .082; fairly poor, .021; very poor, .003; exceptionally poor, .006.

⁶ An alternative to this would be to scale the responses and use the scaled values as the dependent variable. Another approach would be to estimate an ordered response model. The latter is not undertaken because it is considerably more difficult to estimate than the model presented here.

variables were generated from an examination of the earlier literature. Each hypothesis, along with a description of the variables used to test it and the sign of the anticipated coefficient, follows.

Good labor-management relationships are more probable where:

1. *Companies are of moderate size* (Kerr 1955, Lester and Robie 1948). This is proxied by bargaining unit size, $H: \alpha > 0$, and bargaining unit size squared, $H: \alpha < 0$.

2. *The union-management relationship is of longer duration* (Dunlop 1955, Kerr 1955).

3. *The company is located in a metropolitan area* (Kerr 1955).⁷ A 0-1 variable for company location in the Milwaukee area, as opposed to the remainder of the state of Wisconsin, is entered to test this hypothesis, $H: \alpha > 0$.

4. *Absence of major changes in production technology, skill requirements, or product produced* (Lester and Robie 1948, Kerr 1955). A 0-1 variable was set equal to 1 if major changes in the above occurred in the four years prior to the survey, $H: \alpha < 0$.

5. *The economic position of the firm is secure* (Kerr 1955; Lester and Robie 1948). The relationship between economic adversity and the labor-management climate has been debated extensively and some scholars (e.g., Harbison and Dubin 1947) posit the converse. Moreover, the relationship may be complex. Jacoby (1983) contends that moderate amounts of economic stress tend to increase the possibility of union-management cooperation, but that great amounts typically lead to increased conflict.

In this study a 0-1 variable was set equal to 1 if the company reported a major decrease in company profits over the 1980-1984 period, $H: \alpha < 0$. Since this was a period of recession, the variable simultaneously captures the sensitivity of the firm to the business cycle, a factor also hypothesized to be negative by Kerr (1955). Three additional 0-1 variables were included to measure recent changes in the firm's competitive environment. One was set equal to 1 if the company experienced a major increase in foreign competition in the preceding four years, $H: \alpha < 0$; one was set equal to 1 if the company experienced a major increase in nonunion competition in the same period, $H: \alpha < 0$; and the third was set equal to 1 if the company reported a major increase in domestic union competition.

⁷ The converse hypothesis that location in a very large, conflict-laden metropolitan area decreases the probability of good relationships is not explored because there are no such areas in the state of Wisconsin. In the early 1980s, Milwaukee had a population of about 1 million.

6. *Industry bargaining patterns are stable.*⁸ A 0-1 variable was set equal to 1 if the company reported a major change in the bargaining pattern in its industry in the prior four years, H: $\alpha < 0$.

7. *Management is stable and secure* (Lester and Robie 1948; Harbison and Dubin 1947). A 0-1 variable was set equal to 1 if there had been a major change in company management or ownership in the preceding four years, H: $\alpha < 0$.

8. *The local union is stable and secure* (Harbison and Dubin 1947; Lester and Robie 1948; Kerr 1955). Two variables were related to this hypothesis. One indicated a major change in the local union officers had occurred in the past four years, H: $\alpha < 0$. The second indicated other organizational instability on the union side, including internal political turmoil in the union, a recent unsuccessful decertification attempt or an unsuccessful attempt to change the union representing employees, H: $\alpha < 0$.⁹

In addition to the above hypotheses, an additional contemporary factor was examined: management's strategy in recent collective bargaining negotiations. The hypothesis was that:

9. *Concession demands* can be a source of disruption in overall union-management relationships. Two 0-1 variables were entered to test this hypothesis. The first equaled 1 if management sought major concessions with regard to wages, health benefits, COLA clauses, or workrules in the most recent negotiations, H: $\alpha < 0$, and the second equaled 1 if management sought minor concessions in these same items, H: $\alpha < 0$.

Results of the Estimation

While several of the hypotheses were substantiated by the estimated probit equations, others failed to receive support at conventional levels of significance. Three variants of the basic equation are presented in Table 1; the results are substantively similar across variants and were also very similar when the same equations were estimated by OLS.¹⁰ As predicted, organizations moderate to large in size were more likely to have good labor relations than either small or very large firms. The probability of good relations increased

⁸ This hypothesis is not stated directly in the literature but is implied by the emphasis on economic security and stability. The literature focuses more attention on the issue of whether firms which are leaders or followers in pattern relationships are more likely to have good labor relations. That issue is not examined here.

⁹ It is recognized that this is a diverse list of factors. They were aggregated because some of them were too infrequent to be entered separately into the regression analysis.

¹⁰ These are available from the author on request.

TABLE 1
 Determinants of the Probability that a Unionized Firm
 Will Have Good Labor-Management Relations
 (Asymptotic Standard Errors in Parentheses)

Independent Variables	Mean (Standard Deviation)	Maximum Likelihood Estimates of Coefficients		
		(1)	(2)	(3)
Size ^a	.285 (.452)	1.175** (.541)	1.273** (.564)	1.349** (.586)
Size ²	.285 (1.303)	-.342** (.165)	-.353** (.169)	-.355** (.175)
New relationship ^b	.032 (.177)	-.914** (.408)	-.813* (.419)	-.929** (.428)
Old relationship ^c	.608 (.489)	-.045 (.179)	-.045 (.183)	-.040 (.185)
Milwaukee location	.336 (.476)	.363* (.187)	.343* (.192)	.387** (.196)
Major change in technology, skill requirements, or product	.398 (.490)		.066 (.180)	.030 (.184)
Major increase in company profits	.478 (.500)		.145 (.187)	.178 (.190)
Major change in industry bargaining pattern	.319 (.467)		-.278 (.197)	-.260 (.202)
Major change in company management or ownership	.422 (.495)		-.221 (.173)	-.219 (.176)
Major change in local union officials	.351 (.478)		-.172 (.195)	-.175 (.198)
Other organizational instability in the union	.295 (.457)		-.401** (.197)	-.399** (.199)
Management sought major concessions	.239 (.427)			-.171 (.218)
Management sought minor concessions	.156 (.364)			-.311 (.242)
Major increase in foreign competition	.363 (.482)			.045 (.197)
Major increase in domestic nonunion competition	.115 (.320)			.161 (.367)
Major increase in domestic union competition	.094 (.293)			.193 (.405)
Constant		.731** (.169)	1.016** (.228)	1.027** (.254)
(-2) times log likelihood ratio		13.906	25.479	28.953

N = 339.

** Significantly different from zero at the 5 percent level, 2-tailed test.

* Significantly different from zero at the 10 percent level, 2-tailed test.

^a Measured in 1000 persons.

^b Union has represented employees less than 4 years.

^c Union has represented employees more than 20 years.

up to unit sizes between 1700 and 1900 employees (equations 3 and 1, respectively) and decreased thereafter.¹¹

Moreover, good relationships were significantly less likely if the union involved had represented employees less than four years. New labor-management relationships are less smooth, as expected. However, relationships lasting more than 20 years were neither better nor worse than moderately old (4 to 20 year) relationships. The estimates also indicate that firms located in the urban area of Milwaukee had better labor-management relations than firms in the smaller cities and towns of Wisconsin. It would be interesting to learn if much better labor relations also exist in metropolitan areas of other states.

On the other hand, most of the variables measuring recent economic and organizational stresses on the union-management relationship failed to be significantly related to the probability that a good union-management relationship was present. As anticipated, major changes in industry bargaining patterns, company ownership or management, and turnover of local union officials carry negative coefficients, but these coefficients are not significant. Only other organizational instability in the union, a variable measuring internal political turmoil or union insecurity in the collective bargaining relationship itself, carried a significant coefficient. This study thus does provide support for the view that union leaders must be secure if they are to pursue cooperative labor relations. Either internal political strife within the union or an insecure relationship with management can lessen the probability of good relations.

Finally, changing technology, changing skill requirements, changing product, and major decreases in company profits actually had positive impacts, albeit insignificant ones. Similar positive results were also obtained for the variables measuring increases in foreign and domestic competition, contrary to the hypotheses. It appears that economic pressure on the firm can be accompanied by either good or poor union-management relations; the point estimates are all in accord with the view that relations are better in companies under more economic pressure, on average, but the insignificance of the coefficients indicates that this is not a reliable conclusion.

It is also interesting to note, given the recent increase in concession bargaining, that management demands for concessions do not

¹¹ These numbers are calculated from the derivatives of the maximum likelihood coefficients at the mean. For equation 1 the derivative of *SIZE* is .297 and the derivative of *SIZE2* is -.078. For equation 3 the derivative of *SIZE* is .275 and the derivative of *SIZE2* is -.008.

necessarily lead to less good overall relations; the coefficients on both variables are negative but insignificant.

Considered as a whole, what is surprising about these results is the lack of significance of many of the environmental variables hypothesized to contribute to a good overall labor relations climate. Unit size, the newness of the union-management relationship, the stability and security of the local union, and community location were all found to be important factors. But many other economic and organizational factors appear to be consonant with either good or poor labor relations, as is reflected by large standard errors relative to coefficient estimates. Of course, larger sample size or more powerful estimating procedures might alter this conclusion. There also may be a difference between the labor relations climate as it is perceived by management and as it is perceived by the union.¹² However, until the importance of additional environmental factors are established, the current industrial relations focus on changing the attitudes and practices of the parties is probably justified.

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¹² This is a problem if the differing perceptions are systematically related to the independent variables. Management demands for major or minor concessions, in particular, may be variables where this is a problem.

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DISCUSSION

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We have heard three presentations on important and timely subjects. Two dealt with the labor movement's nagging problem of flagging membership levels, and the third examines the determinants of the labor climate at the workplace.

All three passed a rather stiff selection competition, causing one to correctly conclude that they are good pieces of research. Yet a few technical problems can be found in the papers; however, given time limitations, I have chosen to direct my remarks to matters of substance.

I will begin with assessments of the first two papers, namely, those of Jack Fiorito and Shulamit Kahn, and then conclude with a brief critique of Paula Voos's effort.

Fiorito set out to test for a linkage between workers' beliefs about unions and their voting intent, a derivative of the membership problem. Kahn's paper attacks this problem head-on as it relates to the ILGWU case.

Fiorito's contribution is loosely cast within a broader theoretical context. He argues that workers have goals—economic goals—and that nonunionized workers will vote for union representation if they believe that the union is an effective instrument in bringing about economic improvement. He brings clarity to this “union instrumentality” concept by taking up an idea nested in Selig Perlman's 1928 book, *A Theory of the Labor Movement*. Keying on Perlman, Fiorito builds a “political instrumentality” variable and a “workplace instrumentality” variable which, among other factors, are regressed on a measure of the nonunionized workers' intent to vote for union representation.

Like Perlman, Fiorito assumes that union-driven political action can translate into job-oriented objectives, thus currying union favor among workers. Fiorito finds that the partial relation between the

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union's workplace instrumentality and prounion voting intent is strong and positive. Contemporaries have also produced this result.

But the result that has eluded others, Fiorito finds, namely: that beliefs about the union's political instrumentality and prounion voting intent are also positively related. His findings are conclusive because he, more carefully than others, built a variable designed to capture political instrumentalities. For example, he purged this factor analytic construct of illogical elements like "negative leadership" and "relative power" subdimensions. The latter variables are inversely related to voting intent as one might expect.

Fiorito demonstrates how much more we can learn about behavior if only we would take the time to more carefully design the empirical measures suggested by theory. This study also does the labor movement a favor by clearly mapping the linkages between prounion voting intent and a strong image of the union's role at the workplace and in politics. It also shows that a union leadership thought to be selfish and autocratic and an image that unions are too powerful spawn antiunion voting intent.

The American worker is pragmatic. Union support is grounded in a demand that it perform.

Kahn's study adds to our understanding of the secular forces impacting on union membership levels. Her work, unlike the typical analysis, is a case study. As such, she does not lose the wealth of intelligence that is sacrificed through aggregation. My guess is that this work will motivate subsequent industry- or union-specific studies (a view that Professor Kahn shares).

Kahn's post-World War II study of the ILGWU's membership changes does a remarkably good job of explaining this union's membership decay. She generates adjusted *R*-squares in the 75 to 79 percent neighborhood. To produce this result, she uses a standard set of aggregate analytic variables such as the percentage change in the unemployment rate, the percentage change in employment in the ladies' apparel industry, and so forth. All of these variables are lagged to avoid problems of simultaneity and/or to accommodate reasonable periods for adjustment. However, her interpretation of the empirical results attached to variables whose inclusion are motivated by the theory of labor demand suggest that greater attention to model specification is needed.

In addition to the above-mentioned variables, she adds industry-specific variables. Of particular significance is the inclusion of a measure of import competition. This variable follows a rather

pronounced negative trend, and it alone accounts for 25 percent of the variance in the ILGWU membership slippage. Kahn observes: "This empirically corroborates the widely held perception, and implies that foreign competition has indeed substantially weakened the membership as well as the bargaining strength of the ILGWU."

This conclusion can be viewed as support for the political instrumentality theory advanced by Fiorito. Having controlled for changes in the percentage change in the unemployment rate and the percentage change in employment in apparel, Professor Kahn's "bargaining strength" language suggests that the ILGWU's inability to thwart import growth has signaled a political weakness that dissuades union membership. Clearly, her import variable is not working havoc on membership via the labor market contraction route (unless unreported collinearities among these right-hand-side variables are excessive). It appears that "political instrumentalities" work in the world of actual votes cast as well as in the world of "intent" as theory suggests.

This interpretation is further substantiated by the fact that the ILGWU membership does not vary, *ceteris paribus*, with changes in employment in the ladies' apparel industry—at least not in the current year or with a one-year lag. Thus, even in a highly unionized and mature industry like women's apparel, expansion in the unionizable pool of workers does not insure membership expansion. Apparently, "garment workers" view the union as an instrument, a means to an end. The union must continuously prove its worth.

Voos takes up an interesting question: Is the labor relations climate in a firm determined by environmental (i.e., economic and organizational) variables? If so, then what is left for labor-management committees to do? Programs aimed at enhancing labor-management cooperation and improving attitudes are destined for a sterile fate.

She finds that firm size, the newness of the collective bargaining relationship, internal turmoil in the local union, and location significantly influence the probability of having a good labor-management relationship. Other variables, however, do not significantly affect the labor-management climate. These include: recent management concessions sought at the bargaining table, changing technology, changes in local union leadership, changing profits, ownership and bargaining patterns, and changing domestic and international competitive patterns. Thus, Professor Voos concludes that there is promise in the federal and various state

campaigns to quiet labor-management advocacy and to spur on cooperative initiatives. However, I remain somewhat skeptical.

First, a larger sample probably would push some of her point estimates into the statistical significance range, leaving less for contributions by labor-management programs. Second, what would help me to buy into Voos's main conclusion is to know something about the labor relations climate attitudes of the local union leaders to the firms surveyed. If they diverge, in a paired comparison sense, from the views reported by their employer counterparts, then I would worry about the validity of the dependent variable chosen to measure interfirm differences in "climate."

It is important to keep in mind that what Voos is analyzing are interfirm differences in *management's* view of the labor relations climate, not the collective view of the parties.

Lastly, it would have been a simple task for Voos to test her theory that there is room for program-based cooperation by merely including variables in her model designed to measure their presence/variety/use, controlling for the effects of the environmental variables. This test is, no doubt, the subject of another paper. In any event, she may be indirectly picking up the positive effects of labor-management programs on employers' attitudes via her "location variable." This hypothesis works through two paths: first, if Milwaukee has an area-wide labor-management committee to the exclusion of other locations in Wisconsin, then Voos's location result might be confirming the positive effects of programs on management attitudes; and second, if there is a concentration of plant-level labor-management programs in Milwaukee, then once again the positive program effect results.

DISCUSSION

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The three papers presented here represent a very interesting cross section of issues of current interest in industrial relations. Two (Fiorito and Kahn) deal with union membership issues and one (Voos) deals with the quality of labor-management relations. Two deal with environmental effects (Kahn and Voos) while Fiorito's paper deals with the motivational aspects of representation election voting. All in all, we can score one for the effects of internal motivation (Fiorito) and one for the effects of the competitive environment (Kahn). Professor Voos is less sanguine about the effects of the environment on the industrial relations climate within an organization.

Professor Fiorito builds on the concept of union instrumentality. He asks whether it makes sense to disaggregate the instrumentality concept into "workplace" and "political" instrumentalities. It is a commonplace of the literature that workplace instrumentality is related to intent to vote union in a representation election. Similarly, the perception that the union can accomplish its political goals may also be related to the voting intent of a nonunion worker. Fiorito's results support this latter hypothesis.

Professor Fiorito's paper has provided a very useful reexamination of the instrumentality concept. Traditional views of instrumentality—workplace instrumentality in this paper—have workers asking, "What can this union do for me?" Moreover, in this view the benefits of union representation are tied to the pro-union vote. The benefits will not accrue unless enough people support the union. Thus, workers are motivated to support the union because only through that support can they obtain the benefits. This view makes sense in the context of a representation election because workers are likely to see a close tie between their vote and a union win.

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Political instrumentality seems to me to be somewhat different, however. Here workers are much less likely to see a close tie between a pro-union vote in a representation election and obtaining the desired political outcomes. Free-rider considerations suggest that on a purely instrumental basis political outcomes provide little motivation to cast the pro-union vote. In the worker's view, one vote or even one representation election is unlikely to have any effect on the makeup or success of the union's political agenda. The canny worker would ask, "Why buy the cow when the milk comes free?"

Professor Fiorito's findings suggest that union support results from something more than purely instrumental considerations. What these factors are surely demands further investigation. One thing seems clear. People do support unions in representation elections in part because of the union's political goals and agenda. These people, then, must identify with the political and social goals of unions. For such people the operating question is not only, "What can this union do for me?" but also, "What can this union do for people like me?"

Two small matters also deserve comment. First, it would have been helpful for my understanding of his paper if Professor Fiorito had given us a bit more information about his dependent variable. I would also have found some discussion of his choice of estimation methods useful. I recognize the difficulties presented by space limitations but a few words on these issues would have been valuable.

Professor Kahn explores the interesting question of the effects of imports on union membership. She finds that the ratio of imports to value added in the apparel industry has a strong negative impact on two measures of ILGWU membership.

The mechanism by which imports operate to affect changes in union membership needs clarification, however. One hypothesis is that imports are affecting the entire industry and the union is declining with the industry. Another is that imports are having a more than proportionate impact on the unionized sector of the industry. Employers in this sector then go out of business, run away, and/or adopt "union free" policies.

One way to investigate these possibilities is to look at Kahn's equation (7) with the change in the proportion of industry employment which is unionized as the dependent variable. The negative and significant coefficient for the import variable indicates that imports have a greater than proportionate impact on union membership in this industry. This suggests that the impact of import competition falls most heavily on the unionized sector of the industry.

This is surely bad news for U.S. unions since the international competitive picture is unlikely to improve soon.

Professor Kahn recognizes that her model presents simultaneity problems. She has avoided these by using lagged values of certain variables. A two-stage or other instrumental variable procedure might also be considered. Also the model seems to be based on the theory of demand for a factor. It is possible that a more explicit development of the model in terms of the theory would aid in interpreting the results.

Professor Kahn's results highlight the squeeze placed on both managements and unions by the recent changes in their competitive environment. Professor Voos sets herself the task of exploring the impact of such environmental factors (among others), "on the overall labor relations climate of the firm." This is a very important issue since, as already mentioned, the competitive picture is unlikely to improve soon. Clearly, the environment must be conducive to adaptive change or we are in for some very tough times indeed. Professor Voos's results provide some assurance that environmental pressure will not preclude such adaptive responses.

Professor Voos has asked managers to evaluate the state of their labor relations on a seven-point scale. A dichotomized version of their responses serves as her dependent variable. It seems to me that these evaluations are likely to have an important attitudinal component. Attitudes are generally thought to be an evaluative response to the discrepancy between expectations and reality. Indeed, this could account for the positive and significant coefficient for the Milwaukee location variable if we assume that proximity to other labor management relationships tends to bring expectations in line with realities. The presence of this attitudinal component raises some methodological and other issues.

Students of industrial conflict have successfully included attitudinal factors as independent variables accounting for the presence of conflict. It seems clear that attitudes both affect and are affected by outcomes. Professor Voos's estimates may therefore represent a reduced-form equation from a larger system in which both attitudes and labor relations realities are jointly determined. If this is correct, the structural relationships between attitudes, the realities of the labor relations climate, and environmental and other independent factors cannot be determined from the information available. Nevertheless, these results are important because they give us information about the impact of various environmental factors on the formation of managerial perceptions of the labor relations climate. In

this regard, it is interesting to note that none of the factors which are statistically significant in affecting managerial perceptions are for practical purposes under managerial initiative or control. Whether this tells us something about managerial reality or managerial psychology is hard to say.

XIV. PUBLIC-SECTOR BARGAINING: MANAGING LABOR RELATIONS UNDER CONDITIONS OF STRESS

Fiscal Stress and Labor Power*

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Labor power in government has challenged theorists since collective bargaining was introduced to the public sector some two decades ago. Its early conceptualization drew on the axiom that public and private organizations are “essentially different,” most notably because governments, unlike firms, are not subject to competition. Thus, public employees were viewed as holding substantial latent power that could be manifested if somehow they were able to capitalize government’s “inherent” monopoly power. Unionism and collective bargaining were seen as changes in the formal “rules of the game” that would facilitate the transfer of power (for some, “sovereignty”) from elected officials to organized bureaucrats, thereby making them more powerful in labor-management relations than either their industrial counterparts or unorganized colleagues (Wellington and Winter, 1971). And since collective bargaining would help insulate organized employees from whatever countervailing demands were operative in the “normal” political process, they also would enjoy a “structural” edge in the competition for community power with nongovernmental groups (Horton, 1973; Summers, 1974).

Gradually, however, labor power in government has come to be seen as conditional despite collective bargaining rather than inherent

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because of it. An early formulation of this perspective grew out of a comparative study of labor relations decisions in several big-city governments, including governments with collective bargaining and governments without collective bargaining, in which the authors suggested that environmental factors, including local politics and economics in particular, might be more important determinants of labor power than the presence or absence of collective bargaining (Lewin, Horton, and Kuhn, 1979). This "diversity" theory of labor power, so called because it stressed variance in the settings of American public administration and predicted diverse patterns of labor power therein, was supported by subsequent research conducted on the mid-1970s slowdown—and reversal in some celebrated cases like New York City—of growth trends in the state and local sectors.

Collective bargaining continued during the period of "fiscal stress," but changes in the bargaining process and in bargaining outcomes suggested that collective bargaining did not, ratchet-like, protect labor power when employer finances deteriorated (Derber and Wagner, 1979; Lewin and McCormick, 1981). Aggregate trends in public employee compensation suggesting decreased labor power after the mid-1970s recently have been reconciled with earlier trends by a "good times, bad times" theory that draws on the earlier work of Rees (1977): during good times, when the public sector expands, labor power increases; during bad times, when the public sector stops growing or retrenches, labor power decreases (Lewin, 1985). The view that collective bargaining in government provides organized employees an inherent structural advantage that translates into increased power, at least relative to unorganized public workers, still has its adherents (Lieberman, 1983; Zax, 1985), but increasingly labor power in government is conceived of as being dependent on the variable of employer finances.

This paper studies labor power in New York City municipal government between 1970 and 1985 (union power in this case because nearly all of the City's employees are represented by a union for the purpose of collective bargaining). During this period municipal expenditures rose, fell, and rose again. By examining the allocation of public expenditure to labor, the allocation of public expenditure between compensation and employment, and the allocation of public expenditure for compensation among competing employee groups during these successive periods of growth, retrenchment, and growth, it is possible to gain some understanding of how changes in employer

finances affected important dimensions of labor power. The paper's methodology rests on the premise that power in an organization is best measured by examining decisional outcomes, a positivist approach that reflects the utterance of an early 20th century social scientist: "The budget is the skeleton of the state stripped of all misleading ideologies" (Goldscheid, 1925, p. 204).

Fiscal Stress and the Allocation of Financial Resources

Table 1 establishes that the City of New York experienced the successive periods of growth, retrenchment, and growth noted above.¹ In the 1970-75 period, operating expenditures rose sharply, 23 percent in constant or inflation-adjusted terms. In 1975, however, the City's creditors stopped financing its operating deficits and precipitated a cash-flow crisis that threatened bankruptcy. To avoid bankruptcy, new loans were made contingent on the City taking steps to eliminate its deficit—primarily by reducing expenditures rather than raising revenues. Municipal employee pension funds, along with local businesses, the State of New York, and the federal government, loaned the City the capital required to avoid bankruptcy (Boast and Keilin, 1979). While the budget was restored to balance in 1981, retrenchment continued through 1983. During the 1975-83 period, expenditures fell 16 percent. Growth resumed in 1984 and continued through 1985, totaling 11 percent in that two-year period alone.

Labor economists divide between those who measure labor (or typically, union) power by examining total labor expenditure and those who focus more narrowly on wages or total compensation per employee (Dertouzos and Pencavel, 1981). The rates of change in these conventional albeit different measures of labor power varied somewhat, but the trends were consistent with the "good times, bad times" hypothesis in each case: Table 1 shows that labor spending, compensation, and wages all rose in the 1970-75 growth period, fell in the 1975-83 retrenchment period, and rose again in the 1983-85 growth period.

¹ Fiscal stress in this paper is equated with retrenchment or an absolute decline in public expenditure (adjusted for price changes). Since the demand for organizational expenditure almost always outstrips the supply of organizational resources, organizations experience some degree of stress in allocating their financial resources whether they are shrinking, stable, or growing. Analytically, then, fiscal stress is a difficult concept to operationalize unless it refers to an absolute decline in financial resources. While resource allocation is no less redistributive under retrenchment than growth, its redistribution character is believed to be more visible when "the pot gets smaller." This, according to the fiscal stress hypothesis, induces behavioral adaptations that weaken labor's power and increase the influence of at least some other competitors for public expenditure.

TABLE 1
Trends in New York City Government Operating Expenditures, Labor Costs, Employment,
Compensation, and Salaries: Fiscal Years 1970-75, 1975-83, and 1983-85 (Expenditures and labor costs
in millions of 1970 dollars; compensation per employee and selected salaries in 1970 dollars)

Item	1970	1975	1983 ^a	1985	Percentage Change		
					1970-75	1975-83 ^a	1983-85 ^a
Expenditures ^b	\$6,154	\$7,587	\$6,351	\$7,024	23.3%	-16.3%	10.6%
Labor costs ^b							
Total	\$3,661	\$3,981	\$3,133	\$3,635	8.7	-21.3	16.0
Share of expenditures	59.5%	52.5%	49.3%	57.8%	—	—	—
Employment							
Total	275,211	285,856	236,057	251,720	3.8	-17.4	6.6
Share of labor cost change	—	—	—	—	44.8	81.7	41.2
Compensation per employee							
Total	\$13,302	\$13,927	\$13,272	\$14,508	4.7	-4.7	9.3
Share of labor cost change	—	—	—	—	54.0	22.1	58.1
Selected salaries ^c							
Uniformed employee	\$10,425	\$11,689	\$10,616	\$11,210	12.1	-9.2	5.6
Civilian employee (low paid)	\$6,667	\$6,697	\$6,217	\$6,502	0.4	-7.2	4.6
Civilian employee (high paid)	\$13,334	\$13,394	\$11,859	\$12,404	0.4	-11.5	4.6

Note: Column totals may not add due to rounding.

^a The salary data in these columns are for 1984 rather than 1985 in order to recognize a change in wage relationships resulting from collective bargaining effective in 1984.

^b The City of New York's accounting system was changed during the 1976-78 period; thus the expenditure and labor cost data shown for 1970 and 1975 may not be fully consistent with the 1983 and 1985 data.

^c Uniformed employee salary data are for Police Officer First Class; the percentage changes are representative of all uniformed employees due to pay parity rules. The civilian employees' base salary data are hypothetical, but the salary changes throughout the period are actual.

Sources: Expenditure and labor cost data from *Comprehensive Annual Report of the Comptroller*, 1970, 1975, 1983, and 1985 editions; the expenditure data were adjusted to account for reporting practices beginning in 1978 that removed Medicaid expenditures of the State of New York and federal government from the City's operating budget. Employment data from New York State Financial Control Board and the New York City Office of Management and Budget. Salary data from New York City Office of Municipal Labor Relations, and data are the annual salary rates on the first day of the fiscal year. Adjustments to 1970 dollars were made on the basis of the Bureau of Labor Statistics' Consumer Price Index for All Urban Consumers (CPI-U) for the New York-Northeastern New Jersey area.

Labor power, however, can be conceived of in a larger setting in which public employees compete with other groups for public expenditure. From this perspective, the best evidence of labor power is not absolute changes either in wages or total labor spending but, rather, changes in labor's share of total public expenditure. Was labor's "community power" as well as its power over wages and total labor spending affected by fiscal stress? True to the hypothesis that labor power is affected by employer finances, labor's share of expenditure fell from 53 percent at the beginning of retrenchment to 49 percent at the end of retrenchment. Thus, labor suffered disproportionate cuts compared to nonlabor beneficiaries of public expenditure. During the growth period following retrenchment, moreover, labor's share of expenditure rose from 49 percent to 52 percent, indicating that labor enjoyed disproportionate gains during the most recent growth period. This also is consistent with the "good times, bad times" hypothesis. However, during the 1970-75 growth period the share of labor spending fell from 60 percent to 53 percent (and at a sharper rate than during retrenchment). What accounts for this decline in labor's community power during a period of spending growth, and what are its implications for theories of labor power in government?

Labor's declining share of public expenditure in the 1970-75 growth period resulted because during that period the local political system placed a higher value on the expenditure of its marginal dollars for other groups than labor, a triad that includes creditors who loan money to the City and seek to have it repaid with interest; suppliers who provide other factors of production (such as space and materials) as well as contractual services; and the dependent poor who are direct recipients of public expenditure through transfer payments. Notwithstanding the fact that public employees were able to realize absolute gains in both wages per employee and total labor spending prior to retrenchment, their power relative to nonlabor competitors fell. During retrenchment, when the allocation issue involved distributing a smaller supply of financial resources, New York City's government continued its preference for nonlabor expenditures by reducing them less than labor's allotment. It was not until the resumption of growth in 1984 that the municipal government placed a higher priority on labor expenditures than nonlabor expenditures. By decomposing spending for all claimants of public expenditure it is possible to identify more specifically which groups were "winners" and which were "losers" in the competition for public expenditure in the 1970-85 period (Brecher and Horton, forthcoming). For the

purposes of this paper, however, the significant point is that labor power, at least from the perspective of community power, declined prior to and thus independently of retrenchment or fiscal stress.

Thus the New York City experience supports the “good times, bad times” theory of labor power if labor power is conceived of as the ability to increase either the absolute level of wages per employee or total labor spending, the conventional means of measuring power employed by labor economists; however, if power is conceived of more broadly as the ability to compete successfully with other competitors, then the hypothesis is not supported—at least in the 1970–75 period. The implications of this deviant period for the study and theory of labor power in government are discussed more fully in the concluding section.

Fiscal Stress and the Compensation-Employment Tradeoff

Just as an organization must decide how much of its financial resources to allocate to labor, it also must decide how to divide those financial resources between spending for compensation and spending for employment. Does fiscal stress also affect resolution of the compensation-employment tradeoff? Generally speaking, employees are thought to prefer resolution of the tradeoff in favor of compensation; hence, one might hypothesize that fiscal stress would reduce labor’s influence over the tradeoff.

The decomposition of spending for labor into the components of employment and compensation per employee shown in Table 1 indicates that employment increases accounted for nearly 45 percent of the increase in spending for labor in the 1970–75 growth period and 41 percent of the increase in the 1983–85 growth period. During retrenchment, however, when both employment and compensation fell, workforce cuts accounted for 82 percent of the decline in labor costs. Why were municipal employees better able to assert their presumably desired resolution of the employment-compensation tradeoff during retrenchment? And why, after retrenchment ended and labor’s power over the budget increased, was labor less able to resolve the tradeoff to its presumed advantage?

The answer to this seeming paradox appears to lie in the concept of “interest intensity” (Emerson, 1962; Bacharach and Lawler, 1981). According to this concept, the ability of a group to secure its interests in a competitive environment partly reflects the intensity with which it pursues its interests or goals and, conversely, the intensity with which other groups pursue conflicting goals. Was labor interested in

protecting compensation at the expense of employment during the retrenchment period? One might reason that public employees, facing what seems a Hobson's choice between their jobs and their compensation, would have preferred to trade compensation for employment, particularly since labor market opportunities elsewhere in New York City were limited by the local economy's loss of 600,000 jobs—one sixth of the total—in the 1969–77 period.² Such an interpretation assumes, however, a degree of uncertainty about which employees would bear the costs of workforce reduction. It was municipal policy to make workforce cuts by attrition when possible, and when layoffs were made they were determined by nonrandom seniority rules (Horton, 1985). Thus, only a small share of the City's employees faced a Hobson's choice given the rules governing workforce reduction; most could prefer protecting their compensation with a high degree of certainty that others would bear the consequences.³

But what of union leaders, who sometimes have preferences that conflict with those of their members (Ashenfelter and Johnson, 1969)? Their Hobson's choice seemingly was between the size of union memberships and treasuries, on the one hand, and, on the other, "their own personal political survival" (Ehrenberg and Smith, 1985, p. 385). To the extent union leaders were interested in their own tenure, they apparently were more secure leading organizations with fewer but better-paid voter/members than organizations with more but lesser-paid voter/members.

That employees and their union leaders seem to have had strong preferences for trading employment for compensation under circumstances of fiscal stress does not, in and of itself, provide a complete explanation for their ability to do so. Did not municipal managers prefer the opposite trade with as much intensity as municipal employees, and did they not have increased leverage under conditions of fiscal stress to realize their preferences? In theory, yes; in fact, no. No "countervailing" managerial assertion to protect employment at the expense of compensation was made. Why?

² U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939–1978*.

³ While some municipal employees were laid off during the fiscal crisis, most of those who were prejudiced by the decision to trade employment for compensation were New Yorkers who would have become municipal employees but for imposition of attrition. In a sense, the political system "privatized" some of the costs of resolving the employment-compensation tradeoff as it did. Had workforce reduction been accomplished entirely by layoffs, and if layoffs had been determined randomly, as in a lottery, it is likely that labor's "interest" would have been to trade compensation for employment.

Because throughout most of the retrenchment period management was preoccupied with avoiding bankruptcy and, later, with balancing the budget. Remember, too, that municipal employee pension funds provided capital needed to avoid bankruptcy. Under the circumstances, management goals for resolution of the tradeoff were more consistent than conflictual with labor's goals. Later, when budgetary balance was realized and the capital markets were reopened to the City, municipal priorities shifted to service improvements that were to be realized primarily by expanding the workforce (Horton, 1985); under these circumstances, management's stake in resolution of the employment-compensation tradeoff was clearer, and labor power over the compensation-employment tradeoff declined.

Fiscal Stress and Power Relationships Among Employees

To this point, the analysis has focused on municipal employees as a group seeking to maximize its control over the City's financial resources and the allocation of those resources between spending for employment and spending for compensation. However, competition also exists among various employee groups over the allocation of spending for compensation. Did fiscal stress affect power relationships among municipal employee groups? By tracing changes in salary relationships it is possible to answer the question, if not explain it.

Historically, the dominant wage allocation rule in New York City government has been a "uniformed preference" rule whereby line employees who work in police, fire, sanitation, and corrections services receive larger percentage salary increases than civilian employees. The selected salary data in Table 1 show that this rule was operative in the 1970-75 period. During retrenchment real salaries of all employees fell, but wage compression occurred. Salaries of lower-paid civilian workers fell the least, 7.2 percent; salaries of higher-paid civilians fell the most, 11.5 percent; and uniformed salaries fell 9.2 percent. However, in the first round of bargaining after the retrenchment phase (covering the 1984-87 period), contracts provided successive 6 percent annual increases for uniformed workers but only 5 percent, 5 percent, and 6 percent increases for civilian employees. What accounted for the hiatus during retrenchment of the wage allocation policy favoring uniformed employees over civilians?

The abatement of the uniformed preference rule appears to have been related to the development of coalition bargaining during retrenchment, an adaptation stemming in part from the fear of union leaders that the institution of bargaining was threatened and in part

from their belief that they would have more influence over bargaining outcomes if they negotiated collectively rather than singly (Lewin and McCormick, 1981). The solidarity achieved by having virtually all of the City's civil service unions sitting together on one side of the bargaining table, as was the case during negotiations for labor contracts covering the 1976-80 period, presumably made it more difficult for uniformed unions to "beggar their neighbors" by demanding the preferential treatment they had enjoyed historically. Why, though, were uniformed employees unable to bargain even as successfully as low-paid civilians during retrenchment? A review of the bargaining rounds during the retrenchment period suggests an answer.⁴

In the 1976-78 period wages were frozen through collective bargaining between the City and a grand coalition of municipal employee unions; however, the first hint of a new wage allocation rule appeared when the previously negotiated 6 percent increase for all workers in 1976 was deferred in whole or in part depending on how much employees earned. In the 1978-80 round of negotiations, one in which the grand coalition included all of the major unions except those of police officers and firefighters, all employees received successive 4 percent increases; however, what might be called an "equity" rule of wage allocation was introduced when all employees in 1980 had \$441 folded into their salary base for the purpose of computing their negotiated 4 percent increase. This had the effect of raising the salaries of lower-paid workers relative to higher-paid workers. In negotiations for the 1980-82 contracts the grand coalition divided into separate coalitions of civilian and uniformed workers; uniformed workers, no longer negotiating in solidarity with civilian workers, received a 9 percent increase in 1981 and an 8 percent increase in 1982 compared to successive 8 percent salary increases for civilians. In the 1982-84 round, the uniformed coalition splintered, but the civilian coalition endured. On the face of things, uniformed groups again appeared to negotiate better contracts, receiving successive 8 percent settlements compared to 8 percent and 7 percent increases for civilians; however, a flat amount, \$750, once again was added to the base pay of all workers for the purpose of computing their 1983 increases, a reassertion of the equity rule. As Table 1 shows, the net effect of these serial bargaining outcomes during retrenchment was to raise low-paid

⁴ For a more detailed description of the individual rounds of bargaining during the retrenchment period, see Citizens Budget Commission, "Toward a More Responsible Wage Policy." (July 1984), pp. 7-10.

civilian wages relative to salaries of higher-paid workers. In the 1984–87 round, however, the civilian coalition fragmented, and uniformed employees once again received a larger salary increase.

The analysis suggests that fiscal crisis promoted coalition bargaining, and that this, in turn, differentially affected the bargaining power of employee groups. During the depths of the fiscal crisis, when the coalition of unions was most inclusive, the uniformed preference rule was replaced with a wage policy that treated all employees the same. As the City's finances began to improve later in the retrenchment period, the grand coalition divided into separate coalitions of uniformed and civilian employees. During this period wage policy vacillated between the traditional uniformed preference rule and an equity rule, depending apparently on the cohesiveness of the respective civilian and uniformed coalitions. In the most recent round, with the fiscal crisis a thing of the past and with no bargaining coalitions operative, the uniformed preference rule of allocating wages was restored.

Conclusion

Retrenchment caused many changes, behavioral adaptations, in the management of New York City government, enough to suggest that public organizations are not necessarily the unmanageable leviathans caricatured by many theorists (Brecher and Horton, 1985). Of special interest to labor, behavioral changes occurred in the way the City of New York allocated its financial resources, resolved the compensation-employment tradeoff, and divided wages among competing groups of employees. These behavioral changes reflected changes in power relationships, unless one assumes that the decisions by which public resources are allocated are determined on some other basis. The ability of public employees to maintain wages, to maintain total labor spending, and to maintain their share of public expenditure was reduced during the period of retrenchment; however, labor's influence over the tradeoff between compensation and employment increased; and finally, lower-paid civilian workers were able to raise their wages relative to higher-paid workers, including uniformed employees, during retrenchment.

Of course, the experience of a single government provides little basis for generalizing about the effect of fiscal stress on labor power or for evaluating the broader "good times, bad times" hypothesis. A logical next step would be a comparative study that examined how the labor-related resource allocation patterns of other governments have

changed over time. (By including both bargaining and nonbargaining governments in such a study it also would be possible to investigate the two dominant but hitherto unintegrated theories of labor power in government in a single study utilizing the same data base).

What insights from this case study of New York City might be worth considering in a broader and more systematic study of labor power in government? Perhaps the most important is that while fiscal stress may diminish labor power, it is not the only condition under which labor power may decline. Remember the "deviant" years between 1970 and 1975, when overall expenditures were growing but labor's share of those expenditures was declining. That experience illustrates that political preferences—and political power—over the allocation of resources may change independently of changes in the supply of resources. Labor may be unable to retain its share of the budget or, more conventionally, to maintain wage levels or total labor spending when overall spending is stable (or even rising) if political preferences change and accord other groups higher priority. Such conditions, from labor's perspective at least, represent "political stress" and are not necessarily dependent on the existence of fiscal stress. To the extent further analysis incorporates changing political preferences, or politics, into the theory of labor power its predictive capacity will be enhanced.

A second point relevant to further study of labor power in government suggested by this study is the difficulty of building behavioral theory on the basis of static concepts of "interest." The interests or goals of organizational actors change. The presumption that labor's declining power over the budget during retrenchment would spill over to declining power over resolution of the compensation-employment tradeoff was wrong, at least in New York City, because of the underlying assumption that managerial goals would conflict with labor goals. In fact, during retrenchment the dominant goals of the City's managers were to stay out of bankruptcy and to balance the budget—both goals that were easier to realize with labor's capital. Managers in other governments that experience fiscal stress but without the immediate threat of bankruptcy may have acted more in keeping with traditional behavioral assumptions and with different consequences for labor power.

The New York City experience also suggests that fiscal stress may alter the distribution of power among competing groups of

employees. A comprehensive theory of labor power in government should take into account such effects. The experience in New York City, where low-paid workers were able to increase their wages relative to high-paid workers as a result of the emergence and subsequent splintering of bargaining coalitions, may not be typical; like the other specific findings of this paper, this one awaits validation or rejection from broader scrutiny.

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Mediation and Fact-Finding Under The 1983 Ohio Public Employee Collective Bargaining Act*

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On July 6, 1983, Ohio became the 39th state to enact a comprehensive statute providing a "systematic collective bargaining process for public sector employment" (State Employment Relations Board [SERB] 1984-85, p. 2). The new act represents a dramatic departure from the old Ferguson Act which had previously governed public-sector labor relations in Ohio. Under the Ferguson Act strikes by public employees were prohibited, with severe penalties for violation, including termination. Under the new statute, most public employees have been granted the right to strike.

The new act, which contains the potential for increasing governmental expenditures in Ohio, was passed immediately following a period of severe financial crisis in the state. When Governor Celeste assumed office in January 1983, he was immediately confronted with a staggering budgetary deficit. "The fiscal 1984 budget, without new revenues, was expected to have a gap of 1.2 to 1.5 billion" (Sheridan, 1983, p. 5). In response to the crisis, the governor was able to convince the legislature to approve a 90 percent permanent surcharge on the state's personal income tax which was passed in February of 1983 (*Cincinnati Enquirer*, 1983, p. C-3). By March of 1983, with the budgetary emergency resolved, the Ohio legislature embarked on a new course for public-sector labor relations. It is almost paradoxical that a potentially costly law, and one of the most comprehensive public-sector statutes in the nation, was enacted during the same year that the state was confronted with a financial exigency that was one of the worst in its history.

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There are ambiguities, gaps, and inconsistencies in the Ohio Act which will have to be clarified by SERB (the administrative agency established to administer the act), by the courts, and possibly by legislative amendments. The act "shall be construed liberally for the accomplishment of the purpose of promoting orderly and constructive relationships between all public employers and their employees" (4117.22). Despite this provision, SERB's discretion in interpreting the act is limited by political and practical realities.

When the act became law, some attorneys expressed the view that "[t]his legislation is one of the most pro-labor public employee bargaining statutes in the nation" (Lewis and Spirn, 1983, p. 3). During the early months of the statute, some labor unions as well as many employers agreed with this assessment. Unions and employees are discovering now that the statute is not as pro-labor as thought initially. Penalties for unauthorized strikes are severe. Because of this employees are careful not to engage in such strikes regardless of reasons. Nevertheless, for public-sector unions and employees the statute represents a major advancement from the Ferguson Act.

The Dispute Procedure

The main theme of our paper is the Ohio dispute resolution procedure, which provides for mediation, fact-finding, and, in the case of safety and some other classifications of essential employees, for binding arbitration (which in the Ohio act is called "conciliation"). As an alternative to this procedure, the statute permits the parties to employ a "mutually agreed upon dispute resolution procedure" (MAD) which can supersede specific statutory steps. Because of space limitations we will confine our discussion primarily to the mediation and fact-finding processes. Ohio has followed other states in incorporating mediation and fact-finding into its dispute resolution procedure. The application of these processes in the public sector has been widely discussed and evaluated critically. (For a sampling of this literature see the References listed at the end of this paper.)

