

**INDUSTRIAL RELATIONS  
RESEARCH ASSOCIATION SERIES**

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

**DECEMBER 28-30, 1981  
WASHINGTON**

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**EDITED BY BARBARA D. DENNIS**

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## PREFACE

With the nation's capital being the scene of the 1981 Annual Meeting, it was not surprising that the topics of many of the sessions were federal policies and federal/state programs in the industrial relations field—employment policy, the minimum wage, equal employment, unemployment compensation, and the effectiveness of government programs. The workshop discussions, too, were on related subjects—the implications of the federal budget cuts, OSHA, and federal-sector bargaining.

But other important industrial relations topics, such as the implications of pension investment, the experience of labor-management committee, international industrial relations, and union organization research as well as the traditional Dissertation Roundtable, also were on the program.

Our distinguished speaker, Lane Kirkland, president of the AFL-CIO, after addressing some challenges facing the labor movement today, concluded by saying, "What we can do is that each generation of trade unionists has always had to do—to face up to the problems of inevitable change, to be vigilant for the new opportunities they present, to be diligent in representing the interests of the members, and to reach out to all who share our commitment to democratic values and to social and economic justice."

Rudolph A. Oswald, in his Presidential Address, also discussed current and interrelated economic problems facing the nation—rising unemployment, increasing poverty, and a worsening of the income distribution.

The Washington IRRA Chapter as well as President Oswald and his colleagues at the AFL-CIO were gracious hosts at the social hours. The Association is grateful to the local arrangements committee—Randolph M. Hale, Donald S. Wasserman, Ben Burdetsky, Jonathan Grossman, Jennifer N. Minamoto, Markley Roberts, John R. Serumgard, and Ronald M. Van Helden, for their generous contributions to the success of the meeting, and to the National Office staff, headed by Elizabeth Gulesserian, for their assistance in all facets of planning and management.

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.

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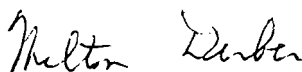
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If you are not already a member, we invite you to join by sending your membership application and dues payment. Inquiries regarding membership, meetings and publications should be addressed to the IRRA Office.

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Sincerely yours,



IRRA President 1982

# CONTENTS

Officers of IRRA	Cover	2
Preface		iii
IRRA Membership Information		iv

## I

### PRESIDENTIAL ADDRESS

Milton Derber, Chairperson

Wages, Inflation, and Collective Bargaining	RUDOLPH A. OSWALD	1
---	-------------------	---

## II

### DISTINGUISHED SPEAKER ADDRESS

Rudolph A. Oswald, Chairperson

Labor's Challenge in the 1980s	LANE KIRKLAND	9
--------------------------------	---------------	---

## III

### CONTRIBUTED PAPERS: EFFECTIVENESS OF GOVERNMENT PROGRAMS

Anthony L. Redwood, Chairperson

Worker Differences in the Receipt of Health and Pension Benefits: Extending the Analysis of Compensation Differentials	WESLEY MELLOW	16
From Conflict to Cooperation: A Joint Union-Management Goal-Setting and Problem-Solving Program	DAVID A. GRAY, ANTHONY V. SINICROPI, AND PAULA ANN HUGHES	26
CETA Prime Sponsor Organization and Performance	TREVOR BAIN AND MYRON D. FOTTLER	33
An Analysis of Compliance with Unemployment Insurance Earnings-Reporting and Job-Search Requirements	MATTHEW BLACK AND TIMOTHY J. CARR	41
Discussion	ROGER D. RODERICK ANTHONY L. REDWOOD	48 52

## IV

### DISSERTATION ROUNDTABLE

James W. Kuhn, Chairperson

The Growth of Teacher Bargaining and the Enactment of Teacher Bargaining Laws	GREGORY M. SALTZMAN	56
The Earnings of Immigrants in the American Labor Market	GREGORY DEFREITAS	58
Arbitral Reaction to <i>Alexander v. Gardner-Denver Co.</i> : An Analysis of Arbitrators' Awards, 1974-1980	STEPHEN D. OWENS	60
An Empirical Test of a Behaviorally-Oriented Negotiations Model in the Public Schools in the State of Washington	ALAN CABELLY	62
Discussion	RICHARD N. BLOCK	64
	GEORGE H. HILDEBRAND	67