The statutory impasse resolution time line was criticized by everyone we interviewed regarding the act. The following schedule is provided for negotiations: at least 60 days prior to the expiration of an existing contract either party may serve notice to bargain (4117.14(b)(1)(a)). If the parties are engaged in the negotiation of the first agreement, they must start bargaining 90 days before they can exercise their right to strike, or in the case of employees prohibited from striking, before they can utilize the binding arbitration

procedure. If the parties have not formulated a MAD procedure and an agreement has not been reached 45 days prior to the end of the countdown period, SERB must appoint a mediator (4117.14(c)(2)). The mediator has 14 days to settle the dispute. If an agreement has not been reached by the 31st day, SERB must appoint a fact-finding panel, which usually consists of one fact-finder. The panel must transmit its recommendations to the parties within 14 days. The parties may extend this time period by mutual agreement (4117.14(c)(5)) and, in practice, frequently do so. Seven days after the parties receive the fact-finder's report either side may reject it by a three-fifths vote. If the recommendations are not rejected, they become final and binding on both parties (4117.14(c)(6)). If they are rejected, employees who have the right to strike may do so after giving a ten-day notice of intention both to the employer and to SERB (4117.14(D)(2)). Employees who are not permitted to strike may advance their dispute to binding, issue-by-issue, final-offer arbitration (4117.14(D)(1)). The dispute procedure is administered by the Bureau of Mediation, a division of SERB.

Analysis and Evaluation: Mediation

Mediation is the first step in the Ohio public-sector dispute resolution process, unless the parties have adopted a MAD. At a specific time the Bureau of Mediation must assign a mediator to every unsettled dispute. Although assignment is mandated by law, utilization of the mediator's services is at the discretion of the parties.

This approach to mediation poses the question of the purpose of assigning mediators so early. One response is that a mediator can make a contribution to the bargaining process if he is available early to inexperienced parties negotiating their first contract. He may assist them in disposing of some issues, and he may provide them with creative solutions which may move them closer to a settlement in the latter stages of bargaining. Furthermore, because of tactical considerations, face-saving, and in some cases lack of experience, the parties may be reluctant to take the initiative in requesting mediation. But they may welcome the availability of the process when a mediator is assigned to them by SERB.

Nevertheless, the present system has some drawbacks. First, it is costly to administer; second, some negotiators may use it as a hold-out or delaying tactic; third, it may make the parties too dependent on the mediator; and finally, by law the mediator has only 14 days before he must step aside for fact-finding. This is insufficient time for a mediator

to achieve a settlement. He can, however, come back, if invited, after the fact-finding process is completed. Opponents of early mediation argue that it is not the role of a mediator to be a "parent" and that negotiators must learn to resolve issues for themselves. It is premature to reach any definite conclusion about the effectiveness of the Ohio mediation process. Despite its shortcomings, however, on the whole the parties have reacted favorably to mediation.

While mediation can facilitate the bargaining process, we do not think that Ohio's present approach of assigning mediators 45 days prior to contract expiration, and before the parties can exercise the right to strike or to go to arbitration, is a necessary one. Furthermore, the 14-day period allowed for mediation (to be followed immediately by fact-finding) is usually inadequate for the process to produce any meaningful results. In our view, it would be better to leave the initiative for mediation to the parties. Thus, mediation would be available on request at any time. This would make the process less costly to administer, and it would promote the use of mediation at those times when it would be most useful. In some cases this may be during the very early stages of negotiations, while in others it may be close to a major deadlock in the latter stages of bargaining.

Analysis and Evaluation: Fact-Finding

Fact-finding in Ohio is of lesser significance than in jurisdictions where it is the last step in the dispute resolution procedure. While it is hoped that fact-finding will help to resolve some disputes not settled in the mediation stage, employees have one final course of action open to them: to strike or, in the case of safety or other key personnel, binding arbitration.

The Ohio legislature has attempted to increase the effectiveness of fact-finders by requiring them to make recommendations, which may generate public opinion pressures on the parties for acceptance, and authorizing them to engage in mediation. A word of caution is necessary, however, with respect to both of these elements in the Ohio procedure. Experience in other states suggests that fact-finding often does not generate sufficient public opinion pressures for a settlement (Kochan, 1980, p. 293). As for mediation, there are potential pitfalls in a combined process. Fact-finding and mediation are different functions that require different skills, and an able fact-finder is not necessarily an able mediator. Furthermore, the extent to which a fact-finder functioning as a mediator would have the confidence of the parties, which is necessary for the success of mediation, may be

questionable. There may be times when the parties possess information useful to a mediator but which they do not want to share with a fact-finder. If they share the information and fact-finder mediation fails, they face the undesirable prospect that it will influence the fact-finder's recommendations. If they look forward to fact-finding and do not share, the effectiveness of mediation is reduced. In addition, where the parties are eager to reach the final step in the impasse procedure (arbitration or a strike), they may want to complete the fact-finding process as quickly as possible and be impatient with further attempts at mediation. In light of these circumstances, mediation by fact-finders should take place by mutual consent of the parties.

The most common criticism of fact-finding under the Ohio act, as expressed in testimony to the Public Employment Advisory and Counseling Commission (PEACE Commission) established by the legislature to evaluate the implementation of the act and during interviews conducted by the authors, is that in most cases fact-finding is mandated by law before the parties are ready for it. As a result, there tend to be so many unsettled issues that the fact-finder sometimes has to recommend a major portion of a contract. As noted previously, the parties are allowed to extend the fact-finding period and frequently do so. Thus, they have the option of placing the process in a more flexible and realistic time frame. Where this occurs, fact-finders may be faced with a smaller and more manageable number of issues. But mutual consent will not be forthcoming if at least one party prefers fact-finder intervention to further negotiation.

Early experience suggests that a significant issue in fact-finding will be how to handle issues which one party (usually the employer) claims are permissive issues of bargaining. Given the potentially broad definition of employer prerogatives in the act (4117.08), this problem may arise frequently. If fact-finders or arbitrators rule on a disputed issue which is eventually determined to be permissive, they may have exceeded their authority. If there is no ruling and the issue is determined to be mandatory, the fact-finder has not fulfilled his or her duties. The severity of this issue should subside as SERB and court decisions clarify the boundary between mandatory and permissive issues. But given the broad legal definition of managerial prerogatives, extensive litigation may be required for substantial clarification, and the issue is likely to remain for a long time to come. In the interim, ways must be found to handle it.

An unusual and significant aspect of fact-finding in Ohio is the set of preconditions the parties must meet in order to reject a fact-finder's recommendations; if neither party meets these preconditions, the recommendations automatically become part of the new collective bargaining agreement. For recommendations to be rejected, no later than seven days after the findings and recommendations are sent to the parties, three-fifths of the relevant legislative body's total membership and/or three-fifths of the union's total membership must vote for rejection. Requiring an extraordinary majority of the total membership (rather than the votes cast) weights the voting process against rejection. Members who abstain from voting are, in effect, voting for acceptance. By making the rejection of recommendations relatively difficult, Ohio has created a process which stands between "traditional" fact-finding and compulsory arbitration with respect to the likelihood that it will result in resolution of a dispute. Absent rejection by at least one of the parties, fact-finding in effect functions like arbitration.

In Conclusion

Ohio has established an extremely elaborate and complex dispute-resolution procedure, to be administered within a precise and often unrealistic time frame. A latecomer in enacting public employee collective bargaining legislation, Ohio drew from virtually every other state's dispute-resolution procedure. "The result is perhaps the most regulated and precisely timed procedure in the nation" (White et al., 1984, p. 9).

Ohio's dispute-resolution procedure has been controversial. Problems regarding the timing of mediation and fact-finding were examined previously. The bargaining parties have also expressed dissatisfaction with the time line; virtually everyone who testified before the PEACE Commission opposed what they considered to be the inappropriate and rigid time frame for applying the dispute procedure.

Yet the Ohio law—perhaps fortunately for public-sector labor relations—does allow the parties to make the time frame more flexible and realistic by postponing fact-finding or to avoid the act's procedures altogether. The frequent use of MADs suggests widespread dissatisfaction with the time line or other aspects of the statutory procedure. During the first 17 months of experience under the act, MADs were formulated in 55 percent of all negotiations. Absent a settlement or actions *mutually agreed upon by the bargaining*

parties, however, use of the detailed statutory procedure is mandatory.

In studying the Ohio dispute resolution procedure, one confronts a basic question: What should be the role of state government in the bargaining process? Ohio's approach is that SERB should be "compelled to intervene actively at stated time points" (Day, 1985, pp. 31-32). Such intervention is designed to push the parties into an agreement or, if that fails, into final resolution. Compelled intervention is based on the premise that it is important to promote speedy resolution of bargaining issues regardless of whether either party has expressed dissatisfaction with the rate of progress. Under a second approach, assistance upon request, SERB intervention would occur only by invitation of at least one of the parties and would not be required at a particular time (Day, 1985, pp. 34-35).

We see considerable merit in the assistance-upon-request approach. Compelled intervention at particular time points, with the "pushing" of negotiations that this implies, may be of some value where the parties are inexperienced in bargaining. But there is little need for it where the parties are experienced, and compelled intervention might often hinder collective bargaining even if the time points for intervention were more realistic. Moreover, it is cumbersome to create an unrealistic statutory dispute resolution procedure and then "allow" the parties to circumvent it by such devices as MADs and mutual-consent postponements of fact-finding. It would be preferable to allow the parties more flexibility from the outset, while standing ready to provide assistance upon request. The case for compulsory mediation and fact-finding is also weakened by provisions in the Ohio act for finality steps in the bargaining process (arbitration or strikes). From a collective bargaining perspective, with these provisions there would seem little reason to have such a detailed and rigid scheme of compelled intervention prior to the finality steps. An examination of political reasons for the Ohio procedure is beyond the scope of this paper. We conclude that, on balance, Ohio would benefit from a basic change in the approach of the state to the collective bargaining process: from compelled intervention to intervention by request.

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XV. ECONOMIC IMPLICATIONS OF FAMILY AND TRADITIONAL TIES IN DEVELOPING COUNTRY LABOR MARKETS

The Economic Significance of the Social Structure for Urban Labor Markets with Special Reference to India*

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An unfortunate legacy of the prevailing view of the typical urban labor market (TULMA) is its separation into two sectors: a modern or formal and a (residual) traditional or informal sector (FS and IS). As I argued in an earlier paper,

. . . the traditional society is an intrinsic part of the growth process. [In the labor market] this is seen in the rural-urban links, kinship networks and segmentation, . . . the carryover of traditional skills (and roles), household formation straddling FS/IS divisions, entrepreneurial and managerial organization, channels of diffusion of growth and its benefits, and so forth. (Kannappan, 1985, p. 723).

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Factor combinations in the production process and the mix of the old and the new in the goods and services consumed reflect ingenuity in entrepreneurship and organization which cut across such exclusive divisions of economic activity. The diversity of economic outcomes in the expanding urban economy is much greater than the picture which emerges from contrasting aggregate averages of wages or earnings in modern employment and in residual economic activity. A factor which affects access to these opportunities in the entire urban economy is the traditional social order and hierarchies, which may be observed in their most entrenched form in the rural areas.

By social structure I mean the ties of family, kinship, and tribe, caste or religion and the hierarchies these imply. One's personal characteristics, such as age or sex, as well as group-derived attributes constitute endowments which may be converted into earning power according to the rules of society (Desai, 1984; Sen, 1981). These are unequal endowments and the traditional rules governing their exchange are generally discriminatory.

The impact of the inherited social structure is complex. Neoclassical economics takes the structure of tastes and values as given, acknowledges the significance of wealth and nonlabor income, and focuses on the maximizing behavior of individuals as a function of changing relative prices or costs. Extensions of theory incorporate group-specific differences in tastes or assets and serve to analyze the simpler and clearcut aspects of black-white and male-female discriminatory differentials. This is a powerful framework for labor market analysis of individual behavior. Its application to developing nations is, however, seriously constrained by a complex of group-specific determinants of tastes or assets about which it is difficult to generalize.

There is nothing in formal theory which precludes the social structure and constituent groups from exercising a strong, even determinant, influence on individual behavior. But this is seen through their impact on tastes and assets, which are treated as exogenous and in practice ignored, as the focus is on the individual as the maximizing agent (Friedman, 1984). But caution is needed in contexts where the "omitted" variable is itself a significant and not well-understood variable. The theoretical inheritance is also inadequate where group influences are strong, diverse, undergoing change, and constitute the more important part of behavior which needs explanation.¹

¹ See Boulding (1970) for an incisive discussion of the weaknesses of the economics legacy in this respect.

These considerations are significant in developing nations as predictions can go awry because of the unanticipated effects of the "social structure" or "culture," which are assigned a catch-all, residual role in analytical exercises. There are some welcome examples of integration of the complexities of the social structure at a microlevel, but this line of investigation is in its infancy.² No one (so far as I know) has tackled this aspect of the urban labor market (ULM) at an analytical level. Studies which have leap-frogged towards generalized abstractions have, however, been wide off the mark. Perhaps the best example is the Todaro or Harris-Todaro models which predict an excess urban inflow and the rationing of jobs in an urban queue on a first-come, first-served basis. In reality the traditional networks equilibrate supply and demand so that the problem is not mainly one of open employment but of differential access due to an entrenched, diversified social structure. Since this can by no means be given a fixed exogenous role or value, errors are inevitably greater the more aggregative and sweeping generalizations become in terms of space or time.

The social structure is important in the functioning of the ULMs in developing nations. One's place in the social order is a powerful determinant of tastes and endowments, and these include unequal rights of access to complementary inputs (land, tools, education, information, and markets). Rather than simple superior-subordinate or dominant-dominated clusters, we have a multitude of group-specific differences in tastes, endowments, and assets. There are also many status-related, wealth-significant hindrances and privileges. Group affinities are paramount, limiting the range of individual and deliberative choice. These reflect not only the calculable costs and benefits of group adherence, but inheritances which give rise to individual value systems and external constraints which may virtually rule out the possibility of choice as to one's group.

The institutions of the marketplace with universalistic access are also conspicuously limited, and there are few effective substitutes or alternatives to the networks or opportunities yielded by the traditional social structure.³ We must keep in mind that the urban economy

² Among the best studies are the essays in Binswanger and Rosenzweig (1984), especially the contribution of Kalpana Bardhan. See also Chate (1984), especially Ch. 3.

³ See Kannappan (1983) for further details.

provides quite a variety of opportunities outside of wage employment in the organized sector. There is a considerable variability of earnings here, and among the successful are an indeterminate number in self-employment and small-scale (including home-based) enterprises. Formal schooling and training cover only a small part of the labor force or of the skills which demand a premium. There is a penury of institutions which mobilize and disseminate the lessons of valuable experience on a generalized basis. This is also true of employment information as employment exchanges, trade journals, newspapers, school-related placement or recruitment efforts, and private employment agencies barely skim the surface and are irrelevant in linking rural and urban labor markets. The formal institutions of the credit market with generalized access are also of limited relevance for other than well-defined business ventures with realizable collateral, and for most small borrowers.

A corollary to the above is the persistence of many traditional roles and skills and their transmission through ascriptive associations. The obvious example is the sexual division of labor and the processes of socialization it represents. The family and related social groupings constitute an important part of a nation's educational infrastructure and much learning is not through the printed word.⁴ There is some evidence, necessarily inconclusive, of labor market premiums in favor of traditional skills, including persistent differentials and economic rents in the face of reported shortages.⁵ These skills cover a wide range of occupations and a hierarchy of jobs: brassworkers, bricklayers, carpenters, cooks, fishermen, mahouts, smiths (gold, iron, and silver), snake charmers, stone masons, washermen, weavers (basket, carpet, and cloth), and at a different level, astrologers, dancers, dentists, herbalists, money lenders and indigenous bankers, musicians, physicians (in the indigenous tradition), priests, Qu'ranic lawyers, and sculptors.⁶ As yet we know little about why traditional skills survive or even flourish, but it is unlikely that the "family schools" and ascriptive

⁴ See the pioneering study by Wood (1985).

⁵ See James C. Scoville's comparisons of traditional skilled worker earnings and others, cited in Kannappan (1983), pp. 156-59.

⁶ Thus, a recent news item stresses the importance, for all of China, of masons from one county: "The Homeland of Construction Discovers Ways to Become Rich: 100,000 Masons from Huei-an Have Emigrated to Work," *People's Daily*, October 27, 1985 (courtesy of Professor: Shu-min Huang of Iowa State University).

associations will cease to be important or can easily be replaced by formal programs.

The social structure has also a wider significance. It affects distributive outcomes within families and between rural and urban areas of the generations. The strength of group affinities and the obligation to share may be said to act as brakes on individual acquisitiveness, but they also provide successful role models and insurance against adversity. One should also expect inequalities in family endowments to be a dominant factor in demarcating the boundaries of one's aspirations and ambitions, given the limited role of public expenditures on human investments. It is no accident that entrepreneurship remains very much a preserve of specific groups. Even for unskilled and manual employment, employers do not act as if workers from different groups are equally endowed in terms of the desired attributes. The diverse processes of socialization may even render this a correct approach. The growth of regional and national product markets on a regional and even national scale does not appear to have undermined these particularistic preferences, perhaps because the service component is so important and diverse in consumption.

The process of interest group formation and emergent power relations is also governed by the social structure. The positions taken on overall development policies, as well as demands for services like housing or education, reflect preferences and concerns over their distributive implications. Expectations are clearly affected when those in power are considered accessible and open up new vistas of influence and achievement. The rise of indigenous entrepreneurship in the post-colonial Third World, and of new entrepreneurial communities and centers of power within individual nations, attests to this. The limited development of infrastructural goods and services, and their distribution at below equilibrium prices also strengthen the recourse to ascriptive associations. Perhaps the most important is the underpricing of money and foreign exchange, almost endemic in many developing nations. These factors give rise to political alignments which build on traditional affinities. These have important implications for access to opportunity in wage and self-employment and other opportunities in the ULM. It is not possible to dismiss them simply as readily correctible follies of governments, for these reflect deep-rooted stratifications in society.

In the limited space that is now available, I will discuss the situation in urban India as it bears on these points. There is much support for their relevance, although the statistical evidence is at best patchy. This

reflects both the fact that inquiries along these lines have not been emphasized by economists and the genuine desire of the Indian government to downgrade considerations of caste, religion, etc., in a secular state. I draw mainly from my field investigations in India during the summer of 1985, a good part of which was spent in Madras, a metropolis of over 4 million inhabitants.

India is a subcontinent of linguistically organized states, and the metropolitan labor markets are correspondingly regional. The regional mix includes India's major religious groups. The boundaries of the labor market are defined by language, except for some of the professional ranks and some very specialized skills.

Caste is the basic unit of social organization in India, and this is true for all religious groups—Hindu, Muslim, Christian, and Sikh.⁷ It is best understood in the village setting where the population is organized into different castes or jatis. Marriages are endogamous, only among members of a jati. Each jati has an assigned occupation or set of tasks. These carry varying degrees of stigma or esteem and may correspondingly be viewed as a continuous hierarchy, although there are inevitably disputes concerning their relative standing. A *jajmani* system of patron-client relationships regulates service obligations and reciprocal rewards by custom (including bondage) rather than cash. The status system is also important in governing access to land and collective services.

Although this has been generalized into an orderly four-fold national system of castes, one must stress that the core of the caste system is the jati at the village level. The hierarchies and relative standing vary from one local area to another. Inevitably, the rigidities which are most pronounced at a local level tend to loosen the broader our canvas of time and space (or rates of growth within these parameters). There is thus in urban areas a considerable erosion of caste-specific occupational attachments. *Jajmani* relations are even rarer although some efforts may be made to sustain them. The system of endogamous marriages remains, however, in full strength. Somewhat less entrenched are the deep-rooted inequalities and segmentation which characterize village society. This is important for the urban labor market and will continue to be so in the foreseeable future, because rural-urban migration is a major component of urban growth and the level of urbanization is low.

⁷ The literature on this complex subject is vast. The uninitiated (and even others) may do well to read Srinivas (1984).

The rigidity of the Indian social structure which has attracted the most attention is the position of the untouchables as distinguished from the rest. Actually, the untouchables are not a homogeneous entity, and the term deflects attention from the degrees of social distance which govern the relations among all jatis. Thus difficulties arise in utilizing labor in agricultural operations and even in the cities as one cannot indiscriminately combine workers from the different jatis or assume they are readily substitutable for one another.⁸ The Indian and state governments recognize several jatis and tribes as among the most backward in an official schedule (hence the term "scheduled castes" and "scheduled tribes," or SCs and STs) for the purpose of according them special benefits in terms of education, employment, housing, loans on concessional terms, etc. The SC/STs constitute between one-fifth and one-fourth of India's population, but the proportions vary from state to state. But other jatis, comprising another 50 or 60 percent of the population, have also claimed and been granted backward status and are known as OBCs.

An analysis of the significance of the social structure for the functioning of the ULMs is essentially a study of the interaction of emergent and sophisticated urban economies which provide a wide range of opportunities and a tenacious social structure which is complex and stratified. This discriminates against universal access in a stubborn, often subtle, manner which affects all urban sectors. As noted earlier, the evidence at many points is incomplete, and the basis for comparing household earnings by occupation and communal affiliation is virtually nonexistent. Even basic data pertaining to the distribution of the labor force by various communal and caste categories is lacking. However, available information emphasizes the significance of traditional hierarchies and endowments, which should include one's caste and communal status, and the importance of further research here.

In Madras, the proportion of SCs in the city's labor force is distinctly lower than in the rural areas and there is hardly any representation of the STs.⁹ The SC proportion in the slums and the low-status occupations is higher than in the general population. The SCs in the city have much lower educational attainments compared to the others, but score higher in this respect than their rural counterparts.

⁸ See, for instance, Bharadwaj (1976).

⁹ The information is derived from the Indian Census and several studies done under the auspices of the Madras Institute of Development Studies, in particular by S. Guhan, Sarajit Majumdar, and K. Nagaraj. See also Yanagisawa (1983).

Some of the village studies present parallel information: the upper castes were among the first to migrate as new opportunities emerged under British rule. As late as 1947-1948, 37 percent of BA candidates in the Madras university were Brahmins (as opposed to 4 percent in the general population), 13.7 percent were Christians and Anglo-Indians, and only 1.4 percent were SCs (Government of Tamil Nadu, 1974).

Migration from the nearby state of Kerala also emphasizes the differential responses of the various communities and caste groups (Lewandowski, 1980). The upper castes were the first to avail of the new opportunities in Madras which was then one of the three Presidency centers of British India. This was contingent upon a knowledge of English which they met by mounting an enormous pressure for instruction in English. The lower castes, but not the lowest, migrated later, in part as personal servants. Tamil rather than English was their means of socialization.

One could also note, among the upper castes, differences in the response to emerging opportunities. By 1850 the Pattar Brahmins were in key positions in government, but the Namboodiri Brahmins (possibly the highest ranking Brahmin caste) waited until the 20th century. Such differences were also noticeable among the Syrian Christians, Nayers, and others, depending on their economic and land-owning circumstances in Kerala. A detailed recent study of factory employees in Coimbatore, a neighboring industrial city, suggests the continued importance of caste-based hierarchies and stereotypes, embracing virtually every jati in the upper and lower categories (Ramaswamy, 1983).

There are also many examples of caste- and community-specific occupational affiliations, and in many cases these appear related to traditional specializations. Money-lending and indigenous or commercial banking constitute an example. The Labbai Muslims, Nadars, Nattukottai Chettiars, and Kallidaikurichi Brahmins may be mentioned (Baker, 1984). The dominance of the last two ended with the nationalization of the banking system, but the Nadars, who have been mainly associated with low-status work, seem to be spreading out and own their own bank. In Madras city today, such traditional caste specificity may be seen among cattle-tenders, milk vendors, masons, bricklayers, barbers, washermen, carpenters, and goldsmiths, to name only a few. Some of these—for example, leather workers and scavengers—are in tainted occupations. Inquiries about how individuals learned their trades brought forth the prompt response “self-taught.” The government-run technical training institutes turn out

only a few in such fields as machinists, welders, fitters, or electricians, but hardly touch the traditional trades. The vigorous private sector which offers instruction in many modern fields such as electronics, radio and TV mechanics, travel, computers, etc., has not entered the traditional fields even when, as in the case of carpenters, masons, and plumbers, there appears to be a shortage. A study of the construction industry in Ahmedabad, a major industrial city, noted similarly a reliance on traditional channels and skills (Subrahmanian et al., 1982).

Caste- and community-specific tastes and processes of socialization are undoubtedly an important factor. Examples include the fisherman castes in Maharashtra and Kerala with their high order of traditional skills.¹⁰ Similarly, Kerala Christians are reported to be dominant in nursing throughout India. A recent study estimated that they constituted about 65 percent of the nurses in Bombay city (Ambekar Institute, 1981). Tailoring in Madras is similarly dominated by Muslims. A recent study estimates that the Muslims may constitute 90 percent of the tailors in Calcutta (Romatet, 1983). They ply a traditional trade, dating back to 19th century Lucknow, where also the Muslims are dominant. Their average daily earnings are well above that of other low-income IS workers. Low caste Rajasthani workers in construction constitute another interesting example. Pointing to them, a Delhi resident explained, "They do all the wretched work," and added (not without compassion), "They are meant for that." A continuing boom in construction was said to have inflated their money earnings almost ten times while prices appreciated much less. The inelasticities can be a source of disadvantage, too, as in the case of Nagaratha chettiers, who dominated banking and commerce in South India, Burma, and elsewhere in Southeast Asia. Unable to adjust to changing economic conditions, they appear to have petitioned for assistance provided to the depressed castes (Muthiah, 1985).

There are also examples, within the framework of caste and community leadership, of technological innovation and adaptation to changing market conditions. Two of the most powerful examples involve the Sheheri dhobis (washermen) and the Koli fishermen caste of Bombay. The dhobis constitute a "new" urban caste, based on a common trade and location in the city over a hundred years ago.¹¹ The

¹⁰ As one study noted, this includes knowledge of seasonal variations, the effect of weather, tide, and currents, depth perception, etc. This knowledge is specific to the different species of fish and techniques and equipment are accordingly specialized (Iyengar, 1985).

¹¹ See the important study by Ghanna (1985).

caste ethos (or *biradari*) and solidarity in action have been the means of meeting great changes in the service market (more institutional employers), products handled (more synthetics), techniques (more chemical agents), client relationships (increased impersonal relations), capital requirements (fixed investments to process larger orders), and external opportunities (particularly for youngsters who could qualify for jobs requiring schooling).

Group solidarity and cohesion have also been critical in meeting the challenges of low-income existence in the city, as we can see from a study of 1375 squatter settlements covering 142,000 people in Delhi. Although all are in illegal occupation of land, they respect scrupulously each other's rights to occupied land and cooperate to protect the community and their investments. Individual maximization takes place in a context of family and group solidarity which is possible because the settlement clusters consist of "smaller groups consisting of kin, relatives, fellow-villagers, or caste or community fellows . . . and . . . subsequent expansion takes place by clustering of similar groups in compact residential blocks" (Majumdar, 1978).

Group solidarity is not without its price, as the study of the Sheheri dhobis notes in great detail. Value systems discourage educational investments beyond a certain level and alternative employment possibilities are played down unless they imply a nonmarginal improvement. There is a considerable lavishness in ceremonial expenditures, especially at weddings, at the expense of more productive pursuits. Essential to the caste *biradari* is the endogamous marriage and subordination of individual choice. The study explains: "The marriage situation plays up, quite clearly, the dominance of the social over the individual. Individual likes and dislikes . . . are played down to give prominence to social values . . ." (Channa, 1984, p. 204).

Concluding Remarks

The behavior of the dhobi emphasizes the coexistence of two systems of rationality, traditional and adaptive, and two levels of decision-making, individual and group. There is a dialectic which involves individual conformity and group adaptiveness so that the *biradari* may be operative (Channa, 1985, p. 218 ff.). It would be difficult to categorize the resultant behavior as clearly traditional or modern. The term "transitional" might also be premature until we know more about the relevant social structure's impact on the labor market and what the future will bring. At the moment it is not easy to

generalize about this even within one country, given the localized nature of much of the economic and social structure.

One cannot also state in a priori terms what the consequences of economic growth, change, and development of markets will be. The associated risks and uncertainty, as well as the new configurations of social relations and affluence, have contradictory effects. They both enhance the range of individual or deliberative choice and reinforce traditional norms and feelings of group consciousness. One can only say that the eventual amalgam will be different from what one started with. Macro-perspectives are necessarily aggregated, generalized, and often nursed by a subjective teleology.¹² A look outwards, and upwards, from diverse micro scenes may yield alternative states of general equilibrium (McLoughlin, 1985).

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¹² Dr. George Kurien brought up this significant point at a seminar at the Madras Institute of Development Studies in August 1985.

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Diverse Entrepreneurial Traditions and Implications for Internal and External Labor Markets

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A comparison of U.S. and Japanese labor market history (Taira, 1970; Levine and Kawada, 1980; Gordon, Edwards, and Reich, 1982) reveals fascinating similarities and differences in the nature, timing, and duration of various sequential phases of structural changes in the labor market. In the United States, labor is “proletarianized,” “homogenized,” and “segmented” in sequence. The phases of proletarianization and homogenization stretch over a century from the 1820s to the 1920s. In Japan, they are telescoped into a period half as long as in the U.S.: 1870s to the 1920s. The timing and duration of the segmentation phase are roughly identical in the U.S. and Japan: 1920s to the present, subdivided into “exploration” (1920s to World War II), “consolidation” (World War II to the 1970s), and “decay” (1970s to the present). A comparison of labor market characteristics at present between Japan and the U.S. suggests a sharper relief of segmentation for Japan than for the U.S. as indicated by quantitative differences in productivity and wages as well as by qualitative differences in the rules and processes of internal labor markets between large firms on the one hand and the rest of the economy on the other (Clark, 1979; Shimada, 1981; Shirai, 1984; Hashimoto and Raisian, 1985).

This paper organizes Japanese labor market history around a hypothesis that the relatively pronounced labor market segmentation in today’s Japan is the result of the deficient proletarianization and homogenization in earlier Japan (before the 1920s) as compared with U.S. experience. Below we discuss how pre-modern values and institutions constrained the development of Japanese entrepreneurship

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and labor markets in earlier days, how clashes of traditional and modern values produced the initial exploration of segmentation as a means toward industrial peace, how segmentation itself was subsequently consolidated and modernized, and how it is likely to change in the future.

Deficient Proletarianization and Homogenization: 1870s to the 1920s

Although the Meiji Restoration of 1868 quickly dismantled the feudal state system and social stratification in the interest of private enterprise as a right of all Japanese regardless of social origin or current status, centuries-old feudal principles, beliefs, values, and habits did not easily disappear. There were four feudal classes and four types of social relationships: i.e., lord-vassal relationships with a premium on loyalty in the ruling *samurai* class, extended-family networks of the merchant houses, real or simulated family relationships in the craft community, and solidaristic social relationships in peasant villages. Among the *samurai*, the lord was sovereign and the vassal owed him absolute loyalty. In other classes, social relationships were more reciprocal with emphasis on mutual obligations for giving and receiving favors enforced through moral imperatives such as *giri*, *ninjō*, and *on*, untranslatable all, but approximated by “duty,” “humaneness,” and “debt.” Underwriting all these social relationships were the Confucian ethics stressing the honor and continuity of the family as the basic socio-legal unit supported by the moral imperative of filial piety toward parents. Confucian-constrained labor market behavior in earlier Japan was bound to differ from the Western experience at a similar historical stage.

Interpersonal differences conditioned by class backgrounds in the kind and quality of moral fiber entailed certain allocative consequences for human resources. Former *samurai* and their descendants with their strong belief in loyalty suited employment in large-scale undertakings in modern industry, banking, railroads, utilities, international trade, government services, etc. These new large-scale activities generated “markets for loyalty” (Morishima, 1982). Complementing the loyal core of workforce were “mercenary” types of mobile workers in volatile labor markets. Thus the nascent labor market of modernizing Japan was already dualized as if to replicate the dual feudal classes of *samurai* and commoners. However, the bulk of Japan’s human resources was in the family farms and family enterprises with no hired hands, or if any, with only a few. Ordinary

Japanese considered self-employment more desirable than working for wages as a way of earning a living, so that wage labor was seen only as a brief interlude in life before settling down with one's own enterprise. Labor migration from farm households to nonagricultural enterprises was mediated by family and kinship ties (Vogel, 1967). The migrants worked for wages for a while until they were able to set themselves up as their own petty masters. In this kind of system, wage labor was hardly a class concept.

Japan's difficulty in generating a proletariat appropriate to a capitalist economy was due in large part to the nature of Japan's absolutist state under the imperial Constitution (1889-1947) organized as a family system "meaning a [state] system of legal and political organization whereby the family is the major unit of social organization, is a legal personality in which property rights and duties are vested, and is represented externally by a family head who exercises wide powers of control over family members" (Dore, 1958, p. 94). In addition, "in Japan, the habit of modelling the structure of social groups outside the family—occupational, educational, recreational, political, artistic, criminal—on the pattern of the family, has been developed with a consistency rare in other societies" (Dore, 1958). Kinship terminology is also used liberally to designate positions and relations in an organization: e.g., *oyabun* (parent role) for the boss, *kobun* (child role) for subordinates, *kyōdaibun* (sibling role) for peers. The transaction-cost approach to the family (Pollak, 1985) would help one see the cost-minimizing advantages of an organization successfully modeled after the family. The development of a highly dynamic market economy under a family system as in prewar Japan may well be considered *sui generis* as a type of economic development, which would refute many "capitalist" development models such as W. Arthur Lewis's.

Modern Segmentation: Exploration, 1920s to World War II

The catalyst that transformed the Meiji Japan's feudalistic socioeconomic segmentation into a modern labor market segmentation was the labor movement inspired by intellectual, religious, and ideological imports (Western humanism, Christianity, socialism, communism, Marxism, etc.). The labor movement forced Japanese employers to look for ways to stabilize employment relations and to retain control on the basis of ethos and beliefs that they preferred. Their first reaction was to learn how the American and European employers were coping with their labor problems. Study teams were

dispatched to America and Europe (Taira, 1973). As a consequence, the Japanese employers adopted and adapted the "American Plan" and the European works council idea: i.e., benevolent authoritarianism coupled with a measure of worker participation in the workplace affairs (Totten, 1967). The outcomes of these employer efforts were the newly articulated ideology, strategy, and practices of employer paternalism (Fruin, 1983).

However, employer paternalism was greatly undermined during World War II when industries and enterprises were extensively reorganized under a command system. The family metaphor had its last field day under a familistic totalitarianism: i.e., the State as One Family with One Voice in One Mind under the Divine and Benevolent Father-Emperor.

A thoroughgoing social democratic revolution was brought about after the war by the Supreme Commander (General Douglas MacArthur) for the Allied Powers. Huge business conglomerates (Zaibatsu) were smashed and a whole new corps of professional managers took over new enterprises as many wartime owners and executives were forced out of control because of their "criminal" support for war. Blue-collar workers demanded and obtained equity with white-collar workers in terms of status, pay, and promotion opportunities. At the national level, the imperial Constitution was abolished and a new democratic one adopted in 1947. The absolutist monarchy changed into a symbolic one. The prewar family system was destroyed and the family head deprived of his powers over the family members. Primogeniture was abolished and all siblings had equal claims to the household resources. Women acquired new legal rights along with suffrage; they no longer were considered "legally incompetent" when married, as was the case under the prewar Civil Code patterned on the French (Napoleonic) Code. Thus the family metaphor took on a different meaning, which was not serviceable as a structural model for the personnel hierarchy of an enterprise. The postwar industrial relations system had to be stabilized on a different basis.

Segmentation: Consolidation, World War II to the 1970s

Postwar Japanese managements again turned to American practices and voraciously absorbed and adapted American management techniques, often misunderstanding them and inventing their own instead. In the Japanese company today, the transaction costs broadly interpreted as those necessary for obtaining desired

commitment and performance from employees are considerable. A major difference between American and Japanese practices is that the transaction costs in America center on employment contracts, while in Japan they arise in relation to elaborate personnel practices, detailed work rules, constant negotiations and consultations over rule-making and enforcement, careful recruitment and career planning (even for blue-collar), generous donations of time and care after the hours by both management and employees for maintaining good relations, etc. In short, the Japanese transaction costs are the costs of employee acculturation in the company culture so that they will not shirk but dedicate their all to the prosperity of the company. Company culture now takes the place of erstwhile employer paternalism.

Well-run Japanese companies make constant efforts for shaping and maintaining a corporate identity distinct and unique enough to motivate employee identification with it (Matsuura, 1983). The recruitment of compatible employees is one of the most important items on the personnel agenda of identity-conscious companies. The general practice is to recruit employees once a year in the spring fresh out of schools or colleges according to long-run manpower plans. These companies regularly hire their white-collar employees from Japan's best universities and maintain a stable mix of employees by university origin (Azumi, 1969; Matsuura, 1978). Blue-collar recruitment also runs by school or regional origin. Informal groups formed by college, school, or regional ties are utilized for employee acculturation and training. The old boys (OB) network is automatically stratified by year of graduation and organization entry, legitimizing the informal ordering of promotions in terms of senior-junior (*senpai-kōhai*) relationships. Different OB groups compete for promotions in the spirit of intercollegiate athletics. In place of the former family model, Japanese firms today model the personnel structure on the organization of school life.

The modernization of the family and interpersonal relations within the family since the postwar democratic revolution has proceeded unevenly in different socioeconomic strata. Studies of lower middle-class merchants and artisans indicate a strong survival of the prewar family type and its application to employment relationships (deVos, 1975). Generally, the labor market indicators like labor turnover, length of service, cyclical sensitivity of employment, etc., show that small and medium-sized enterprises operate in relatively open, fluid labor markets. These enterprises make up for the lower wages and less attractive working conditions by offering the "psychic income" of a

family atmosphere familiar to their employees. By the screening standards used by large enterprises, employees in small and medium-sized enterprises may be considered residuals or failures vis-à-vis their peers picked up by large firms. The survival of the prewar type of familism and employer paternalism in small and medium-sized enterprises is the modern analogue of the survival of the feudalistic social relationships in Meiji Japan long after the formal end of feudalism.

Quantitatively, the employers and employees of small and medium-sized enterprises are the average Japanese and those in large firms an exception. The smallness of the large-firm sector enables it to scoop the cream off the human resources of Japan. The large-firm employees themselves are also conscious of their elitist position and driven by an institutionalized Hawthorne Effect. The Japanese-type labor market segmentation by size of firm prevents the rise of class consciousness among workers. The major divide is rather between large bureaucratized firms and smaller enterprises, the latter mostly family-run or family-controlled. Social unrest occasionally erupts along this divide, pitching smaller firms against a large firm trying to invade local markets. Large firms themselves have long since realized the limits of operational expansion at the expense of smaller firms and, instead, actively sought to organize smaller firms into networks of close business relationships known as *keiretsu* ("lining them up"). Most remarkably, in Japan, the transaction costs for getting things done through a *keiretsu* involving a large number of smaller, independent, firms are apparently lower than the costs of expansion in the equivalent scale to internalize the transactions. Thus, workable peace obtains between large and smaller firms.

The employees of large firms are organized into enterprise labor unions and, as a result of the consolidation of the labor market segmentation, largely coopted into the position of a social partner in the elite economic sector. Enterprise labor unions see no community of interest with the unorganized employees of smaller enterprises as exemplified by an almost total lack of interest on the part of the unions in organizing the unorganized. The basic behavioral determinant of a large firm's enterprise labor union is "enterprise consciousness," not class consciousness, in the sense that the union is aware of the dependence of employee well-being on the firm's profitability and that it sees its role to be in helping the firm prosper first as a precondition for a "fair share" for itself later. Abandoned by the labor movement, the employees of smaller firms see themselves as being in

the employee status only so long as they learn the skills and accumulate the resources to strike out on their own. This is the mentality of insufficiently proletarianized and homogenized labor. At the same time, it also explains the vigor of small-scale entrepreneurship that still characterizes the Japanese economy today. For a major capitalist-market economy, Japan still has an unusual proportion of its labor force in self-employment (together with family workers, 27 percent of the labor force in 1981) and an unusual proportion of nonagricultural employment in smallest establishments with fewer than 30 employees (48 percent in 1981). Thus, for more than a half of Japan's economically active population, "employer" and "employee" do not imply permanent status differences. Labor market segmentation has created in Japan a socioeconomic stratification that the known formulae of class differentiation have difficulty in explaining.

Segmentation: Decay, 1970s to Date

The Japanese economy suffered exogenous shocks and domestic dislocations in the 1970s. Under low growth and increased risks, even large firms have been resorting to an increasing use of part-time, temporary, and seasonal workers, which suspiciously looks like a thrust toward a homogenization of labor (at last!). Legislation also points in the same direction. Private labor exchanges and manpower supply firms, which were banned until recently, are now permitted to operate as legitimate labor market institutions. There is also the equal employment opportunity legislation for women, which is bound to modify male-centered company cultures and employment systems. Because of the practices of early mandatory retirement at 55 or 60, large firms have been regularly throwing "used" workers out on the labor market. The lengthening of life expectancy and the rising proportion of the aged in the Japanese population exacerbate the consequences of the mandatory retirements by augmenting the supply of labor for short-term or temporary employment by the aging labor force. Firms are under pressure for raising the retirement age. Somewhat more than a half of the firms that practice mandatory retirement set the retirement age at 60. Only a few years ago, these firms were a distinct minority. But many of the firms that have raised the retirement age have also devised selective earlier retirement once employees turn age 40. Thus, the institution of "lifetime employment" which is supposed to offer employment security from entry to retirement is ironically undermined by the adjustment of personnel policy associated with the raising of the retirement age. Unions,

considerably weakened at the enterprise level, are shifting attention to economic policy at the national level. The upshot of all these new developments is the prospect of less segmentation.

Conclusion

This paper is a semi-formal exercise in the use of institutional cycles in close, though implicit, parallel to economic cycles for the understanding of changing labor market characteristics. Emphasis is on the role of institutions, values, and preferences. These constitute a sociocultural infrastructure which affects the level and quality of the economic performance of the labor force through its effects on types of interpersonal relationships, accesses to information, channels of communication, relative importance of self-discipline and submission to authority, relative effectiveness of motivation by intrinsic job satisfaction and inducement by extrinsic incentives, and many other factors that relate workers to jobs and organization.

The emphasis on institutional variables does not imply a rejection of orthodox, neoclassical analysis of labor market behavior. Here, as in orthodox analysis, the individual is assumed to be intelligent and rational within bounds ("bounded" rationality). The difference is that, thanks to its short-run focus, orthodox analysis may assume that the intelligence and rationality of the individual and the bounds within which he or she chooses and acts remain constant. In the long run which makes history, everything changes: i.e., individuals may become more or less rational or intelligent, while the bounds within which they choose and act may expand or contract. When a poor feudal-caste society such as the mid-Nineteenth-Century Japan changes into a rich market economy over a long period of time, it is clear that constraints assumed as given for short-run economic analysis are expected to change from short run to short run, although the analysis for all short runs essentially requires the same principle of constrained maximization (or minimization).

The enormous range of institutional factors and the nonavailability of water-tight methodology to sort them out as to importance, relevance, or helpfulness for prediction may discourage many used to economic analysis based on a few conventional assumptions from exposing themselves to new facts which may challenge the legitimacy or usefulness of those assumptions. Fortunately, institutional changes are not random but exhibit some systematic tendencies over time. The rise and wane of labor market segmentation are among such tendencies and even appear to be predictable outcomes of the

aggregates of employer and worker responses to evolving constraints. To put it formally, the understanding of the leads and lags between institutional and economic changes is like solving difference equations in mathematics.

International comparative analysis of institutional changes in association with more readily observable and quantifiable economic changes should also help us better understand international differences in the characteristics of these economic changes. The framing of Japanese labor market history in a U.S.-based schema in this paper illustrates the serviceability of the schema and anticipates (or predicts) similarities and differences in the working of economic forces that has interacted with institutional changes through time. As the size and vitality of the Japanese economy are now substantial enough to influence the American economy, one would also expect an increased congruity of institutional changes between the U.S. and Japan. Forces of an international convergence of socioeconomic systems involving the U.S. and Japan are increasingly two-way interaction and interpenetration. Conventional economic analysis based upon a limited rigid set of behavioral assumptions, unaided by insight into broader institutional changes, will perhaps fail to come to grips with the ongoing worldwide processes of systemic convergence.

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Economic Analysis of Labor Market Premiums for Traditional Skills in LDCs

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Urban incomes in developing countries have remained a puzzle to economists since the appearance of Sir Arthur Lewis's (1954) first analysis. In a world of unlimited labor supplies, unskilled urban workers should be abundant at wages only slightly above subsistence incomes in agriculture. Yet this was often not the case, and persistently so; it became fashionable (Arrighi and Saul, 1968) for a while (Hinchcliffe, 1974) to speak of the urban industrial "labor aristocracy." Why *were* unskilled industrial wages so high? Models like that of Todaro (1969) suggested that the expected value of wages was not in fact high, since the high actual wage rate had to be offset by the low probability of finding a job. This and other models of migration did not, however, seem to accord well with the way people actually found jobs in these labor markets (Kannappan, 1977, 1983; Cole and Sanders, 1985). As time passed, yet other puzzles appeared: for example, in various places, traditional skilled work refused to act like the stereotype of low income, dying employments (Weeks, 1977; Fields, 1979); instead this sector was often quite dynamic (for just one example, see King (1977)) and/or remunerative (stressed in Scoville (1973, 1976, and 1985b)).

This essay represents the second of two steps needed to complete a three-part analysis of labor market phenomena in developing countries. As the first component, there appeared some years ago a pair of papers presenting estimates of modern-sector wages (Scoville, 1969) and traditional sector earnings (Scoville, 1974a), drawing on field work in Afghanistan around 1970. These two data-gathering exercises were complemented by a theoretical analysis (Scoville,

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1974b) and a rough statistical test (Scoville, 1976). In all this, the argument was put forward that the pre-existing traditional industrial skilled income structure affected the emerging modern sector level of skilled wages (directly through the external labor market) as well as the level of modern sector unskilled wages (indirectly through the operations of the internal labor markets in the modern sector). To complete the analysis, two additional components are required: (1) a modeling of the nonmodern, nontraditional-industrial sector—that is, those who work in the urban common-labor sector, and (2) an analysis of the determinants of traditional industrial sector incomes. With those two components, the logical triangle would be complete. The determination of urban common labor incomes is treated in Scoville (1985a): the present paper completes the logical system by treating the determination of the level of incomes in traditional skills.

The need for an analytical paper to close the triangle is one source of the justification for this essay; a second is found in the importance of traditional industrial work as a source of incomes, training and employment. To these we add one further justification: as was noted in Scoville (1976), "Inasmuch as the ratio [traditional industrial skilled incomes divided by the incomes of urban common labor] varies (according to [data presented there]) between 1.25 and 4.00, there is quite a bit to explain."

The present essay develops a simple model of the relationship between the traditional industrial sector and the surrounding agricultural society, indicating some of the variables that shape the relative levels of incomes in the two broad sectors. Logically speaking, this sets the stage in which the emerging modern sector sets its wage structure. But that latter process will not enter the present story; here we are solely concerned with incomes in traditional skills and in "agriculture" or the Food Industry.¹

A Model of Agriculture and Traditional Industry

There are two sectors in this simple model: Food (which includes almost everything) and Implements (which includes tools, furniture, cookware, apparel, etc.). Each sector has a production function, a demand for its product, and a labor supply function:

¹ "Agriculture" is everything except traditional skills in this model. A similar dichotomy (agrarian activities vs. "everything else") was used in Hymer and Resnick (1969). We omit the urban "hewers of wood and drawers of water" on the grounds that agricultural labor opportunities and available incomes are principal determinants of their incomes and employment levels.

<i>Food</i>	<i>Implements</i>
(1a) $S_f = a_f (kI)^{b_{fi}} L_f^{b_{fl}}$	(1b) $S_i = a_i L_i^{b_i}$
(2a) $D_f = f_1(p_f)$	(2b) $D_i = f_2(p_i, r, S_f)$
(3a) $L_f = L_o - L_i$	(3b) $L_i = g(w_i, r)$

where S and D , w , L , and p have their usual meanings; f and i are sector subscripts for food and implements; I refers to the actual level of implements output, some fraction (k) of which is an input to the food production function; and r is the rate of interest. In the spirit of Adam Smith, we have a ready choice of *numeraire*: $w_f = 1$.² The time period for the model equals the life span of implements.

Making appropriate substitutions, the system is described by two simultaneous equations:

$$(4) \quad a_f [ka_i g(w_i, r)]^{b_{fi}} [L_o - g(w_i, r)]^{b_{fn}} - f_1(p_f) = 0$$

$$(5) \quad a_i [g(w_i, r)]^{b_i} - f_2 \{ p_i, r, a_f [ka_i g(w_i, r)]^{b_{fi}} [L_o - g(w_i, r)]^{b_{fn}} \} = 0$$

The solution to this system can be found in terms of w_i and p_i/p_f (the intersectoral terms of trade), but the solution in turn depends on the sign and size of the *net effect* of increasing w_i on the output of the agricultural sector. If the implement sector seeks to expand, it raises w_i to attract more workers; through equations (3a) and (1a), this acts to cut agricultural output; on the other hand, through equation (1b) and the “ kI ” term in (1a), it serves to increase agricultural output. If the net effect of reduction in labor and increase in implements in agriculture is to increase total farm output, then we have the situation in Figure 1:

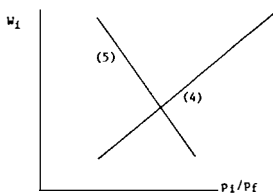


Figure 1. Net effect: increase agricultural output

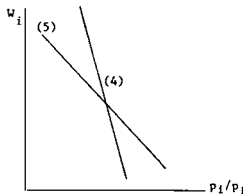


Figure 2. Net effect: reduce agricultural output slowly (relative to μ)

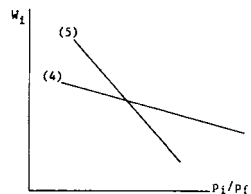


Figure 3. Net effect: reduce agricultural output rapidly (relative to μ)

² “. . . [I]n many places the money price of labour remains uniformly the same sometimes for half a century” (Smith, 1937, p. 47).

equation (4) produces an upward sloping locus of solutions in w_i and p_i/p_f , while equation (5) in all cases yields a downward sloping locus.

On the other hand, it is possible that the net effect will be to reduce current levels of agricultural output. Depending on whether this level of reduction of output is *small* (with reference to μ , the elasticity of demand for food) or *large* (again, defined relative to μ), the locus of (4) will intersect (5) from *above* (Figure 2) or *below* (Figure 3). What can we say about the likelihood of these outcomes? To obtain the situation of Figure 1, it must hold that:

$$(6) \quad MP_i \cdot k \Delta I > MP_{if} \cdot \Delta L_f.$$

$$\text{Substituting } MP_i = b_{fi} a_f k^{b_{fi}} I^{b_{fi}-1} L_f^{b_{fn}} \text{ and} \\ MP_{L_f} = b_{fn} a_f (kI)^{b_{fi}} L_f^{b_{fn}-1},$$

and rearranging, we have

$$(7) \quad \frac{(\Delta L_f / L_f) b_{fn}}{(\Delta I / I) b_{fi}} < k$$

which says that the percentage of farm labor withdrawn times its output elasticity relative to the percentage increase in implements times their output elasticity must be less than k , the share of implement output which goes to the Food industry. In a Lewisian world, where $MP_L = 0$, Figure 1 would be the general case; Figures 2 and 3 could never exist. With economic development, the ratio of output elasticities will rise (from zero) moving toward the cases where the LHS of (7) exceeds k (Figure 2) or greatly exceeds k (Figure 3). Note also that increases in k , the share of implement production employed in agriculture, also increase the likelihood that the inequality will be satisfied. Thus, as a general rule, the greater the share of implement output absorbed by agriculture and the lower agriculture's relative output elasticity, the greater the likelihood of being in the situation of Figure 1. Thus, it would seem that Figure 1 (where implements are perhaps primitive and less productive, and where agriculture *must* absorb almost all "implement" product) should describe the least economically developed areas, with Figures 2 and 3 reflecting a first and second stage, respectively, of economic progress.

Implications of the Model

What does the model imply for changes in certain key variables or parameters? Consider for example the rate of interest, r , which

appears in two terms of the system: as a determinant of labor supply to the implement sector (reflecting costs and returns to training) and as a factor in the demand equation for implements. If the rate of interest should increase, the curves shift from original to starred positions in Figures 1a, 2a, and 3a.³

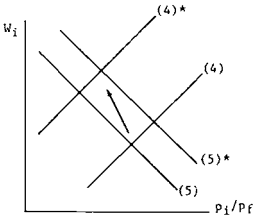


Figure 1a.
Least Economically
Developed (LDC)

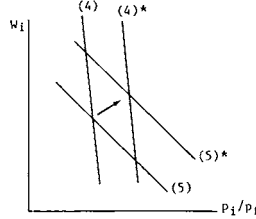


Figure 2a.
Intermediate (IDC)

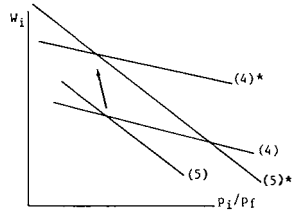


Figure 3a.
Most Economically
Developed (MDC)

As can be seen, the results of an increase in the interest rate are radically different depending on the situation (or, as we have interpreted it, the level of economic development). In the most developed state, the terms of trade may improve for the implement sector, but the major impact is to increase implement wages. In the intermediate state, this is reversed, while in Figure 1a, the least developed economy, the terms of trade effect is ambiguous, but implement sector earnings clearly improve.

Similar diagrams can be developed for other changes in the system or its variable values.⁴ We summarize the implications of the model in Table 1.

To Sum Up

A simple model of the traditional industrial sector product and labor markets, nested into the surrounding agricultural product and labor markets, has been developed to complement recent theorizing about the determination of common or day-labor earnings, which also emphasized the role of the agricultural context. This pair of models thus (in principle) predicts the levels of urban common and traditional skilled earnings. These, along with agricultural earnings, comprise the earnings milieu in which the final sector of concern, the emerging sector of modern industry, must construct its wage structure. As

³ Figure labels are changed in keeping with the conclusion of the preceding paragraph, but the actual definitions of the three "phases" are as given in Figures 1, 2, and 3.

⁴ In these diagrams, the usual difference is that curve (4) shifts the opposite direction in cases (a) and (b) and that its shift in case (c) is much greater in size than in case (b).

TABLE 1
Effects at Various Levels of Development

Change	Case A—LDC or Net Effect of Figure 1		Case B—IDC or Net Effect of Figure 2		Case C—MDC or Net Effect of Figure 3	
	w_i	p_i/p_f	w_i	p_i/p_f	w_i	p_i/p_f
Interest rate increases	+	?	+?	+	+	+?
Supply conditions to Implement Sector improve (e.g., via training) so that new $g^* > g$ for all w_i	-	?	-	-	-	?
Increase use of implements in agriculture (new $k^* > k$)	?	+	?	+	+	?
Exogenous source of Implements (e.g., foreign aid)	-	-	-	+	+	-

Key: + = increase; - = decrease; ? = small or no change, sign unclear.

argued elsewhere earlier, the pre-existing level of traditional skilled incomes can pull up that modern sector wage structure, especially at the bottom ranges, which otherwise, and for other authors, should have no reason to rise above—and in many cases far above—the levels of urban common labor incomes. This is the overall picture: We have an integrated set of economic models of the labor market in an LDC. Beyond this, we can see from the present exercise that influences of various policy or parameter changes can be of differing sizes and/or signs depending on the values of other variables; the sizes and signs of outcomes (and hence the level of traditional skill premiums) may depend on the degree of economic development; they certainly depend on economic and technical relations between agriculture and the “implement” sector, as well as elasticities of demand for the two products.

In all this, as befits economists, we have stressed the importance of market and technical phenomena and downplayed the *deus ex machina* sorts of institutionalist arguments that have prevailed elsewhere. We do not rely on “the government,” “urban tastes,” “the rising culturally determined reservation/subsistence wage,” or any of the others to explain the surprisingly high levels of modern urban wages in some places, or the even higher levels of traditional skilled incomes (again, in some places). Of course, all this is not to say that institutions have no role. Government can act, for example, to provide

training, but (as in Table 1) we can use this framework to understand the outcomes. Even cases (by no means rare) where the government provides training but restricts it to one (perhaps small) racial or ethnic segment of the population can be understood (perhaps as “new g^* always less than g for all w_i ”). The present model could provide a useful framework for development of further modelings of caste systems, tribal economic specialization, and the market purchase of embodied human capital (forms of slavery, wife-purchase, etc.).

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XVI. APPRAISAL OF FREEMAN AND MEDOFF'S *WHAT DO UNIONS DO?*

Ever since Richard B. Freeman and James L. Medoff's book, *What Do Unions Do?* was first published by Basic Books in 1984, it has been the subject of a great deal of comment and discussion. Few would dispute that the book is an important contribution to the industrial relations literature.

For this session of the IRRA's 38th Annual Meeting, four commentators were invited to express their opinions on the authors' work—on what they did, on what they might have done and did not do, and on points which they (the critics) heartily endorse or on which they take issue with the authors' interpretations of their findings.

What Do Unions Do?—Comments

RAY MARSHALL

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What Do Unions Do? is an important book on a topic that has received little objective analysis. In general, the authors accomplish their purposes of (a) organizing recent empirical analyses of the effects of unions on major economic and political outcomes in the

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United States, and (b) sparking additional research on often neglected aspects of organized labor.

This book also makes some important methodological contributions. It applies econometric techniques to unions. The authors therefore bridge the gap between industrial relations and econometric analysis within the framework of standard microeconomic analysis. I hope this will make their conclusions more acceptable to those microeconomists who tend to be skeptical of the results of industrial relations systems. Freeman, Medoff, and their students have made important contributions at a time when one trend in microeconomics is to treat unions and collective bargaining as at best a nuisance and at worst a positive danger to the competitive free enterprise system. Another strand of labor economics has been too descriptive, avoiding the more sophisticated quantitative techniques becoming more fashionable in economics. Moreover, some labor economists have eschewed attempts to develop theoretical frameworks to better understand causal relationships and to provide the means to separate the important from the unimportant. Freeman and Medoff do a good job of bridging these extremes.

Freeman and Medoff point out that unions have positive and negative effects, but that the positives outweigh the negatives. I think the best and most credible evidence supports this conclusion.

The main limitations of *What Do Unions Do?* are due to the limitations of the data, econometric techniques, and the standard microeconomic framework. Existing econometric techniques are too limited to provide more than a first approximation to an understanding of phenomena as complex as the impact of unions and collective bargaining. Moreover, standard competitive microeconomic analysis is too static and restricted in scope to really provide an adequate understanding of unions and collective bargaining. Attempts to modify competitive microeconomic analysis to fit real world conditions usually become circular and tautological—explaining everything and nothing.

In particular, the bilateral monopoly has very little to offer to an understanding of union behavior. That model assumes that unions sell labor, have cost and revenue curves, and maximize something—all of which is extremely questionable. Systems and dynamic bargaining models—like the one outlined by John Dunlop in *Industrial Relations Systems*—are much more appropriate.

Even if we accept the bilateral monopoly model, it is not necessary to assume, as Freeman and Medoff do, that unions necessarily produce

negative social results by reallocating employment and wage effects to the nonunion sector. It is just as plausible to argue that unions increase productivity by improving management systems and stimulating technological innovation, so the resulting rents could be split between unions and employers, depending on bargaining power.

As many commentators have observed, Freeman and Medoff's conclusions on productivity are among their most controversial. This is an area where the limitations of econometric analysis are fairly clear—the most powerful tools we have cannot provide unambiguous explanations for the relative weights to be assigned something as complex as productivity. We are therefore forced to treat the econometric studies as part of the overall evidence with respect to the impact of unions on productivity. Freeman and Medoff's conclusion that unions have positive and negative effects on productivity, but that their net impact is positive, is compatible with my own understanding of this relationship, though the evidence is far from conclusive. Doubts about this conclusion are based on (a) an unsupportable popular assumption that unions impair productivity and productivity growth; (b) the fact that most employers do not believe the evidence that unions have positive productivity effects or that employers have to be, or have been, "shocked" by unions into being more productive; and (c) the question is asked, if organized workplaces are more productive, why do employers oppose unions? This last point is easiest to answer:

1. Employers maximize *profits*, not productivity, and there is no necessary relationship between profits and productivity. If wage differentials are greater than productivity differentials, profits will be lower in unionized firms, even where productivity is higher.

2. Employers are willing to sacrifice efficiency for greater control of the workplace. Many employers appear to believe that control of labor makes it possible to use all resources more efficiently.

3. Even in the standard marginal productivity model, increasing wages would increase productivity, because in equilibrium the wage must equal the marginal revenue product of labor.

Of course, Freeman and Medoff's work necessarily applies to the conditions of the 1960s and 1970s; the 1980s appear to be a time of

transition, which could make their conclusions inapplicable to union behavior in the future. In periods characterized by dynamic diversity, static models are particularly inappropriate. Behavioral models will have much more explanatory power.

Again, Freeman and Medoff have done an outstanding job of achieving their basic objectives. Theirs must be the starting point for all serious future economic analyses of trade unions.

What Do Unions Do?— A Union Perspective

LESLIE ELLEN NULTY

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Within the labor movement, as amongst most commentators, the overwhelming response to Freeman and Medoff's book, *What Do Unions Do?*, has been extremely positive. It is viewed as contributing to a much needed advance in the general understanding of what unions have been able to accomplish not only for the workers they represent, but also for the labor force at large.

This contribution, by itself, is very important, especially given the breadth of the debate over whether unions have any appropriate and desirable role in the U.S. today. Moreover, how that debate comes out will be an important determinant in the evolution of social and economic relations in this nation. For this reason alone, the rigor that Freeman and Medoff have been able to bring to industrial relations inquiry is to be welcomed, even by those who might disagree with their data sources or certain aspects of the methodology used.

Freeman and Medoff have also made a major contribution in bringing together a great deal of disparate research and making it into a relatively harmonious whole. They are to be congratulated on this. The scope of the task is truly impressive.

In my view, however, there are two major problems with the work. The first has to do with the treatment of the alleged costs of the "monopoly face" of unionization, and the second with the fundamental premises that underlie the analysis as a whole.

In addressing the so-called "monopoly face" of unionism, Freeman and Medoff accept, without examination, the theoretical assumption that union wage premiums are "inefficient," because they allegedly result in less employment in the union sector and more employment and lower wages in the nonunion sector, than the market would provide. This section of the book, relying as it does almost exclusively on the deductive logic of neoclassical economic theory, stands in

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marked contrast to the extensive econometric testing cited in the rest of the work. Indeed, to the extent there is any empirical testing of the arguments, Freeman and Medoff's own evidence (in their discussion of the union wage impact on nonunion wages in Chapter 10) tends to contradict the theory; that is to say, union wage premiums tend to pull up non-union wages rather than depress them.

That the real world is inconsistent with neoclassical theory is not entirely surprising to those of us obliged to study the history of firms and industries. Their dynamics are so complex that the cases in which success, survival, or failure can be attributed to union status as such are exceedingly rare. Of course, company management will make public statements to the effect that it was labor costs and/or "rigid union work rules" that caused layoffs, plant closings, etc. But these are assertions which the professions must evaluate objectively if the credibility of the discipline is to be maintained.

For the fact is that firms can and do survive and prosper independently of their level of unionization and/or unionized labor expense. Conversely, nonunion as well as union firms and establishments incur losses, lay off workers, fail, close their plants, go out of business, etc.

If the evidence suggests (as the authors maintain) that unionized establishments tend to respond to stress through layoffs, while nonunion firms use wage cuts, that really tells us very little about the economic efficiency of one versus the other. Both net out as lost income to workers, hence to the economy as a whole. Moreover, the question of whether wage cutting can "save jobs" is very much unsettled. After all, in our basic manufacturing industries, the locus of most private-sector union contracts, both labor and management are up against massive changes beyond our direct control. These include worldwide excess capacity, the international value of the dollar and consequent import pressure, secular shifts in consumer demand, declining real disposable incomes, etc. In attempting to cope with these, reasonable people, including trade unionists, may well differ on the question of whether it is better to attempt to preserve the integrity of union contracts, or to bargain economics on a company-by-company, plant-by-plant basis in the hope that that will stem the decline in employment in those sectors.

There are numerous other conceptual weaknesses in this section of the work. Just one that springs to mind is the static quality of the argument. Freeman and Medoff argue strongly that unionization redistributes income from profits to wages. In a dynamic system, that

suggests that unionization provides greater economic stimulus through consumer demand effects, and therefore *higher long-run employment and income*, than would be the case without the wage effect of unionization. Had the authors examined these longer run considerations, they might have been less ready to suggest that stockholders and directors should oppose unionization.

In short, it is time to move beyond the distortions that underlie the "labor monopoly" paradigm that pervades the literature and this book as well.¹ This is especially important in the context of Freeman and Medoff's work because, in my view, the genuine positive accomplishments of unions documented by Freeman and Medoff, which they attribute to the benign "voice" face, exist because of and are achieved simultaneously and by the same methods as the union wage premium.

To oversimplify, the authors leave the reader with the view that when the principal effect of unionization is the achievement of the union wage premium, it is because of the activity of the "monopoly face" and the outcomes are "bad." In contrast, all the other union impacts derive from the "voice" face and the preponderance of the outcomes are "good." Moreover, an explicit cost/benefit calculus shows that the latter are larger than the former. The policy implication drawn by the authors is that, on balance, labor organization should be supported and encouraged. Individual firms and their stockholders should, however, strongly resist unionization. Further, unions' ability to obtain premium wages should be checked by economic policies that increase competition.

While it is always nice to hear people say that the labor movement is responsible for more good than bad, one cannot be entirely comfortable if one thinks that is being said for the wrong reasons. And that is where I most fault Freeman and Medoff's analysis.

To begin with, it is simply wrong to ignore the fact that the social "goods" that spring from unionization, such as greater equality in income distribution, fair and effective grievance procedures, greater security for workers most vulnerable to discrimination in the "free market" (older workers, women, minorities), etc. have their own kind of cost impact on the employer. It is not the union wage premium alone that redistributes income from profits to wages, but these other less obvious but equally "economic" components of the union contract. In my view, the impacts of unionization explored by

¹ One notable recent exception is L. Mishel, "Unions, Monopolies and the Marshallian Rules: An Institutionalist Appraisal." In *Advances in Industrial and Labor Relations*, Vol. 2, ed. D. Lipsky. Greenwich, CT: JAI Press, 1985. Pp. 69-100.

Freeman and Medoff are not “two faces,” but integral, interdependent, and inseparable parts of the same phenomenon. If it is determined that the one capacity must be constrained because it is “bad” (as Freeman and Medoff advocate with respect to wages), then the others will be lost along with it.

Had Freeman and Medoff stepped back from their statistical analysis for a moment and taken a look at the collective bargaining process as other commentators have recommended, I think they would have immediately recognized this problem. They certainly know enough about the process to know that seniority provisions, fringe benefits, internal wage structures, grievance procedures, shop-floor representation rights, etc. (all the social “goods” associated with the “voice face”) are negotiated jointly with wages. All are in principle “freely exchangeable” within the union contract, subject to the needs and objectives of the workforce, management’s priorities, the relative strength of the two parties, etc. Further, all are *enforced* by the same union shop-floor governance that makes possible the achievement of the union work environment as well as the union wage premium.

This is not to suggest that the authors should have included the dynamics of collective bargaining as a subject for extended analysis. That clearly would have been beyond the scope of the work. But I believe their findings would have benefitted, and their conclusions may have been somewhat different, had that knowledge been brought to bear on those areas they did examine in detail.

As an example, in the course of collective bargaining, a union that is in a strong position to negotiate improvements in one area is generally in a position to parlay advances into other areas. At the same time, the nature of negotiating is such that a strictly monetary demand, such as wage or health insurance increases, may be moderated or traded off for some other objective such as bidding rights. Indeed, in the current era of concession bargaining, the employers’ demands for givebacks are by no means restricted to direct and immediate compensation, but frequently address seniority systems, numbers of union stewards, etc. Employers recognize that each and every element of a union contract to one degree or another has a potential impact on the distribution of relative power between the company and its employees, and not merely on the distribution of corporate income. The two are intimately linked in the view of both parties, but not in the Freeman and Medoff book. To my mind, this is the book’s most serious weakness, for it is where the work misleads the public as to what is really going on between management and labor in the union setting.

Because this book is widely viewed as sympathetic toward labor, this flaw is particularly distressing, for it contributes to the false image of labor's "irrationality" with respect to wages and it masks the scope of the employers' attack, not simply on unions but on unorganized workers as well.

Moreover, this weakness in the "two faces" device also has important implications for the wider social impact of unionization and for many important policy questions current in the nation today. The authors have a duty to explain how the economic policies they support, deregulation, a hands-off approach to international trade, and the decline of basic industries, will in any way enhance organized workers' ability to effect change through "voice." Over the long run, it may indeed propel more unorganized workers to seek the benefits of unionization, as public policy can no longer remedy discrimination, unsafe workplaces, arbitrary treatment, etc.—all of which tend to worsen as competition increases. But it is no secret that many of the same forces in society that have promoted that economic agenda are equally enthusiastic about limiting workers' capacity to organize. To the extent they succeed in winning allies for the strictly economic part of their agenda amongst well-intentioned people such as Freeman and Medoff, we may well have to contemplate significant further decline in the U.S. unionization level.

Such a prospect must be addressed seriously. At a 10 percent unionization rate, in my view, the ability of the union sector to influence and temper the nonunion sector will be significantly reduced. We will then be living and working in an environment in which profit-maximization, however interpreted by the individual firm and however incompetently pursued by unfettered management, will be the effective determinant of workers' earnings and conditions of work. History teaches that this is likely to be an extremely unstable environment, and not necessarily a more prosperous one. I do believe that the authors, and many others in the two professions and even in the management community, are not entirely comfortable with such a prospect. If that is so, they and other researchers would do well to examine more carefully how the labor movement of this country, small and legally restricted as it is, has managed to accomplish so much good for so many, compared to what "the market" would have provided. They should then consider whether further attack on the labor movement, whether economic, legal, or other, really serves the best interest of the nation at large.

Comment on Freeman and Medoff's *What Do Unions Do?*

ALBERT REES
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If I were still teaching labor economics, I would insist that my students read all of this important book. Labor economics in recent years has devoted too much of its attention to the influence of unions on earnings, to the exclusion of studying the other activities and effects of unions. Freeman and Medoff have redressed this serious imbalance by an imaginative and thorough examination of the nonwage effects of unions and collective bargaining. In the course of this examination, they make excellent use of a wide variety of statistical evidence. On the whole, they find that the nonwage effects of unionism are beneficial, increasing worker satisfaction and reducing turnover, even after allowances for wage differences.

Despite my admiration for most of Freeman and Medoff's work, I do not agree with all that they have written. There are a number of points with which I take issue. The most general of these is that they tend to minimize the shortcomings of the labor movement and to make excuses for things that cannot be excused, such as corruption. I do not find it very satisfying to be told that for every corrupt union leader there is also a corrupt corporate officer.

The most important of my disagreements with Freeman and Medoff has to do with their discussion of the effect of unions on profits. They find that unions reduce profits, particularly in highly concentrated industries, using as their measure of concentration the ratio of the shipments of the four largest firms to total industry shipments. They conclude that this reduction of profits does not really matter, because without unions firms in concentrated industries make excess profits, and unions merely bring these profits back down to the level of competitive industries. Ten years ago this would have been a satisfactory analysis, but it no longer is. In the face of growing import

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competition, for a firm to have a large share of domestic shipments no longer assures profitability. Leading firms in such concentrated industries as steel and agricultural machinery are now struggling for survival, threatened by the overvalued dollar, and the resulting loss of export markets and penetration of domestic markets by imported goods. In my view, this experience goes a long way toward explaining the new tough attitude of management in American manufacturing toward the expansion of collective bargaining and the demands of union negotiators.

Just as imports have reduced the profitability of manufacturing firms, deregulation has reduced monopoly profits in rail, air, and road transportation. This has led to the entry of new nonunion firms and, as in manufacturing, to tougher management positions at the bargaining table and in organizing campaigns.

Freeman and Medoff discuss and deplore the growing management opposition to unions, which they correctly believe has contributed to the decline of private-sector unionization. However, they fail to make the crucial links between the union effect on profits, the recent changes in the profitability of large American corporations, and the increase in management hostility to unions. Had they done so, I think their story would have been more coherent, and they might not have dismissed the union effect on profits so lightly.

Let me emphasize in closing that despite what I view as its flaws, this book is a major contribution to our field and amply deserves the special attention it is getting at this meeting.

Comments on *What Do Unions Do?*

THOMAS A. KOCHAN

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It is a well-deserved tribute to the importance of *What Do Unions Do?* that we are having a symposium to discuss the book's contributions to industrial relations theory and research almost two years after its publication. Since many of the comments I would make on the book have been covered by other reviewers,¹ I will only make these points quickly and then move on to raise some issues that I believe will be central to an understanding of what unions do in the decade ahead.

I appreciate this opportunity to put into print what I have said to Dick Freeman and Jim Medoff privately as their empirical work on unions progressed over the course of the last seven or eight years. There is no question but that the work summarized in their book stands as the most important contribution to the assessment of the effects of unions on the welfare of individuals, organizations, and society to be published to date. It is more broad-ranging in scope than H. Gregg Lewis's classic study of the effects of unions on wages, more persuasive than the well-worn debates over union wage goals and the various theoretical models spun by economists seeking an answer to the question of what unions maximize, and informed by stronger empirical evidence than previous institutional analyses of the effects of collective bargaining. Moreover, I doubt that we will see anything more thorough or comprehensive on this subject for a very long time to come.

The book also makes an important theoretical contribution to the labor economics profession by challenging neoclassical economists to reassess the standard view that unions can only serve as a drag on the economic efficiency of a firm or on the economy. Indeed, apart from

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¹ See, for example, the Review Symposium on *What Do Unions Do?* in *Industrial and Labor Relations Review* 38 (January 1985), pp. 244-63.

the vast array of useful empirical findings the authors report that other economists will no doubt refine and/or challenge one by one, perhaps the most important contribution of the book is that it shifts the terms of the debate within the labor economics profession. Economists can no longer justify reliance on a narrow monopoly wage paradigm for modeling the economic effects of unions.

While the Freeman and Medoff monopoly/voice model broadens the theoretical paradigm of neoclassical economics and challenges those working within this paradigm to reassess their views, it does not fundamentally challenge the use of this paradigm as the way to view the role of unions in society. That is, unions are still to be evaluated against the standard of the economic costs and benefits they produce for the economy. I suspect that most industrial relations researchers share my unease with the use of this paradigm to conceptualize and evaluate the role of unions. Lloyd Ulman made this point best in a recent paper when he noted that while an economic defense for the institution of collective bargaining can be made, its legitimacy and role as an institution rests on fundamentally different and broader grounds:

. . . the most serious case for collective bargaining as a social institution has not rested on the grounds that it pays for itself—or that it is innocuous—but rather that it has generated noneconomic gains for a democratic society, flowing from the replacement of a regime of paternalism in the workplace with “industrial democracy” and “industrial jurisprudence,” which might be set against those costs which its adversarial nature has entailed. This, of course, does not rule out the possibility that unions and enterprises might yet devise less costly forms of joint determination of the terms and conditions of employment in their own ultimate self-interest.²

My guess is that Freeman and Medoff agree with this statement. Indeed, their work moves the labor economics profession closer to this view. But by framing the assessment of unions in terms of whether the monopoly effects outweigh the voice effects or vice versa, the authors do not achieve a shift of the debate outside the neoclassical paradigm to one that rests on a view of industrial society and of employment relationships that is more consistent with what industrial relations scholars hold is the enduring justification and need for unions and other forms of employee representation.

² Lloyd Ulman and Elaine Sorensen, “Exit, Voice, and Muscle: A Note,” *Industrial Relations* 23 (Fall 1984), p. 427.

What Will Unions Do?

One of the ironic twists of fate that I believe is likely to befall *What Do Unions Do?*³ is that, just as the book was published, what unions are doing is changing in dramatic ways from the patterns of behavior and their results that are reported in the book! As other reviewers have pointed out,³ the dynamic character of U.S. industrial relations in the early 1980s is causing unions to change their bargaining strategies, to expand their roles at the workplace in important ways, and to undergo a fundamental reassessment and search for new strategies for organizing and representing workers. Thus, Freeman and Medoff's book is likely to be eventually viewed as a very good historical statement and account of what unions did in the 1960-1980 time period, but not a good forecast of how unions adapt in this current period. This is not a fair criticism, since the book reflects more than a decade of empirical research and the authors are no more guilty than the rest of us for not foreseeing and predicting the changes in industrial relations that are currently under way. Indeed, Freeman and Medoff are *very cognizant* of the risks in simply extrapolating out into the future the trends in union membership of the past decade and therefore note that the future may not be like the past.

Given these changes, I would like to speculate over the following question in hopes of stimulating the type of research that makes the question a reality: If we were to host a similar symposium at the 1995 IRRA meetings to discuss research on "What Unions Did" in the decade following publication of the Freeman and Medoff book, what would be the focus of such a discussion? Stated differently, what are likely to be the central questions regarding unions that social scientists—economists, industrial relations specialists, political scientists, historians, etc.—ought to be addressing now in order to document the history of unionism in America during this critical period in its history?

Clearly, we will want to know whether and, more importantly, why or why not, unions have been able to slow or reverse the downward trend in union membership. To do this we first need a more holistic theory of the multiple causes of union decline and the factors that might influence its resurgence. History tells us that the major turning points in U.S. union membership from a downward to

³ See David P. Lipsky's comments in the Review Symposium cited in note 1, pp. 250-53. See also the review by Harry C. Katz in *Sloan Management Review*, 26 (Fall 1984), pp. 75-77.

an upward trend tend to be periods when a confluence of forces come together—a major shift in the political and social environment, a significant change in the laws governing union organizing, and a major shift in union organizing and representational strategies. Clearly, none of us here are good forecasters of such cataclysmic events. However, we are well positioned to identify changes in the expected rate of union decline since Freeman and Medoff have provided projections of union membership in 1990 if current trends continue.

But answers to the real questions about union behavior are likely to lie more in an internal analysis of the debates and self-analyses currently under way in the labor movement. Any period of strategic change in the labor movement in the past has been characterized by political battles and internal debates over new strategies—Lewis versus the AFL in the 1930s, Gompers's brand of business unionism versus his more radical or broad-social-goal protagonists in the early 1900s, Reuther's vision of a broader social agenda in the 1940s versus Murray and other traditionalists, the early advocates within AFSCME and other public-sector unions for support of state and local bargaining legislation for public employees that did not require the right to strike. We are currently witnessing what I believe will be a similar internal debate and battle over whether the roles of unions should expand at the level of the firm to embrace worker participation at the level of the workplace and worker representation and participation at the strategic level of management decision-making. To do so departs from many of the basic patterns of union behavior that have built up since the New Deal. The outcome of these internal debates will shape union strategies in the years ahead and will have a profound effect on "What Unions Do" through collective bargaining and related activities.

A similar debate over how to organize the growing occupations of workers is under way, sparked by the recommendations of the AFL-CIO's Evolution of Work Committee report.⁴ Whether the idea, for example, of associate membership status is accepted and proves to be successful will have an important bearing on the type of labor movement that we find in the 1990s.

In short, union leadership, internal union politics, the political economy of unions and their role in society are all likely to be the issues that dominate public discussions of unions in the years ahead

⁴ *The Changing Situation of Workers and Their Unions*, A Report of the AFL-CIO Evolution of Work Committee (Washington: AFL-CIO, 1985).

and therefore should feature prominently in the research agendas of those who chronicle "What Unions Do" during this period.

Finally, if we are to make an enduring theoretical as well as empirical contribution to the study of unionism, then we will need to go back to some very basic questions that are not answered by Freeman and Medoff or any other contemporary student of unions, nor were they by our more illustrious predecessors—Commons, Perlman, Hoxie, the Webbs, Dunlop, Kerr, etc. That question is: What explains the volatile historical pattern of unionism in American society?

By summarizing their work on the effects of unions during a relatively stable period in the history of American industrial relations, Freeman and Medoff have produced a landmark book that will be a standard reference for future generations of researchers. If they or other scholars conduct as careful a body of research on the behavior of unions during this period of dynamic change, we will have the raw materials needed to construct a theory of the behavior of American unions. For their contribution to this historical record we are all grateful.

XVII. EMPLOYEE RELATIONS IN THE FEDERAL ESTABLISHMENT

What's \$13 Billion Among Friends? The 1984 Postal Arbitration

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The 1984 interest arbitration was the first time that the United States Postal Service (USPS) and its two largest unions, the American Postal Workers Union and the National Association of Letter Carriers, implemented the legislated impasse procedure of the Postal Reorganization Act of 1970 (PRA) to resolve all economic issues raised in bargaining. As such, it represented a significant development in postal labor relations and resulted in an award for over 500,000 employees, the largest number of workers involved in a single arbitration in the United States. It also raised questions about standards to be employed in wage-setting and in interest arbitration.

The 1984 Negotiations

The 1984 negotiations marked the sixth round of bargaining and the first since the air traffic controllers' strike of 1981.¹ The tone for the negotiations was set by a policy statement of the Board of Governors

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¹ Mediation and fact-finding were utilized in the first round of negotiations in 1971. An ad hoc mediation/arbitration procedure resolved two issues in 1978. That year also produced the first implementation of the complete statutory impasse procedure for a small unit of security guards. The procedure was first used for a national bargaining unit in the 1981 negotiations involving mailhandlers. For detailed background information, see J. Joseph Loewenberg, "The U.S. Postal Service," in *Collective Bargaining: Contemporary American Experience*, ed. Gerald G. Somers (Madison, WI: Industrial Relations Research Association, 1980), and "Conflict Resolution in the United States Postal Service," in *Conflict Resolution in Market Economies*, eds. T. Hanami and R. Blanpain (Deventer, Netherlands: Kluwer, 1984).

of USPS two weeks before the initial bargaining meeting. The Board found that postal workers' compensation exceeded that of comparable private-sector employees, and it therefore directed USPS management "to seek correction of this situation."² The mandate of the Board was reflected in management's economic proposals and included a two-tier wage structure with the scale for new hires 33 percent below the current base.

The unions' Joint Bargaining Committee (JBC) believed that the USPS proposal was regressive and unwarranted by the economic success of USPS. Postal volume had continued to climb in spite of rate hikes and of doomsayers who had predicted a phasing-out of hard mail copy. Annual productivity had also increased beyond that in the private sector in seven of the past ten years. USPS had accumulated over \$1.5 billion in surplus in three successive years, even though Congressional subsidies had come to an end. Moreover, the unions claimed that employees had received an overly modest economic settlement in the 1981 agreement. JBC wanted significant improvement in wages and benefits.

Negotiations were unsuccessful. Impasse procedures were initiated. Fact-finding panels involving the rural letter carriers and the mailhandlers issued reports; in both cases, the two-tier wage system and reduction in benefits were rejected. JBC and USPS agreed to suspend the fact-finding process and to resume negotiations. These negotiations proved no more successful than the earlier ones. The parties therefore turned to mandated binding arbitration.

The 1984 Interest Arbitration

The statutory arbitration format is a three-member panel, with each party choosing one member and those two selecting a third; if the two are unable to agree, the director of the Federal Mediation and Conciliation Service designates the impartial neutral. The tripartite panel has 45 days in which to issue its award. In 1984 the statutory scheme was complicated by the presence of a joint bargaining team of two unions and by a timeframe much shorter than the statute envisioned. The parties agreed on a five-member panel: each union would nominate a member of the panel, USPS would nominate two members to balance the union representation, and one impartial chairman would be selected. Each representative arbitrator would

² Bureau of National Affairs, *Government Employment Relations Report*, No. 1058, April 9, 1984, p. 685.

cast a half vote; the chairman would be entitled to a full vote. The impartial chairman was Clark Kerr, former chancellor of the University of California, Berkeley, and an arbitrator. The deadline for the arbitration award according to the statutory timetable was December 25. The hearings opened on December 11 and lasted until December 19.

At the start of the arbitration hearings, USPS brought in a new set of proposals:

a. The wage schedule for incumbent employees would be unchanged. These employees would receive an annual lump-sum payment of \$100 instead of a wage increase.

b. New employees would start at a lower step and salary than currently existed. In grades 1-3, there would be six additional steps before reaching the current step 1. In grades 4-5, there would be four additional steps. In grades 6-7, there would be two additional steps. To move from one new step to another would require 52 weeks so that it would take 14 years to reach the top of scale in grades 1-3, 12 years in grades 4-5, and 10 years in grades 6-7.

c. The formula for computing COLA would remain unchanged, except that the first 3 percent in the Consumer Price Index (CPI) would not affect COLA. COLA would be reviewed annually. The result of the review would be an annual lump-sum payment.

d. COLA accumulated under the 1981-1984 agreement would not be added to basic wages. Instead, USPS would pay a lump sum of \$1643 annually.

e. The night-shift differential would remain at 10 percent, with a cap of \$1.00 per hour. The Sunday differential would be limited to hours actually worked on Sunday rather than to shifts whose hours included Sunday.

f. New employees to accrue sick leave at 50 percent of the current rate, with an 8-hour unpaid waiting period before using sick leave in their first 5 years of employment.

g. A reduced schedule of annual leave during the first 5 years of employment.

h. Contributions to existing health-benefit plans to continue at the January 1984 rate; contributions to new plans up to 93.75 percent of the charge provided specified caps were not exceeded.

The savings resulting from the USPS proposals would amount to \$1.4 billion over three years.

JBC presented to the arbitration panel the proposals originally submitted in negotiations.

- a. \$1500 across-the-board salary adjustment immediately as a catch-up to unionized workers in the private sector.
- b. \$450 annually to reward productivity.
- c. Accrued COLA payments and the \$350 productivity bonus of the 1981-1984 agreement to be rolled into the base.
- d. \$132 each year of the agreement to compensate for increases in health insurance contributions by employees.
- e. \$544 immediately and \$448 in each subsequent year to cover Medicare tax.
- f. Change in the COLA formula from 1¢ for every .4 increase in the CPI to 1¢ for every .3 increase in the index, with semiannual reviews.
- g. Add Martin Luther King Day as a holiday.
- h. An increase in the uniform allowance of 24 percent in the first year and an additional 6 percent in each succeeding year of the agreement.
- i. Change the maintenance craft pay schedule to reverse the compression caused by past across-the-board pay increases.

The total cost of the unions' proposals was estimated at \$11.5 billion for the three years, making the monetary difference between the parties in arbitration approximately \$13 billion.

The central question addressed by the parties during the arbitration hearings was the interpretation of Section 1003 of the PRA: "It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy."

To demonstrate that postal employees were paid a premium over comparable private-sector employees, USPS presented a number of expert witnesses to testify on econometric studies, job evaluation studies, occupational wage surveys, and package industry wage surveys. JBC denied that the statutory mandate should be the sole

criterion guiding the arbitrators, but it was willing to present evidence to counter that presented by USPS.

The key witnesses were Michael Wachter for USPS and Joel Popkin for JBC. Their testimony centered on the validity of their respective econometric studies about the existence and size of a premium of postal wages over wages of employees in the private sector and about the applicability or utility of their findings for collective bargaining.³ The importance attached to these witnesses and an unusual departure from typical arbitration hearing procedure was, following their testimony, a joint seminar before the arbitration panel to allow Wachter and Popkin to discuss their studies, point out areas of agreement, and challenge each other on areas of disagreement.

Wachter asked the research question, "What wage would a postal employee get in alternative sources of employment?" He concluded that USPS paid a premium of 19.8 percent over the private sector. If only unionized workers in the private sector were used as a comparison, the wage premium for postal employees would still be 12.2 percent. Wachter validated his results by looking at the large number of applicants for postal jobs, low quit rates, lack of unemployment, and a comparison of wages of new hires as postal mailhandlers and material handlers in private industry.

Popkin noted that 29.5 percent of represented employees were nonwhite and 27 percent female. He hypothesized that private industry discriminated in setting wages, particularly against female and nonwhite employees performing work similar to that of white males. Since USPS was not a discriminatory employer, the white-male wage comparison was the appropriate one for determining comparability. The addition of race and sex variables in the regression analysis accounted for the major portion of postal-private sector differentials. In addition, Popkin included variables for firm size, proportion of industry unionized, and tenure in current job, all of which had been shown to affect wage levels. Popkin found no statistically significant difference between the wages of white males in USPS and those of white males comparably situated in the private sector.

³ For earlier studies, see Michael Asher and Joel Popkin, "The Effect of Gender and Race Differentials in Public-Private Wage Comparisons: A Study of Postal Workers," *Industrial and Labor Relations Review* 38 (October 1984), pp. 16-25; and Jeffrey M. Perloff and Michael L. Wachter, "Wage Comparability in the U.S. Postal Service," *Industrial and Labor Relations Review* 38 (October 1984), pp. 26-35.

The arbitration award provided for a three-year agreement retroactive to July 20, 1984. The award increased the salaries in the current wage schedule by 2.7 percent annually for incumbent employees. New employees in the first seven grades would start at steps below those currently in the wage schedule: three new steps for grades 1-3, two new steps for grades 4-7; the entry wage for each grade was that proposed by USPS. The time for a newly hired employee to reach step 1 of the 1981-1984 wage scale would be 272 weeks for grades 1-3, 184 weeks for grade 4, and 140 weeks for grades 5-7. To reach the top of scale would require from 13 years in grades 1-3 to 10.5 years in grades 5-7, as opposed to 8 years under the wage system in effect from 1971 to 1984. The award added a new step at the top of the grade 8 wage scale and two new steps at the top of the wage scales for grades 9 and 10. The COLA formula and times of computation were maintained. COLA accumulated under the 1981-1984 agreement would be rolled into the basic salary schedule in October 1987, except that employees eligible for retirement by 1990 could elect an earlier roll-in. Martin Luther King Day was added as a holiday beginning in 1986. The uniform allowance was increased by 10 percent. No change was awarded in leave, benefit plans, and premium pay provisions. It was estimated that the award would add approximately \$4 billion in postal costs.⁴

Clark Kerr explained the basis for the award: "This award reflects a policy of 'moderate restraint' This award interprets moderate restraint as a slowing of wage increases, as against the private sector, by 1% a year or for 3% in total over the life of this agreement."⁵

Each pair of arbitrators picked by the parties added their own views to the arbitration award. The USPS arbitrators dissented as far as the roll-in of accumulated COLA was concerned but not to the remainder of the award.

Discussion

The 1984 postal arbitration chaired by Clark Kerr raised fundamental questions about the interpretation of statutory provisions for wage-setting in USPS, the relative role of these provisions and collective bargaining, and the criteria to be used by arbitrators. The issues were identified and discussed; all were not answered clearly.