## V

### SPECIAL MINIMUM WAGE ISSUES

Don Baker, Chairperson

The Case for Indexing the Minimum Wage	BRIGITTE SELLEKAERTS	70
Minimum Wages and Agricultural Employment: A Review of the Evidence	CURTIS L. GILROY	78
The Role of Minimum Wages in the Rural South	LEWIS H. SMITH	89
Discussion	PAUL OSTERMAN	98
	CLAIR VICKERY BROWN	100

## VI

### INDUSTRIAL RELATIONS IMPLICATIONS OF PENSION INVESTMENT

Richard M. Prosten, Chairperson

Collective Bargaining for Socially Responsible Investment of Pension and Welfare Fund Assets: Another Look at ERISA	ELLIOT BREDHOFF	102
Investment of Worker Funds: A Comparative International Perspective	JOCELYN GUTCHES	121



Setting Pension Investment Policies: Joint Control and Management Issues	DALLAS L. SALISBURY	130
Discussion	GLADYS W. GRUENBERG	137
	HERVEY A. JURIS	141

## VII

### SPECIFIC EXPERIENCES OF LABOR-MANAGEMENT COMMITTEES

Kenneth E. Moffett, Chairperson

The Retail Food Industry	PHILLIP E. RAY	145
The Health Care Experience	LAURENCE P. CORBETT	152
Discussion	BEN BURDETSKY	159
	JAMES W. DRISCOLL	161

## VIII

### DEVELOPMENTS IN EQUAL EMPLOYMENT FOR THE 1980s

Michele M. Hoyman, Chairperson

Pay Equity: An Emerging Labor Issue	WINN NEWMAN	166
The Access of the Foreign-Born to Jobs and Labor Market Protection in the U.S.	DAVID S. NORTH	174
An Empirical Analysis of the Filing of Discrimination Claims	MICHELE M. HOYMAN AND LAMONT E. STALLWORTH	179
Discussion	DAVID A. PIERSON	186
	GERALD M. KASSALOW	190

## IX

### INTERNATIONAL INDUSTRIAL RELATIONS: SELECTED TOPICS

Mahmood A. Zaidi, Chairperson

Collective Bargaining in Korea	MARIO F. BOGNANNO AND SOOKON KIM	193
The Public/Private Wage Differential in a Poor Urban Economy: A Summary	DAVID L. LINDAUER AND RICHARD W. SABOT	202

Human Capital and Earnings: Some Evidence from Brazil and Mexico	RICHARD U. MILLER AND MAHMOOD A. ZAIDI	207
Discussion	WILLIAM A. DOUGLAS	215
	JAMES ORR	218

## X

### CONTRIBUTED PAPERS: RELATIONS BETWEEN INDIVIDUALS AND ORGANIZATIONS

Allan D. Spritzer, Chairperson

A Preliminary Analysis of the Participation Rate and the Margin of Victory in NLRB Elections	RICHARD N. BLOCK AND MYRON ROOMKIN	220
Officer, Member, and Steward Priorities for Local Unions: Congruities, Differences	WALTER J. GERSHENFELD AND STUART M. SCHMIDT	227
The Relationships Between Union Member Preferences for Bargaining Outcomes, Union and Job Satisfaction	CRAIG A. OLSON	236
Attitudes, Perceptions, and Intentions to Vote in a Union Certification Election: An Empirical Investigation	STUART A. YOUNGBLOOD, WILLIAM H. MOBLEY, AND ANGELO S. DENISI	244
Discussion	HOWARD G. FOSTER	254

## XI

### ISSUES IN EMPLOYMENT POLICY

Charles B. Knapp, Chairperson

The Revival of Job Creation Programs in the 1970s: Lessons for the 1980s	VERNON M. BRIGGS, JR.	258
Is There Something Wrong with Labor Markets That a Federal Employment and Training System Could Fix?	DANIEL H. SAKS AND RALPH E. SMITH	266
Can We Legislate a Reasonable Employment and Training System?	NATHANIEL M. SEMPLE	274
Discussion	MICHAEL ARNOLD	278