⁴ Bureau of National Affairs, *Government Employment Relations Report*, No. 1095, December 31, 1984, p. 2329.

⁵ Arbitration Opinion and Award, U.S. Postal Service and National Association of Letter Carriers and American Postal Workers Union, December 24, 1984, pp. 20-21.

Several aspects of Section 1003 of the PRA may be ambiguous. First, the provision calls for USPS "to maintain" comparable compensation and benefits. Does the verb suggest a minimum, a general guide, or an absolute standard for setting compensation? As might be expected, JBC argued the first approach, while USPS adopted the last one. Second, what is the base period for comparison? Wachter advocated 1969 because that was the last year before postal reorganization was discussed seriously by Congress. Counsel for USPS used 1970 in his arguments at the arbitration hearings on the ground that Congress awarded postal employees wage raises following the end of the 1970 strike to establish comparable rates. The unions adopted 1971 since that was the first time the parties bargained collectively and interpreted freely the meaning of the statutory language. The choice of a base period affects the results, especially since postal wages rose significantly between 1969 and 1971. Third, how does one define "comparable levels of work in the private sector of the economy"? USPS utilized a broad, all-inclusive definition to measure comparability. The unions preferred a more limited definition for comparative purposes.

Even if these thorny issues regarding interpretation of Section 1003 could be resolved, the question remains of the significance of the statutory standards for collective bargaining. Congress granted postal employees the right to bargain collectively on wages, hours, and conditions of employment. If wages were determined by an agreed-upon definition of comparability, what would remain for the negotiation of wages? Collective bargaining would then be subordinated to the interpretation of Section 1003 promoted by USPS at the arbitration hearing.

For the arbitrators, the issue was further compounded by that of appropriate arbitral standards. USPS contended that comparability was the sole standard before the panel. The unions argued for a more flexible approach, suggesting that the arbitrators refer to past collective bargaining settlements between the parties as a guide to their decision.

The arbitration award answered some of the questions raised by the parties. In his opinion, Kerr found that postal workers had gained beyond the increases of comparable private-sector workers and therefore should be restrained in the award. He determined that July 1970 was the proper base for measuring comparative increases because that was the date "when last increases mandated by Congress went into effect (presumably reflecting Congress's interpretation of

comparability at that time). . . .”⁶ Kerr did not, however, answer the question of which industries or other variables were appropriate for measuring comparability, nor did he specify the size of the premium enjoyed by postal employees. One can infer that the “moderate restraint” result of the award does not yield full comparability. If so, then the arbitration panel did not believe comparability was the sole standard for arriving at a decision, yet no other standards were explicitly stated.

By acknowledging the importance of the statutory standard of comparability, the arbitration award implied that economic factors usually considered in private-sector bargaining have little or no bearing on postal negotiations. Presumably postal employees would be entitled to comparable wages and benefits, however defined, regardless of whether USPS prospered or faced economic adversity. Concessions need not occur as a result of industry-specific circumstances. One can debate if this result is what Congress intended in according postal employees the right to bargain collectively in 1970.

The award also raised additional questions. The most significant innovation was the addition of lower steps to the wage structure in grades 1-7 and of higher steps in grades 8-10. The addition of lower steps will reduce labor costs below what they otherwise would have been for years to come. Does a standard of comparability, however, warrant additional steps? The Postal Service already had a step system with eight years to reach the top step of most grades. The even lengthier step system in effect prior to postal reorganization had been compressed to eight years following the 1970 strike. Since an extensive step system is not prevalent in the private-sector economy, it is difficult to justify additional steps on the basis of comparability. A different question surrounds the wage increases given to incumbent employees. If postal employees had gained a premium of the amount suggested by Wachter, what reason could there have been to award incumbent employees any wage increase, let alone one more generous than the parties had negotiated in their prior agreement? And is it simply coincidental that the cost of the award was \$4 billion, the same as that of the 1981-1984 agreement and the amount projected by the Postal Service in its filings with the Postal Rate Commission earlier in 1984?

It is easier to raise questions than to fashion interest arbitration awards. Issuing an interest award five days after the end of hearings is

⁶ *Ibid.*, p. 20.

an accomplishment. The Kerr panel indicated some directions, provided solace to the parties, and carefully avoided direct answers to fundamental questions. The award provided relief to USPS in terms of lower wages at the entrance level and a longer period for employees to reach to top step of each grade. The arbitrators limited union wage demands for incumbent employees. USPS could thus feel vindicated that the arbitration panel recognized comparability as a standard and that it took a step toward its definition of comparability. At the same time, the unions could claim that many of the concessions sought by management had been denied and that incumbent employees would receive wage increases. While neither side achieved all it had sought, each could live with the result. Perhaps no more should be expected from interest arbitration.

Scope of Bargaining in the Federal Sector; A Management View

TOM GARNETT
Department of Defense

I appreciate the opportunity to join you at this meeting and to discuss with Steve Gordon the scope of bargaining under the Federal Service Labor-Management Relations Act. While Steve's position as NFFE General Counsel speaks for itself, it may be useful to briefly explain my role in the Department of Defense (DOD) labor-management relations context and provide some demographics on the DOD program.

There are some 1.2 million civilian employees in DOD. This represents some 1 million U.S. citizens employed both in the United States and including approximately 50,000 citizens employed in overseas locations—the bulk of them in Europe (37,000) and the Pacific (7,000). We also employ some 120,000 local nationals overseas. In addition to our appropriated-fund workforce, DOD operates a number of nonappropriated fund activities employing 185,000 employees in various retail and morale/welfare/recreation jobs. The total civilian pay account is approximately \$30 billion a year.

In terms of the extent of the DOD program, a number of figures might be useful to put my remarks in perspective. More than 70 percent of the DOD workforce is included in bargaining units: Army, 220,000 (600 units); Navy, 235,000 (650 units); USAF, 168,000 (275 units); others, 104,000 (212 units). DOD components deal with over 100 separate AFL-CIO and independent unions.

Historically, DOD cases make up almost 50 percent of the total FLRA negotiability caseload and some 30 percent of exceptions to arbitration awards. Labor relations in DOD, together with most other personnel programs, is largely decentralized, with basic authority delegated to the Services and the various other components.

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My role on the Secretary of Defense staff is largely one of policy-making, ensuring basic coordination between components and serving as the central clearing point, together with our General Counsel, for those matters that are elevated to the FLRA and the courts on appeal. General day-to-day labor-management relations are handled at the various bases and installations to include the negotiation of contracts, dispute resolution in arbitration and unfair labor practices, and other matters such as unit determination.

In approaching my topic, I must remind you that I am speaking of the nonpostal scope of bargaining, since the Postal Service is basically under the NLRA and has a far broader scope, as Joseph Loewenberg has described. At the risk of oversimplifying our program, I must first point out that the federal labor-management relations program has always been unique due to a number of factors:

Federal sector bargaining is subject to a number of management rights that date back to the very first federal-wide program under the Kennedy Executive Order issued 24 years ago next month.

Federal sector bargaining is based on the concept that providing employees with an opportunity to bargain collectively will increase governmental efficiency and, most importantly, contribute to the effective conduct of public business.

Federal sector bargaining is also subject to a vast array of external law and government regulations: Basic statutory provisions for the federal workforce are found in Title 5 of the United States Code. Congress still legislates basic pay and fringe policies. Agencies such as the Office of Personnel Management, the Office of Management and Budget, and the Department of Labor issue various regulations that mandate uniform government-wide policy which bars the negotiation of contrary policies with unions. In addition, the federal labor relations policy has always recognized the inherent right of employing agencies, such as DOD, Commerce, etc., to regulate; these agency regulations are subject to challenge under a compelling need test applied by the FLRA.

Management Rights

The concept of reserved management rights dates back to the 1962 Kennedy Order, where under Section 6(b), agencies retained the right to determine mission, budget, organization, assignment of personnel, and work technology; and under Section 7, agencies were directed to retain basic rights to direct employees, hire/promote/transfer/assign and retain employees, suspend/demote and take disciplinary actions,

to relieve employees from duties due to lack of work, to maintain the efficiency of government operations, to determine methods and means and personnel, and to take necessary actions in an emergency. Little attention was paid to these two areas of management rights under the Kennedy EO from 1962 until it was replaced by the Nixon Order (EO 11491) in 1970 and subsequent amendments.

Under EO 11491 and the Federal Labor Relations Council, the broad direction and impact of these rights began to play out and the FLRC began to sort out the various rights into two categories: (1) Section 11(b) *Permissive/Voluntary Rights* which management could agree to share but which were never mandatory subjects. These rights involved the former 6(b) rights of EO 10988 in terms of numbers, types, and grades of positions or employees assigned to a work unit (commonly referred to as staffing patterns), mission, budget, organization, work technology, and internal security. (2) Section 12(b) *Prohibited Subjects*, dealing with the retained right to direct employees, hire/promote/assign and retain employees, right to suspend/demote/discharge, the right to relieve employees from duties, to maintain efficiency of government operation, to determine the methods and means and personnel by which operations are to be conducted, and to take any actions necessary to carry out the mission in an emergency.

There has always been some blurring of lines between permissive and prohibited subjects, but management is required to bargain on the impact and implementation of its decisions taken pursuant to its management rights.

The Civil Service Reform Act of 1978 led to codification of the prior labor relations policy, as Title VII of the Act and found at Chapter 71 of the United States Code. There was some minor adjustment between EO 11491 and the law in that mission and internal security practices were shifted to prohibited areas and methods and means became permissive areas, and, in general, the old Section 11(b) permissive and 12(b) prohibited subjects were enacted directly as Sections 7106(b) and (a).

Under Title VII of the Civil Service Reform Act, the Federal Labor Relations Authority and the courts replaced the Federal Labor Relations Council as the final arbiter of the duty to bargain. Over the past six years the FLRA, the Circuit Courts of Appeal, and the Supreme Court have continued to shape and refine the basic bargaining obligations initially framed by the FLRC.

Scope of Bargaining from a Management Perspective

It is obvious from the evolution of the program that the federal sector program has major restrictions on the scope of bargaining. The enunciation of these rights reflects basic political decisions by the Congress and the broader reality of a civil service system based on merit and chartered to provide for the defense of the nation and to execute public programs. There have been many who characterize the program as “collective begging” due to the numerous restraints on the process.

I have spent 23 years in the labor relations arena and have never felt that apologies were needed. While we cannot bargain on the broad range of pay and fringe benefits available to the private sector generally and to the Postal Service, unions have made great strides in organizing the federal workforce and negotiating meaningful contracts over the past 20 years, and they have influenced the basic management and personnel policy-making process in key areas of promotion and pay, and, perhaps most importantly, by the aggressive representation of their unit members in grievance, performance, and disciplinary matters. Collective bargaining in the federal sector has opened up the total management process, and we have a more effective workforce because of the union’s role in “keeping the system honest.”

While the high volume of litigation and appeals over management rights are highlighted by those who see the program as too costly or those who see the bargaining as too narrow, these critics fail to recognize that there are almost 2000 negotiated agreements in place, covering over 1 million federal employees.

Federal managers and staffers like myself have been aggressive in defending management rights; DOD alone is responsible for almost 50 percent of the FLRA negotiability caseload. Notwithstanding a strong orientation to management rights, many management representatives like myself believe that you can be very pro-management-rights and also strong advocates of the collective bargaining process.

While the emphasis on retained rights has narrowed the federal scope of bargaining over that found in the private sector and in many state and local government programs, it is important to realize that almost all federal employees enjoy a number of separate statutory or regulatory protections that need not be bargained. They include: basic statutory appeal rights to the Merit Systems Protection Board in adverse actions based on unacceptable performance or conduct; basic

classification and appeal rights in reductions in force; statutory rights to retained grade and pay; prohibited personnel practice and “whistleblower” protections under the MSPB’s Special Counsel; and extensive appellate rights in connection with alleged discrimination either to MSPB/EEOC in mixed cases, to the EEOC alone, or to the EEOC and the courts directly or via the negotiated grievance and arbitration vehicle.

Current Setting in the Federal Sector

There is no question that there has been a strong swing to the right in the last 150 or so FLRA decisions. On balance, the courts, including the Supreme Court in the *BATF Union Travel and Per Diem Payment* case have provided a strong foundation for management rights to assign work and direct the workforce.

I am concerned that some of the recent FLRA decisions as to union roles on various committees have removed valuable vehicles for union participation in awards, safety, and rating panels at the local level. I also believe that many activities will somehow be able to avoid a violation of the law and fashion appropriate forums for joint labor-management dialogue.

Jerry Calhoun was recently confirmed and will serve as FLRA chair, and I understand that Hank Frazier may be renominated as an FLRA member. The fate of William McGinnis who has served for over a year on a recess appointment is uncertain. It will be important to watch the tenor of decisions coming from the FLRA in the months to come.

The FLRA has before it a number of key issues of vital interest to the Department of Defense and other government agencies: six exceptions to arbitration awards filed with FLRA may have to await a pending Supreme Court decision; a number of pay issues involving fringe benefits and Section 6 school teachers; and a number of pay and overseas allowance issues from the DOD overseas school system..

We also must look to the impact of the Gramm-Rudman deficit reduction statute as it affects the size and structure of the federal workforce. I believe that federal managers and unions must refocus their energies away from adversary/litigious dealings and look for ways to support productivity and efficiency initiatives. The parties at the local level as well need to innovate with new approaches to the quality of worklife, productivity gainsharing, and quality circles.

DOD will continue aggressive use of efficiency reviews and commercial activity studies to streamline organizations. And I hope

that unions and management can devise forums that will reduce frictions in the traditional collective bargaining approach which all too often focuses on rights versus issues and to participate in meaningful attempts to streamline operations and preserve jobs.

I conclude by saying that the scope of bargaining in the federal sector is in some respects narrower than it was in the early years of EO 10988. While there has been some further constrictions on the scope of bargaining, both labor and management need to forge new alliances and cooperative approaches in light of Gramm-Rudman and contracting-out. If both parties focus merely on traditional bargaining approaches, all we will do is reinforce the views of various critics that the federal labor-management relations program is not working.

Notwithstanding the obvious narrowing of various aspects of the scope of bargaining, federal unions will continue to play a vital role in protecting the interests of the employees they represent. While traditional collective bargaining approaches will continue and there will be further litigation to refine management rights, there should be equal emphasis on new approaches that finesse the rights issues and yet provide unions and the workforce with a meaningful role in adapting to the expected budget reductions.

XVIII. THEORIES OF LABOR HISTORY AND INDUSTRIAL RELATIONS: A ROUNDTABLE

Summary Notes on the Panel Discussion

NICK SALVATORE, RAPPORTEUR
Cornell University

DAVID LEWIN, RAPPORTEUR
Columbia University

A roundtable discussion of the changing relationship between the fields of labor history and industrial relations was co-sponsored by the Industrial Relations Research Association (IRRA) and the American Historical Association (AHA).¹ David Lewin, Professor of Business at Columbia University, chaired the session, and David Brody, Professor of History at the University of California, Davis, opened the discussion. Brody recalled that it was not too long ago that industrial relations specialists felt that there was little they could learn from historians of labor. Popular wisdom of the 1950s and early 1960s held that the system of industrial relations had achieved such a stable and mature status that fundamental change was all but inconceivable. As Brody suggested, this confidence reflected and was most closely associated with the theoretical approach to industrial relations developed by John Dunlop (1958). From a contemporary perspective, however, and a quarter of a century after that high point of confidence, the situation looked quite different. The assumptions that

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¹ This was one of two sessions co-sponsored by the IRRA and AHA in 1985. See Session XI, "Historical Analysis: Industrial Relations Eras," in these Proceedings.

girded Dunlop's theoretical model are now almost totally ignored; the theoretical and practical surety that once dominated is now fractured and no other theoretical analysis appears equally viable. Indeed, Brody suggested wryly, industrial relations theorists have been forced to confront the fact that their models are not static but, rather, and as with other aspects of human experience, can and do change over time. They are, in short, embedded in history.

Although the contexts are different, Brody noted that an oddly similar pattern developed during the same years in the field of labor history. Before 1960, the majority of scholars who wrote in the field were institutional economists. Their training, background, and interests oriented them toward an analysis of labor unions as institutions and of unions' relations with other segments of society. This basis of the so-called "old" labor history has been challenged in recent times by a new generation of commentators, largely trained in the discipline of history. That disciplinary distinction, Brody suggested, was of far more importance in distinguishing between the "old" and "new" labor history than was any given commentator's stance toward understanding labor institutions.² What further complicated this changed orientation was the simultaneous emergence among many labor historians of a revived conceptual framework, if not a full-blown theory, to understand the history of American workers. This framework owed much to a British Marxist tradition and drew primary inspiration from E. P. Thompson's work (1963). But, from the same vantage point of a quarter of a century later, Brody noted that the numerous attempts to replicate Thompson's assertion for England about the development of class consciousness among working people have failed when applied to the United States. That theoretical model does not work well for this society, and thus the historians also lack an overarching interpretative framework.

Rather than being upset by this situation, David Brody saw it as a very good opportunity. The surety that had once infused both labor historians and industrial relations scholars is, at a minimum, seriously in doubt. But, noted Brody, it is precisely this doubt that should encourage scholars in both disciplines to engage in a more fruitful dialogue with each other. A historical perspective is clearly needed to understand the changing pattern of industrial relations, Brody observed, and the historians' search for a viable conceptual framework

² Also see David Brody (1983).

could be greatly enhanced by serious engagement with ongoing work in industrial relations.

Robert Ozanne, Emeritus Professor of Economics at the University of Wisconsin-Madison, spoke next and disagreed rather strongly with Brody. Ozanne said that he, for one, had a hard time identifying *any* industrial relations theory. Labor-management relations, he explained, is simply a jungle that one side or the other dominates at any given point. This jungle, moreover, is largely unaffected by any scholarly developments in either industrial relations or history. Addressing the recent proliferation of historical studies that focus more on rank-and-file workers than on either union leaders or institutions, Ozanne charged that these studies seem “to be pursued with an ideological bias.” He rejected the concept of class consciousness that has informed some recent work, calling it “an extinct species,” and thought the search for a new synthesis misguided. In Ozanne’s view, a fierce Darwinian jungle seems to dominate this intellectual landscape.³

Ronald Schatz, Associate Professor of History at Wesleyan University, spoke next. He argued that labor-management relations in the United States might best be understood with reference to “corporatism.” Historically, through much of the 20th century, this approach has been marked by joint labor-management cooperation, the granting of a semipublic status to unions and trade associations, and countercyclical economic planning. Schatz noted that while aspects of a corporatist philosophy are clearly in place, a full-blown “system” does not and, in the future, may well not prevail. He suggested that such leading theoreticians and practitioners of industrial relations as John R. Commons (1918) and John Dunlop encouraged these [limited] developments in their research, public service, and graduate teaching. Schatz concluded by proposing that scholars from both history and industrial relations should meet and engage each other in determining the potential and limitations of corporatism as an analytic construct and as an empirical characteristic of the industrial relations system.⁴

The final speaker was Robert Zieger, Professor of History at Wayne State University. He expressed some discomfort with recent developments in social science that place greater emphasis on theoretical formulation than on the necessity for mastery of empirical evidence. While rejecting a simplistic call for “mindless chronicling of

³ For an example, see Robert Ozanne (1967).

⁴ For an example, see Ronald Schatz (1983).

a retreat to the merely factual," Zieger also commented that labor historians can provide the most help in exchanges with industrial relations theorists "when they insist on the integrity of time, place, and context." He applauded the recent work of Gordon, Edwards, and Reich (1982) "for its breathtaking and rhetorically compelling explanation of historical development from 1830 onward." But he also cautioned that the authors, in "picking and choosing their sources, mixing textbook accounts with specialized (and partisan) material . . . flatten history and eliminate any semblance of workers' agency." On a more positive note, Zieger suggested that historians and industrial relations scholars might fruitfully collaborate in at least two areas. First, he called for a "popular front against the more complacent econometricians and the more imperialistic social historians," in order to "rescue" both institutional labor studies and labor history from their doldrums: "An effort to put labor organizations and collective bargaining back where they belong, both historically and contemporaneously, at the heart of the political economy, is long overdue." Second, Zieger suggested that the insights of contemporary social and political scholars, including Gutman (1977), Halle (1984), Hirsch (1978), Piore (1979), Salvatore (1982), Thompson (1963), and Wilentz (1984), with their varied studies of the importance of such noneconomic concepts as the moral economy, republicanism, and ethnic, religious, and political subcultures, are critical for an understanding of 20th century unionism. "Until we understand that certain ideas of moral economy were basic to John L. Lewis and republican virtue was a central concern of the immigrant generation of leaders who built the CIO and the industrial union movement, we're not likely to get things right."⁵

Following this, Nick Salvatore made a few spontaneous comments intended to promote a broader discussion. He disagreed with much of Robert Ozanne's views but did feel that there was, in some recent scholarship, an overt politicalization that undermined the intellectual integrity of the research.⁶ Salvatore noted that, in some of these works, he could recognize no worker whom he had either known or studied. Salvatore suggested that a fixation on the concept of class, the subsuming of that unrefined concept within the framework of republicanism, and a resistance to recognize what has been peculiar, if

⁵ See also Robert Zieger (1986).

⁶ See, for example, Nick Salvatore (1986).

not exceptional, about the American experience were major obstacles to the synthesis which Brody hoped would emerge.

After the presentations, a spirited discussion ensued among the panelists and between them and the audience. A series of issues came under discussion: the nature of the American working class, the meaning of such terms as political economy, the extent of the crisis in the practice of industrial relations and the capacity of industrial relations theory to account for it, and the role of labor historians in the field of labor education.

One member of the audience as well as Professor Brody asked, "What new theory has emerged from recent industrial relations research?" Professor Lewin commented that while no current counterparts to the dominant labor organization theories of Commons (1918), Perlman (1928), and Dunlop (1958) could be cited, a set of important "mid-range theories" and conceptual frameworks have recently emerged from industrial relations research.⁷ These include human capital theory, which treats (some) expenditures on education, training, mobility, and health as investments in human assets (Becker, 1964); the use of the exit-voice model to show that unionism systematically (a) lowers worker quit rates and (b) raises worker productivity and compensation by about the same magnitudes, thereby explaining how union and nonunion firms can coexist in the same industry (Hirschman, 1970; Freeman and Medoff, 1984); the development of multilateral rather than bilateral bargaining theory to explain the public-sector bargaining process (Lewin et al, 1987, Ch. 4); the development of organizational risk preference theory to analyze public-sector contract arbitration processes and outcomes (Ashenfelter and Bloom, 1985); the theory of implicit contracting to explain worker and firm preferences for remaining or becoming nonunion (Bellante and Link, 1982); organization design theory to examine the structure and control systems of labor union organizations (Anderson, 1978); and use of commitment theory to explain differences among individual workers in attachment to and participation in union organizations (Gordon et al., 1980). Taken together, these and other related studies also suggest that a new era of multidisciplinary, as distinct from interdisciplinary, industrial relations research is now dawning.⁸ Moreover, and anomalously, this resurgence of interest in industrial relations research is occurring simultaneously with the rapid

⁷ The term "mid-range" was coined by Merton (1968).

⁸ See Lewin and Feuille (1983).

decline in the proportion of U.S. workers who are unionized and in the union "win" rate in National Labor Relations Board-conducted union representation elections (Troy and Sheflin, 1985, Chs. 1-2). To perhaps better capitalize on this emerging reinvigoration of research, it was suggested that scholars from such disciplines as psychology, sociology, and, to be sure, history, consider publishing their work more regularly in industrial relations journals, and that industrial relations scholars seek publication of some of their work in discipline-based journals.

While the issues raised in this roundtable and audience discussion are important, the form in which they were discussed did not lend itself to sustained comment and analysis. Thus, to a certain extent, the session (like the field of industrial relations) ended without a synthesis. Nonetheless, certain issues emerged from this exchange which are relevant to further interchanges among labor historians and industrial relations researchers. First, the exchange itself was stimulating and should be repeated in future sessions and in more informal contexts. Disagreement abounded, but it was also clear that there exist common interests on a number of substantial issues. Second, future sessions might be more useful if a more traditional format were followed. The informal presentations and spontaneous comments encouraged discussion, but a more structured format may have permitted more sustained analysis. Finally, it was clear that scholars in both labor history and industrial relations need each other's insights. The lack of certainty for all but those firmly ensconced in a deterministic pattern (be that Marxism or extreme versions of neoclassical economics) was evident. The IRRA and the AHA appear especially well equipped to promote further scholarly interactions in this respect, and should provide more opportunities to do so.

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XIX. CONTRIBUTED PAPERS: LABOR ECONOMICS AND LABOR MARKETS

Racial Differentials in Younger Male Occupational Mobility Over the Business Cycle, 1966–1975*

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An economic expansion facilitates upward occupational mobility. Employers are more likely to upgrade current employees and to train new workers whom they would have otherwise refused to hire. Conversely, a recession increases the likelihood of downward occupational mobility. Within firms with internal labor markets, workers retaining jobs often do so by “bumping” down the occupational hierarchy. Those losing their jobs may eventually accept lower quality employment to escape from unemployment.

Studies of occupational mobility suggest that economic upturns may benefit blacks relative to whites with the opposite occurring during a downswing (e.g., Vroman, 1978). Analysts differ on whether the relative gains made by blacks during the 1960s continued in the 1970s. Some (e.g., Freeman, 1981; Smith, 1984) argue that the gains were sustained while others (e.g., Reich, 1981; Shulman, 1984) argue

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that they were diminished by the economic downturn of the mid-1970s.

This paper examines the effects of cyclical fluctuations during 1966–1975 on the occupational mobility of younger black and white male workers. The sample is described, and overall research design discussed. Then, the empirical findings are presented and conclusions drawn.

Design and Data

The data used are for younger men (aged 14–24 in 1966) from the National Longitudinal Surveys. This study includes men: (1) who were either black or white, (2) who in 1966, 1969, and 1975 reported their major activity during the survey week as either “working” or “with a job but not at work” and were not enrolled in school, and (3) who reported an occupation in 1966, 1969, and 1975. There are 214 black and 591 white men in the sample.

Those eliminated include the self-employed, those who were working without pay, and those who were either unemployed or out of the labor force during the 1966, 1969, or 1975 survey weeks. Those unemployed or out of the labor force were excluded because they could not report a current occupation. By eliminating the officially unemployed and the “discouraged workers,” this sample includes those with better than average labor market experiences than the demographic group as a whole. This is more true for blacks than whites since blacks are more likely to be unemployed.

Those enrolled in school in either 1966, 1969, or 1975 were excluded because their occupations might have been chosen for flexible hours so as to be able to attend school. The individuals in this sample could have attended school in years other than 1966, 1969, and 1975.

The two measures of occupational standing are the one-digit Census occupation and the Duncan socioeconomic status index (SES), an ordinal prestige scale that assigns a rank between 0 and 97 to each of the three-digit 1960 Census occupations. Both are utilized for several reasons. First, the one-digit Census categories are very broad in scope. A job change within a one-digit Census occupation may result in a significant improvement or deterioration in job status which would be hidden by merely comparing one-digit occupations at different points in time. Second, there are difficulties in using SES scores in examining occupational change. The particular mobility patterns cannot be documented by merely comparing SES scores at two points in time.

Occupational position is examined for the years 1966, 1969, and 1975. Occupational mobility is tracked over three time periods—1966–1969, 1969–1975, and 1966–1975. There was continual economic growth during the late 1960s. The aggregate unemployment rate fell from 3.8 percent in 1966 to 3.5 percent in 1969. The rate of growth slowed during the first half of the 1970s, and real GNP even declined in 1974 and 1975. The aggregate unemployment rate rose to 8.5 percent in 1975.

The direction of mobility is defined as follows:

Upward mobility: $SES_{t+1} > SES_t$

Downward mobility: $SES_{t+1} < SES_t$

No change: $SES_{t+1} = SES_t$

where t = the beginning of the relevant time period and $t + 1$ = the end of the relevant time period.

Empirical Analysis

Throughout the 1966–1975 time period, blacks were more heavily concentrated at the lower end while whites were more likely to be found at the top of the occupational structure. Table 1 shows the occupational distribution of white and black men in 1966, 1969, and 1975. In 1966, 49 percent of the whites and 66.9 percent of the blacks were either operatives, service workers, or nonfarm laborers. Including farm laborers with the above categories encompasses 51.4 percent of the whites and 80 percent of the blacks. On the other hand, 11.6 percent of the whites but only 2.8 percent of the blacks were in professional or managerial positions. In addition, within virtually all broad occupational categories, blacks held lower status positions than whites. For example, in 1966 the service jobs held by blacks had an average SES score of 11.41 while those of whites had a value of 22.55. Overall in 1966, whites held positions with an average SES value of 30.57 while those held by blacks averaged 16.94.

The average SES scores of whites and blacks increased throughout the period. While many changed jobs, the occupational shifts differed for whites and blacks. In the latter half of the 1960s, blacks left low-status service positions and many of the youngest blacks moved off the farms.¹ Blacks gained access to more higher-status operative and craft jobs. At the same time, whites as a group moved from operative

¹ In 1966, while the average age of the black sample was 20.61 years, the average age of black farm workers was 18.62 years.

TABLE 1
Occupational Distribution of
Men by Race, 1966-1975^a

Occupation	1966		1969		1975	
	White	Black	White	Black	White	Black
Professional, technical	7.9	1.4	7.3	2.8	7.3	2.8
Managers, administrators	3.7	1.4	9.5	0.9	14.5	3.3
Clerical workers	8.8	6.1	6.4	7.5	5.4	4.2
Sales workers	5.4	0	6.3	0.5	5.1	2.3
Craft workers	22.6	10.7	27.0	15.0	33.3	22.9
Operatives	38.2	36.0	30.7	41.1	23.1	40.2
Service workers	3.4	15.0	3.0	5.6	3.5	6.5
Nonfarm laborers	7.4	15.9	8.1	18.7	4.9	12.6
Farmers, farm managers	0.2	0	0.3	0	1.4	1.0
Farm laborers	2.4	13.6	1.4	7.9	1.5	4.2
TOTAL ^b	100.0	100.1	100.0	100.0	100.0	100.0
SES	30.57	16.94	35.10	19.17	37.18	22.38

^a With the exception of the SES values, all quantities are percentages.

^b In one case, the total differs from 100 percent due to rounding.

positions. There was a substantial increase in the share of white craft workers and managers.

This trend continued for whites in the first half of the 1970s. A different pattern emerged for blacks. Blacks as a whole did not continue leaving service work, though the economic downturn did not return most blacks to this sector. The craft category continued to increase in relative importance while the operative group did not. Many nonfarm laborers found other jobs. Some blacks were able to become managers.

Behind the overall shifts in the occupational distribution lie particular mobility flows. Table 2 shows the degree of upward mobility from 1966-1969 by 1966 occupation, from 1969-1975 by 1969 occupation, and from 1966-1975 by 1966 occupation for each racial group. In all cases where the white-black differential in the likelihood of upward mobility from a given occupation is statistically significant, whites were more likely to be upwardly mobile. Yet in 1966-1969 and 1966-1975, the overall racial differential is statistically insignificant, and in 1969-1975, blacks as a whole were significantly more likely than whites to be upwardly mobile. These results for the groups as a

TABLE 2
Upward Mobility of Men
by Occupation by Race, 1966-1975^a

Occupation	1966-69 by Occ (1966)		1969-75 by Occ (1969)		1966-75 by Occ (1966)	
	White	Black	White	Black	White	Black
Professional, technical	23	0°	14	33	18	0°
Managers, administrators	5	33	9	0°	23	33
Clerical workers	52	8°	26	25	53	15°
Sales workers	59	—	32	0°	50	—
Craft workers	22	9°°	22	9°	41	16°
Operatives	49	38°	48	50	60	53
Service workers	40	56	17	25	64	73
Nonfarm laborers	70	44°	75	73	87	74
Farmers, farm managers	0	—	0	—	0	—
Farm laborers	57	38	25	47	60	66
TOTAL	42	36	33	43°	51	53

^a All quantities are percentages.

° White-black differential is significant at the 5% level, two-tailed test.

°° White-black differential is significant at the 10% level, two-tailed test.

whole can be explained by blacks being concentrated at the bottom of the occupational structure. A group at the bottom of a hierarchy can only move up.

Whites were significantly less likely to be upwardly mobile from 1969-1975 as compared with 1966-1969, while the same did not hold for blacks. The racial differentials in the likelihood of upward mobility within or from given occupations closed. For example, white clerical workers, operatives, and nonfarm laborers were no longer significantly more likely to experience upward mobility than their black counterparts. Perhaps, the positive effects of affirmative action programs were counteracting, to some degree, the negative impact of the economic downswing on black occupational prospects. But, the extent of black occupational improvement sharply diminished during the economic downturn. Of those upwardly mobile from 1966-1969, 40 percent of blacks and 31 percent of whites increased their SES scores by 10 points or less; from 1969-1975, 56 percent of blacks and 34 percent of whites did so.

Table 3 shows the degree of downward mobility from 1966-1969

by 1966 occupation, from 1969–1975 by 1969 occupation, and from 1966–1975 by 1966 occupation for whites and blacks. Excluding those holding service positions in 1969, in all cases where the white-black differential in the likelihood of downward mobility is statistically significant, blacks were more likely to be downwardly mobile.² Yet, in no instance was the overall racial differential statistically significant. At least for the entire time period, this can be explained by blacks being concentrated at the bottom of the occupational structure. There, virtually by definition, people are less likely to be downwardly mobile.³

TABLE 3
Downward Mobility of Men
by Occupation by Race, 1966–1975^a

Occupation	1966-69 by Occ (1966)		1969-75 by Occ (1969)		1966-75 by Occ (1966)	
	White	Black	White	Black	White	Black
Professional, technical	38	0*	33	17	41	33
Managers, administrators	59	67	46	0*	65	67
Clerical workers	29	38	50	44	38	69*
Sales workers	19	—	41	100*	32	—
Craft workers	32	43	26	50*	26	52*
Operatives	24	32	23	25	22	33**
Service workers	20	22	28	17*	9	15
Nonfarm laborers	14	38*	10	10	4	12
Farmers, farm managers	0	—	50	—	0	—
Farm laborers	7	10	0	6	7	10
TOTAL	27	30	28	25	26	29

^a All quantities are percentages.

* and ** are defined as in Table 2.

² This ignores the findings for professionals in 1966 and managers in 1969. There were only 3 black professionals in 1966 and 2 black managers in 1969. Also, there was only 1 black sales worker in 1969. The result for service workers is explained by the relatively low SES value of black service workers in 1969—14.08—as compared to a white SES value of 31.67.

³ Reflecting their position at the bottom of the occupational structure, there was no change in the proportion of downwardly mobile blacks experiencing a 10 point or less decrease in their SES score from 1969–1975 as compared to 1966–1969. But, there was a fall in the proportion of downwardly mobile whites doing so. Of those downwardly mobile from 1966–1969, 57 percent of whites and 68 percent of blacks experienced a 10 point or less decrease in their SES score; from 1969–1975, 43 percent of whites and 67 percent of blacks did so.

From 1966–1975, black clerical workers, craft workers, and operatives were significantly more likely to be downwardly mobile than their white counterparts. In addition, 50 percent of black craft workers in 1969 but only 26 percent of white craft workers suffered losses in occupational status during the economic downturn of the mid-1970s. Thus, not only were black craft workers significantly less likely than whites to be upwardly mobile during this period, they were also substantially more likely to be downwardly mobile.

TABLE 4
SES Change of Men by
Occupation (1966) by Race, 1966–1975

Occupation (1966)	SES (1975) — SES (1966)	
	White	Black
Professional, technical	-8.35	-2.33
Managers, administrators	-17.50	-10.33
Clerical workers	6.58	-10.62
Sales workers	2.28	—
Craft workers	5.59	-2.43
Operatives	10.28	5.73
Service workers	10.85	11.72
Nonfarm laborers	17.07	9.91
Farmers, farm managers	0	—
Farm laborers	15.21	7.28

The data in the previous two tables suggest, and the data in Table 4 confirm, that over the entire time period, whites beginning in the same occupation as blacks generally improved their occupational standing more than blacks. Table 4 shows the change in SES from 1966–1975 by occupation held in 1966. For example, between 1966 and 1975, white craft workers gained, on average, 5.59 SES points while black craft workers lost, on average, 2.43 SES points; white operatives gained 10.28 SES points while blacks gained 5.73 SES points, and white nonfarm laborers gained 17.07 SES points as compared to a black improvement of 9.91 SES points.⁴ Black service workers gained, on average, less than one SES point more than did whites: a minimal

⁴ Statistical tests were not performed on the racial differences in the change in SES values. As the SES is an ordinal measure, technically only the direction of change can be studied.

increment given the distinctly lower-status service jobs held by blacks.⁵

The differences in racial career patterns can be clearly seen by focusing on mobility to and from the craft occupation. Craft positions are skilled jobs, desirable to attain. Information is presented in Table 5 on the extent to which those holding positions below craft in the occupational hierarchy in 1966 were in craft or above positions in 1975 and the extent to which craft workers in 1966 were in positions below craft in 1975. In each case, whites in the same broad occupational group as blacks in 1966 were more likely to hold craft or better positions in 1975 with the racial differentials being statistically significant for operatives and nonfarm laborers. For example, 51 percent of white operatives but only 32 percent of black operatives in 1966 were in craft or better positions in 1975. Also, only 20 percent of white craft workers in 1966 were holding jobs below craft in 1975 while 36 percent of black craft workers were doing so. Thus, blacks had more difficulty in entering the craft category and, if there, had more difficulty remaining than did whites.

TABLE 5
Occupational Mobility of Men by Race From Selected Occupations
to Craft and Above and From Craft to Selected Occupations
Below Craft, 1966-1975^a

Occupation (1966)	Craft and Above 1975 ^b	
	<i>White</i>	<i>Black</i>
Operatives	51	32 ^c
Service workers	50	36
Nonfarm laborers	54	29 ^c
Farm laborers	27	21
	<i>Below Craft 1975^c</i>	
Craft	20	36

^a All quantities are percentages.

^b Craft and above refers to professional, managerial, clerical, sales, or craft positions.

^c Below craft refers to operative, service, nonfarm laborer, or farm laborer positions.

^o is defined as in Table 2.

⁵ As far as professionals and managers are concerned, there were very few blacks in these jobs in 1966. Also, at a relatively young age "manager" often refers to those overseeing fast food restaurants, earning relatively low wages. Eventually, as people age, they leave such jobs and take better ones, though jobs not perceived as better by the SES index.

Conclusions

Younger black men, included in the sample of workers employed in the survey week in 1966, 1969, and 1975, were more likely to be found at the bottom of the occupational hierarchy than were younger white men. Also, within virtually all occupational categories, blacks held lower status positions than did whites. Extensive job changing occurred from 1966 to 1975, and blacks, as a group, and whites, as a group, moved up the occupational hierarchy. But over the 1966-1975 time period, whites beginning in the same occupation as blacks generally improved their occupational standing more than blacks. In addition, during the economic downturn of the mid-1970s, black craft workers suffered large losses in occupational status relative to white craft workers.

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Inter-Industry Mobility and Wage Changes in the 1970s: A Longitudinal Analysis of the Construction, Auto, and Steel Industries

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In this study we examine the decisions of young men who were employed in the U.S. auto, steel, and construction industries in the early 1970s. We track their work experience through a deep recessionary period and compare it with the experience of men employed in other industries. We ask how rates of mobility differed from one industry to another and how mobility affected the rate of growth in earnings. Finally, we examine the factors most responsible for inter-industry mobility. Holding these factors constant, we ask what remaining differences in mobility existed across industries for young men in the early 1970s. Data from the Young Men's Cohort of the National Longitudinal Surveys (NLS) help to isolate the determinants of inter-industry mobility for workers who did not return to the industries they left due to recession.

To obtain comparisons of inter-industry mobility, we calculated inter-industry mobility rates for all 2-digit industries, using the Standard Industrial Classification. Rates of change for all 2-digit industries were averaged for the broader industry groups used in our analysis (Table 1). We differentiated between men age 21-31 in 1973 who left a 2-digit industry temporarily and returned by 1978 (returners), men of the same age employed in a given 2-digit industry in 1973 but not in 1978 (leavers), and those who remained in the same industry for each of the interviews between 1973 and 1978 (stayers).

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TABLE 1
 Mobility Patterns, 1973-1978, for Men Ages 21-31 in 1973,
 by 1973 Industry Group^a

Industry Group, 1973	Percentage Distribution of 1973 Industry Group			
	Stayer	Leaver	Returner	Total
Construction	48.8	39.4	11.8	100.0
Automobiles, steel	35.9	52.4	11.7	100.0
Other durable goods manufacturing	32.7	58.3	9.0	100.0
Nondurable goods manufacturing	47.9	41.2	10.9	100.0
Other industries (Service)	47.2	45.0	7.8	100.0
Average	44.1	46.6	9.3	100.0

Note: Universe: NLS respondents employed in the nonagricultural private sector in 1973 who were interviewed and employed in 1978. Percentages are averages across all two-digit industries included in each group and are based on weighted data.

^a "Stayer" identifies respondents whose two-digit SIC industry did not change between 1973 and 1978. "Leaver" identifies respondents who left the two-digit SIC industry in which they were employed in 1973 and had not returned to that industry by 1978. "Returner" identifies respondents who left the two-digit SIC industry in which they were employed in 1973, but who had returned to and remained in the industry as of 1978.

The mobility rate out of the construction industry was almost 40 percent, and the rate for the automobile and steel industries combined (motor vehicles, primary metals, and fabricated metals) averaged 52 percent. The highest mobility rates, however, were in the category of "other durable manufacturing," where rates averaged 58 percent. In the service sector, the mobility rate exceeded that for the construction industry by about 5 percentage points, but nondurable goods manufacturing showed rates approximately the same as in construction. Thus, durable goods manufacturing other than auto and steel had the highest mobility rates, auto and steel intermediate rates, and the service, construction, and nondurable goods manufacturing industries the lowest.

Across all industries, a substantial proportion of young men were employed in another industry and then returned to the same 2-digit industry in which they had been employed in 1973. Since we did not have a full work history to examine between 1973 and 1978, the actual rates of return mobility were undoubtedly higher than we calculated; nevertheless, the rates ranged from about 8 percent in the service

sector to approximately 12 percent in construction, auto, and steel. The service, nondurable manufacturing, and construction industries were virtually identical in terms of the proportion of young men who remained in the industry at every interview from 1973 to 1978. Nevertheless, construction and manufacturing had higher rates of return mobility than service. Once dislodged from any one of the 2-digit service industries, young men were more apt to leave and not to return.

Why do young men leave one industry for another? In recessionary periods, one answer to this question is obvious: some industries are harder hit by an economic downturn than others and thus jobs are reduced sharply. But even in recessionary periods many young men change industries voluntarily. The current debate over industrial policy makes it important to determine which factors influence their choices.

Advocates of an active industrial policy for government claim that choices for jobs in various industries can and should be shaped by changing individual incentives to choose one industry over another. But industrial policy advocates are sharply divided about *how* incentives should be changed. Some believe market forces impose unreasonably high costs on individuals when they are forced to change industries too quickly (Bluestone and Harrison, 1982). Others, on the other hand, advocate pro-mobility policies which encourage shifts away from declining industries to new high growth industries (Thurow, 1980). Both schools of thought, however, need information on the determinants of inter-industry mobility, and the behavior of NLS respondents over the course of the business cycle can help cast light on this issue.

Table 2 reports coefficients of an OLS regression model to predict inter-industry mobility. As anticipated, the rate of decline in employment throughout the initial phase of the business cycle (Employment Fall) was significantly related to the probability of leaving an industry and not returning. Holding constant variation in declining demand across industries, several other variables were also strongly significant. For each additional year of tenure in a firm, a young man was initially about 8 percentage points less likely to shift industries, but the effect of tenure diminished as tenure accumulated. Tenure is an important control variable in our model because of the implicit association between company tenure and the decision to leave a given industry. By definition, company tenure must fall to zero when a young man leaves one two-digit industry and accepts employment in

another industry. But falling company tenure also accompanies turnover from one firm to another, even when a young man remains in the same two-digit industry over time. By controlling for company tenure, we measure the effects of all other variables on inter-industry mobility, once their general effects on mobility across firms have been netted out.

Even after controlling for company tenure, all three occupational variables that identify more highly skilled workers are associated with a reduced probability of leaving one's industry. Skilled workers are

TABLE 2
OLS Regression Analysis of the Determinants
of Leaving 1973 Industry^a

Independent Variables	(1)		(2)	
		<i>t</i>		<i>t</i>
Education	.0061	1.03	.0058	0.98
Tenure	-.079 ^{***}	-7.50	-.088 ^{***}	-8.38
Tenured squared	.0043 ^{***}	4.40	.0047 ^{***}	4.85
Age	-.00088	0.21	.0020	0.44
Professional	-.088 ^{**}	-2.00	-.098 ^{**}	-2.24
Managerial	-.087 ^{**}	-2.05	-.080 [*]	-1.90
Craft	-.081 ^{***}	-2.69	-.045	-1.44
Employment fall	-.0036 [*]	-1.73	-.0002	-0.09
Union	-.0017 ^{***}	-2.72	-.0025 ^{***}	-3.76
Labor force size (in 000s)	-.000	-0.99	-.000	-1.34
Black	.034	1.05	.029	0.90
Construction	—	—	-.247 ^{***}	-5.25
Auto, steel	—	—	.047	0.97
Nondurable manufacturing	—	—	-.120 ^{***}	-2.82
Service	—	—	-.170 ^{***}	-3.76
Constant	.625	4.71	.785	5.77
R ²	.077		.102	
F Ratio	12.23		12.09	
Sample size	1617		1617	

^{*} Coefficient is significant at the 10 percent level, two-tailed test.

^{**} Coefficient is significant at the 5 percent level, two-tailed test.

^{***} Coefficient is significant at the 1 percent level, two-tailed test.

^a Dependent variable equals 1 if respondent left the two-digit SIC industry in which he was employed in 1973 and had not returned to that industry by 1978, 0 otherwise.

8-10 percentage points less likely to shift industries than are others. On the other hand, education has no effect on inter-industry mobility, once tenure has been controlled. The education variable has the expected sign in the regression equation, but it is not statistically significant and its size is small. Age likewise has little independent effect on mobility between industries, blacks are no more or no less likely to shift industries than whites, and labor market size does not significantly affect inter-industry mobility.

For each percentage point increase in an industry's collective bargaining coverage inter-industry mobility declines by only 0.2 percentage points. Thus an increase in the fraction of an industry covered by collective bargaining from 50 percent to 100 percent would directly reduce the inter-industry mobility of young men by only about 10 percentage points. Unionism may have an indirect effect on the rate of mobility, however, by increasing the job tenure of individual workers and thus reducing mobility. Previous research shows that unionism does reduce the quit rates of workers, although the effect is larger for older than for younger workers (Blau and Kahn, 1983).

In the second column of Table 2 we tested for possible differences across industries by comparing each of four broad industry categories with "other durables," i.e., durable manufacturing other than auto and steel. After controlling for the variables in our regression model the differences among broad industry groupings were very much more pronounced than appeared to be the case in Table 1. Column 2 of Table 2 shows that workers in nondurable manufacturing, the service sector, and construction were all considerably less likely to shift to other industries after the completion of a full business cycle, but for construction workers this was particularly true. When compared with workers in manufacturing, young construction workers were twice as likely to remain in their industry than were service workers or workers in nondurable manufacturing industries. This probably reflects the industry-specific skills that construction workers gain through on-the-job training and apprenticeship. On the other hand, auto and steel workers did not differ significantly from workers in any of the other durable manufacturing industries as far as their mobility rates were concerned. We might have expected the auto and steel industries to emerge as special cases, and indeed if the data had been drawn from the 1981-1984 time period perhaps these industries would have demonstrated a much different adjustment process. But for the 1975

recession, at least, the auto and metals sector was quite similar to other durable manufacturing industries.

The Effects of Inter-Industry Mobility

A consequence, of both recession and inter-industry mobility, is a potential decline in wage growth. From beginning to end of a recessionary period, different percentage changes in wages might be expected for typical young men who stay in a given industry, leave an industry for good, or leave and return. In part, different patterns of wage growth derive from variation in the amount of joblessness, which slows the accumulation of work experience and thus affects wages. More important, however, is the effect on wage growth of changing from one firm to another, because for virtually all workers, changing industry means changing firms as well. Wage rates are strongly influenced by tenure within a firm, and wages may grow less rapidly as workers shift from firm to firm, unless the skills learned in one firm are readily transferable to another. To measure the relationship between inter-industry mobility and wage growth, we hold constant age, education, and race, and examine the effect of joblessness and firm tenure on wage changes from 1973 to 1978. We rely heavily on Lazear's (1976) model for wage growth. Consistent with Lazear's findings, wage growth is more rapid for blacks and less rapid for married men, *ceteris paribus*, although only in one case out of four is the difference statistically significant (Table 3). As is typically the case in wage-change equations (cf., Bartel and Borjas, 1981; Corcoran, Duncan, and Ponza, 1983), only a small proportion of the variance in wage growth is accounted for by all the explanatory variables.

The wage-growth equations show no explicit link between wage growth and the mobility status of workers. However, two variables in the equations are closely linked to mobility status: time not employed between 1973 and 1978, and job tenure as of 1978. The coefficients of the second equation in Table 3 in conjunction with the mean values for time not working and 1978 tenure by mobility status yield the following implications: a married white male age 25 in 1973 with 13 years of schooling and 3 years of tenure in 1973 would be expected to experience wage growth of about 14 percent as a "typical" stayer, while the corresponding figures for leavers and returners would be about 4 percent and 9 percent, respectively. Overall, our results are quite consistent with the findings of Borjas (1981), who, in considering

TABLE 3
 OLS Estimated Wage-Growth Equations, 1973-1978^a

Independent Variables	(1)		(2)	
		<i>t</i>		<i>t</i>
Education, 1973	.016 ^{°°}	2.02	.016 ^{°°}	2.02
Age, 1973	-.014 ^{°°}	-2.38	-.014 ^{°°}	-2.30
Joblessness, 1973-78 (time not employed) ^b	-.062 ^{°°°}	-3.15	-.038 [°]	-1.83
Tenure, 1978 ^c	—	—	.022 ^{°°°}	4.28
Tenure, 1973	—	—	-.020 ^{°°}	-2.52
Black	.093 ^{°°}	2.05	0.71	1.57
Married	-.019	-0.48	-.023	-0.58
Constant	.278	1.59	.227	1.29
R ²	.021		.039	
F	4.35		5.78	
Sample size	1020		1020	

[°], ^{°°}, ^{°°°} as defined in Table 2.

^a Dependent variable = the natural logarithm of the hourly wage rate in 1978 - the natural logarithm of the hourly wage rate in 1973.

^b Mean values for joblessness by mobility status were: stayers, 0.47 years; returners, 0.52 years; leavers, 0.77 years. Mean values by industry groupings were: Construction, 0.55 years; Auto, steel, 0.61 years; Other durable, 0.57 years; Nondurable, 0.63 years; Service, 0.71 years.

^c Mean values for tenure 1978 by mobility status were: stayers, 7.1 years; returners, 5.0 years; leavers, 3.2 years. Mean values by industry groupings were: Construction, 2.7 years; Auto, steel, 7.2 years; Other durable, 5.9 years; Nondurable, 5.8 years; Service, 4.6 years.

job mobility and earnings, concludes that nonmobile workers tend to achieve significantly higher wage growth over the long run.

Workers in various industry groupings should also experience different rates of wage growth across the business cycle, stemming from differences in mean values for tenure in 1978 and for joblessness from 1973 to 1978. These differences in mean values, in turn, reflect the proportions of young men by industry who stay in, leave, or return to the industries in which they were employed as of 1973. For "typical" respondents wage growth in construction was by far the lowest, with a predicted value of about 4 percent. The low rate of growth stems mostly from the high rate of inter-firm mobility among construction workers. Mean job tenure was only 2.7 years in 1978 compared with 7 years in autos and steel and 6 in other durable goods manufacturing.

Predicted wage growth for auto and steel industries and for other durable goods manufacturing were correspondingly high, 13.7 percent in the former and 11 percent in the latter. Construction and auto/steel industries were exceptional in their low and high estimated rates of wage growth. In all other sectors of the economy young men averaged 10 to 11 percent growth rates.

Summary

A combination of forces is set in motion during a deep recession. Long-term trends in adjustment to the market are heightened, and individuals are forced to consider what their long-term prospects may be in a particular industry when joblessness rises dramatically. Even after controlling for recessionary-induced shifts in employment across 2-digit industries, the broad distinctions we drew between sectors of the U.S. economy were highly significant. Despite the recent attention placed on the auto and steel industries, however, we found no difference in inter-industry mobility between the auto and metals industries and all the other durable manufacturing industries in which young men were employed. Nondurable manufacturing was quite similar to the broadly defined service sector in terms of inter-industry mobility, but the probability of leaving these sectors was 12 to 15 percentage points less than in durable goods manufacturing. Construction workers were the most strongly attached to their industry. Mobility rates out of construction were 24 percentage points less than in durable goods manufacturing.

Finally, we examined the relationship between the business cycle, inter-industry mobility, and growth in wages between 1973 and 1978 for men in their 20s and 30s. Other factors constant, we predicted that a "typical" young man who stayed consistently in a particular industry would have experienced a 14 percent growth in wages from 1973 to 1978. Wages of a similar young man who left his industry of employment in 1973 and returned would have grown by 9 percent. We predicted that men who left an industry and did not return in 1978 would have experienced a short-run wage growth of only 4 percent over the cycle, other factors constant. Our analysis, however, did not address long-run changes in wage rates.

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Unused Benefit Weeks as a Work Disincentive: Does the Entitlement Effect of UI Always Offset the Work Disincentive Effect?

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An extensive empirical literature has examined the labor supply effects of unemployment insurance (UI), focusing on the work disincentives created by this program. The approaches utilized to generate estimates consist of either the estimation of the reduction in weeks of employment associated with persons receiving unemployment insurance (Moffitt and Nicholson, 1982) or the increase in expected duration for a given unemployment spell (Ehrenberg and Oaxaca, 1976; Newton and Rosen, 1982). Both types of studies represent unemployment insurance by two policy parameters: the (net) replacement rate, which indicates the proportion of disposable weekly earnings replaced by UI benefits; and potential duration, the maximum number of weeks to which benefit entitlement exists. In contrast to these, one paper (Hamermesh, 1979) presented evidence consistent with the existence of an offsetting effect, where persons currently ineligible for benefits curtail current unemployment in order to establish future entitlement (entitlement effect). The role of entitlement, however, has been considered only in the context of persons currently not receiving (or qualifying for) UI benefits, and is typically thought to offset the adverse incentives generated by unemployment insurance to increase unemployment duration and decrease weeks employed.

However, differences among unemployment insurance benefit recipients exist in terms of benefit liberality, weeks of benefit entitlement, and the number of compensated spells of unemployment. A most notable omission in this literature is the absence of explicit

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recognition of the role played by the number of compensated spells of unemployment as a work disincentive. Only one recent paper (Lardaro, 1985) controls for differences in the number of compensated spells on a measure of the work disincentive effect of UI.

The importance of this distinction lies in the fact that individuals are able to control the number of unemployment spells they experience through choice of job (and industry), while persons with remaining benefit entitlement can opt for additional compensated spells by dropping out of the labor force, reentering later, and collecting benefits. Thus, if one examines the role played by the number of compensated spells, the possibility arises that a work disincentive of UI can arise from the desire of persons with a previous compensated spell (or spells) to take advantage of unused weeks of benefits before the benefit year expires by choosing one of the above options for one or more additional compensated spells of unemployment.¹ So, while it may be true that for a given unemployment spell, benefit liberality and weeks of entitlement substantially determine the work disincentive effect of UI, for persons with benefit entitlement remaining after one or more such spells, unused weeks of benefit may generate the incentive to engage in subsequent unemployment spells, since their presence raises the relative return to becoming unemployed in the future.

This inducement toward additional spells can be viewed as a second entitlement effect associated with unemployment insurance—an “actual entitlement” effect—that tends to offset the work disincentives of the usual “potential entitlement” effect. If this second effect exists, two conclusions emerge. The first is that not all entitlement effects of unemployment insurance decrease unemployment. This implies that the degree of offset provided by entitlement effects is not as great as previously thought. The second conclusion is that the magnitude of the totality of work disincentives generated by UI is more substantial than estimates given by duration per spell equations. The purpose of this paper is to ascertain empirically whether the actual entitlement effect exists, using cross-sectional data on a group of benefit recipients differing in the number of compensated spells and whether Extended and Federal Supplemental Benefits were received during the 1974–1975 recession. The results obtained are consistent with the existence of an actual entitlement

¹ A person can also become unemployed in the future by quitting or getting fired. Only a few states pay benefits to such persons and Indiana, the data state for this study, is not among them.

effect, but only for persons not receiving added benefits during the latter recession. More importantly, the contribution of the replacement rate to the totality of UI work disincentives is found to be that of increasing the duration of a given unemployment spell and not an inducement for additional compensated unemployment spells.

Estimated Model and Data

The measure of work disincentives created by unemployment insurance considered in this paper is the incentive for persons qualifying for UI benefits to engage in more than one compensated spell of unemployment during their benefit period.² If we consider a sample of benefit recipients with different values of weeks compensated (W) and compensated spells (S), the distribution of these values across the sample will form the basis of a joint probability density function $f(W, S)$ that characterizes the relationship of these random variables among persons in this sample. From this joint density function, the marginal density of the number of compensated spells, $g(S)$, is obtained by integrating over all values of W . This density function is related to demographic characteristics of individual benefit recipients (X), labor demand conditions affecting the local labor market (D), skill level and the amount of specific human capital possessed (SK), the cost of job search (C), and unemployment insurance policy variables (P):

$$(1) \quad g(S) = g(X, D, SK, C, P)$$

Using (1), the probability of a particular person experiencing more than one compensated spell (P_i) is given by:

$$(2) \quad P_i = P(S > 1) = \int_2^{\infty} g(S) dS$$

The probability of more than one compensated spells is thus related to the explanatory variables given in (1) so that anything increasing the expected number of spells, $E(S)$, is associated with a rise in P_i .

The number of compensated spells experienced, and hence $E(S)$, is related to both demand and supply factors in the labor market. On the

² The term "benefit period" is used since persons with Extended and Federal Supplemental Benefits have a period of entitlement potentially running from 1974 to 1976, a time span that exceeds the typical one-year value for persons not receiving such additional benefits.

demand side, the primary influence on the number of compensated spells utilized is the local rate of unemployment (*UNEMP*). Increases in this variable are expected to be positively related to $E(S)$ since a rise in local unemployment tends to be associated with greater involuntary unemployment in the form of layoffs. On the supply side, an important determinant of the number of layoffs is the amount of firm-specific human capital possessed by an individual. Human capital theory postulates an inverse relationship between the amount of specific human capital and $E(S)$, other things being equal. This influence is represented by a proxy variable related to the stability of earnings flows during a person's base year (*STBLTY*). The remaining supply side variables are a set of demographic variables included to account for differences in search intensity and preferences toward work and leisure, and a measure of the cost of job search, real base year earnings (*REARN*), that is also related to search intensity, as well as the expected duration of a given unemployment spell.

The policy variables of unemployment insurance are represented by potential duration (*PTNDUR*) and the (net) replacement rate (*REPLACE*). Both of these variables have been found to be positively related to the expected duration of a given unemployment spell, while in the context of persons with a single unemployment spell, *REPLACE* was positively related and *PTNDUR* was negatively related to the probability of benefit exhaustion (Lardaro, 1984). Based on the latter results, *REPLACE* will tend to lower $E(S)$ and hence P_i by generating the incentive to sustain a given level of income replacement within a single compensated spell. The situation will be different for *PTNDUR*. To the extent potential duration is inversely related to benefit exhaustion in the context of a single spell, unused benefits will tend to exist when the current spell is terminated. Potential duration may still be positively related to benefit exhaustion, however, but in the presence of several compensated spells. Entitlement to additional weeks of compensation during a given benefit period will create an additional work disincentive effect, where the incentive exists to become laid off (based on the type of job accepted) or reenter the labor force before eligibility expires. Initial empirical evidence consistent with such behavior has recently appeared (Hutchens, 1983).

The value of P_i is estimated with a logit equation which relates the natural logarithm of the odds of experiencing more than one compensated unemployment spell to the explanatory variables discussed previously. The dependent variable equals 1 for persons

with more than one compensated spell, 0 otherwise. The form of this equation is:

$$(3) \ln \frac{P_i}{1-P_i} = \alpha_0 + \alpha_1 SEX_i + \alpha_2 AGE_i + \alpha_3 RACE_i + \alpha_4 STBLTY_i \\ + \alpha_5 UNEMP_i + \alpha_6 REARN_i + \alpha_7 GOTE B_i + \alpha_8 REPLACE_i \\ + \alpha_9 PTNDUR_i + \alpha_{10}(GOTE B \cdot REPLACE)_i \\ + \alpha_{11}(GOTE B \cdot PTNDUR)_i$$

where the variables are defined as before; *SEX*, *AGE*, and *RACE* are dummy variables equal to 1 for males, persons ages 20 to 24, and white persons, respectively; *STBLTY* is the ratio of base year earnings to high quarter earnings; and *GOTE B* is a dummy variable equal to 1 for persons receiving additional benefit entitlement during the 1973-1974 recession. *GOTE B* and the two multiplicative dummy variables are included to test whether the determinants of P_i differ significantly based on whether or not Extended and Federal Supplemental Benefits were received.³

The data base utilized consists of two cross-sections of 2881 young adults from the Continuous Wage and Benefit History of the State of Indiana. Included are persons who experienced at least one compensated unemployment spell during 1973 or 1974, with some of the persons initiating benefits in 1974 receiving Extended and Federal Supplemental Benefits. Several noteworthy features of this data base are that potential duration is directly calculable, which avoids measurement error problems; the benefit schedule and potential duration changed for each cross-section, which introduces the kind of variability necessary for valid statistical inference; and a wide range in the number of compensated spells exists, where values go from 1 to 9 with a mean of 1.7. A further description of this data base is given in Lardaro (1985). One further note is that with this intended use of a data base consisting entirely of UI recipients, selectivity bias will not

³ The multiplicative dummy variables of *GOTE B* with *REPLACE* and with *PTNDUR* are included to allow for the partial derivatives of each policy variable to differ between persons differing in terms of such extra benefits without estimating a separate logit equation for each group. The advantage to this approach is the gain in efficiency of estimation, since more degrees of freedom are involved in the estimated equation. The partial derivative for persons without added benefits is simply the coefficient of the policy variable times the product $P(1-P)$, where P is a value of probability from the equation, while for persons with *GOTE B* equal to 1, the partial derivative is the sum of the coefficients for the policy variable times the product of $P(1-P)$.

be present since the issue evaluated exists only for benefit recipients, and no generalization to the uninsured unemployed is warranted.

Results

Maximum likelihood estimates of the logit coefficients are given in Table 1. The probability of additional compensated spells obtained using averages for all the variables in the equation, 0.433, is virtually identical to the sample proportion of persons experiencing more than one compensated spell, 0.444.⁴ The likelihood ratio test of the null hypothesis that all the coefficients (except the intercept) are jointly zero allows rejection of this hypothesis at the 1 percent level of significance.

TABLE 1
Logit Coefficients for the Probability of
More Than One Compensated Unemployment Spell

Variable	Maximum Likelihood Estimate	Asymptotic Standard Error	t-Ratio (Absolute Value)
SEX	.153	.086	1.78
AGE	-.006	.102	.064
RACE	-.236	.119	1.98
STBLTY	-.107	.058	1.85
UNEMP	.207	.070	2.98
REARN	.00007	.00005	1.50
GOTEB	1.06	.599	1.77
REPLACE	-.597	.559	1.07
(GOTEB•REPLACE)	-.718	1.06	.676
PTNDUR	.035	.009	3.51
(GOTEB•PTNDUR)	-.032	.012	2.66
Intercept	-1.25	.527	2.38

Notes: N = 2881. Estimated probability using mean values of sample = 0.443.

Examination of the nonpolicy variables shows all to be statistically significant at the 5 percent level with the exception of *AGE* and *REARN*. Using the average probability estimate of 0.443 to obtain partial derivatives,⁵ these estimates imply that males had a 3.8 percent greater probability of additional compensated spells, while white persons had a lower probability by 5.8 percent. Persons with greater amounts of specific human capital had a smaller likelihood of more

⁴ The value of 0.443 used to evaluate the partial derivatives is obtained by using the sample proportions of persons having a value of 1 for each dummy variable.

⁵ As noted in fn. 3, the formula for determining the partial derivative is the coefficient (or coefficients) times the product of $P(1-P)$, where the value of P used is 0.443.

than one compensated spell, where a rise of 0.38 in *STBLTY* is associated with a fall of 1 percent in the latter probability. The local unemployment rate is positively related to additional spells, where a 0.2 percent rise in *UNEMP* raises the probability of additional compensated spells by about 1 percent. Finally, the coefficient of *REARN*, which is not statistically significant, indicates that a \$500 increase in real base year earnings raises the likelihood of additional compensated spells by 1 percent.

Examination of the policy variables reveals several interesting and perhaps surprising results. For persons not receiving Extended and Federal Supplemental Benefits, only potential duration is a statistically significant determinant of the probability of additional compensated spells. The coefficient of *PTNDUR* indicates that each additional week of eligibility increases the probability of additional spells of unemployment by about 0.9 percent, or that a 10-week increase in potential duration raises the probability of future spells by 8.6 percent. In contrast to this, greater benefit liberality in terms of earnings replacement lowers the probability of further spells by 1.5 percent for a 0.1 increase in the replacement rate. It thus appears that the primary work disincentive effect associated with *REPLACE* is to prolong the duration of a given spell, while that for *PTNDUR* goes beyond that of the replacement rate, generating the incentive to engage in future compensated spells of unemployment as a means of utilizing remaining weeks of entitlement. As discussed previously, the latter can be considered to constitute an entitlement effect that is distinct from that for members of the labor force currently ineligible for benefits. In both cases, individuals who curtail a current unemployment spell (though the ineligible must do so through employment to establish future eligibility) incorporate weeks of potential duration into their decision-making process. These results are therefore consistent with unused benefit weeks acting as an inducement either to reenter the labor force or to accept employment with a greater probability of lay-off than would be the case if remaining entitlement did not exist.

Evaluation of the impact of changes in *PTNDUR* for persons with Extended and Federal Supplemental Benefits reveals a rather striking result. The partial derivative of *PTNDUR* for these individuals implies that a 10-week increase in benefit entitlement leaves the probability of additional compensated spells virtually unchanged, increasing the latter by less than 1 percent. This contrasts sharply with the 8.6 percent increase in the probability of additional spells for persons not part of the programs that extend benefits during recessions. This disparity is

related to the fact that persons must exhaust current benefit entitlement to qualify for the additional benefit weeks of Extended and Supplemental Benefits that are fixed multiples of original potential duration. If a person with remaining potential duration is currently receiving benefits and knows that programs to add weeks currently exist, the result here implies that if the person does receive added benefits, he will be more likely to exhaust benefits during the current unemployment spell than were such added weeks not available. Since such programs create entitlement for qualifying persons already exhausting benefits, the actual entitlement effect under these circumstances can entail reentry into the labor force from a state of unemployment and the initiation of another compensated spell. This is more likely to occur if benefit exhaustion occurred before the added-weeks program is instituted. In this data base, however, the added entitlement occurred during the last half of 1974 which, given the distribution of persons for that year, implies that the majority of recipients were aware of the existence of Extended and Federal Supplemental Benefits, placing them in the category previously considered. Thus, the actual entitlement effect may also be operative under periods of additional benefit entitlement, but we are unable to pursue this with these data.

The effect of benefit replacement on additional spells does not differ as dramatically between persons that do and do not receive added benefit entitlement as is the case for *PTNDUR*. Both the difference in the response between groups to changes in *REPLACE* on additional spell probability and the partial derivative are negative and not statistically significant.⁶ The partial derivative implies that a rise of 0.1 in the replacement rate lowers the probability of additional spells by 3.3 percent for persons with extra benefit entitlement. While this is approximately double the 1.5 percent value for those without such entitlement, the magnitude is still relatively small. The sign of the partial derivative for *REPLACE* is consistent with previous research finding this variable to be positively related to the duration of a given spell and the probability of benefit exhaustion for persons with a single spell, although statistical significance was attained by this variable in the other studies.

⁶ The nonstatistical significance of this partial derivative, which involves two coefficients, was established on the basis of a likelihood ratio test. The same test is used to establish the statistical significance of *PTNDUR* for persons with additional entitlement.

Conclusions

This paper has provided empirical evidence consistent with the existence of an additional work disincentive effect of UI relating to the incentive to utilize remaining weeks of entitlement with subsequent compensated spells of unemployment. This "actual entitlement" effect, which tends to offset the "potential entitlement" effect, implies that not all entitlement effects of UI decrease unemployment, and the total set of work disincentives created by unemployment insurance are greater than that implied by duration equations alone. The role of the number of compensated spells of unemployment should therefore be accorded greater significance than has been the case in the previous empirical literature on the work disincentives of UI.

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DISCUSSION

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Regarding the Hills-Shapiro Paper

The aggregate employment rate effects of a severe decline in the relative demand for labor in an industry, as has been experienced in the goods manufacturing industries over the past decade and is predicted to continue through 1995, depend to a large extent on the degree of inter-industry mobility of the labor force. The desirability of various government industrial policies to offset these effects can depend on the determinants of this mobility. Hills and Shapiro provide evidence regarding both of these factors in their paper. Using data for the 1973-1978 time period for Young Men from the National Longitudinal Survey, they find a considerable degree of mobility between 2-digit industrial classifications, with between 50 and 70 percent of the sample making at least one industry change over the 5-year period. Their regression analysis indicates that individual differences in mobility result primarily from differences in job tenure, occupation, union status, and broad industrial grouping. In the third part of the paper, they provide estimates of the effects that inter-industry mobility has on earnings growth, finding that the average worker suffers as a result of industrial mobility.

I have two general comments regarding the analysis of mobility patterns presented in the first part of the paper, in Table 1. First, the aggregation used does not allow us to distinguish those who are mobile across the broad classifications listed from those who are mobile within broad classifications. In addition to knowing what proportion of workers in construction industries leave their 2-digit industries, it would be interesting to know what proportion leave construction industries altogether. If mobility across broad industrial definitions is the criterion, we cannot conclude from Table 1 whether construction workers are more or less mobile than automobile and steel workers.

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The authors may want to present results for both types of mobility in that table in future work.

The second comment concerns the distinction between the “leavers” and the “returners.” As above, some interesting information is ignored in their presentation of the data. In particular, the authors should also present the conditional probability that an individual is a returner or not a returner, given that he or she has left. This distinction can change the implications of the data presented in Table 1. For example, Table 1 indicates that there is a higher proportion of “returners” in the other durable goods industries than in the service industries. Though this is true, the probability that an individual is a returner, *given that he left*, is higher in the service industries. About 15 percent of the gross leavers return in the service industries, compared to 13 percent in the other durable goods industries. Again, the authors may want to present both measures in the paper.

When I turn to the regression analysis of the determinants of mobility in Table 2, my first comment (aside from noting that OLS is probably not the best technique to use) is that the definition of the dependent variable as the probability of leaving and not returning makes the interpretation of the results difficult, since we are comparing this group with two very distinct groups—those who leave and do return, and those who never leave. It seems that there are two processes implicit in these data: first, that which determines whether one leaves an industry or not, and second, that which determines whether one returns to the industry given that one left it earlier. The estimates presented in Table 2 tell us little about the determinants of either of these processes. To resolve this problem, Hills and Shapiro could use the multivariate or sequential logit techniques developed by Amemiya, McFadden, and others to deal with these kinds of models, or they could simply change the definition of the dependent variable and restrict the sample appropriately. I recommend that they try one of these approaches in their future work.

Other comments regarding the regression equation are, first, that the authors may want to include a “change in education” variable in addition to the level of education variable already used, and second, to note that the inclusion of the industry dummy variables seems to have the primary effect of decreasing the size of the coefficients and *t*-statistics on the “craft” and “employment fall” variables, suggesting that they may do little more than proxy for those variables and have little independent effect.

Two questions which repeatedly came to my mind when reading the first two sections of the paper are: (1) To what extent is inter-industry mobility related to occupational mobility? And (2) Where do the people who move end up? A related question is, to what extent does the availability of alternatives differ across industry of origin? This last question may be particularly important if workers in one industry tend to move only to one other industry, and employment opportunities decline in both at the same time. A complete understanding of inter-industry mobility patterns necessitates answers to these questions. I urge the authors to pursue them in future work.

In the final part of the paper, Hills and Shapiro find evidence consistent with earlier work, indicating that mobility results in decreased earnings growth, and providing further evidence of the important effects of firm-specific human capital. I have two comments regarding the specification used: First, it is not clear why they don't include a dummy variable equal to 1 for "movers" to estimate the independent effect of moving, rather than comparing predicted growth values based on means for movers versus means for stayers. If all of the effects of moving are not captured by the variables in the equation, their approach may be invalid. Second, since the effect of moving may differ depending on the industry of origin, the authors probably should include industry dummy variables as they did in the mobility analysis. One reason that industry of origin may have an effect is that quit and layoff rates differ by industry, and previous work has shown that the earnings impact of mobility is different for workers who quit versus workers who left due to layoff. Another reason is that *opportunities* may differ according to industry of origin, as was suggested above.

One final remark about the earnings growth analysis, which applies to previous work as well, is that it ignores what may be one of the primary reasons for mobility: dissatisfaction with the nonpecuniary rewards associated with the job. Hills and Shapiro may want to try to account for differences in these rewards using Duncan scores for the workers' occupations or other job-related measures available in the NLS data, or by using industry-wide measures of nonpecuniary aspects of jobs, such as risk of injury or death, from other sources.

In sum, the subject of inter-industry mobility is a very interesting and important subject, especially for policy-makers, and one which hasn't received sufficient attention in the economics literature. The authors have provided evidence of the extent, determinants, and

effects of such mobility in this paper. I hope they will expand upon this evidence in their further work.

Regarding the Lardaro Paper

Lardaro has offered yet another insight into the effects of unemployment insurance programs in this paper, along the lines of the recent contributions by Dale Mortensen and Daniel Hamermesh. The question of the effects of unemployment insurance programs on unemployment rates has been the subject of much theoretical and empirical analysis over the past two decades. Initially, the analyses pointed to the fact that unemployment insurance benefits decrease the costs of job search, and subsequently increase the duration of a given compensated spell of unemployment. Other things constant, this leads to an increase in the unemployment rate. Dale Mortensen in 1977 noted, however, that the requirements for UI benefit eligibility could induce workers in uncompensated spells to accept employment more quickly, thus decreasing the duration of unemployment. Daniel Hamermesh in 1979 added to this the hypothesis that the existence of unemployment benefits can induce some workers to increase their labor supply above the level they would choose if there were no such benefits, again in order to establish eligibility for future benefits. In both of these cases, the net effect of UI on the unemployment rate cannot be determined from the theory and is an empirical question. Lardaro's contribution stems from the simple question: What effect might UI programs have on individuals who already qualify for benefits? In answer, he puts forth two very interesting hypotheses: first, that employed workers who have unused benefits may find a way to become unemployed in order to use those benefits, and second, that unemployed workers who have unused benefits may be more inclined to accept employment in jobs which have a high probability of future unemployment. In both cases, the effect of the unemployment insurance program is to increase the number of spells of unemployment and hence the unemployment rate, offsetting the effects cited by Mortensen and Hamermesh.

Lardaro provides empirical support for this relationship using data on UI recipients in 1973 and 1974 in the State of Indiana. His results, from maximum likelihood estimates of the determinants of the probability of experiencing more than one spell of unemployment, indicate that the UI program did indeed increase the number of spells of unemployment, through the potential weeks parameter.

Though the basic methodology is sound and the work has been carefully done, there are several factors which we must consider when interpreting these results. First, several demographic variables are excluded which might affect the propensity to incur additional spells of unemployment. A partial list includes union membership, number of children, or marital status. Though it is unlikely that the exclusion of these variables biases the coefficients of concern in this analysis (the UI program parameters), it may affect the coefficients on many of the other variables. In particular, the coefficients on the sex, age, and race variables are probably affected, and possibly so are the coefficients on stability and real base earnings. Further work, perhaps using different data sets, should try to account for these factors.

Second, one must wonder to what extent the key policy variables are truly exogenous, as is assumed here. It is possible, for example, that the increases in potential duration in 1974 was in response to an increased number of spells. Thus, the direction of causation between the dependent variable and potential duration is not clear, so that the author's interpretation of the coefficient on the potential duration variable may be questionable. The resulting bias could lead to an overstatement of the actual entitlement effect. This is possibly the most important problem with the analysis and should be considered in future work.

A less important comment concerns the result for the base earnings variable, *REARN*. The author finds that a \$500 increase in real base year earnings raises the likelihood of additional spells by 1 percent, though the coefficient is not significant. Because the variable was supposed to reflect costs of search, its expected sign was negative, not positive. A possible explanation for this unexpected result is that *REARN* proxies instead for occupation, industry, or union status, and picks up variations in the incidence of unemployment which are not controlled by the local unemployment rate variable.

My final remark concerns the appropriate approach for testing the author's underlying hypotheses about workers' behavior. It is not clear that a large number of spells indicates a decision on the part of the worker to work in layoff-prone jobs. Instead, it may simply indicate that short spells lead to bad "matches." An important determinant of the number of spells of unemployment a given worker experiences is the "quality of the match" the worker generates in previous searches. A worker with several, necessarily short, spells of unemployment is probably more likely to have had "bad matches" result from each of those spells than a worker with one long spell. Extending the potential

duration parameter could simply allow for more bad match-unemployment pairs, thus producing a spurious correlation between potential duration and number of spells. Ways to differentiate between these hypotheses might be to ask the following questions: (1) Given an initial spell of unemployment of length t , what is the probability of experiencing another spell, and how is that probability affected by the potential duration parameter? And (2) do workers with more than the average number of spells continue to have relatively more spells after they have exhausted their benefit eligibility? It seems that answers to either of these questions could yield more direct evidence on the validity of Lardaro's hypothesis than the approach taken in his paper.

In conclusion, the author has posed a very interesting example of yet another work disincentive associated with unemployment insurance programs. This represents an important contribution to the UI literature.

XX. WORK SHARING: NEW EXPERIENCES

An Evaluation of Short-Time Compensation Programs*

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Among the most innovative changes to the basic Unemployment Insurance (UI) program since its inception is short-time compensation (STC). STC programs allow workers to receive partial unemployment benefits in the event that they suffer even moderate reductions in their work hours, as long as those reductions are expected to be temporary. Employees who have their worktime reduced by, say, one day per week might be eligible for one-fifth of their weekly UI benefit amount. This policy differs from previous UI regulations, under which such workers would typically be ineligible for any benefits. It is generally believed that broadening the conditions under which UI benefits may be paid will help reduce the “pro-layoff” bias inherent in UI regulations and, instead, encourage employers to adopt reduced-hours strategies during recessionary periods that necessitate reducing their employment levels.

Relative to layoffs, STC programs may offer significant advantages. STC protects employees from the financial burden of job loss and enables them to maintain their job-specific skills. Mitigating job losses may also lead to a wide variety of broader social benefits.

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For employers, STC helps keep the production process running smoothly, precludes the costs of hiring and training new employees during economic recovery, and offers greater flexibility in terms of responding quickly to either adverse economic conditions or economic recovery. Thus, STC offers the promise of increased productivity. From the government's perspective, STC may reduce the expenditures that are often associated with unemployment, such as increased welfare benefits and the costs of job-search and related employment programs.

However, offsetting these potentially significant benefits are costs that may be generated by STC. For employees, the largest STC cost would be the partial income loss for those who would not have been slated for layoffs. For employers, several costs could be incurred. They could face higher fringe-benefit costs than had they opted for layoffs, since it might not be practical or desirable to reduce fringe benefits in proportion to the reduced hours under STC. Employers might also incur ongoing STC administrative costs, and STC may raise an employer's UI taxes because of the way in which such taxes are experience-rated. From the government's perspective, STC may impose net costs on the UI system, since the UI trust funds could be burdened if any possible increased benefits payable under STC are not fully balanced by increased tax collections.

This paper summarizes research on STC programs undertaken in response to Section 194 of the Tax Equity and Fiscal Responsibility Act of 1982. Through the Act, Congress explicitly recognized the growing number of states that have adopted STC programs as part of their overall UI systems, and raised many important questions in response to those state efforts. The questions focus on the effects of STC on contemporaneous and subsequent layoffs, UI tax rates, the integrity of the UI trust fund, and the net benefits to the various affected parties.

The research was based on the STC experience from mid-1982 to mid-1984 of the three states that have operated programs for the longest period of time: California, Arizona, and Oregon. The study focused primarily on the behavior of employers, although some issues that pertain more directly to employees were addressed with employee data aggregated on a per-employer basis. To provide a basis for responding to the congressional questions, a sample was formed that included virtually all employers in Arizona and Oregon that initiated an STC plan between mid-1982 and mid-1983 and a stratified random sample of the larger number of such employers in California.

Carefully matched comparison samples of nonusers of STC in each state were also selected, using industry (three-digit SIC), UI tax rate, and employment size as matching variables. This procedure yielded state samples of employers that exhibited similar characteristics to and should have faced the same economic conditions as did the STC samples, but that did not use STC. Since such matching is inherently imperfect and since post-selection firm closings and other types of sample attrition widened the differences among the samples, most of the actual research was based on regression analysis, which controlled statistically for any remaining, observable sample differences.

The final research was based on information from approximately 1000 employers in the three states, about 45 percent of which participated in STC. The information was drawn primarily from UI administrative records on the STC and regular UI benefits paid to employees and on the UI taxes paid by employers. However, the information was supplemented with a telephone survey of sample employers and with in-person interviews administered to state UI administrative personnel.

Before the results of the study are summarized, three important limitations with its overall design should be stressed. The first is that the study involved only three states, each of which exhibited low levels of STC use. The implication is that it is extremely difficult to generalize from the experiences of these states to other states that are using STC or that might use it in the future. The second is that the study did not collect data directly from employees. Thus, many issues that pertain to the attitudes and overall well-being of workers could not be addressed directly. However, evidence on some of these issues was available from information provided by employers and through UI records. The third pertains to the comparison-group methodology. Both the operational status and the limited use of the STC programs in the study states precluded an experimental design that would have assigned firms randomly to STC and control groups. Therefore, the best available option for evaluating the experience of STC users relative to what their experience would have been in the absence of STC was to match the sample of STC firms carefully to a similar group of nonusers (the comparison group) and to use appropriate statistical techniques in the analysis. However, because such a methodology does not guarantee unbiased estimates of the effects of the program, the research included an examination of the sensitivity of the results to alternative assumptions and techniques.

The Results of the Study

Although the research on STC conducted under the present study focused on all of the specific questions raised by Congress, it is not possible to examine these issues completely within the limits of this brief paper. Instead, we have chosen to describe the results obtained in four primary areas of investigation: (1) the relationship between STC and layoffs; (2) the effects of STC on the general UI trust fund; (3) the costs to firms from using STC; and (4) the administration of STC programs. Further details on these issues and on other questions raised by Congress can be found in the technical report.

The Relationship Between STC and Layoffs

The primary purpose of STC is to provide firms with an alternative to layoffs during temporary downturns in their demand for labor. Many of the potential social benefits from STC (such as reduced labor-turnover costs or increased workforce productivity) derive from the ability of STC to encourage firms to substitute hours reductions for layoffs. To examine this substitution, we chose to focus on the hours spent on regular UI and on STC by the workers in our sample firms. These data were normalized by total hours employed in the FY 1982 base period, so as to create measures of the percentage of worktime spent in these two forms of compensated unemployment. Although measuring layoffs and hours reductions with data on compensated unemployment poses some conceptual disadvantages, we believe that they are largely outweighed by the enhanced accuracy of data on compensated unemployment (since the data come from administrative records) and by the relevance of compensated unemployment to various issues of UI financing. These data were used to examine differences in the percentage of work hours spent on compensated unemployment between firms that were STC users and those that did not participate in the program.

Basic results obtained from this examination are reported in Table 1 for the three study states. Although the findings exhibit fairly large state-by-state differences (a fact we shall comment on shortly), two major patterns are apparent. First, the average firm in the STC sample appears to have continued using layoffs as the primary method of workforce reduction. In no state did STC use represent more than 25 percent of total hours on compensated unemployment. Second, although evidence clearly suggests that STC did reduce layoffs (as measured by the reduced receipt of regular UI), this substitution does

not seem to have been on an hour-for-hour basis. In all of the states, STC participating firms experienced some net addition to total hours of compensated unemployment (both regular UI and STC), although this addition was quite small in Oregon. Hence, the empirical results suggest that the actual workforce-adjustment strategies adopted by firms under STC might be quite varied and complex.

TABLE 1
Estimates of the Percent of Base Period Hours
Spent on Regular UI or STC in FY 1983

	State		
	Arizona	Oregon	California
STC Employers			
Percent of hours on regular UI	8.75	11.32	8.58
Percent of hours on STC	2.57	2.89	2.57
Percent of hours on UI plus STC	11.32	14.21	11.15
Comparison Employers			
Percent of hours on regular UI	10.09	14.05	8.61
STC-Comparison difference			
Percent of hours on regular UI	-1.34	-2.73**	-0.03
Percent of hours on STC	2.57**	2.89**	2.57**
Percent of hours on UI plus STC	1.23*	0.16	2.54**
Percentage change in STC Employers' average compensated hours (UI plus STC) from Comparison Employers'	12	1	29

Note: Estimates have been regression-adjusted to hold constant a variety of factors that affected the experience of employers. The estimates in this table were derived from tables contained in the technical report. The sample sizes are 309 employers for Arizona, 336 for Oregon, and 343 for California.

- * Significantly different from zero at the .10 level in a one-tailed test.
- ** Significantly different from zero at the .05 level in a one-tailed test.

The large state-by-state differences in the apparent response to STC use reported in Table 1 pose a number of questions that could not be answered satisfactorily within the confines of the study. Whether they represent differences caused by how STC is administered in the states, from unmeasured differences among the types of firms in the various state samples, or from some undiscovered methodological problem in these comparisons could not be determined conclusively given the small number of states involved in the study and the limitations inherent in a comparison-group methodology. However, results broadly similar to those reported in Table 1 were obtained through a wide variety of econometric methods.

A number of other topics pertaining to layoffs and STC use are investigated in the technical report. Perhaps the most interesting finding from these additional investigations is that STC appears to have had no discernible effect on the demographic composition of layoffs undertaken by STC participants. That is, contrary to what has been hypothesized about the program, STC did not seem to have major "affirmative action" advantages for newly hired minority and female workers.

STC and the UI Trust Fund

Concern that widespread STC use might have a negative impact on UI trust funds has made many states cautious in adopting STC programs and has prompted them to include in their laws special surtax provisions for firms that use STC. This concern appears to have arisen from two sources. The first is the possibility that workers who are placed on STC may have somewhat higher wages and, hence, higher weekly UI benefit amounts than do workers who might have been laid off instead. Second, if STC encourages more compensated unemployment than would have occurred under a layoff-only strategy (as our results suggest), benefit payments to workers in firms that use STC may also increase.

The study results tended to support these presumptions. In all of the states, mean per-employee benefit charges (for regular UI and STC) were significantly higher in the samples of firms that used STC. About half of the differences appear to be related to the higher UI benefit levels for which STC recipients are eligible, and the other half can be attributed to additional amounts of compensated unemployment.

However, we also found that firms which participated in STC tended to have greater increases in their UI tax rates over the period of the study than did otherwise similar firms that did not participate in STC. Although developing a precise model of how these extra tax collections should be netted against the additional benefit amounts paid was beyond the scope of the project, it was possible to provide a rough, qualitative assessment. In the short run, it is likely that STC imposed some drain on the UI trust fund. Lags in the operations of the states' experience-rating formulas make it unlikely that the extra benefits payable under STC can be recouped in one or two tax years. Over the longer term, however, the picture is quite different. Because STC benefit charges under most of the states' current surtax provisions are more effectively experience-rated than are regular UI benefit

charges, it seems likely that any extra benefit charges would be fully recouped in the long run. Hence, concerns about the fiscal impact of STC might properly be focused on ensuring trust fund adequacy during temporary downturns, since the longer-term solvency of the system would not seem to be imperiled by STC programs.

Costs of STC to Firms

Participating in STC poses both potential benefits and potential costs to firms. Benefits derive primarily from the possible savings to firms in turnover costs and in the overall productivity of their operations relative to a layoff-only scenario. The major costs in using STC are potentially higher UI tax rates and a potential increase in fringe-benefit costs.

Unfortunately, not all of these benefits and costs to employers could be accurately measured in the present study. Most important, because the productivity-related effects of STC participation were too difficult to conceptualize and to measure, they were not addressed in the study. Although some proponents of the program have claimed that these effects are quite large, we were unable to assess the validity of that claim here.

However, we were able to develop some rough measures of the impacts of STC participation on turnover and fringe-benefit costs. Our findings suggest that the net balance between these particular benefits and costs of STC relative to layoffs depends importantly on the duration of the necessary workforce reduction. In most of the hypothetical scenarios we examined, durations of less than about eight weeks would have favored hours reductions under STC. That is, for such relatively short durations, the savings in turnover costs exceed the extra fringe-benefit costs associated with hours reductions. However, for longer durations (which were quite common in our sample), the fringe-benefit costs dominate the savings on turnover costs, so that hours reductions would generate a net cost to STC participants for these two items. It should be recognized that all of the cost figures we computed were relatively small as a fraction of total labor costs. The results on turnover and fringe-benefit costs could easily be dominated by various productivity effects, but we can offer no evidence on this assumption.

Administration of STC

In adopting STC amendments to their basic UI laws, all states attempted to restrict STC use to its intended purpose of substituting

for layoffs during temporary downturns. In our study, we catalogued a wide variety of these provisions and attempted to establish their effectiveness. The following general picture emerged: programs experience some start-up problems but, on the whole, seem susceptible to careful monitoring and direction. We did find that some of the specific provisions of state laws do not appear to effectively ensure adherence to the basic goals of STC. (For example, constraints on minimum required work reductions do not seem to restrict minimum hours reductions to at least one averted layoff.) But these shortcomings seem relatively minor, and, in any case, the small number of states in the analysis precluded any quantitative assessment of the impacts of variations in such provisions.

In terms of UI administrative costs, STC use has both advantages and disadvantages relative to an equivalent workforce reduction that involves only layoffs with the associated UI collections. Initial claims-filing costs are lower under STC (because eligibility determination is simpler), and costs associated with UI "work test" monitoring do not arise. However, relative to an equivalent level of layoffs, STC entails processing a much greater number of weekly benefit claims. Our analysis (which was constrained by a relatively meager amount of data) suggested that, under current circumstances, the costs associated with the greater volume of claims tended to dominate the lower per-claim costs. However, in interpreting this conclusion, it is important to keep in mind the relative newness of STC programs. It is quite possible that the administrative cost disadvantages of STC may decline over time as experience with the programs accumulates.

Conclusions

Because of funding and other limitations, this study is necessarily incomplete. However, we believe that the results are quite informative. We were able to document several important benefits of STC programs. First and foremost, STC did preserve jobs in at least two of the three study states, although much of its use appears to have alleviated firms' labor-hoarding. A closely related benefit is that participating employers realized hiring and training cost savings. We were also able to document some costs associated with the programs. The UI-tax and fringe-benefit costs of participating employers tended to be higher than would have been the case had they not used STC. Also, the states' UI systems experienced somewhat larger benefit claims in the short-run than would have been the case had STC not

been available, but the higher UI taxes would have likely offset these claims in the longer run.

While these results should be of interest to those who are responsible for establishing UI policy, another set of results may be even more important, since they transcend issues pertaining to analytical technique or comparison-group methodology. First, participation rates in STC have remained very low: generally less than 1 percent of all employers in the sample states participated at any point in time, and less than 1 percent of UI benefit claims were for STC. Such participation levels cannot be explained simply by a lack of information, since about half of the comparison employers had heard about STC. Second, among those study firms that had used STC, the predominant form of workforce adjustment remained layoffs. On average, about 78 percent of a firm's hours adjustments were made through layoffs, and only 22 percent through the use of STC. Thus, as more states introduce STC into their UI systems, future research must continue to address issues pertaining to employers' relatively limited acceptance of the concept.

Issues in Assessing Work-Sharing*

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Committee for Economic Development

Since 1978, ten states have adopted legislation to permit the voluntary use of short-time compensation (STC)—that is, work-sharing as an alternative to layoffs, combined with the payment of partial unemployment insurance benefits to help compensate employees for their lost worktime. The available surveys all indicate that where these programs have actually been used, they have generally been well received by both employers and employees. At the same time, overall usage of STC has thus far been quite limited, particularly among larger firms.

How STC will fare in the future will no doubt depend importantly on how actual experience with STC is evaluated. What I would like to do here is to examine some of the key questions that need to be addressed in assessing the impact of STC, review to what extent they have been answered by recent evaluation studies, and discuss the relevance of this information for future program design. I shall draw particularly on two studies that have just become available: the large-scale *Evaluation of Short-Time Compensation Programs* prepared by Mathematica for the Labor Department and the case study prepared by Bennett Burgoon and Robert D. St. Louis for Motorola—the firm which has been the largest single user of STC so far—that assesses the use of STC in Motorola's Arizona operation during 1982–1983.

Before taking up specific issues, let me make two clarifying points. Although I have served as a member of the Advisory Committee to the Mathematica study, this does not mean that I can take either credit or blame for the study's contents. Also, I shall, with one exception, not try to deal with the impact of STC on workers and on society, since this will be covered by others on the panel. However, I strongly believe that careful assessment of these effects is essential for an adequate overall evaluation of STC. For this reason, I regret that funding

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* The views expressed by the author are his own and do not necessarily reflect those of the Committee for Economic Development.

constraints prevented Mathematica from exploring these issues and that the study did not collect any information from employees.

Let me now turn to my first issue—namely, whether STC use in cyclical situations implies higher costs for the UI system than outright layoffs. This was the central focus of the Mathematica study.

One aspect of this question relates to administrative costs. Mathematica found that these costs were greater under STC than with regular layoffs. But this finding reflected early experience with STC in only one state. The Mathematica study notes that with more experience, administrative costs under STC may well be significantly reduced through improved methods, including having employers file claims for STC users en masse. If one also considered that there will be savings for the Employment Service because it does not have to provide job-search assistance and other services associated with regular layoffs, there is at least a possibility that net administrative costs with STC might actually prove less than with regular layoffs.

A far more important issue is whether the total number of UI-compensated hours of unemployment—and the associated UI benefit costs—are likely to be greater with STC programs than with outright layoffs. Surveys of both employers and employees conducted in 1982 by the California Employment Development Department suggested that total worktime losses under STC were significantly less than under layoffs. On the other hand, various simulation studies prepared by the Department produced opposite results. Both types of assessment suffered from important methodological shortcomings. The Mathematica study, which covered STC experience in California, Arizona, and Oregon from mid-1982 to mid-1983 and used sophisticated econometric techniques, sought to avoid such shortcomings primarily by relating the experience of firms using STC (often side-by-side with direct layoffs) to that of a comparison group of firms that presumably faced similar economic circumstances.

Mathematica's principal finding was that for STC-using firms, total hours of compensated unemployment (including *both* regular UI and STC benefits) were larger than for firms relying solely on direct layoffs. On average, this difference amounted to approximately 11 percent. This overall number, however, hides considerable differences among the three states. In Oregon, total hours of compensated unemployment were almost identical for the two groups. In California, total compensated unemployment for STC-using firms was said to exceed those of the comparison group by 29 percent, while the differential for Arizona came to 12 percent. Another way to describe

the Mathematica results is in terms of *marginal* effects. Thus, the study showed that in Oregon, each hour of compensated unemployment under STC substituted for an hour of regular layoffs. For California, on the other hand, the study produced the extraordinary result that there had been virtually no substitution. The substitution rate for Arizona was about 50 percent.

On the basis of simulations that used these various results as inputs, the study also concluded that UI benefit charges for firms using STC can be expected to be higher than those for similar employers who do not use STC and that this is likely to impose a net drain on the UI trust fund in the short run. However, these negative impacts were expected to be significantly reduced over time by more complete experience-rating of STC benefits and by revenues gained from special STC surtaxes.

How solid are these findings? In my view, they are subject to a great deal of uncertainty when one considers various limitations and weaknesses of the study. In particular, it is by no means clear whether or to what extent the study's findings can be extrapolated to other states or time periods.

Mathematica acknowledges that its study was subject to various limitations, starting with the fact that it is based on a comparison group methodology rather than use of random sampling. In my opinion, however, the limitations of the study deserve a good deal more emphasis than is provided in the report.

There is a major question, in particular, whether STC-users and comparison group employers faced similar economic circumstances. Only three primary characteristics were used in selecting comparison group firms: industry classification (according to three-digit SIC codes), employment size, and UI tax rate. The UI tax rate has little relevance to current economic conditions. The relatively broad industry classifications used did not automatically assure that firms in the comparison groups firms were subject to the same degree of economic stress as those which used STC. One specific indication of such stress would have been evidence that these firms were laying off people. In fact, however, a significant number of comparison group firms registered no layoffs. If there were conclusive evidence from other sources that the two sets of firms faced similar economic conditions, the exclusion of no-layoff firms from the comparison group might be justified, but this was clearly not the case in this instance. When one does exclude firms that made no layoffs from the comparison group, the excess in total hours of compensated

unemployment for firms using STC over those in the comparison group falls from 11 percent to 7 percent. Moreover, when the figures are adjusted to take account of delayed impacts of STC use in the first two quarters after the year covered by the study, the differential almost disappears.

Even with these adjustments, the Mathematica study still suggests that total hours of compensated unemployment were larger for STC firms than for the comparison group firms. But this qualitative result, too, is open to question when other aspects of the Mathematica study are considered. Thus, there are other indications that STC participants may in fact have faced more severe economic conditions than comparison group employers. The report indicates, for example, that STC firms were significantly more likely to have had financial losses in fiscal year 1982 than comparison group firms. Also, in California, STC employers were more heavily concentrated in durable manufacturing than comparison group employers.

Moreover, the basic finding for California—that STC use essentially did not substitute for layoffs *at all*—strikes me as totally implausible. Since STC firms had to submit affidavits indicating that STC represented an alternative to layoffs, one would have to believe that all these firms were cheating 100 percent. Still less credible is the implication that unions would willingly have gone along with an arrangement that involved some wage cutbacks for all of their members even though it entailed no benefits in terms of reduced layoff potentials.

An additional problem is posed by the fact that the Arizona part of the study excluded Motorola's operations, which accounted for approximately 40 percent of the employees covered by STC in that state. This was done on the ground that a comparison group employer of equivalent size could not be found. It raises a major question, however, whether the overall finding for Arizona—namely, that STC firms used more hours of compensated unemployment than comparison firms—would have held if Motorola had been included in the study. This is a particularly pertinent question because Motorola's study of its experience with STC indicated that when the units surveyed went on a four-day week, a significant number of employees did not draw UI for the fifth day. Hence, overall UI costs, at least under this firm's work-sharing program, may well have been *less* than if regular layoffs had been utilized.

What does all this add up to? My overall assessment is that while the Mathematica study has provided useful insights into the

measurement problems in this area, its findings with respect to the likely impact of STC programs on the UI trust fund are beset by so many uncertainties that they can by no means be regarded as conclusive. In my view, this applies even to Mathematica's *qualitative* conclusion that STC programs are likely to entail greater use of compensated hours of unemployment than outright layoffs.

I hope that if additional evaluation studies are undertaken, more intensive efforts will be made to assure that comparison groups face equivalent economic circumstances. In this connection, it might be useful to utilize survey data about the expected economic circumstances faced by each firm as a cross-check to other types of information.

A second issue relates to the need to distinguish between STC in cyclical situations and as part of structural adjustments—that is, as a device to ease the transition toward permanent layoffs. Mathematica found that the firms it studied used the program only to deal with temporary declines in demands for labor. These findings, however, relate to a period of unusually severe cyclical downturn. More recently, problems of structural unemployment and permanent dislocation of workers have gained in relative importance, particularly as a result of sharply rising competition from imports. Hence, the possible use of STC in such structural situations will bear close watching.

This also raises a policy question. Should STC use be permitted in such situations? Some states specifically prohibit STC use in connection with a permanent reduction in workforces. Such use would, indeed, be undesirable for firms and employees as well as for the UI system if it simply delayed needed adjustments, such as worker retraining and relocation. But I think that if properly approached, STC could have a constructive role as a transition to permanent workforce reduction. Such an approach is incorporated in the STC legislation recently adopted in Maryland. This specifically allows firms to use work-sharing as a transitional step to permanent layoffs, *provided* employers include a reemployment assistance plan as part of their work-sharing program. Under such a plan, employers are obliged to assist employees who face permanent layoffs in finding new work, while the employees would have to use some time each week to look for new work, participate in job-search workshops, etc. This arrangement might be mutually beneficial to employers and employees as well as the community at large if it facilitates reasonably rapid reemployment for the persons affected and, at the same time, spares them the often wrenching experience of being placed on full-

time layoff. However, the desirability of this kind of procedure should be carefully weighed against alternative approaches to permanent readjustment, such as reliance on more intensive retraining or job-search assistance programs.

A third area for further investigation involves the impact of STC on the net costs of employers. The Mathematica study provides some useful perspectives on this issue through the use of employer surveys and some simulations. Another way to approach this subject is through case studies. In this connection, I find the case study just issued by Motorola (the firm which has been the strongest advocate of STC) of special interest. Motorola utilized STC in its Arizona nondefense semiconductor products operations during 1982 and early 1983. The total number of employees participating in these STC plans came to over 9000. On the basis of a detailed examination of costs and benefits of work-sharing in six representative departments, the study concluded that STC had resulted in a sizable net saving for the firm compared to layoffs. Motorola also concluded that future use of STC is likely to result in significant net savings for the company over periods of up to six months and would in most cases probably produce net savings for periods of at least one year.

The savings cited in the report were based on costs and benefits that could be directly quantified. The company believes that the true savings from STC use were actually larger if account is taken of factors that are harder to quantify, such as higher morale in the absence of layoffs, the avoidance of "bumping" and other disruptions of established production processes, and the competitive advantage the firm gained by being able to respond quickly to pick-ups in demand during the recovery phase with an established, fully-trained workforce.

Because Motorola utilizes a relatively skilled labor force, an important part of its savings from STC resulted from lower training and retraining costs compared to a layoff strategy, as well as from lower hiring and severance costs. The study also took account of productivity losses that result in layoff situations because of the training and time needed to bring new hires and reinstated employees up to required productivity levels.

These results, of course, are unique to Motorola's specific situation and may not necessarily hold in other cases. The study nevertheless strikes me as very valuable because of the precise way in which it pinpoints specific elements of costs and benefits from STC use. It is to be hoped that improved knowledge of such elements will help other

firms to conduct similar in-depth assessments covering their own situations. In fact, it would probably be very helpful for the future development of STC if greater efforts were made to develop model "do it yourself" accounting frameworks that would permit individual firms to take proper account of the full range of relevant variables for such cost-benefit calculations.

One variable that is particularly difficult to assess is the impact of STC on productivity. Mathematica did not attempt to deal with this issue in any depth. It did include questions on productivity in its interview surveys. Unfortunately, it failed to ask STC firms the one really relevant question: how did productivity experience under STC compare with productivity under layoffs? This is an area where a need for further research is clearly indicated.

Let me now turn to a fourth issue: namely, whether STC has had favorable "affirmative action" results. A major argument for using STC as an alternative to layoffs has been that it would preserve the jobs of minority group members, women, and younger workers who are typically thought to be disproportionately represented among the "last hired" and, therefore, also among the "first-fired." With STC, employees in these categories do not have to be laid off and potential conflicts between seniority rules and affirmative action requirements are avoided.

Contrary to what one might have expected, the Mathematica study did not find that the groups cited fared better under STC than with direct layoffs. This, incidentally, was also the finding of the California study. As Mathematica itself has suggested, a more detailed look at the available data seems desirable to help determine how this counter-intuitive result can best be explained. One possibility is that firms using STC have been particularly progressive in their labor relations and that the groups cited were not disproportionately represented among the "last hired" by these firms. A quite different explanation would be that members of such groups had been selectively dismissed prior to the adoption of STC by the firms. Mathematica did not find evidence for this in its study, but future studies should clearly be alert to this possibility. If it were in fact found that firms tend to rely on STC only after a disproportionate number of women, minorities, and younger workers had been laid off, a policy question would arise: should there be some limitation on the use of STC by firms which follow such a practice?

If, on the other hand, it should turn out that STC programs do have positive affirmative action results, questions might be raised about the

desirable length of STC programs. At present, the time period for which particular employees can stay on the program usually does not exceed 26 weeks. If there is a severe recession that lasts longer than this, should the period of eligibility be extended to include the full period of the recession? If the program ends in the middle of a recession, the "last-hired" would still be the "first-fired." One possible way to deal with this problem would be to permit longer-than-normal periods of STC use if national and/or local area unemployment rates remain unusually high for prolonged periods.

One final comment. As more information about the issues raised here becomes available, the case for adopting additional administrative requirements under the STC program may also become stronger—for example, to increase the likelihood that STC will, in fact, be used as an alternative to layoffs; to allow clearer distinctions between cyclical and structural adjustments; or to permit more extended use of STC in prolonged recessions. Before such provisions are adopted, however, very careful judgments will have to be made to determine whether the purposes to be served by these provisions are likely to be worth the additional bureaucracy they would entail.

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Labor's Interest and Concerns With Short-Time Compensation

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From its founding in 1881, the American labor movement has pressed for a full-employment economy and has supported a wide range of programs to stimulate economic growth, create jobs, and prevent layoffs. In the centennial year, 1981, the AFL-CIO Executive Council broadened its outlook by observing that "in some circumstances . . . short-time compensation may be an alternative that cushions the impact of unemployment." The cautionary note was to be expected in a climate of massive and growing joblessness in which unemployment insurance (UI) assisted work-sharing was being advanced as a "no-cost, win-win" solution to a social and economic disaster of giant proportions.

The Federation's basic concern was the risk posed to those totally unemployed by the diversion of funds that were already pitifully inadequate. Two-thirds of the jobless received no benefits at all, and benefits paid to the remaining third amounted to no more than 30 to 40 percent of lost income. Yet, short-time compensation (STC) did offer a way to avoid increasing unemployment, provided employers would use it.

"Work-sharing" was by no means a new term or an untarnished one. "Sharing the misery" of lost earnings was President Hoover's basic policy proposal to meet the unemployment crisis of the early 1930s, and employers have been advancing it in collective bargaining ever since as a cheap alternative to massive layoffs.

As a mechanism to deal with job losses stemming from the progressively deeper economic downturns of the 1970s, "misery-sharing" was not the answer. The number of unemployed jumped from 2.8 million in 1969 to 7.9 million by 1975. Workers with 15 to 20 years of unbroken service were being laid off in large numbers. Supplemental unemployment benefit funds were going broke, and

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state trust funds needed federal assistance. Retaining its fundamental concern for jobs and job security, the labor movement at the same time was striving to deal with the needs of returning veterans, to increase job opportunities for minorities, and to help women move into nontraditional occupations. No one wanted to see the recent modest gains in these areas—long a part of labor's social agenda—lost or compromised because of cyclical economic downturns.

In most states, the term "work-sharing" means reducing hours and incomes and ignoring the rights of workers with high seniority, carrying with it the prospect of a backlash jeopardizing labor's long-cherished social objectives. No wonder, then, that a shorter standard workweek was and remains labor's favored approach to balancing the bargaining and social equities.

In 1975 the proposal that shorter workweeks be financed through the unemployment trust funds was cautiously but favorably received by AFL-CIO President George Meany, who wrote to Lillian Poses that the Federation's ". . . general view is in favor of the plan as long as it remains voluntary and safeguards are included in state legislation to protect all parties."

As high unemployment continued, states began cutting unemployment benefits, and it became clear that using trust funds to pay for a reduced workweek would mean worse hardship for those totally unemployed. And because benefits had lagged far behind wages, it looked as though senior workers in higher wage classifications would lose a greater share of their incomes—and not just for a few weeks, but for months or years.

Blindness to these threats to well-paid workers with secure jobs on the part of those who continued to promote work-sharing as a "win-win" solution to layoffs eroded support among labor leaders. Repeated citations of the great success of German and Canadian experiments with work-sharing turned out to be overstated, if not misrepresented. Both the DGB and the CLC (the German and Canadian counterparts of the AFL-CIO) reported problems and shortcomings that made it clear that foreign experiences were irrelevant and nontransferable to the American scene.

The AFL-CIO then set about formulating its own concept of how short-time compensation could be made to work in the United States. While discussions were going on within the AFL-CIO and jointly with the Department of Labor, the California legislature adopted the experimental STC law which has been extended three times since 1978 and will run through 1986. Although the California AFL-CIO neither

supported nor opposed the Shared Work Unemployment Compensation bill (SWUC), the plan proved more positive than might have been expected in that time and place, and a number of labor leaders strongly supported its passage and extension.

Many workers gained from the bill under existing contracts—about 20 percent of the agreements allowed employers to reduce the workweek before resorting to layoffs. Previously, when employers exercised this option, considerable numbers of workers lost income without being able to qualify for unemployment compensation. In meeting this need, the California SWUC opened the way for further development and experimentation and helped lay the foundation for the Executive Council's resolution of August 5, 1981, endorsing the concept of short-time compensation and outlining the conditions needed to make the concept's promise a reality.

First, the Council said that STC must not be viewed as an alternative to active government programs to stimulate employment opportunities and the economy. This is vital because STC redefines employment while creating no new employment opportunities. This tends to hide a large part of the unemployment problem by inflating the statistic "Working part-time for economic reasons." In 1985 there were 5.4 million workers in this category, and although it is better than being unemployed, it reflects the failure of our economy to provide full employment. This general concern is shared by the German and Canadian labor movements.

Second, the needs of those completely unemployed must be given the highest priority. If STC increases costs to the UI fund, as it certainly may, legislators face the options of either reducing benefits to the unemployed in one way or another or of increasing revenue. And in today's political climate, it is nearly impossible to raise revenue for social needs.

This approach—of looking at the cost to the UI fund—regards UI and STC as a closed system. The meaningful cost-benefit analysis would fit STC into the cost of unemployment to society.

Although the benefits of STC warrant increasing the funds available for this purpose, well-meaning supporters of STC want to sell it to the employer as a cost-free benefit. This is unrealistic. STC is in the best interest of the state and local governments, most workers, and many far-sighted employers. But to do the job well will require additional funding. We believe that a fair-cost analysis that looks at all of the costs to state and local governments for unemployment, including lost taxes, the cost of support systems, and the wasted

workers' skills, will demonstrate the value of a strong, well-funded STC program.

The AFL-CIO is acutely aware of the cost and hardship of unemployment. Unemployment is not merely an economic phenomenon, but a colossal mass of individual human tragedies whose consequences color each victim's whole view of himself or herself and affects families and communities, perhaps for generations. To the extent that STC can reduce these economic and social catastrophes, it should be considered in the overall fabric of government programs.

Assisted by the United Rubber Workers, Pappas (1979) made a number of case studies of families in Barberton, Ohio, in 1979. His paper is based on family case studies while he lived with the unemployed, and it gives readers an understanding of the private side of survival for the unemployed, dealing with creditors and repossessions, job searches and failures, drug use and sales, short-term jobs (too often ending without unemployment insurance entitlement), and working off the books.

Let me cite another study, co-sponsored by the Metropolitan Baltimore Council of AFL-CIO Unions and the Maryland Department of Human Resources (1985), of laid-off workers in the Baltimore area. Many had been shipyard, auto, and steel workers—the core of middle-class America. Fifty-six percent of those studied were men and 44 percent women; the average age was just less than 40. Fifty percent were the primary support of a household and 51 percent of the households included women.

When UI ran out, 23 percent were on food stamps and 16 percent were on welfare. Fourteen percent were on Social Security and 11 percent were on pensions. Family income had dropped to 59 percent, and 55 percent were depending on the income of one or more other family members—too often children who might have furthered their education. Thirty percent had experienced an emergency need for food. Over 10 percent had been evicted and had the mortgage foreclosed, nearly 25 percent had their utilities turned off, another 21 percent had emergency fuel for heating. Many families reported withdrawal from friends and internal family strife, 15 percent reported increased use of alcohol, and 14 percent found their children's grades falling off. Social workers in the blue-collar neighborhoods explained that spouse-abuse and drug-related problems would be underreported because medical insurance claims were often written to fit the nature of the coverage.

The hardships of unemployment are often the greatest for minority group members and women. Because their incomes tend to be low, they are less likely to have savings to fall back on even for a short time when they are laid off, and they have a harder time finding new jobs. The entire society has devoted years of energy and support to moving these disadvantaged workers into better paying jobs, only to find them often the first ones to go in layoffs. When this occurs through the malfunction of an otherwise fair system, the loss is felt by the entire society.

Overall, the AFL-CIO supported STC as a tool in dealing with the multiple consequences of unemployment, but not as a no-cost or even a low-cost "win-win" solution. The problem is that too few employers support STC or use it at all, as long as they can get most of the benefits of work-sharing without the cost of STC just by transferring the burden to workers. We hold that workers should be entitled to STC, through UI or some other funding, any time the workweek is reduced due to a lack of work. Absent this, STC will only be used by a few forward-looking employers willing to sign up for the program, and then after they have laid off the more easily replaced workers.

As the Executive Council Resolution stressed, the AFL-CIO wants assurance that firms that use STC do not first lay off the recently hired and less costly to recruit workers, that is, women and minority group members. This issue has been the hardest to deal with, and yet would seem to be a fairly easy one on which to get support. In discussing this issue prior to passage of the Tax Equity and Fiscal Responsibility Act of 1982, the AFL-CIO sought a provision in the act requiring that employer progress toward equal employment opportunity goals would not be reduced by layoffs prior to application for STC. Employers objected strongly on the grounds that it would encourage "EEOC fishing expeditions." And, surprisingly, the civil rights groups the AFL-CIO generally works with were willing to drop the issue on assurance that STC by its nature would be "helpful."

The result was the present language in Section 194(d)(3) of the Tax Equity and Fiscal Responsibility Act of 1982 which suggests to states that their laws limit participation to employers who have not reduced their workforce 10 percent by layoff in the previous four months. At the time it seemed that this language would protect the newly hired youth, minorities, and women. This does not seem to be the case. Rather, it seems to have limited employer participation with little or no help for the newly hired.

The AFL-CIO, and other supporters of STC, often complain that employers fail to use the STC. Some feel that the low usage is due to employer lack of knowledge. The Federation is sure this is not the case. The basic options to the employer are not STC versus layoff; his options are layoffs with unemployment insurance, work-sharing without unemployment insurance for their workers, and STC with unemployment insurance for their workers, or a combination of these.

The evidence that too few employers use STC is no surprise. The least-cost options to many employers are to reduce the workweek, resort to rotating crews, simply shut down for a week, or require employees to use earned vacation time, all of which avoid adverse UI experience-ratings and increased costs, and then lay off the most easily replaced workers. From March 1980 to March 1985, private-sector employer costs for UI increased 15 percent. Thus, all other factors remaining equal, there has been a growing incentive for employers to avoid UI increases and STC, just as they have avoided other labor costs.

Therefore, if STC is to be useful to protect employment opportunities, it should be elective to employees, not employers. And this leads to the final two points in the AFL-CIO Executive Council Resolution—that workers participate voluntarily and that the income replacement be two-thirds of their individual gross pay for each day lost. Most workers would be willing to share their employment with others with lesser entitlements if the hardship is not too great in amount or in time.

Economic need can be just as great among individual workers with longer years of service as to those new to the work relationship. Some senior workers are paying college tuition. About 12 percent have pensions based on their last few years of work. Others have their homes paid for, their kids have finished school, and they may well relish preretirement time off.

Elective sharing is far more acceptable and a lot less divisive than any unilateral decision by the employer or even by a majority of workers in a local union. Thus, rather than force STC on senior workers, the far better solution is to attract them to it by a respectable income replacement level and maintenance of benefits. The two-thirds replacement rate of individual gross income is also somewhat less than the Steelworkers and Auto Workers Supplemental Unemployment Benefit plan replacement rate. But the SUB experience showed that senior workers volunteered for layoff when the income replacement rate was over 80 percent and benefits

continued. The STC rate could be lower since these higher-paid workers will still be working a good share of the week.

Conclusion

STC must be considered as a part of the national goal of creating employment opportunities as a means of dealing with unemployment. This nation cannot afford to waste human capital through layoff and work-sharing without benefits. This nation promised full employment in 1978. It's about time it began to deliver.

California, Arizona, Oregon, Washington, Florida, Maryland, and New York have adopted STC, and Kentucky, Ohio, Pennsylvania, Illinois, Wisconsin, and New Jersey have considered the concept. The AFL-CIO supports the concept, but delivery on a no-cost, low-usage, and low-benefit basis has been far short of the promise.

The workers and their unions that have had experience with STC are pleased with the program and support its improvement as a part of the unemployment insurance concept. But if the full value of the concept is to be achieved for the community, the state, and the nation, workers must be entitled to STC when the workweek is reduced, and the funds must be available to maintain benefits and wages while providing decent benefits for those who are totally unemployed.

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DISCUSSION

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My comments on the three papers will offer a Canadian perspective, drawing on several studies of work-sharing conducted with my colleague Frank Reid. Let me begin with the paper by John Zalusky. I certainly agree with all of the basic statements he makes. There is no question about the hardships of unemployment. I agree that STC is not a replacement for macro-economic policies to reduce unemployment. I agree that “. . . most workers are willing to share their employment with others with lesser entitlements if the hardship is not too great in amount or time.” I also agree there have been fears in the trade union movement concerning a disregard for seniority, but surveys in both Canada and California show that workers overwhelmingly like STC.

Zalusky suggests that employers don't use STC since they can get most of the benefits by transferring the burden to workers. However, data for both Canada and California indicate that labor costs on balance are reduced by work-sharing (Reid and Meltz 1984, Table 8.2, p. 109). This means that either the labour cost savings just indicated are exaggerated or employers don't know about them. This issue will be considered in discussing the other two papers.

Since a part of Frank Schiff's paper is a critique of the paper by Stuart Kerachsky et al., I will focus on the latter but bring in relevant material from Schiff where appropriate. Kerachsky et al. have undertaken the important task of conducting a wide-ranging analysis for the U.S. Department of Labor of Short-Time Compensation (STC) programs in the United States. Their work deals with STC in three states: California, Arizona, and Oregon. While resources only permitted them to examine employer considerations, an innovation is a comparison of layoff experience with non-STC employers. Their basic conclusions find both costs and benefits to STC. On the cost side: total compensated unemployment was significantly higher for STC

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firms; STC employers were more likely to experience an Unemployment Insurance (UI) surtax increase; if layoffs exceeded eight weeks then the saving in hiring costs was less than the increase in benefit costs associated with STC; and there were greater administrative costs of UI with STC. On the other hand, in the post-program period layoffs declined to a greater extent in STC firms and there were nonquantifiable benefits such as the employees overall economic well-being and potential gains for affirmative action. On balance this would seem to suggest a somewhat negative assessment of work-sharing from an employers' perspective.

Do the costs to employers of STC really exceed the benefits? If they do, then it is not surprising that Kerachsky et al. found a low participation rate. If the reverse is true, then why is the employer participation rate so low, i.e., 1 percent of employers in the three states?

Do the costs of STC really exceed the benefits? Schiff makes a number of points which cast doubt on the implied low benefit to cost relation. For example, he observes that the data for Arizona omit Motorola, the firm which accounts for 40 percent of all the STC in the state. Support for Schiff's views comes from an earlier assessment of work-sharing in California (State of California, 1982) which concluded that benefits exceeded costs by 1.4 to 1. The figure could be even higher if a reduction of income tax revenues is excluded (Reid and Meltz, 1984, p. 115).

How can we reconcile the differences in the findings of the two studies? One possibility is that the Kerachsky et al. report deals with a period of recession (Fiscal Year 1983) whereas unemployment was not yet a major problem when the California study was conducted. The difference would presumably reflect higher administrative costs with mass unemployment and also lowered benefits to employers since there was less likelihood of laid off persons not being available for subsequent rehiring and therefore fewer new workers would have to be trained. A second possible difference relates to the factors which are taken into consideration in the calculations. Reid and Meltz (1984) show that in California the increase in fringe benefit costs is more than offset by savings in wages, recall costs, and severance. What is unclear is whether these figures include the cost of the greater UI surtax. While the Kerachsky et al. paper indicates that a greater percent of STC employers moved into higher UI tax rates, it does not provide a specific figure in terms of the increase in costs. The biggest difference between California (1982) and Kerachsky et al. lies in the hiring and

training costs. Kerachsky et al. use a figure of \$175-\$250 per person as the saving in hiring while California (1982) estimates the figure as \$3,023. The former figure apparently does not include off-the-job training, on-the-job training, and the results of below normal productivity in the job. Schiff also believes that the benefits of STC have been underestimated.

Given the importance of the calculations, it would have been useful for Kerachsky et al. to compare their results with those for California (1982), since the two studies reach opposite conclusions. It is also worth noting that the recent analysis of STC at Motorola in Arizona, as indicated by Schiff, is consistent with the findings of the California study that the benefits of STC to employers exceed the costs even excluding less readily quantifiable impacts on health and social aspects.

The comparison of the California experience with Canada can be useful both for the issue of benefits vs. costs and for the question of the low employer participation in STC in the United States. Studies found that STC reduces labour costs in Canada but much less than in California. The difference is in the estimate for hiring and training. The figure in Canada was \$944 per person made up of \$179 in hiring costs (close to the Kerachsky et al. figure of \$175-\$250), \$90 off-the-job training, \$350 on-the-job training, and \$325 for below normal productivity (Reid and Meltz, 1984). A 90 percent recall was assumed in Canada vs. 75 percent in California. The overall reduction in labour costs through STC was 0.5 percent in Canada and 7.7 percent in California.

Why was the participation of California employers so much less than that in Canada while the cost savings were so much greater? Canada and California have roughly the same size of population, yet 8780 firms (and over 200,000 employees) participated in STC in Canada in 1982 whereas in 1980 only 714 firms participated in California (16,000 employees). One possibility is that 1982 was a recession year and 1980 was a less severe situation. Against this Kerachsky et al. observe that even in 1983 the participation was low. Reid and Meltz (1984) suggest two additional reasons for the much greater Canadian participation besides the difference in the level of unemployment. One is the lower cost to employers because Canada does not have experience rating of UI. The Canadian federal government makes up any deficit in the totally federal UI program. Second, and this relates to an issue raised by Kerachsky et al., the program in Canada was given a high profile by the then Minister of

Employment and Immigration, the Honourable Lloyd Axworthy. Initially the media as well as employer and union organizations opposed the program, but they later changed their views (Meltz and Reid, 1983).

Other differences between the programs include factors that would dispose workers to be more favourable in Canada such as the absence of a waiting period whereas there is normally two weeks for UI (one week in California) and that employees do not lose any eligibility for unemployment insurance benefits if they are laid off in the post-STC period. The Canadian program also requires employers to consult their employees on whether to adopt work-sharing if there is no union.

Let me offer a few final comments. Kerachsky et al. and Schiff suggest there is a need for studies of productivity and of the impact of STC on workers. The study of STC in Canada examined the impact on productivity. Unfortunately, the number of firms is too small to generalize the results, but a majority of those that were analyzed showed an increase in productivity. On the social cost side, Reid (1983) found that 24 percent of workers participating in STC said they would have suffered emotional, health, or marital problems had they been unemployed. Finally, Schiff raises the possibility of using STC not only to ease temporary unemployment, but also to assist in phasing in permanent layoffs. Provision has been made for this in Canada and some experiments are taking place.

All of the papers raise important issues on the subject of work-sharing. Martin Morand has arranged a very useful session.

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DISCUSSION

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The mystique initially attached in this country to short-time compensation (STC) is being supplanted by realistic and generally positive appraisals. STC no longer is proclaimed to be a no-cost, win-win alternative to layoffs. Yet, as Frank Schiff and John Zalusky report, employers, workers, and labor officials generally comment favorably on their experience with the procedure.

I shall focus my remarks on two aspects of STC: first, the degree to which the program seems to be fulfilling its promise of alleviating the disparate effects of layoffs on minorities, women, and youth; second, the costs and benefits of STC.

None of the papers presented here indicates that the use of STC in lieu of layoff has been effective in preserving the jobs of minority and women workers. This is particularly significant in view of the fact that in the United States support for the measure originally was couched in those terms. It seemed a "given" that these groups, together with youth, would benefit from STC by reason of their more limited job seniority. It even was suggested that work-sharing programs would be well nigh irresistible to employers (and also to labor leaders) since federal and state equal employment opportunity laws coupled with the Age Discrimination in Employment Act would subject almost any layoff to a possible lawsuit (Blumrosen, 1984).

In fact, neither fear of lawsuits nor any other reason has motivated many employers to date to substitute STC for layoffs. And in firms where STC *has* been put into operation, Stuart Kerachsky reports an insignificant "affirmative action effect." Frank Schiff reminds us that an earlier study (State of California, 1982) reported similar findings, although he rightly holds that the issue is not yet settled.

STC's success or failure in preserving the job of all workers in a firm goes to the core of its rationale. If it is indeed failing to protect those workers with more limited seniority, the reasons should be

identified and the appropriate measures taken. Is it that women, minorities, and youth are being dismissed prior to the adoption of STC? Zalusky wants assurances that firms do not resort to layoffs before adopting STC. Schiff raises the possibility of limitations on the use of STC in the event of prior layoff.

Concern over STC's performance in regard to ensuring equitable treatment of minorities, women, and youth must be accompanied by care that the program does not produce new inequities.

Equity is not served if, as Zalusky warns, STC claims on Unemployment Insurance trust funds should result in reducing the benefit levels of the unemployed. Nor is equity served if STC significantly reduces the pension entitlements of workers who would not have been subject to layoff.

I'm going to turn now to costs and benefits of various types. All three papers have a heavy emphasis, as they should, on these aspects of STC and layoffs. However, they represent important differences in emphasis and on the research findings.

The costs of unemployment to workers and their families, the struggle to survive and its long-term consequences, are recounted vividly by Zalusky. Even those workers who keep their jobs during a layoff do not escape unscathed. They may be reassigned, for example, to lesser-skilled, lower-paid jobs. The *Wall Street Journal* recently described the disenchantment and lethargy among the survivors and the possible consequences for their firm in lower productivity and efficiency, higher turnover, and even greater resistance to corporate change (*Wall Street Journal*, December 5, 1985).

Zalusky holds that a fair cost analysis of STC versus layoffs should encompass total costs, including government expenditures on programs associated directly or indirectly with unemployment. As long as the option for STC rests with employers, however, decisions on whether to substitute STC for a layoff will be based primarily on management's perception of the relative costs and benefits to the firm.

The Mathematica study toted up turnover and fringe benefit costs and suggested that the results favored a firm's usage of STC for hours cutbacks under eight weeks in duration, layoffs for longer periods. However, a Motorola study of its own experience with STC, based on all costs that could be quantified, concluded that the use of STC in that firm could be expected to result in significant net savings over layoffs for periods of up to six months and probably some savings for longer periods (Burgoon, 1984). Since the net costs of STC versus a layoff for a particular firm may hinge on its wage structure, fringe benefit

package, and other specifics, case studies may be particularly valuable.

Kerachsky focuses on the total number of UI compensated hours of unemployment (and the associated UI benefit costs) in firms that use STC and in comparison firms. He reports that compensated hours in the STC firms exceeded those in the comparison firms by about 11 percent on average. Schiff's reservations on the Mathematica findings on this point are buttressed by the study's findings that STC seemingly had *no* effects on layoffs in California. Its findings of wide differences by state also suggests the need for further research to clarify the effect of STC on total compensated hours and on the related UI benefit costs.

The health of the UI trust funds is of vital concern. Heavy pressures on those funds in recent years for regular UI payments have been held responsible in part for a drop from 1979 to 1983 of one-third in the fraction of new job losers claiming benefits (Burtless and Vroman, 1984). Should STC prove to increase demands on UI funds, additional funding would be required.

The papers have raised other issues that deserve consideration. Zalusky argues, for example, that workers should be entitled to STC whenever the workweek is reduced as a result of insufficient work. This would, of course, be a major departure from the current practice in which STC is an employer option. He also urges that the participation of individuals should be voluntary. Individual choice would solve some problems, but could it affect STC's heralded advantage over layoffs in maintaining a balanced workforce? Schiff sees a possible role for STC beyond cyclical downturns. Still other issues not mentioned in any paper today include the possibility that STC employees who are exempt from federal wage and hour laws may continue to have *de facto* responsibility for their normal workload (*Electronic News*, April 8, 1985).

Kerachsky draws attention to the very limited use of STC to date, which he rightly says transcends the issues on which the discussion has focused. The potential for STC is suggested by data for one point in time, November 1985. In that month, 1.2 million workers were on layoff, waiting to be recalled. They comprised one in seven of all unemployed persons (U.S. Bureau of Labor Statistics, November 1985).

The use of STC, however, will be determined by many factors. For the near term, the high priority that labor places on job security is favorable to its growth. Whether management's emphasis on cutting

labor costs (Lacombe and Conley, 1985) is favorable or unfavorable depends on its perception of the net costs of STC versus layoffs to the firm.

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DISCUSSION

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The persons making presentations and the organizations they represent are more significant, from an industrial relations point of view, than the content of their papers. Except for noting that I am in substantial agreement with Frank Schiff's critique of Stuart Kerachsky's paper, I will focus first on the presentations from officials of the Committee for Economic Development and the AFL-CIO (even though they appear in an "officially nonofficial" capacity). In general, they are primarily concerned with how work-sharing—or, to give it its Congressional title, Short-Time Compensation (STC)—works in the workplace, for workers and employers, and in the overall economy. They are less concerned with the internal UI administrative and trust fund issues, which are the major thrusts of the *Mathematica* study for the Department of Labor.

Major corporations and employer organizations, individual unions, and the AFL-CIO are all in fundamental agreement in support of STC. The degree of their involvement in the federal and state legislative initiatives has varied, but the direction has been positive. There was some Congressional lobbying over the title, "Work Sharing" or "Short-Time Compensation," which labor "won" (it's STC), and over whether to include an explicit affirmative action guarantee, which labor "lost"—the compromise language was so vague and counterproductive that it has been dropped by the only state that has tried it, Washington. It is this *general* management and union support for the *concept* that is at least part of the explanation for the bipartisan support the legislation has enjoyed in all 11 states that have adopted it; states with Republicans or Democrats as governors or holding majorities in the state houses have been equally positive. No other piece of labor market legislation in memory has won such broad support.

The most significant findings and implications of STC from an IR

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point of view are in its workplace productivity effects and in the broad area of labor-management cooperation.

On the productivity side, there are anecdotal and survey reports of measurable savings in areas such as absenteeism, accidents, illness, tardiness, and waste as well as improvement in actual units produced per hour, in contrast to the drop in production often associated with layoff. Costs associated with layoff and recall include such familiar items as bumping down and bumping back up when orders increase, the direct expense and opportunity costs associated with recall rights for those who return (locating them, giving them time to return to work and regain their skill) and the expense caused by those who do not return (advertising for and interviewing, selecting, and training replacements), and the relatively easily measured cost in dollars expended, production forgone, deliveries delayed, or orders lost as individual new hires are brought "up to speed." Less recognized and harder to calculate are costs to the work team's productivity caused by the introduction of a new member who may not only be less skilled, but whose physical work habits and personality must be integrated and socialized into the small society which is a workgroup. While the overt morale effects on the individual laid off and on his or her attitude toward the employer have been identified, there are residual effects of the furlough (drinking, drug, and other antisocial habits picked up during the period of idleness) which continue to plague the returning workers and impact on their work and on the employers' experience-rated health insurance. All of these costs may be averted by STC.

It is in the workplace that STC can best be seen—in both its process and its product—to encourage labor-management cooperation (LMC). Consider the process:

Where there is a union, it must sign on before the firm's application will be considered—exactly that kind of advance notice, joint consultation, and information-sharing that are fundamental requirements of LMC in the workplace. The union must be persuaded by being given a clear picture of the business and its prospects—by being given data far beyond that defined by the NLRB as required to meet the standards of good-faith bargaining—that a layoff is unavoidable if shared shorter hours are not instituted. Labor and management in this process necessarily go beyond the scope of mandatory subjects of bargaining. They must jointly assert that the STC plan is in lieu of an equivalent layoff and that it is finite—that there is a reasonably predictable date for a return to full employment. Where the STC program may be alternatively used (in California, Washington,

Maryland, and Canada) as a transitional device leading to a permanent reduction in the workforce, the union represents its members in deliberations over out-placement, severance, attrition, early retirement, retraining, inverse seniority, voluntarism, flexitime, etc.

The union official who undertakes to "sell" the membership the concept of putting their seniority clause in the closet undertakes to explain not just the STC program, but the economic, industry, and enterprise circumstances giving rise to the proposed modification (or nonenforcement) of the contract. In this process, the union finds itself unavoidably advancing a "common fate" interpretation of the employment relationship, both as between owner and workers and among workers. The union leader undertakes a considerable political and legal risk (the danger of suit by a senior, layoff-immune worker for violation of the duty of fair representation) and therefore does not merely meet the minimum mechanical requirements of the union's by-laws in reaching the decision to share. Rather, the evidence from California indicates "an amazing vitality and creativity of union representatives as they worked to build consensus, overcome resistance (including excluding from participation a few workers close to retirement whose pensions are based on final earnings) and, in some instances, insisting on and achieving 100% support before 'signing on' for the bargaining unit."¹

There is an important negative effect of layoff on LMC which STC avoids, and that is in the area of grievances. During a major layoff there will inevitably be a multitude of grievances no matter how scrupulously the contract provisions relating to layoff are followed. Although most of these grievances may ultimately be won by the company, after extended effort to document the accuracy of records and the appropriateness of judgments, some will be lost because layoff provisions are seldom wall-to-wall, last-hired, first-fired systems. Clauses that give a worker the right to bump another worker in a lower job classification often balance seniority against experience and ability—and shop-floor records of such skills and experience are often imperfect. When such a grievance is lost by management in arbitration, the supervisor is labeled wrong and feels wronged, and the worker who is displaced by the grievant now feels aggrieved, if not by the employer, then by the union.

¹ Donald S. McPherson and Martin J. Morand, "Union Leader Responses to California's Work Sharing Unemployment Insurance Program," paper presented at the First National Conference on Worksharing Unemployment Insurance, San Francisco, May 15, 1981, reprinted in BNA, *Daily Labor Report* 102, May 28, 1981, pp. D1-D10.

Since a union representative must be an advocate of the worker, he/she sometimes processes questionable grievances to arbitration simply as insurance against fair representation litigation. As these grievances are arbitrated, the union agent must engage in adversarial meetings, arguments, and hearings that are apt to poison any cooperative spirit that exists and may shape antagonistic postures that will endure for years.

In the traditional layoff scenario, the entire burden of cutting down on payroll costs is borne by bargaining unit members. Supervisors, managers, and other white-collar employees are often exempted from the cutback, partly because as long as the facility is open and some production workers are on the job, the "nonproductive" workforce must be on hand to supervise, service, etc. An STC program often involves a total shutdown of a facility for a day or two. This shutdown not only saves on overhead costs, but leads to a sharing of the layoff among the entire workgroup. Including more persons may reduce the number of bargaining unit hours that need to be cut back and, most important from an IR point of view, reduce "class" distinctions. Many workplace cooperation programs adopt, as one means to increase the sense of "family," a policy of eliminating privileges in parking, restrooms, cafeterias, etc. STC is one more equalizer.

Possibly more important to U.S. standing in the world economy, as Frank Schiff pointed out in California in 1981, the opportunity to choose may lead employers to do the wide-ranging cost/benefit analysis of layoff vs. sharing which has been almost totally ignored.² This may lead to better understanding of the cost of turnover which remains mysterious, and give rise to a necessary questioning of the U.S. remaining, as Ray Marshall has put it, the last industrial nation in which labor is viewed as a totally variable cost—one that can be reduced by layoff at will.

While the means which must be pursued to initiate an STC program favor a degree of labor-management cooperation, they do not guarantee it. But when a program proposed by a worker or union is adopted by management, and it works to the benefit of all, there is a "win-win" situation in the classic sense of the term. While in some cases STC serves to encourage cooperation, in others it strengthens an already existing cooperative program and may be essential to the preservation of such a program. Workplace cooperative schemes—

² Comments, Frank Schiff, at the First National Conference on Worksharing Unemployment Insurance, San Francisco, May 15, 1981.

QC, QWL, LMPT, EI, and by whatever other set of initials—are basically programs in which management attempts to give workers (and their unions) a sense of “partnership” or “family.” The key element of this relationship is an explicit or implied trade—workers improve the quality and quantity of the product and gain job security. A layoff in the context of a workplace participation program can be even more traumatic than in the traditional master-servant setting. “How do you fire a partner? Who ever heard of laying off a family member?”

While the primary objective of STC is to maintain an entire workforce’s job attachment, in practice the implementation of a work-sharing plan in virtually every case we have examined, has been found to have had a beneficial impact on employer-employee and union-management relationships.

If not solutions, STC at least provides alternatives to, or avoidance of, many of the problems typically associated with efforts to move from competition to cooperation without cooptation. First and most important, STC immediately eliminates one of the major obstacles to employee-union-employer cooperation—job insecurity.

The identification of a connection between security and cooperation is not a foreign ideology nor is it of recent vintage. The idea that safety is a precondition for social behavior is not an invention of Maslow’s. It was emphasized by Slichter in 1941, Golden and Ruttenberg in 1942, and the importance of security for workers, employers, and unions continues to be the focus of recent works such as those by Bluestone in 1981 and Work in America Institute in 1982. German “co-determination” and Japanese “quality circles” are only new names given to old and very American ideas.³

Workers, employers, and unions with STC experience have been uniformly supportive. State policy-makers and UI system administrators who have tried the program have been equally enthusiastic. It would be ironic in the extreme if, because of a study done for the Department of Labor in this most market-oriented administration since Herbert Hoover’s, a program so well received by its “producers” and “consumers” were to be damned by the kind of faint praise to

³ Ramelle MaCoy and Martin J. Morand, eds., *Short-Time Compensation: A Formula for Worksharing* (Elmsford, NY: Work in America Institute/Pergamon Press, 1984), p. 185.

which it has been subjected (unfairly and inaccurately, in my opinion) in the study which Stuart Kerachsky presented.

The most important concept in the Mathematica study, from an IR standpoint, is that STC will help “reduce the ‘pro-layoff’ bias of UI regulations.”⁴ This bias is related to the unanticipated and largely unrecognized ways in which UI, together with its New Deal partners, the Fair Labor Standards and Wagner Acts, unintentionally conspired to shelve for half a century the issue of, as John Zalusky put it, “a shorter standard workweek [as] labor’s favored approach to balancing the bargaining and social equities.”⁵ UI and the 40-hour week became a minimal norm, not a maximum; time-and-a-half as a discouragement of extended hours was offset by labor-negotiated fringes; premium pay came to be perceived as a property right in the job, with contracts calling for work-sharing of the overtime (if not always of the short time); and, since UI’s payoff was limited to layoff, the consequence of continuing the process of work-sharing (which has a much older union tradition than does seniority layoff) was too costly. So reversing the “pro-layoff” bias inherent in UI regulations, together with other insights and information obtained from the temporary short-time experience, may provide the basis for a rational reconsideration of the permanent shorter workweek.

While I agree in the main with Frank Schiff’s critique, I offer some words of defense, or at least some shifting of the blame, for the Mathematica study’s shortcomings:

1. The RFP from DoL, to which Mathematica responded, had already prejudiced the nature of the study and, to a large extent, predicted the negative cost/benefit conclusions that followed. DoL gave no priority to Congress’s request for “a comparison of costs and benefits to employees, employers and communities from use of short-time compensation and layoffs,”⁶ thus missing some of the major benefits identified in other studies.

2. Congress itself, in a political effort to force the legislation upon a hostile administration, had failed to stipulate a budget or to attach an appropriation to its bill.

3. Mathematica’s decision to put their money on mathematical analyses of readily available numerical data rather than risking asking the broader questions, answers to which cannot be summarized as

⁴ Kerachsky et al., “An Evaluation of Short-Time Compensation Programs,” p. 424.

⁵ Zalusky, “Labor’s Interest and Concerns with Short-Time Compensation,” p. 442.

⁶ Tax Equity and Fiscal Responsibility Act of 1982, §194(9)(1)(C).

“significantly different from zero at the 0.5 level in a one-tail test,”⁷ is understandable and all too conventional. It is precisely this kind of quantitative narrowness that Tom Kochan warned against in his *Labor Management Research Priorities for the 1980's*.⁸ Other researchers have bemoaned the effects of “Gresham’s Law of Social Science Research” (low-cost research using easy-to-obtain data drives out high-cost research using hard-to-obtain data).⁹ Based on the administrative data available in the UI system, it probably was impossible to create a comparison group which would avoid the self-selection bias problem.

But beyond complaining about what Mathematica did not study—although I think that failure to ask central questions is at least as important as missing the answers to the questions one poses—there are some specific (and quantifiable) areas that they should have noticed but failed to report.

The study discusses the administrative costs of STC to the UI system. It ignores the savings, or cost avoidances, to the Job Service which occur because none of the STC recipients is a candidate for its ministrations. This ignoring cannot be the product of mere ignorance, since a consultant to the study, Robert St. Louis, had earlier pointed out that in the first ten months of the Arizona program there was a saving of potential costs to the Job Service equal to half the STC benefits paid out and had stated, “Clearly such potential savings cannot be ignored when attempting to evaluate the desirability of an STC program.”¹⁰

A second example of quantifiable data that were ignored is the operation of the Child Support Enforcement Program—a process of garnisheeing the UI benefits of delinquent parents. The data indicate that almost none of the STC recipients are caught in this net, whose administration costs money both within the UI system and within the welfare and criminal justice systems. Reporting these first U.S. hard data on the social costs of short-term layoff to government (we’ve had extensive studies of the longer term effects and costs of unemployment) would have been useful. The Canadian STC study did some

⁷ Summary Report: “An Evaluation of Short-Time Compensation Programs” (Princeton, NJ: Mathematica Policy Research, Inc., October 1985), Table 2 note.

⁸ Thomas Kochan, *Labor Management Relations Research Priorities for the 1980's: Final Report to the Secretary of Labor* (Washington: U.S. Government Printing Office, 1980), p. 7.

⁹ Michael J. Haberberger, “A Prospectus for Short-Time Compensation Research,” thesis, 1983, p. 53.

¹⁰ MaCoy and Morand, p. 94.

ground-breaking work on the short-term differences between STC and layoff on personal behavior, lifestyle, and health, including changes in eating, drinking, and sleeping habits, increases in headaches and dizzy spells, and in aggressiveness, irritability, depression, worry, and general antisocial behavior.¹¹

A third source of data which Mathematica had and did not mention tempts one to echo R. H. Tawney's "They make a darkness and call it research." Are not the opinions and actions of the states which have STC programs and its users to be given any weight, attention, or credibility? As one-time New York Governor Al Smith said, "Let's look at the record." Every state legislature which adopted STC kept it or strengthened it. Participating employers, workers, unions, and state UI agencies have uniformly said, "Try it. You'll like it." The DoL study seems to ignore two of the major dicta of the Reagan administration: states are right; the market is right.

¹¹ *Evaluation of the Work Sharing Program* (Ottawa: Program Evaluation Branch, Employment and Immigration Canada, March 1984).

XXI. EQUAL EMPLOYMENT OPPORTUNITY ACT AND ITS ADMINISTRATION: AN APPRAISAL OF THE COMMISSION AND THE ACT

Equal Employment Opportunity Act and Its Administration: A Management Perspective

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My analysis of the 20 years of EEOC administration of Title VII starts with two observations which are *not* confined to a management perspective: first, the decision of Congress that EEOC should not be given the power, like the NLRB, to issue final orders resolving employment discrimination claims after administrative hearings, has meant that the process of administratively interpreting Title VII has been left mainly to the increasingly time-consuming process of issuing and approving “guidelines” or “regulations” for publication in the Federal Register; second, because of the absence of any consensus over the past 20 years on just how the principle of equal employment opportunity should be applied to the workplace, public policy has been marked by a system of overlapping and conflicting regulation, inconsistent results, and general confusion.

Regardless of one’s perspective on civil rights enforcement—activist, management, labor, government—these two historical realities have represented serious and substantial problems and shortcomings in administering the law. On top of these realities, which I for one view as not within the control of EEOC, however, is another historical development of extremely harmful dimensions for the

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agency's credibility with the management community. EEOC has been burdened with a history of negative performance assessments.¹ For 20 years it has gained a reputation for poor administrative management, generally inferior investigation and case-handling techniques, almost interminable internal upheaval due to constant reorganization, an unreliable accounting system—in short, an administrative and management disaster.

The Burden of Increasing Caseloads and Expanded Jurisdiction

By the end of its tenth year of enforcement activity in 1975, EEOC had developed a backlog of 126,000 unresolved charges, and it took an average of two years to investigate and settle a case.² This led to the first of many controversial changes in case-handling techniques during the late 1970s. A so-called “rapid charge processing” system was developed in which the complainant and the respondent were brought together within a few weeks after a charge was filed for a “fact-finding” conference. This was supplemented by a “Systemic Programs Office” which was responsible for bringing nationwide, pattern and practice charges—the “big-ticket” cases—and which targeted for further investigation those companies with profiles of low employment of persons in protected classes. By September 1980, the EEOC charge backlog had been reduced to 31,385, still a rather substantial number of unresolved cases.³ More reorganizations to refine rapid charge processing and reduce the backlog continued in the early 1980s.

Representing management respondents before EEOC during the late 1970s and early 1980s was frustrating at the very least. EEOC staff turnover rates in some locations were very high, and new staff members at times were inadequately trained. It also appeared that on each successive occasion in which one worked with EEOC staff on investigation of a charge, a new case processing system was in place. The effort expended in training management personnel on how to respond to EEOC was wasted because recently installed case-

¹ See Statement of EEOC Chair Clarence Thomas on EEOC Enforcement Activities Before House Government Operations Subcommittee on Employment and Housing, in BNA, *Daily Labor Report*, No. 121, June 24, 1985, p. D-1.

² See U.S. General Accounting Office Report, “EEOC Has Made Limited Progress in Eliminating Employment Discrimination,” in BNA, *Daily Labor Report*, No. 191, September 30, 1976, p. D-3.

³ Statement of EEOC Chair Eleanor Holmes Norton Before House Committee on Appropriations, Subcommittee on State, Justice and Commerce, The Judiciary and Related Agencies (96th Cong., 2d Sess., March 26, 1980).

handling systems were readily consigned to rapid obsolescence, and we had to start from scratch in preparing to respond to new methods of investigation.

Most investigations were inadequate and incomplete. A few were surprisingly thorough, however, particularly those under the aegis of the Office of Systemic Programs. From the outside, the appearance of constant change in charge processing systems with many incomplete investigations left those managements whose cases received thorough and sometimes zealous investigations with the impression that they had been arbitrarily singled out for what they believed was harassment by the EEOC, a view fueled by the knowledge that other companies with similar types of charges pending were being subjected to very little scrutiny.

Added to this was the length of time the systemic investigations and Commissioner charges consumed in the late 1970s and early 1980s. The delays got so bad that for a time companies sued by EEOC defended by arguing that the excessive delay between the filing of the charge and the commencement of suit—in some cases five years or more—should require dismissal of the litigation.⁴

In the midst of EEOC's effort to assert control over its backlog came the Carter administration's 1978 initiative to streamline federal EEO enforcement activity by transferring age, equal pay, and federal employment discrimination enforcement to EEOC and authorizing EEOC to superintend and coordinate all enforcement activities of the federal government.⁵ Although this reorganization of the federal effort established EEOC as the principal EEO enforcement arm of the federal government, the expansion of EEOC's responsibility into substantive areas in which it had little experience—like age and equal pay discrimination—and the added caseload burden of the federal establishment's EEO discrimination charge processing, further exacerbated the agency's already serious backlog and delay problems. The problems posed by substantive issues on which EEOC had little experience was and is most acute in the interplay between age discrimination and pension and other employee benefit matters. EEOC has run into serious policy disputes with agencies like the IRS and Labor Department on age discrimination-benefit questions.

⁴ E.g., *EEOC v. Alioto Fish Co.*, 263 F.2d 229 (9th Cir. 1980); *EEOC v. Massey-Ferguson, Inc.*, 622 F.2d 271 (7th Cir. 1980); *EEOC v. Firestone Tire and Rubber Co.*, 39 F.E.P. Cases 583 (M.D. Ga. 1985).

⁵ Reorganization Plan No. 1 of 1978, 92 Stat. 3781, 43 Fed. Reg. 19807 (1978); Executive Order No. 12067, Providing for Coordination of Federal Equal Employment Opportunity Programs, 43 Fed. Reg. 28967 (1978).

These disputes have required involvement of OMB and even the White House in resolving policy questions and inevitably further delayed definitive guidance to the management community as to what is and what is not prohibited.

While recent EEOC statistics show less than 1000 charges filed before January 1979 are still pending and that substantial progress has been made in lowering the number of charges more than 300 days old,⁶ EEOC has been forced to yield to criticism that its heavy use of the rapid charge process led to incomplete investigations and incomplete relief for victims of discrimination. Once again, this time in December 1983, EEOC revamped its charge-processing system by shifting more of its resources from rapid charge processing to a procedure which allowed for fuller investigations.⁷ The new procedure eliminated the presumption in favor of handling charges through the rapid charge processing system and directed that a case-by-case analysis be done to determine whether an incoming charge should be assigned to an extended investigation unit.

Yet another internal reorganization has eliminated the frequently criticized Office of Systemic Programs, ostensibly because the office was costing more than the rest of the agency's litigation efforts, was bringing in considerably less return, and was misapplying statistical analysis to issues of alleged employment discrimination.⁸ The lawyers and staff from Systemic Programs were absorbed in the agency's trial division, a move prompted in no small part by the EEOC's 1984 Directive on Enforcement Policy which required that *every case* in which a District Director has found reasonable cause to believe that a violation has occurred should be submitted to EEOC for litigation consideration if conciliation has failed.⁹ While this supposedly signaled an end to several layers of internal EEOC review on picking and choosing which "meritorious" cases to litigate and a concomitant increase in the number of cases EEOC will litigate,¹⁰ it remains to be seen whether any significant change in EEOC enforcement will occur. Recent statistics from EEOC appear to suggest an increase in lawsuits

⁶ Statement of Clarence Thomas, cited at note 1, p. D-2.

⁷ EEOC Resolution Modifying Rapid Charge Processing System, in BNA, *Daily Labor Report*, No. 239, December 12, 1983, p. D-1.

⁸ See BNA, *Daily Labor Report*, No. 33, February 19, 1985, P. A-9-A-11.

⁹ EEOC Statement on Enforcement Policy, in BNA, *Daily Labor Report*, No. 177, September 12, 1984, p. D-1.

¹⁰ Statement of EEOC Commissioner Fred W. Alvarez Before House Labor Subcommittee on Employment Opportunities, in BNA, *Daily Labor Report*, No. 139, July 19, 1985, p. E-1.

filed by EEOC, but about one-third of the cases filed in FY 1985 were subpoena enforcement actions.¹¹ The number of newly filed cases on substantive enforcement issues does not approach the level achieved in FY 1981, the last year of the Carter administration EEOC, a level which many from civil rights organizations found too low.¹²

While one commends EEOC for confronting tough issues presented by its case backlogs, delays, internal management problems with the announcement of new directions in enforcement policy, its historical track record is so poor that many in management circles can be expected to take a "wait and see" attitude. EEOC has low credibility as an administrative agency, and before it can establish the respect and cooperation it needs from American industry, it must demonstrate stability in its internal organization, consistency and stability in its case-handling procedures, elimination of its case backlogs, and shortening of the significant delays that infect its procedures. I know these things are more easily said than done, particularly in an era of shrinking federal budgets for agencies like the EEOC, but the record of past ineffectiveness and constant bureaucratic change has left a legacy which must be reversed if the EEOC is to implement its charter effectively.

Rule-Making and EEO Enforcement

Management frequently compares EEOC with the NLRB. Anyone acquainted with the history of the NLRB knows very well that management practitioners, and union advocates as well, have not hesitated to pillory the Board for its shortcomings. With respect to case-handling and internal management, however, even the NLRB's most severe critics would have to concede that the NLRB in the last 20 years would be a model for emulation when compared with EEOC. This comparison may be somewhat unfair because the NLRB has a substantially longer history than EEOC and had the benefit of the best of New Deal thinking with respect to the design of its administrative procedures.¹³

In one respect, however, EEOC may be said to have a favorable comparison in relation to the NLRB. Over its 50 years of existence, the NLRB has periodically been criticized for the nonuse of its rule-

¹¹ See Statement of Clarence Thomas, in BNA, *Daily Labor Report*, No. 219, November 13, 1985, p. A-6.

¹² Statements of William L. Robinson and Richard T. Seymour, Lawyers' Committee on Civil Rights Under Law, Before House Labor Subcommittee on Employment Opportunities, in BNA, *Daily Labor Report*, No. 139, July 19, 1985, p. E-9.

¹³ James A. Gross, *The Making of the National Labor Relations Board, 1933-1937* (Albany: State University of New York Press, 1974), pp. 156-70.

making power as an alternative to case-by-case adjudication in the development of labor policy.¹⁴

EEOC does not enjoy any power to adjudicate cases as does the NLRB and it has, therefore, been confined largely to the rule-making process as the principal means of influencing the interpretation of the statutes it enforces.¹⁵

Over its 20-year life, however, EEOC has achieved, at best, mixed results with its rule-making activities viewed from a management perspective. A significant victory for early EEOC guideline activity was achieved in *Griggs*¹⁶ when the original 1966 "interpretive" guideline on testing was given "great deference" by the Supreme Court, even though it had not been issued in conformance with the requirements of the Administrative Procedure Act and had not been published in the Federal Register. Other early guidelines, like the religion discrimination guidelines,¹⁷ the national origin discrimination guidelines,¹⁸ and the sex discrimination guidelines¹⁹ did not fare as well in the courts because they revealed an agency at odds with itself in embracing inconsistent and conflicting positions on questions of policy. The five-year struggle to produce the Uniform Guidelines on Employee Selection Procedures in 1978²⁰ showed bureaucratic disarray at its worst. In 1985, seven years after the issuance of these Uniform Guidelines, EEOC has determined to "revise" them again because, according to the current EEOC Chairman, they are conceptually unsound.²¹ EEOC proposals to change the regulations governing minimum age levels for entry to apprenticeship programs,²² to change the regulations concerning retirement programs and "special rules" permitting certain age-linked benefit determinations,²³ and to withdraw its regulations and proposals for integrating new statutory

¹⁴ Cornelius Peck, "Critique of NLRB Performance in Policy Formulation: Adjudication and Rule Making," 117 *U. Pa. L. Rev.* 154 (1968).

¹⁵ Alfred Blumrosen, "The Binding Effect of Affirmative Action Guidelines," 1 *The Labor Lawyer* 261, 262 (Spring 1985).

¹⁶ *Griggs v. Duke Power Co.*, 401 U.S. 424 (1971).

¹⁷ See 29 C.F.R. § 1605.1 (1967) and *Trans World Airlines Inc. v. Hardison*, 432 U.S. 63, 76, n. 11 (1977).

¹⁸ See 29 C.F.R. § 1606.1 (1972) and *Espinoza v. Farah Mfg. Co.*, 414 U.S. 86 (1973).

¹⁹ See 29 C.F.R. § 1604.10(b) (1975) and *General Electric Co. v. Gilbert*, 429 U.S. 125, 141 (1976).

²⁰ 43 Fed. Reg. (1978); 29 C.F.R. § 1607 (1985).

²¹ BNA, *Daily Labor Report*, No. 110, June 7, 1985, p. A-3.

²² EEOC, Proposed Apprenticeship Program Regulation, in BNA, *Daily Labor Report*, No. 124, June 27, 1984, p. H-1.

²³ BNA, *Daily Labor Report*, No. 44, March 6, 1985, p. D-1.

provisions dealing with the provision of health benefits to older workers²⁴ also create an impression of instability. Given recent controversies within the present Administration concerning affirmative action, one cannot reasonably expect that the EEOC's own Affirmative Action Guidelines²⁵ will be immune from amendment and change.

In circumstances like these, courts have not given, and cannot be expected to give, the same degree of support and deference that the *Griggs* Court gave to the original testing guidelines. Courts can be expected to freely substitute their own judgments for those of EEOC, given the EEOC's record of inconsistency and constant change in regulation.

The point of all this is that it has been increasingly difficult for management to accept and act upon an EEOC policy pronouncement as an authoritative interpretation of the law. If EEOC can be expected to change its policy or if there is a substantial possibility that EEOC's regulation will be invalidated by the courts, there is little incentive to accept the agency's declaration of policy as final or authoritative. A credibility problem of large dimensions, separate from the problems of poor management, thus complicates an already difficult chore confronting the agency. It is, I believe, immensely difficult to convince someone to comply voluntarily with a regulation when there is little assurance that the regulation will remain unchanged or successfully unchallenged for any reasonable period of time.

Conclusion

Civil rights activists are quick to contend that opposition to EEOC objectives by management groups and others is responsible for the shortcomings outlined here. Since 1980, moreover, the EEOC's spending outlays have increased about 20 percent, a rate of increase less than that experienced by the federal establishment as a whole.²⁶ While no one can dispute the fact that EEOC has limited resources and has faced opposition to its policies and pronouncements, these factors alone do not explain why, 20 years after the effective date of Title VII, EEOC has failed to establish itself as an effective vehicle for the enforcement of Title VII.

²⁴ BNA, *Daily Labor Report*, No. 30, February 15, 1985, p. D-1; No. 190, October 1, 1985, p. A-6.

²⁵ 29 C.F.R. § 1608 (1985).

²⁶ OMB, Appendix To The Budget for Fiscal Year 1982 I-V21; Fiscal Year 1983 I-V18; Fiscal Year 1984 I-V17; Fiscal Year 1985 I-Y16; Fiscal Year 1986 I-Y14; telephone conference with Frank Herman, OMB, 11/19/85.

The Equal Employment Opportunity Act and Its Administration: The Claimant's Perspective

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One of the panelists has discussed management's perspective on the administration of Title VII of the Equal Employment Opportunity Act. Of course, the other party to a Title VII action is the claimant. This paper discusses employment discrimination claimants' perceptions on receiving a fair hearing of their claims.

In order to gain an understanding of claimant perceptions of their litigation experiences, we sent a mail questionnaire to employment discrimination claimants whose names appeared on the dockets of the U.S. District Court for the Northern District of Illinois during the period from February 1974 to June 1982.¹ Two types of claimants were excluded from this universe of all claimants: (1) those whose cases were not closed, and (2) those whose addresses did not appear on the dockets. The final population size was 457.

The fact that the claimants' addresses were more likely to appear on the dockets if they represented themselves (*pro se*) meant that the final population was biased toward *pro se* claimants. While approximately 20 percent of the claimants on the docket were *pro se*, approximately 40 percent of the total claimant population for this study represented themselves.

The response rate for the survey was 25 percent. The court dockets did not contain information that would have enabled us to determine the representativeness of the returns received.

This paper focuses on our major findings in three areas: (1) claimant perceptions of the fairness of the litigation process; (2) the

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¹ The authors acknowledge the support furnished by the Rockefeller Foundation.

effect of case outcome on the perceptions of fairness; and (3) aspects of the process that claimants feel are important to receiving a fair hearing.

Claimants Perceptions of Fairness

Claimants were asked to evaluate the fairness of various aspects of the litigation process. Specifically, they were asked to evaluate: the determination, the remedy, the procedures, and the overall process. The responses were remarkably consistent; the overwhelming majority of respondents believed that the overall process and the various components were not fair. Eighty-one percent believed that the overall process was unfair.² In addition, no more than 22 percent believed that any single aspect of the process was fair. Eighty percent believed that the judge did not consider their side of the case, and 68 percent believed that the judge was biased. These perceptions also appeared to be quite intense. For all questions, the response most often given was the most extreme category of unfair.

Claimants were also asked, in an open-ended question, what criticisms they had of how their case was handled. The most often mentioned problems concerned their attorneys. Twenty-four percent believed that they had incompetent or untrustworthy attorneys.³

The intensity with which the respondents held these negative perceptions of their experience also might be indicated by the large percentage who chose to respond to a final open-ended question asking for any further comments on their case. Approximately 70 percent chose to respond and the overwhelming majority of the comments were negative. Some of these comments were:

“. . . [T]his has been an ordeal and a terrible experience for me both physically and emotionally.”

“I do not have an understanding of how the case was really handled. I do however believe I should have another hearing.”

“I don't think this suit was handled in a fair equitable manner.”

“The evidence was completely disregarded in resolving my case.”

² For all of the evaluation questions, respondents were asked to mark their answers on a nine-point scale. The scale ranged from extremely favorable evaluations at one end to extremely unfavorable at the other. In order to distinguish between those individuals who rated the process and its components as fair and those who rated the process and its components as unfair, respondents were categorized into two groups. The first group included all those who marked responses 1 through 5 and the second group included those who marked responses 6 through 9.

³ For a discussion of incompetent attorneys, see Warren E. Burger, “Isn't There a Better Way?”, speech delivered at the Midyear Meetings of the American Bar Association in Chicago, January 24, 1982.

“I believe that the agencies—state and federal—set up to protect my rights were involved in covering this case in a way that denied my rights. The agencies set up to fight discrimination seem themselves to practice discrimination.”

Lastly, although the respondents varied in terms of their social and demographic characteristics, none of these characteristics except age was related to judgments of the fairness of the overall process. Older respondents tended to believe that the process was less fair than did the younger respondents ($R = .17$; $p = .05$).

Relationship Between Case Outcome and Perceptions of Fairness

Since 68 percent of the respondents had lost their cases, it seems plausible that these unfavorable evaluations were the result of the outcomes of their cases. Indeed, case outcomes were moderately related to evaluations of fairness.⁴ Those who lost their cases tended to believe that the overall process and its components were unfair, while those who won tended to believe the overall process was fair. But these relationships are not as straightforward as they may appear. While those who lost their cases almost always believed that the overall process and its components were unfair, those who won did not necessarily believe that the entire process was fair.

As might be expected, the large majority of those who had won their cases believed that the determination was fair. Those who lost believed the opposite. But when claimants were asked to evaluate the specific aspects of the process, as opposed to the outcome, the relationships with winning and losing were not as simple. Almost all of those who lost still judged the remedy and the process as unfair. However, half of those who won their cases also believed that the overall process was unfair and 43 percent believed the remedy was unfair. Further, 50 percent of those who had won also believed that the judge was biased.⁵ In fact, the outcome of the case is not significantly related to evaluations of the judge's objectivity.

In summary, while it might be expected that those who lost would believe that the process and its components were unfair, the finding that such a large percent of those who won also judged the process as

⁴ The correlations between case outcome and the judgments of fairness were: determination ($R = .59$; $p = .001$); remedy ($R = .66$; $p = .001$); procedures ($R = .48$; $p = .001$); overall process ($R = .44$; $p = .001$).

⁵ Of course, it is possible that those who had won and also believed that the judge was biased, believed that the judge was biased on their behalf. Given the other findings, however, this is unlikely.

unfair, should alarm those concerned with providing a fair hearing. Since case outcome is not the only possible factor influencing perceptions of fairness, in the following section we discuss the role the process characteristics may have in influencing these perceptions.

Process Factors Influencing Perceptions of Fairness

Claimants were asked a series of questions that tapped their perceptions of the extent to which they were involved in making decisions affecting their case. These questions are grouped for the purposes of this paper and are called "participation variables."

Only 31 percent responded that they were involved in making decisions that affected the outcome of their case. A remarkable 90 percent of the respondents believed that they were not able to control what happened to them. Further, 76 percent believed that they were not given the opportunity to present all of the evidence and arguments favoring their side of the case. Lastly, only 54 percent stated that they understood what was happening to their case as it progressed. Again, the most often mentioned responses were the extremes of very little involvement, very little control, and no opportunity to present their case.

The extent of participation and perceptions of fairness clearly were related. Those who believed that they were not involved, had little control, and did not have an opportunity to present their side of the case, also believed that the process was unfair. However, those who had participated were often divided in their evaluations of fairness. This suggests that while a lack of participation results in beliefs of unfair treatment, some other criterion also is important for judging fairness to those who were involved. The most likely criterion is the outcome of the case.

Indeed, case outcome was related to both judgments of fairness, as previously mentioned, and also the participation variables.⁶ Those who won believed that they had more control, were more involved, and had more of an opportunity to present their side of the case. This suggests that the relationships between fairness and participation might be spurious; case outcome might be the true predictor of fairness. This, however, was not true. When controlling for the effects of winning or losing, the extent of participation was still related to

⁶ The correlation between outcome of case and the extent of involvement was $-.34$. The correlation with control over what was happening was $-.40$. The correlation with opportunity to present their side of the case was $-.56$. All three had a probability of $.001$.

judgments of fairness.⁷ Also, when controlling for the effects of participation, outcomes were still related to fairness.⁸ This implies that both the outcome of the case and the extent of participation are related independently to perceptions of fairness. Regardless of the outcome of the case, claimants who participated more in the resolution of their cases believed the process to be fairer than those who participated less. Clearly then, process is important to claimants when evaluating fairness. Those respondents who were more involved in the resolution process, who felt that they had some control, and who believed that they had an opportunity to present their side of the case, also believed the process to be fair.

Lastly, only 54 percent of the respondents believed that they understood the process while 46 percent did not. Further, the extent of understanding was related to perceptions of fairness. Those respondents who did not understand the process also believed the process to be unfair. Only 8 percent of those who did not understand believed that the process was also fair. Again, this relationship held when controlling for the effects of the outcome of the case.⁹ Therefore, the extent to which claimants believed they understood the process affected judgments of the fairness of the process, independent of the case outcome.

In summary, the more involved respondents believed they were, the more they believed they understood the process and the more they believed they had an opportunity to present their case, the fairer they judged the process.

Conclusion

This paper addressed two major questions. First, is the current litigation process perceived as fair by the claimants? Second, what factors affect evaluations of fairness?

The first major finding of this research was the pervasive perception that the current overall resolution process and its components are not fair. Further, these perceptions are quite intense.

⁷ The correlations between judgments of fairness and the participation variables were: extent of involvement ($-.50$); extent of control ($-.53$); and opportunity to present their side of the case ($-.54$). All had a probability of $.001$. When controlling for the effects of the outcome of the cases, the correlations were: extent of involvement ($R = -.43$; $p = .001$); extent of control ($R = -.43$; $p = .001$); and opportunity to present their side of the case ($R = -.39$; $p = .001$).

⁸ The correlations between outcome and fairness, when controlling for the extent of participation, ranged from $.21$ to $.34$. All were significant at at least the $.05$ level.

⁹ $R = -.23$; $p = .017$.

Second, both case outcome and claimant perceived participation in the resolution process were related independently to judgments of fairness. Evidently claimants do make the distinction between the determination and the process and a large percent find the process to be unfair.¹⁰ Many respondents obviously did not feel that they had received “their day in court.”

Interest in claimant perceptions of the judicial dispute resolution process arises from a concern in democratic societies for public accountability and the legitimacy of public institutions. Given these concerns and the high levels of dissatisfaction expressed by claimants in this one particular court, it would be useful for future research to investigate further the prevalence of these attitudes across other courts and types of claimants.

¹⁰ It should be noted when interpreting these results that claimants were asked: “Overall, how fair was the process used to resolve your case?” This process could include not only the courts but also agency disposition. It was not possible to determine if respondents were evaluating both the courts and the agency or just the courts.

DISCUSSION

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Twenty years after Title VII of the Civil Rights Act of 1964 went into effect is an appropriate time to make an evaluation of the law and of the effectiveness of the Equal Employment Opportunity Commission. To my great regret the papers presented here fail to make much of a contribution to our understanding of the development of the law or to a useful clarification of the administrative problems involved in enforcing the Act. The discussion, however, does provide a welcome opportunity to examine critical aspects of the history of Title VII and the EEOC.

Mr. Smith's paper is as its title states, "A Management Perspective." As might be expected from a practitioner whose firm has represented many employer defendants in Title VII litigation, he complains about various aspects of EEOC operations and concludes that the Commission is "... an administrative and management disaster." He further tells us of the difficulties that situation has imposed upon employers, who therefore have "... little incentive . . . to comply voluntarily . . ." In his conclusion he states, "Civil rights activists are quick to contend that opposition to EEOC objectives by management groups and others are responsible for the shortcomings outlined here. Since 1980, moreover, the EEOC's spending outlays have increased 20 percent." These two sentences are of course a non sequitur. The terrible mess that is the current condition of the EEOC is not the result of budgetary limitations, as much as it is a direct consequence of three major factors in the history of Title VII.

Management groups, including some of the most powerful corporations in American society, actively intervened in the legislative process either in direct opposition to Title VII, or to cripple the enforcement of the Act as it was finally adopted. By piling amendment upon amendment, limitation upon limitation, modification upon modification at the insistence of employer groups, Congress passed a

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law that initially created a cumbersome and ineffective administrative process presided over by an agency denied authority to issue cease and desist orders, denied the right to litigate, denied any direct enforcement power. Given the lack of enforcement power and the apparent weaknesses of the statute, the strong antidiscrimination decisions which have developed out of Title VII litigation are surprising only if we ignore the significant changes in the judicial perception of race after the Supreme Court decision in *Brown v. Board of Education*. It was the federal courts, not the EEOC, that gave life to Title VII.

The second factor is the failure of conciliation. In the original statute, conciliation was intended to be the chief means of obtaining compliance with Title VII. In the absence of direct enforcement powers, the Commission had to rely on the goodwill of those charged with discrimination to bring unlawful employment practices to an end. A detailed analysis of the record reveals that conciliation was a failure in bringing about compliance with the 1964 Act. This conclusion is supported by a report issued in 1970 by the Senate Committee on Labor and Public Welfare, which analyzed the conciliation efforts of the EEOC.¹ My own studies of the conciliation process after the 1972 amendments went into effect reach the same conclusion. The record shows that respondents before the Commission had so little to fear in the form of administrative enforcement and so little awareness of the potential threat inherent in private litigation that they were unwilling to conciliate meritorious claims. All the forces used in the past to nullify state fair employment practice laws and cripple their administrative agencies were also mobilized against the EEOC, and a meaningful threat of court action was imperative to make Title VII effective.

My third point is that major multiplant national corporations, including those operating with lucrative government contracts, repeatedly resisted compliance with Title VII both before the Commission and before the courts. Employers, often joined by the collective bargaining agents of their workers, succeeded in delaying for years delivery of Title VII remedies to minority plaintiffs in race and sex cases by raising complex challenges of a procedural nature. These procedural interpositions postponed the granting of relief by creating extensive delays before the Commission and in the courts. Even after

¹ U.S. Committee on Labor and Public Welfare, *Report to Accompany S. 2453*, 91st Cong., 2d Sess. (August 1, 1970), p. 4.

the law was clear, and cases decided, employers repeatedly resisted compliance and workers found it necessary to file yet another round of charges on the same issue and litigate again and again. If the EEOC is "an administrative and management disaster," in large part it is because employer respondents helped make it so.

The paper by Leslie Christovich and Lamont Stallworth proclaims in its title that it will present "The Claimant's Perspective," on "The Equal Employment Act and Its Administration." A reading of the paper reveals, however, that in fact it does no such thing. According to their own description this is a report of the response to a mail questionnaire sent to certain persons who were claimants in litigation under Title VII in one District Court in Northern Illinois during an eight-year period. We are told that of the group studied, ". . . the final population was biased toward *pro se* claimants," who represented only 20 percent of the Title VII docket in that one district. Furthermore, only 25 percent of that already very limited group responded to the mail questionnaire.

It must also be noted that the validity of the survey method is in doubt because a mail questionnaire is inherently flawed as a technique in such circumstances. I believe that the statistical significance of the survey results are questionable as many important issues were ignored. How typical of all Title VII plaintiffs are those that represented themselves? My observation is that *pro se* plaintiffs are not representative of the majority of Title VII litigants. In the history of Title VII, not a single major case was brought by *pro se* plaintiffs, not a single case that made law and altered traditional discriminatory practices. Generally *pro se* cases are one-on-one disputes of a limited nature. Such cases often involve discharge or disciplinary action for infraction of workrules. By their very nature these individual and personal conflicts provoke intense emotional responses that distort judgment and perspective on all sides.

Among other issues that were not addressed are the following:

How different are the responses of those who win or lose in personal injury cases, or workers' compensation cases or landlord-tenant cases, etc., etc., from those who win or lose Title VII cases in that same community? In other communities? In communities in the South compared with communities in the North? Are the plaintiffs male or female, Black or Hispanic, Asian or Caucasian? Do they come from a rural or urban background? Are they skilled or unskilled? Is there a correlation between educational attainment and response? Are there statistical differences in the responses to decisions in

discrimination cases based on race or sex or national origin or religion? Is there a difference between large and small enterprises and between organized and nonunion businesses? The variables are many and statistical variation assumes meaning only when context is established.

There are in fact very important issues to be investigated in this area as, for example, the significant role legal norms have in changing individual and group perceptions of their grievances, the ways in which people who perceive themselves as victims channel dissatisfaction and react to authority, and how the legal system functions in response. But the Christovich-Stallworth paper ignores these crucial matters and therefore tells us little of value regarding "The Claimant's Perspective." It is an exercise in quantification using a very limited and unrepresentative sample and lacking social context.

It seems to me that both presentations in their own way miss the essential point about the EEOC, that as a result of the statutorily mandated scheme, the EEOC was a crippled agency from its inception. Before the 1972 amendments to Title VII went into effect, the EEOC functioned only as a screening agent for potential court suits. The significance of Title VII was that it established a legal basis for private parties to initiate litigation seeking the elimination of employment discrimination.

The 1972 amendments provided a statutory basis for the transformation of the EEOC into a law enforcement agency. This could have been accomplished by a creative and systematic program of litigation against the major discriminators in every sector of the economy, but such a development would have required the reorganization of the Commission for emphasis on litigation rather than on conciliation. Unfortunately, this was not done.

Although the EEOC had acknowledged that conciliation was ineffective and that enforcement powers were necessary,² it remained committed to the conciliation process and did not turn to litigation as the major means of obtaining compliance with Title VII. Furthermore, conciliation was not coordinated with the power to sue; it was not viewed by the agency as an integral part of the process of case selection and preparation for filing of lawsuits.

² In 1972 the EEOC noted "the growing recognition that exclusive reliance on voluntary methods of negotiation, persuasion, and conciliation to resolve complaints of employment discrimination was misplaced and ineffective. Viable procedures which would insure, and not merely encourage compliance with Title VII would have to be developed in order to assure effective enforcement of prohibitions against employment discrimination." 7 EEOC ANN. REP. p. 4 (1973).

The authority to initiate lawsuits under Section 707 is potentially the most important power the EEOC acquired under the 1972 amendments. Individual case-by-case litigation is totally inadequate to eliminate unlawful discriminatory systems, and even class action suits may be limited to a comparatively small percentage of the workers employed by major multiplant corporations. The many judicial opinions that define the nature of employment discrimination clearly indicate the need for an attack against institutionalized patterns of discrimination.³ Through the use of commissioner charges such an attack could be given priority; the agency could select major discriminators in each industry and region and initiate innovative litigation attacking discriminatory employment systems of large enterprises. This approach, however, requires a comprehensive litigation strategy, with internal coordination throughout the agency. Such a strategy, essential to realize the fundamental purposes of Title VII, was never developed.

That the EEOC failed to utilize valuable new powers granted by Congress in the 1972 amendments is made abundantly clear by the litigation record. Between 1972 and 1980 the EEOC was responsible for 7 percent of all Title VII litigation.⁴ The litigation record, in addition to demonstrating little activity, also reveals the absence of a coordinated strategy to eliminate discrimination by large corporations and labor unions. Over 40 percent of EEOC's lawsuits were against respondents having workforces between 25 and 300 persons. Another 20 percent of the respondents employed between 300 and 1000 workers, 30 percent between 1,000 and 10,000 employees, and 4 percent had over 10,000 employees.⁵ The data revealed that the Commission failed to use its power to attack discriminatory practices by the largest employers in each sector of the economy, and there is no indication that litigation against smaller employers dealt with critical issues.

Ninety-three percent of the litigation under Title VII after 1972 was initiated and conducted by the private bar on behalf of charging

³ See, for example, *Albemarle Paper Co. v. Moody*, 422 U.S. 405 (1975); *U.S. v. Jacksonville Terminal*, 451 F.2d 418 (5th Cir. 1971), cert. den. 405 U.S. 906 (1972).

⁴ This conclusion is based upon a comparison of EEOC annual litigation data with information in the *Annual Reports of the Director*, Administrative Office of the United States Courts. See Table 25, "Civil Rights Act of 1964—Employment Cases Filed, By District, Statistical Years 1972-1977," *Annual Report of the Director* (Washington: Administrative Office of the United States Courts, 1977), p. 219. See also Annual Reports for each succeeding year.

⁵ Source of data: EEOC.

parties, and these were the major cases that brought significant advances in the law, such as *Green v. McDonnell Douglas Corp.*⁶ and *Franks v. Bowman Transportation Co.*,⁷ among others. Given this record, there is, of course, a great irony in the fact that U.S. courts of appeal have on more than one occasion stated that: “. . . the Equal Employment Opportunity Commission is the primary enforcement mechanism of Title VII.”⁸ In more recent years the record is even worse. In 1981 the government brought 5.4 percent of employment discrimination cases, in 1982 3.8 percent, and in 1983 1.9 percent.⁹ These cases include suits brought by the U.S. Justice Department, and EEOC proceedings to enforce subpoenas, as well as suits on the merits.

Instead of litigating, the EEOC in reality operates as a claims adjustment bureau and does not function as an enforcement agency. Major national corporations have come to understand that paying money in settlement agreements is often a way of disposing of all claims, past, present, and future, while buying a license to continue the discriminatory pattern with a minimum of alteration.

It must now be recognized that a basic administrative reorganization of agency structure and operations is necessary to realize the potential of Title VII. But any attempt at reorganization must deal not only with the management problems of the EEOC, but also with the basic inadequacy in the statutory enforcement scheme. Two decades after the passage of Title VII, it is necessary to recognize the futility of attempting to attack patterns of systemic discrimination through the individual charge process. A basic distinction must be made between institutional discrimination and complaints arising from individual job disputes. While EEOC has the obligation to process every charge, it is essential that the agency have separate procedures for the resolution of individual complaints and the elimination of systemic job discrimination which requires a different approach and the highest priority.

The fallacy of basing EEOC's ability to attack institutional discrimination on the individual charge procedure lies in the fact that victims of discriminatory patterns rarely file complaints about such

⁶ 463 F.2d 337, 4 FEP Cases 577 (8th Cir.), remanded 411 U.S. 792, 5 FEP Cases 965 (1973).

⁷ 496 F.2d 398, 8 FEP Cases 66 (5th Cir. 1974), rev'd and remanded, 424 U.S. 747, 12 FEP Cases 549 (1976).

⁸ *Burlington Northern, Inc. v. EEOC*, 644 F.2d 717, 25 FEP Cases 499 (8th Cir. 1981). See also *EEOC v. Jos. Horne Co.*, 607 F.2d 1075, 20 FEP Cases 1752 (4th Cir. 1979).

⁹ *Annual Reports of the Director*, Administrative Office of the United States Courts, at p. 367 in 1981, at p. 216 in 1982, and at p. A-20 in Appendix I in 1983.

discrimination and that few of the complaints which individuals do file involve institutional structures of discrimination. It is evident that the kinds of problems must be approached separately. This conclusion is to be found in virtually every major study of the relationship between institutional discrimination and the limitations of the individual complaint process.¹⁰

The EEOC must develop an enforcement strategy with priorities and that strategy must recognize the difference between the elimination of institutional discrimination and the resolution of private job disputes based on claims of discrimination. In retrospect it is now clear that Title VII, as originally enacted, arguably did that. The Attorney General was given responsibility for the elimination of institutional discrimination through "pattern or practice" litigation, and such litigation authority was wholly independent of the existence of a charge and completely separate from any administrative procedures.

Unfortunately, this statutory scheme failed because the Attorney General rarely used his power to bring "pattern or practice" suits, and institutional discrimination continued unabated. While the Justice Department failed to attack patterns of discrimination, EEOC failed to fulfill its mandate to resolve individual charges.

It is not surprising that the 1972 amendments resulted in a situation in which it became even more difficult to challenge institutional discrimination. First, and most importantly, "pattern or practice" litigation authority did not survive intact. When the authority rested with the Attorney General, it could have been used swiftly without any administrative encumbrances. When the litigation authority was transferred to EEOC, it was superimposed upon the agency's existing administrative processing structure. Before a "pattern or practice" suit could be brought, a charge now had to wind its way through the entire administrative process.

As a result of the 1972 amendments, EEOC was given an entirely new litigation responsibility—the authority to litigate individual charges, an authority which also could only be exercised after all

¹⁰ Among these are: Herbert Hill, "Twenty Years of State Fair Employment Practice Commissions: A Critical Analysis with Recommendations," *Buffalo Law Review* 14 (1964); J. P. Witherspoon, "Civil Rights Policy in the Federal System," *Yale Law Journal* 74 (1965); Alfred W. Blumrosen, "Anti-Discrimination Laws in Action in New Jersey: A Law-Sociology Study," *Rutgers Law Review* 189 (1965); Michael Sovern, *Legal Restraints on Racial Discrimination in Employment*, 1966; L. Mayhew, *Law and Equal Opportunity: A Study of the Massachusetts Commission Against Discrimination*, 1968; Herbert Hill, *Black Labor and the American Legal System* (Madison: University of Wisconsin Press, 1985).

administrative prerequisites were exhausted. The EEOC thus had two intertwined enforcement responsibilities: eliminating institutional discrimination and resolving individual disputes. Both responsibilities were tied by the statute to the agency's cumbersome administrative process. To complicate matters, the new litigation potential in individual cases raised a false hope that individual charges could be used to eliminate systemic discrimination. The EEOC was required simultaneously to eliminate institutional discrimination through the complaint process and also to resolve individual disputes. It has not done either. In fact, it has failed in regards to both responsibilities.

Effective enforcement of Title VII's mandate requires the separation of efforts to resolve individual complaints from efforts to eliminate institutional discrimination. As long as the agency's "pattern or practice" litigation authority is tied to the administrative charge process, it is extremely difficult for the agency to fulfill its primary mission: the elimination of patterns of employment discrimination.

Authority to eliminate institutional discrimination must not only be separated from individual charge resolution responsibility, but it must also be freed from an exhaustive administration process as the condition for initiating *de novo* litigation in federal district courts. On the other hand, if administrative prerequisites are considered appropriate, then the agency should be given the authority to issue enforceable cease-and-desist orders.

The structure imposed by the 1972 amendments hopelessly confused EEOC's responsibility to eliminate institutional discrimination with an obligation to resolve individual disputes. Improvements in the management and operation of the agency are of course needed, but only a major legislative change in the enforcement scheme of Title VII can transform the Commission into an effective instrument for the elimination of systemic patterns of discrimination. That remains the basic problem, and a problem which must be remedied if the great potential of the Civil Rights Act of 1964 is to be realized in combatting employment discrimination.

DISCUSSION

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I applaud the authors of these two papers for these excellent contributions to the field of work on charge processing by the Equal Employment Opportunity Commission (EEOC). The Christovich-Stallworth paper tackles a very difficult research problem of studying complainants. Their research design is both innovative and sound (Stallworth and Hoyman, 1981). They discover that the claimants generally do not view the process as legitimate. The Smith paper is excellent, analyzing in a lucid manner the difficult problems which have plagued the agency. Art Smith's brilliant and incisive paper represents less a typical management perspective than an enlightened management attorney's perspective, for reasons I shall outline later.

My remarks fall into four major themes: (1) a defense of the EEOC and the legislation it seeks to enforce; (2) the practical implications of some of the problems for management that were outlined in the Smith paper; (3) the question of system legitimacy raised by these papers; and (4) the process of setting guidelines by the EEOC.

Defense of EEOC

In the light of the criticism of management and the complainant, it is easy to lose sight of one important fact about the EEOC: the laws which the EEOC enforces confront very serious problems of employment discrimination. As such, the agency has a critical mandate to perform and one which is unfinished as yet. However, it is a job which it is performing competently given the great complexity of issues in employment discrimination. I am not convinced that were the EEOC dismantled tomorrow, employers would have sufficient incentive to stop discriminating.

It was not very long ago when cases of rampant and overt discrimination, not the more subtle form of effects discrimination, abounded. For example, employer practices of making decisions on individuals in protected groups based on stereotyping was fairly

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commonplace. Nothing I have read about employer behavior nor the strength of compliance efforts to date indicates that these efforts are sufficient to abandon the need for this critical agency.

Even though it is imperfect, the EEOC is the guardian of nondiscrimination in employment. As such, it serves a vital function. On the issue of all the changes which Art Smith identifies as sources of frustration for management, this point is worth noting: Albeit the changes create frustrations per se for all parties involved, they were instituted to improve performance.

Practical Implications

The problems which Smith has identified are valid: the case backlogs, the delays, the internal management failures, and vacillations in charge processing systems. Smith argues that these problems cause low credibility and a "wait and see" attitude on the part of management. In my opinion, employers can be divided into at least two groups, with many gradations in between these two: noncompliant employers and compliant employers. The question that can be raised is: If the EEOC were transformed overnight into an aggressive and efficient agency, what would be the attitude of employers—at least noncompliant employers? Although employers complain about the agency now, how would they feel if compliance through the EEOC were more effective? Assume that at least some employers are noncompliant and at least some of the charges are meritorious. In this case, at least the noncompliant employers have benefitted from lax procedures of the EEOC. To this extent, employer complaints about the lax procedures of the EEOC are a bit ironic.

It can even be argued that some of the guidelines of the EEOC, although designed to prevent discrimination, actually have had the effect of rationalizing employment practices. For example, consider the testing guidelines. Generally, personnel managers had a fairly high degree of consensus that the guidelines were onerous and loathsome. However, the principles behind the guidelines made a great deal of sense: Validate tests or else do not use them, if they differentially affect one group more than the majority group (or the highest performance group). Validation is a rational personnel policy; it is good sound management. Validation is simply the process of finding out: Is your selection device measuring what you intend to measure? Why would a rational employer or personnel manager want to retain a test that could not be validated, independent of equal employment considerations? Absent adherence with selection guidelines, a return to

more informal, less scientific (and more suspect) selection devices would occur through which the in-group would select more members of the in-group. My point is that the EEOC and its guidelines have brought benefits to employers which employers may not even realize, even though employers may have fiercely resisted guidelines in one area or another.

System Legitimacy

The Christovich-Stallworth paper raises the question of whether the system for processing EEOC charges lacks legitimacy. Even a fair number of complainants who win do not believe the process is fair. The factor which makes them believe it is fair is *participation* in the process. In other words, the modern-day complainant not only wants to win, he or she also wants a voice in the process. According to the Smith paper, management does not particularly think that the process is fair either.

On first glance, this does not look good. Here is a system designed to protect employee rights on the job, and neither employees nor management likes the system. On second glance, this is probably quite natural. After all, there are large economic stakes in equal employment settlements. Employers know this and, thus, they grumble. Employees know that they may go through a lengthy and grueling process that nets them nothing (Gleason, 1981). After all, it is participation which is linked to the perception of fairness. Neither administrative procedures nor litigation are set up with an eye for participation. Other alternative procedures come to mind which might be better for participation, such as internal grievances which allow employee participation, arbitration after an EEOC investigation, or court-annexed arbitration.

Setting of Guidelines

One of the points of Art Smith's paper argues that making rules (or, more precisely, guidelines) can be stronger than other methods of regulating, such as a case-by-case disposition. As a political scientist, I tend to think of setting guidelines as a political process. Rules or guidelines can indeed be "good" law or "bad" law, but also can be "good" or "bad" politics. A tentative proposition is that some guidelines have a widespread amount of credibility among the interest groups and others have none. Of course, there is the customary employer resistance to guidelines, but I am referring to acceptance in a broader set of groups than this.

There is evidence that an example of an agency guideline with a fair amount of consensus among interest groups was the guideline on pregnancy as a temporary disability. Shortly after the Supreme Court struck down that guideline in *Gilbert v. G.E.*, women's groups, black groups, and liberal groups moved quickly to amend Title VII to incorporate the substance of the guidelines. There are other guidelines like, for instance, the current ones on sexual harassment which, although they may be meritorious in their breadth of coverage, remain controversial.

A guideline is challenged through the court system not because it constitutes good law or bad law, but because of its political support or lack of support. The way this political support works is not so much through consensus or unanimity. After all, it is rare that one would get unanimity between employers and feminist groups. Rather, "politics" means the intensity with which it is opposed. After all, one of the main thrusts of the Administrative Procedures Act was to make more democratic what was essentially a bureaucratic process. Thus, I suggest that future research on guideline reversal focus on an important variable—the intensity of interest group opposition.

To conclude, although claimants and management may criticize the EEOC and the process of handling discrimination claims, it appears that there is a continuing need for the agency. Given the complexity of the task it faces, many aspects of its performance are commendable.

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XXII. UNIONS AND POLITICS: 1984 AND BEYOND

Unions and Politics: 1984 and Beyond

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The AFL-CIO endorsement of Jimmy Carter in the 1980 presidential election reflected labor's deep concern about a possible Reagan presidency. Reagan's first term largely fulfilled labor's worst expectations. A brief list of the nightmares included: breaking the PATCO strike; supply-side economics and the Reagan budgets; National Labor Relations Board appointments; the 1980-1982 recession and attendant unemployment; his position on foreign imports and domestic content legislation; and a lack of labor influence in the White House. In sum, from the AFL-CIO's position, 1984 was an extraordinary time demanding extraordinary measures. The Federation's response was the pre-primary endorsement of Democrat Walter Mondale for President. Despite criticism of this action from several quarters, the endorsement proceeded, and the AFL-CIO launched an all-out campaign of support and services for its long-time friend and ally. Nevertheless, Reagan defeated Mondale and, by implication, organized labor itself.

Compounding labor's loss were the polls which showed union members supported Mondale over Reagan by only a margin of 55-45. Reagan got as many union votes in 1984 as he had in 1980, this despite the fact that the AFL-CIO's support of Mr. Carter in the 1980 general election was comparatively lukewarm, and unions had been divided in

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the Democratic primaries. There was no such ambiguity in 1984; the AFL-CIO position was clear, open, well publicized, and established early. Furthermore, in 1984 Reagan had to run on his record of four years as an incumbent president and his administration's on-going battles with organized labor.

In the conclusion of our article analyzing rank-and-file reaction to the AFL-CIO 1980 Carter endorsement ("The Impact of Labor Endorsements: Union Members and the 1980 Presidential Vote," *Labor Studies Journal*, Spring 1984) we said: "To have a substantial impact, the endorsement must be effectively communicated, and the rank-and-file must be receptive to the endorsed candidate." Our data indicated the AFL-CIO had problems on both counts in 1980. In that article we predicted that the AFL-CIO would probably be able to solve the communication problem in 1984. On the question of rank-and-file acceptance of the endorsed candidate, however, we predicted that the rank-and-file "will not be very receptive to a labor-endorsed candidate if he is perceived to be a liberal on most issues."

In an attempt to better understand rank-and-file labor's reaction to the AFL-CIO Mondale endorsement and labor's political action program in general, we conducted a post-election telephone survey of a random sample of members of AFL-CIO unions living in Ohio. The interviews were conducted in November 1984 by a professional polling firm with no indication of any labor-related sponsorship of the survey. Four hundred interviews were completed, but a subsequent decision to drop out those who said they were retired reduced the sample to 321.

Survey Results

Although our survey focused on rank-and-file reaction to the AFL-CIO Mondale endorsement, it also contained two other sets of questions dealing with labor's political action program. The first of these sought to measure the level of involvement in labor political activities; the second probed attitudes about labor's political action program without reference to the 1984 presidential election.

To measure the level of individual involvement in labor political activities, we first asked: "Have you ever given money to COPE or any other labor political committee?" This was followed by the question: "Have you ever participated in any political activities coordinated by labor?" The response to the first question was 30 percent "Yes"; the second received 15 percent "Yes." In light of the "Have you *ever*" phrase, there seems to be no question that rank-and-file involvement in

this area is quite low. (This is especially so when contrasted with the 85 percent turnout for the 1984 election reported by our sample.)

Our survey next turned to the Mondale endorsement. The first question simply asked: "Do you remember which candidate the AFL-CIO favored in the presidential election?" Only 81 percent of our sample responded "Yes." These people were then asked to name the candidate, and 98 percent of them named Mondale. Given the scope of labor's campaign for Mondale, and the media attention given to the endorsement, it is interesting that 19 percent of our sample was not aware that the AFL-CIO had endorsed a presidential candidate.

Those people who remembered that the AFL-CIO had endorsed Mondale were then asked: "Did the endorsement make you favor Mondale more, less, or no differently?" The response to this question was "more"—12 percent, "no differently"—81 percent, and "less"—7 percent. (The question was worded as gently as possible to avoid the "Nobody tells me who to vote for" syndrome.) The great majority of rank-and-file AFL-CIO union members were clearly not affected by the Mondale endorsement. Of the 19 percent who did react, over a third had a negative reaction. It seems fairly clear that the AFL-CIO endorsement did not have the desired or expected payoff.

Following the question on the impact of the endorsement, our respondents were asked: "Do you agree that the endorsement of Mondale in the Fall of 1983 was necessary to unite labor behind the candidate?" The response was "Yes"—40 percent, "No"—49 percent, and "Don't know"—11 percent. While it is likely that this question is measuring reaction to Mondale the candidate as well as the concept of the early endorsement, it nonetheless shows only 40 percent rank-and-file approval of the AFL-CIO Mondale endorsement.

Earlier in the survey, before any of the union-related questions, we asked a series of political questions. One of these asked respondents to rate a list of political candidates on a scale of 0 to 100, with 100 being a perfect rating. The ratings given the presidential and vice-presidential candidates were:

	<i>Mean rating</i>
Reagan	54.2
Mondale	48.3
Bush	47.6
Ferraro	43.0

Clearly, labor's extensive criticism of President Reagan had failed to lower the rank-and-file's high opinion of him. Also noteworthy is the low rating Ferraro received, no doubt contributing to the rejection of Mondale by some union members.

The "bottom line" on the endorsement is obviously the rank-and-file presidential vote. Our sample reported the following:

Mondale	46%
Reagan	46%
Other candidate/refused	8%

It is likely that this understates the actual union vote for Mondale by some small amount because post-election surveys tend to show a lower vote for the losing candidate than he actually received. But whether it was 50-50 or 55-45 Mondale, it is still a very disappointing outcome for the AFL-CIO given the effort expended. It is especially discouraging when contrasted with the reported vote for Congress which was 65 percent Democrat and 35 percent Republican. In other words, there was an approximately 15 percent movement away from the underlying Democratic voting preference and toward Reagan in the presidential race.

Following the set of questions about the Mondale endorsement discussed above, there were two questions about labor and politics with no reference to the 1984 election. The first inquired whether the respondent thought the AFL-CIO should plan to endorse a candidate in the next presidential election. The response was "Yes"—59 percent, "No"—31 percent, and "Don't know"—10 percent. This is somewhat surprising when compared to the 40 percent positive response to the early endorsement of Mondale. Apparently many of the critics of the 1983 endorsement still support the concept of AFL-CIO presidential endorsements.

The last question in this section of our survey asked: "Do you agree that on political questions most union leaders above the local level are out of touch with what members want and think?" The response to this question was "Yes"—69 percent, "No"—26 percent, and "Don't know"—5 percent. The relatively small "Don't know" percentage indicates that this question tapped an easily understood idea. Unfortunately, from the perspective of national labor leadership, the rank-and-file by a more than 2 to 1 margin feels that on political questions, their own leadership doesn't know what the members are thinking.

Summary and Conclusions

Regarding the Mondale endorsement, we found (1) about 80 percent of the rank-and-file were aware of the endorsement; (2) a minimal impact of the endorsement on individual support for Mondale; (3) only 40 percent support for the early Mondale endorsement; (4) Reagan being more highly rated than Mondale by the rank-and-file; and (5) a Mondale vote some 15 percent lower than the vote for Democratic congressional candidates. These findings basically confirm the prediction we made in our article on the 1980 Carter endorsement. The 1984 endorsement was fairly widely perceived, but its impact on rank-and-file voting appears to have been minimal. It is safe to say that the AFL-CIO achieved fairly little in 1984 in relation to the large expenditures of time and money it made on Mondale's behalf.

As for the likely success of future endorsements, our findings are not entirely consistent. On the one hand, 60 percent support the idea of the AFL-CIO endorsing in the next presidential election; on the other hand, 70 percent believe that national union leaders are out of touch with the rank-and-file on political questions. Based on the reaction to the early Mondale endorsement and this last item, we can predict the following about an AFL-CIO endorsement in the 1988 presidential election: (1) making an early endorsement without overwhelming rank-and-file support for the endorsed candidate will be poorly received; and (2) gaining acceptance of the endorsed candidate will require union leaders to involve the rank-and-file in the endorsement process and reflect their values and concerns in the final decision.

XXIII. IRRA ANNUAL REPORTS

IRRA EXECUTIVE BOARD SPRING MEETING April 17, 1985, Detroit

President Everett M. Kassalow called the meeting to order at 7:30 p.m. Present were President Kassalow, Past President Wayne Horvitz, and Board members Mario F. Bognanno, Edgar R. Czarnecki, Lydia H. Fischer, Lois S. Gray, Joyce M. Najita, Charles M. Rehmus, Sidney W. Salsburg, Lucretia D. Tanner, and Donald F. Vosburgh. Also present were David R. Zimmerman, Secretary-Treasurer; Barbara D. Dennis, Editor; Michael E. Borus, Newsletter Editor; Alan Gladstone, IIRA Secretary-General; Louis Ferman, Mark Kahn, Michael Nowakowski, and Elaine Morris, of the Detroit IRRA Chapter; Michael J. Jedel and Beverly Schaffer, of the Atlanta IRRA Chapter; and Marge Lamb and Marion Leifer, of the IRRA National Office.

Absent were Board members Thomas Balanoff, Clair Brown, Martin Ellenberg, Peter Feuille, and John Gentry.

Minutes of the Annual Meeting held 28 December 1984 in Dallas were approved. Secretary-Treasurer Zimmerman reported on the status of the Association regarding membership and finances. He stated that membership stands at over 5000, with 3700 having paid for 1985 and well over 200 new members having been added since January. The healthy membership total is reflected, he said, in a financial status that is reasonably good. The present excess income of \$32,709 is slightly ahead of last year's. He referred to the accountant's letter which included suggestions regarding budget, book inventory, and policy with respect to dues, investments, and Newsletter advertisements. A policy statement covering these issues will be presented to the Executive Board at its December meeting, Mr. Zimmerman said.

President Kassalow call the Board's attention to the membership of the 1985 Nominating Committee, noting that geographical distribution had been taken into account. The Board approved the committee.

Members are Leon E. Lunden, chairman, Sheldon Friedman, Karen Koziara, Freddie Lucas, Ray Marshall, Richard B. Peterson, and Marc J. Rosenblum.

Barbara Dennis gave the editor's report. In responding to the Board's earlier suggestion that the Association ask for bids from printers, Ms. Dennis said she had located several union printers in Wisconsin and would seek additional bids in the Chicago area. The Board gave permission for her, along with Mr. Kassalow and Mr. Zimmerman, to decide on the best bid for the 1986 IRRA publications. The title of this year's research volume will be "Industrial Relations in a Decade of Economic Change." A first draft of the 1986 volume on women and work is expected this summer, Ms. Dennis reported.

A discussion ensued on the topic for the 1987 research volume. Written proposals had been received from Jerome T. Barrett, Brian Becker, Morris M. Kleiner, Daniel J.B. Mitchell, and Rudy Oswald/Everett Kassalow. Ms. Gray voiced the opinion that choice should be based on the best theme rather than on editors or individual chapter headings and authors. Following extended discussion, the Board centered its attention on the Kleiner proposal. Titled "Human Resources and the Performance of the Firm," this proposal was described by Mr. Horvitz as one dealing with an important evolving factor in industrial relations and a topic of considerable interest to younger members. Ms. Tanner noted that research volume editors usually represent a tripartite approach, and Mr. Bognanno added that Mr. Kleiner's proposed editors were not IRRA members. Ms. Gray moved that the Board be polled; the Kleiner proposal had a plurality of votes. Mr. Kassalow said he would act on the Board's suggestion to contact Mr. Kleiner regarding possible changes in content, editors, and further development of the theme. Mr. Vosburgh said that the Mitchell and Oswald/Kassalow proposals should be considered "back-ups." The discussion concluded with remarks that future calls for editors might include references to IRRA membership as well as diversity of affiliation.

Mr. Borus, Newsletter editor, reported that the U.S. Postal Service had given a favorable response to his inquiry about expanding advertising in the Newsletter without endangering the Association's nonprofit status. This would allow for ads from book publishers and members seeking positions. Mr. Salsburg questioned the reason for the delay in mailing the February Newsletter and suggested that an effort be made to avoid this problem in the future. Mr. Kassalow said he would suggest a September call for program proposals for next year's

(1986) December meeting. A new schedule of deadlines for each issue would be set up, he indicated.

Mr. Zimmerman presented a brief review of the status of local chapters, whose number will be increased to 56 in December when the Alabama chapter will seek affiliation with the national Association. He pointed out that the chapters continue to be one of the best sources of new national members, and efforts to promote national members in those groups will continue.

A proposal to replace the 1988 IRRA Spring Meeting with a regional meeting of the International Industrial Relations Association was offered by President Kassalow. The meeting would include representatives from North and South America and would be held in Washington, D.C., probably in March of 1988. The Association would be asked to make a financial pledge of \$6000 in advance, and efforts would be made to enlist the support of labor, government, and other groups.

Alan Gladstone pointed out that the IRRA has a long tradition of involvement with the IIRA. The proposed Washington meeting would be the second such regional meeting, the first having been held in Austria in 1984. Mr. Rehmus voiced approval of the concept, but questioned the cost of translating into three languages. Mr. Gladstone responded that this probably would be the single most expensive item, but could best be worked out on an ad hoc basis. Mr. Rehmus moved that the Association appropriate \$6000 as a core sum to move preparations forward, and the Board voted approval. Mr. Gladstone pledged a matching amount from the IIRA, along with publicity and administrative assistance. A committee will be named which will be asked to assume responsibility for arrangements, financing, and helping to formulate the program, Mr. Kassalow said. The committee would probably include Mr. Horvitz, Mr. Kassalow, Morris Weisz, former Deputy Assistant Secretary of Labor and former Labor Counsellor, U.S. Department of State; David Waugh, Washington, D.C., ILO office; Bruce Millen, former Assistant to the Secretary of Labor and former labor attache, U.S. Department of State; Jack MacKenzie, Director, Labor Studies Program, University of D.C.; and perhaps several others. Mr. Zimmerman raised the issue of what would happen if more money were needed, and suggested that a budget be formulated and monitored. A member of the committee would be charged with this responsibility, Mr. Kassalow said.

A brief outline of plans for the 7th World Congress of the IIRA in Hamburg, in September 1986, was given by Mr. Gladstone. Arrangements are being made by IIRA's West German affiliate; all

papers have been commissioned and will be published in four or five volumes.

Mark Kahn, representing the Detroit chapter, thanked his co-chairmen, Louis Ferman and Michael Nowakowski, for their work with meeting preparations. He noted that they had decided on a program similar to the annual meeting, rather than the regional approach, and suggested the Board might want to evaluate this approach at its December meeting.

An outline of the program of the 1985 New York City annual meeting was presented by Mr. Kassalow. There will be a few more sessions than in the past, including two with the American Historical Association, and promise of future exchanges with the American Political Science Association and the American Economic Association. He noted that the May Newsletter would include information about additional "poster sessions" where members could bring research papers or abstracts and present them on an informal basis. Various formats for these sessions were discussed, but it was agreed not to use the label "poster sessions" and to evaluate the concept at the December meeting.

Ms. Gray reported that the New York Chapter would be assisted by the Long Island Chapter in hosting the December 1985 Annual Meeting and that students would be helping with registration.

Beverly Schaffer, Local Arrangements Chairman for the 1986 Spring Meeting in Atlanta, introduced Michael Jedel, who will serve as Program Chairman. Ms. Schaffer then summarized preliminary plans for the 1986 Spring Meeting to be held April 16-18 at the Hyatt Regency Hotel.

Mr. Bognanno, a member of the IRRA Statistical Committee, outlined the committee's concern over the "Draft Circular on a General Policy Framework for the Management of Federal Information Resources." Discussion centered on such issues as the Association's policy of not taking political stands and the importance to the IRRA of the broader issue of the continued role of the government in the collection, analysis, and dissemination of data related to industrial relations. The Board voted to appoint Ms. Fischer, Ms. Tanner, Mr. Salsburg, and Mr. Bognanno to draft a letter to the Office of Management and Budget expressing the Association's concern about the federal government's further reducing its information-gathering activities. The Board also agreed that the Association contribute \$500 to COPAFS and be considered an affiliate, nonvoting member.

The meeting was adjourned by President Kassalow at 10:40 p.m.

IRRA EXECUTIVE BOARD ANNUAL MEETING December 28, 1985, New York

President Everett M. Kassalow called the meeting to order at 7:15 p.m. Present were President Kassalow, President-Elect Lloyd Ulman, and Board members Thomas Balanoff, Mario F. Bognanno, Clair Brown, Edgar R. Czarnecki, Peter Feuille, Lois S. Gray, Joyce M. Najita, Sidney W. Salsburg, and Lucretia D. Tanner. New board members (terms starting in 1986) present were Michael Moskow (President-Elect), Eileen B. Hoffman, Mark L. Kahn, Joyce D. Miller, and William F. Vaughn. Board members absent were Martin Ellenberg, Lydia Fischer, John Gentry, Wayne Horvitz, Charles Rehmus, and Donald Vosburgh. Also present were David R. Zimmerman, IRRA Secretary-Treasurer; Barbara D. Dennis, IRRA Editor; Michael E. Borus, IRRA Newsletter Editor; David Lewin, Chairman, Joint Meetings Committee; Michael J. Jedel, 1986 Spring Meeting Program Chairman; Leon Lunden, Nominating Committee Chairman; Morris Kleiner, Editor, 1987 research volume; and Marion and Larry Leifer, IRRA National Office.

Mario Bognanno moved that the minutes of the Spring meeting held in Detroit on April 17, 1985, be approved as printed. Motion carried.

Michael Jedel presented the outline of the program for the 1986 Spring Meeting to be held April 16-18 at the Hyatt Regency Hotel in Atlanta, Georgia. In the ensuing discussion a question was raised by David Zimmerman regarding the feasibility of sustaining three concurrent sessions; the title of session A at 8:45 a.m. on Friday, "New Ideas in Industrial Relations," was questioned as being inappropriate; and the absence in the outline of subject matter for any of the presenters at the Plenary Session at 10:30 a.m. on Friday was noted by Mark Kahn.

Following David Lewin's report on Joint Programs with other associations, the subject was discussed. At this meeting (New York 1985), the IRRA has two joint sessions with the American Historical Association. Mr. Lewin plans two sessions during 1986, both in August. One will be a joint session with the American Psychological Association and the other will be with the American Sociological Association. Mr. Lewin stated that these two associations expect some kind of reciprocity at the IRRA 1986 meeting in New Orleans.

Leon Lunden, Chairman of the Nominating Committee, announced the slate of Executive Board nominees for the 1986 ballot and that the Committee had selected Phyllis Wallace of MIT as the nominee for President-Elect. The committee also recommended that Alice Cook be given first consideration as the Distinguished Speaker at the 1986 Annual Meeting. Peter Feuille moved that the Board accept the Nominating Committee report. Motion carried.

Barbara Dennis reported that she had submitted the IRRA printing requirements to seven union printers. Only two responded and the bid from Pantagraph Printing and Stationery Company of Bloomington, Illinois (the present printer) was accepted. She also announced that the 1985 research volume would be in the mail in about two weeks.

Morris Kleiner submitted a list of editors, contributors, and chapter headings for the 1987 research volume entitled "Human Resources and the Performance of the Firm." He commented briefly on each chapter, the introduction, overview, and conclusion. In the discussion that followed, comments were made that the contributors and general content appeared to show improvement over the original concept. Also, suggestions were made for the authors, wherever possible, to try to contrast union vs. nonunion situations in their discussions.

Lucretia D. Tanner reported that the 1986 research volume, "Women and Work," is moving along well. A few chapters and the summary still need to be completed.

The Board addressed the question of how often the Membership Directory should be published. Marion Leifer, IRRA Executive Assistant, reported that since publication of the last Directory (one year), 1000 new members have been enrolled; 900 major changes in addresses, positions, and other data have been processed; and 635 deletions have been made. After some discussion, Michael Moskow moved that both a Directory and a research volume be published in 1987 and that consideration be given to publication of a Directory in addition to, rather than instead of, a research volume every three years. (Current practice is to publish a Directory in place of a research volume every sixth year.) Motion carried.

Proposed subjects for the 1988 research volume were discussed. The general consensus was in favor of "The Older Worker," the proposal submitted by Michael E. Borus and Herbert S. Parnes. Comments regarding the proposal included: (1) Too many of the chapter authors are not IRRA members and should be persuaded to join. (2) Consideration should be given to the inclusion of some information on what unions do in the way of preretirement programs

and involvement in activities and programs after retirement. (3) "The switching of older persons to new careers" would be a useful addition. Sidney Salsburg moved that the proposal be accepted. Motion carried. Mr. Borus volunteered to meet later for further discussion with those who had offered suggestions. Lucretia Tanner recommended that letters be sent to those whose research volume proposals had not been accepted, thanking them and inviting them to resubmit a proposal at another time.

The feasibility of arranging for a chartered plane for those attending the IIRA meeting September 1-4, 1986, in Hamburg was discussed. However, because of the complications involved with some attendees continuing on to the International Labor Law meeting in Venice and to other European cities, no action was taken.

A letter from Alan Gladstone requesting that a member of the IIRA be selected to serve on the IIRA Council was considered. A motion by Lloyd Ulman to elect Everett Kassalow was seconded and passed.

President Kassalow reported on the progress of the "Meeting of the Americas," a regional IIRA meeting to be held in Washington, D.C., sometime in March 1988. This meeting, jointly sponsored by the IIRA and IRRA, would replace the regular Spring Meeting. A planning committee has been established and has asked the Organization of American States (OAS) to act as host. The OAS Council will decide this matter at its January meeting. None of the funds (\$12,000, of which \$6000 has been committed by the IRRA) have been used to date. A suggestion that Michael Moskow be added to the committee was approved.

The report of the Secretary-Treasurer, David R. Zimmerman, included a number of items.

Finances. The highlights of the report are: (1) The financial condition of the Association is good. To date (November 30), 1985 income exceeds expenses by \$47,533.34. Dues collections are up, and there is substantial interest income from the approximately \$200,000 currently in certificates of deposit and money market funds, but available for other investments. We are holding the line on expenses. (2) Printing costs, postage, and some other costs will be higher in 1986. (3) The 1986 Budget includes a 6% increase in salary for the office staff. (4) Nevertheless, no dues increase is recommended for 1987. (5) To expedite the work of the staff, reduce labor costs, and provide better access to important membership data, it is recommended that an in-house computer or a direct link to a new U.W. computer be obtained.

(6) Authorization was requested to invest a portion of the surplus account in mutual funds to take advantage of higher interest rates. (7) A motion by Michael Moskow authorizing up to \$3500 for the computer purchase and approving the budget, including staff salaries, was seconded and passed. (8) A proposal to pursue investments as outlined by Mr. Zimmerman and carried out with the approval of Lloyd Ulman and Michael Moskow was also approved.

Membership. Mr. Zimmerman reported an increase of about 10% in U.S. membership, but a decrease in Canadian and foreign members which has reduced the overall net membership gain to slightly over 7%. Promotional efforts have been stepped up, particularly with special appeals to members of local chapters and to persons on the mailing lists of several organizations.

IRRA Local Chapter Applications. A letter from Trevor Bain, president of the Alabama chapter, requesting formal affiliation with the IRRA was discussed, and a motion by Mario Bognanno to accept Alabama as a new IRRA chapter was seconded and passed.

1987 Spring Meeting Site. The only formal invitation to host the 1987 Spring Meeting came from the Boston chapter. A verbal, informal invitation to host a future Spring Meeting was made by the Orange County, California, chapter. The Board approved a motion to hold the 1987 Spring Meeting in Boston. The Board also took note of the Orange County invitation and agreed to consider Orange County for the 1989 Spring Meeting (the 1988 Meeting is slated for Washington, D.C., in conjunction with the IIRA regional meeting).

Infringement of IRRA Membership List. Mr. Zimmerman reported on the status of the case of infringement of the IRRA membership list by Hugo Dunhill, a private mailing firm. There has been no reply from the cease-and-desist letter sent by our attorney, and the latest issue of their catalogue still carries the list that was evidently copied from the 1984 Membership Directory. A motion by Peter Feuille to take appropriate action if they continue to use it was seconded and passed.

Honorariums. President Kassalow then requested Mr. Zimmerman and Ms. Dennis to leave the meeting temporarily while the Board considered the amount of their annual honorarium for 1985. A suggested \$500 increase to \$5500 by President Kassalow was discussed, and a motion by Thomas Balanoff to accept this proposal was seconded and passed.

Statistical Committee chairman Paul Weinstein summarized the report of his discussions with various officials about problems pertaining to cutbacks in BLS collection of data on labor relations

issues. (The complete report of the Statistical Committee is attached to the permanent minutes.) The Board approved a motion to increase its contribution to the Committee of Professional Associations on Federal Statistics (COPAFS) to \$1000 to become a full member of the organization. The Board also reaffirmed its policy that no position on political issues pertaining to COPAFS can be taken by the Association or any of its representatives to either COPAFS or the IRRRA Statistical Committee.

Michael E. Borus reported on the status of the Newsletter, indicating that he hoped for increased revenue from advertising of various sorts. We now have a clear decision from the U.S. Post Office in New Brunswick allowing us to use advertising, as permitted by third class mail. President Kassalow expressed concern regarding the existing arrangement with the Newsletter, particularly in terms of not meeting deadlines and the occurrence of typographical errors. He said consideration should be given to moving the printing back to Madison, and he suggested that Lloyd Ulman review the matter at the Spring Meeting.

At the request of Lloyd Ulman, because of laryngitis, the Program Committee report on the program for the 1986 Annual Meeting in New Orleans was read by Marion Leifer.

President Kassalow suggested that future annual Board meetings be held the day before the sessions begin and the possibility of defraying one day's expenses for those who attend. The matter was discussed, and although the general opinion was favorable, it was noted that it should not be necessary to pay expenses except for those who would need to arrive the day before the scheduled Board meeting. The subject is to be put on the agenda for the Atlanta meeting.

The meeting adjourned at 10:45 p.m.

AUDITED FINANCIAL STATEMENTS
December 31, 1985 and 1984

We have examined the balance sheets of the Industrial Relations Research Association as of December 31, 1985 and 1984, the related statements of income, changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Industrial Relations Research Association at December 31, 1985 and 1984, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Stotlar & Stotlar, S.C.

February 21, 1986

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
Madison, Wisconsin

Balance Sheets
December 31,

	1985	1984
ASSETS		
Current assets:		
Petty cash	\$ 50	\$ 50
Cash—checking	282	
Cash—money market	184,493	66,899
Certificates of deposit		80,000
Accounts receivable (Less allowance for doubtful accounts of \$75 in 1985 and \$405 in 1984)	9,590	3,649
Accrued interest receivable		2,775
Prepaid expenses	5,136	
Inventory	<u>11,583</u>	<u>21,240</u>
Total current assets	<u>\$211,134</u>	<u>\$174,613</u>
Property, plant and equipment:		
Equipment	\$ 3,152	\$ 3,152
Accumulated depreciation	952	322
Net property, plant and equipment	<u>2,200</u>	<u>2,830</u>
Total Assets	<u>\$213,334</u>	<u>\$177,443</u>
LIABILITIES AND FUND BALANCE		
Current liabilities:		
Accounts payable	\$ 32,885	\$ 19,352
Payroll taxes payable	1,328	
Dues collected in advance		86,225
Subscriptions collected in advance	<u>10,112</u>	
Total liabilities	<u>\$128,199</u>	<u>\$105,577</u>
Restricted fund balance	\$ 6,000	\$
Unrestricted fund balance	<u>79,135</u>	<u>71,866</u>
Total fund balance	<u>85,135</u>	<u>71,866</u>
Total Liabilities and Fund Balance	<u>\$213,334</u>	<u>\$177,443</u>

(The accompanying notes are an integral part of the statements)

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
Madison, Wisconsin

Income Statements
For the Years Ended December 31,

	1985	1984
Income		
Income for operations		
Membership dues	\$130,905	\$126,013
Subscriptions	18,416	6,069
Chapter fees	5,861	4,716
Book sales, net of refunds	6,234	10,609
Royalties	823	1,130
Newsletter advertising	1,720	3,071
Mailing list rental	7,422	5,954
Meetings	18,338	8,557
ASSA refunds	<u>1,668</u>	<u>2,350</u>
Total operating income	<u>\$191,387</u>	<u>\$168,469</u>
Expenses		
Compensation		
Salaries	\$ 44,002	\$ 42,293
Payroll taxes	3,191	3,211
Contract services	2,855	3,398
Officer honorariums	11,000	10,000
Employee education		<u>154</u>
Total compensation expense	<u>\$ 61,048</u>	<u>\$ 59,056</u>
Publications		
Proceedings	\$ 32,604	\$ 26,299
Spring proceedings	7,308	859
Research volumes	32,901	19,851
Newsletter	<u>11,993</u>	<u>9,497</u>
Total publication expense	<u>\$ 84,806</u>	<u>\$ 56,506</u>
Meetings		
Meals	\$ 10,370	\$ 4,839
Officer/Staff travel expense	2,539	2,163
Miscellaneous	<u>13,290</u>	<u>3,254</u>
Total meetings expense	<u>\$ 26,199</u>	<u>\$ 10,256</u>
Office and general expenses		
Membership promotions	\$ 3,561	\$ 7,878
Computer and label costs	807	1,094
Office supplies	3,842	2,717
Postage and freight	4,697	4,037
Telephone	1,175	1,451
Accounting and auditing	1,615	2,248
Bank charges	21	146
Insurance	302	237
Depreciation	630	243
Duplicating	1,375	1,446
Bad debts	<u>17</u>	<u>180</u>
Total office and general expense	<u>\$ 18,242</u>	<u>\$ 21,677</u>
Total expenses	<u>\$190,295</u>	<u>\$147,495</u>
Income from operations	<u>\$ 1,092</u>	<u>\$ 20,974</u>
Other income and (expense)		
Interest income	\$ 13,275	\$ 12,020
Miscellaneous expense	<u>(1,098)</u>	<u>(285)</u>
Other income and (expense)	<u>\$ 12,177</u>	<u>\$ 11,735</u>
Net income	<u>\$ 13,269</u>	<u>\$ 32,709</u>

(The accompanying notes are an integral part of the statements)

 INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
 Madison, Wisconsin

 Statement of Changes in Fund Balance
 For the Years Ended December 31,

	1985	1984
Unrestricted fund balance, beginning balance before restatement	\$ 71,866	\$ 39,157
Restriction for future meeting expenses	(6,000)	
Net income	<u>13,269</u>	<u>32,709</u>
Unrestricted fund balance, ending balance	<u>\$ 79,135</u>	<u>\$ 71,866</u>

(The accompanying notes are an integral part of the statements)

 INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
 Madison, Wisconsin

 Statement of Changes in Financial Position
 For the Years Ended December 31,

	1985	1984
Financial resources provided by:		
Operations:		
Net income	\$ 13,269	\$ 32,709
Item not affecting cash and short term investments: Depreciation	630	243
Decrease in interest receivable	2,775	
Decrease in inventory	9,657	
Increase in accounts payable	14,861	5,407
Increase in dues paid in advance		10,242
Decrease in prepaid expenses		355
Increase in subscriptions collected in advance	<u>10,112</u>	<u> </u>
Total funds provided	<u>\$ 51,304</u>	<u>\$ 48,956</u>
Uses of Funds:		
Increase in interest receivable	\$ 5,941	\$ 2,623
Increase in accounts receivable		964
Purchase of equipment		2,364
Increase in prepaid expenses	5,136	
Decrease in Ford Foundation grant		308
Decrease in dues paid in advance	2,351	
Increase in inventory		<u>7,329</u>
Total uses of funds	<u>\$ 13,428</u>	<u>\$ 13,588</u>
Increase in cash and short term investments	\$ 37,876	\$ 35,368
Cash and short term investments		
Beginning of year	<u>\$146,949</u>	<u>\$111,581</u>
End of year	<u>\$184,825</u>	<u>\$146,949</u>

(The accompanying notes are an integral part of the statements)

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION
Madison, Wisconsin

Notes to Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Industrial Relations Research Association is presented to assist in understanding the Association's financial statements.

Organization

The Association is a not-for-profit organization. Its purpose is to provide publications and services to its members in the professional field of industrial relations.

The Association is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. However, net income from the sale of membership mailing lists is unrelated business income and is taxable as such.

Investments

Cash—money market represents the balance invested in money market accounts held at Randall Bank, Madison, Wisconsin and The Bank of Shorewood Hills, Madison, Wisconsin. Interest earned on the accounts has averaged 8% per annum during 1984 and 1985.

As of December 31, 1984, the Association owned three certificates of deposit which are stated at cost. The certificates are held by The Bank of Shorewood Hills, Madison, Wisconsin.

<i>Amount</i>	<i>Purchased</i>	<i>Interest Rate</i>	<i>Maturity</i>
25,000	3/22/84	10.10	3/22/85
25,000	9/20/84	10.45	3/21/85
30,000	11/19/84	9.10	5/19/85

Inventory

The Association's inventory of research volumes, proceedings and prior newsletters is carried at the lower of cost or market value.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided using the straight line method over an estimated five year useful life.

Membership Dues

Membership dues are assessed on a calendar year basis and are recognized on an accrual basis. Dues received for the upcoming 1985 and 1986 calendar years are reflected as deferred income on the balance sheet.

2—RESTRICTED GRANT FUNDS

During 1985, a \$4200 payment was received on a grant from the German Marshall Fund of the United States. These funds were to finance the attendance of four foreign participants at the Annual Meeting. Expenses incurred exceeded the payment by \$747. Of this overage, \$300 is expected to be repaid by the Fund and \$247 will be borne by the Association.

3—RESTRICTED FUND

At the Association's Executive Board Meeting held on April 17, 1985, the Board approved restriction of \$6000 to be applied to expenses of the regional meeting of the International Industrial Relations Association expected to be held in March, 1988.

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Conciliation, Arbitration, and Industrial Conflict: Discussion, by Kent F. Murrmann	1982A 224
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Dispute Settlement in the South, by John C. Shearer	1981S 550
Industrial Conflict, Will the Real, Please Stand Up? by Peter Feuille and Hoyt N. Wheeler	1981R 255
Impasse Procedures in the Public Sector, Alternative, by Clifford B. Donn	1981S 460
Impasse Resolution, Advances to: Discussion, by R. Theodore Clark, Jr.	1982S 508

Grievance Procedures

Beyond the Grievance Procedure: Factfinding in Employee Complaint Resolution, by Steven Briggs	1982S 454
Complaint/Grievance Resolution, Innovative Approaches to: Discussion, by LaVerne Rolle Alian	1982S 464
Grievance Administration Process: Discussion by P. H. Breslin and Dee W. Gilliam	1981A 329
Grievance Initiation and Resolution, The Relationship Between Industrial Relations Climate and, by Jeffrey Gandz and J. David Whitehead	1981A 320
Grievance Mediation: An Alternative to Arbitration, by Stephen B. Goldberg and Jeanne M. Brett	1982A 256
Grievance Mediation: A Route to Resolution for the Cost-Conscious 1980s, by Mollie H. Bowers, Ronald L. Sieber, and Lamont E. Stallworth	1982S 459
Grievance Procedure Effectiveness, Empirical Measures of, by David Lewis	1984S 491
Grievance Procedure Under Collective Bargaining, Refurbishing the, by Robert J. Calloway	1984S 481

Key to Volumes:

- 1980S - Proceedings of the Spring Meeting, Philadelphia
- 1980R - Collective Bargaining: Contemporary American Experience
- 1980A - Proceedings of the 33rd Annual Meeting, Denver
- 1981S - Proceedings of the Spring Meeting, Huntington, WV
- 1981R - U.S. Industrial Relations: A Critical Assessment
- 1981A - Proceedings of the 34th Annual Meeting, Washington
- 1982S - Proceedings of the Spring Meeting, Milwaukee
- 1982R - Industrial Relations Research in the 1970s: Review and Appraisal
- 1982A - Proceedings of the 35th Annual Meeting, New York City
- 1983S - Proceedings of the Spring Meeting, Honolulu
- 1983R - The Work Ethic—An Analytical View
- 1983A - Proceedings of the 36th Annual Meeting, San Francisco
- 1984S - Proceedings of the Spring Meeting, Cleveland
- 1984A - Proceedings of the 37th Annual Meeting, Dallas
- 1985S - Proceedings of the Spring Meeting, Detroit
- 1985R - The Response of Industrial Relations to Economic Change
- 1985A - Proceedings of the 38th Annual Meeting, New York

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Discharge Arbitration, The Science of, by John E. Drotning and Bruce Fortado	1984S	505
Does Final-Offer Arbitration Encourage Bargaining? by Henry S. Farber	1980A	219
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