## XII

### CURRENT CONTROVERSIAL ISSUES IN UNEMPLOYMENT INSURANCE

Wilbur J. Cohen, Chairperson

Introduction	WILBUR J. COHEN	282
--------------	-----------------	-----

Fund Solvency—Is Anyone Serious?	JOHN B. CROSIER	284
The Need for an Adequate Unemployment Compensation System	ARLEEN GILLIAM	288
Comments from the State Administrator's Point of View	PAT JOINER	294
Discussion	SAUL J. BLAUSTEIN	300

### XIII

#### GRIEVANCE ADMINISTRATION PROCESS

Richard B. Peterson, Chairperson

A Model for Research and Analysis of the Grievance Process	RICHARD B. PETERSON AND DAVID LEWIN	303
The Steward, the Supervisor, and the Grievance Process	STEVEN BRIGGS	313
The Relationship Between Industrial Relations Climate and Grievance Initiation and Resolution	JEFFREY GANDZ AND J. DAVID WHITEHEAD	320
Discussion	P. H. BRESLIN	329
	DEE W. GILLIAM	334

### XIV

#### CONTRIBUTED PAPERS: TRADE UNIONISM

Robert Ozanne, Chairperson

A Time Series Analysis of Union/Nonunion Relative Wage Effects in the Public Sector	WILLIAM J. MOORE AND JOHN RAISIAN	337
Union-Nonunion Wage Changes and Voting Trends in Union Representation Elections	THOMAS HYCLAK	344
The AFL-CIO's Political Records, 1974–1980	MARICK F. MASTERS AND JOHN THOMAS DELANEY	351
Changes in the Labor Relations Climate: The Evidence from NLRB Caseload	MARK D. KARPER	360
Discussion	WALLACE HENDRICKS	366
	BRUCE E. KAUFMAN	370

### XV

#### UNION ORGANIZATION RESEARCH

Thomas A. Kochan, Chairperson

Labor-Management Consultants in Union Organizing Campaigns: Do They Make a Difference?	JOHN LAWLER	374
---	-------------	-----

Organizing Low-Income Women in New Ways: Who, Where, and Why	KAREN S. KOZIARA AND PATRICE J. INSLEY	381
Discussion	CHARLES McDONALD	390

## XVI

### HUMAN RESOURCE IMPLICATIONS OF THE BUDGET CUTS

Sar A. Levitan, Chairperson

Fiscal Year 1982 Budget Reductions: Reconciliation and the Effects on Human Capital	LETITIA CHAMBERS	393
Human Resources Implications of the Budget Cuts	DONALD W. MORAN	400
Budget Watching as a Spectator Sport	PETER B. DOERINGER,	406
Human Resource Implications of Reaganomics	SAR A. LEVITAN	416

## XVII

### Minutes of Meetings in 1981

Executive Board Spring Meeting in Huntington	423
Executive Board Meeting in Washington	425
Audit Report for Fiscal 1981	431
Alphabetic List of Authors in 1981 Proceedings	Cover 3

## WORKSHOP SESSIONS

December 30, 1981

### OSHA: A Decade of Experience

Eileen B. Hoffman, Chairperson

Panel: George H. Cohen  
G. John Tysse  
Michael Goldberg

### Federal Sector Bargaining

John F. Leyden, Chairperson

Panel: Kenneth T. Blaylock  
Anthony S. Ingrassia  
Linda A. Lafferty

# I. PRESIDENTIAL ADDRESS

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## Wages, Inflation, and Collective Bargaining

RUDOLPH A. OSWALD  
*AFL-CIO*

Inflation is something described as America's number one problem. But today I'm afraid that rising unemployment, increasing poverty, and a worsening of the income distribution should be the real economic concerns.

A wrong analysis of inflation leads to wrong solutions—and, unfortunately, the Reagan Administration's analysis of America's economic problems adds up to the economic disaster of more unemployment and continued inflation.

Too many policy-makers and too many academic economists still cling to a version of the trade-off theory—the long-discredited notion that the way to stop inflation is to accept and even to promote high unemployment. Following the logic of this theory, high unemployment will make workers and their unions afraid to push for wage increases and reduce workers' bargaining power to the point that they will accept pay cuts. This further cuts consumer buying power and weakens demand, aggravating the recession.

The idea that lies behind this attack on inflation is essentially a simple-minded, tunnel-vision view that the cause of inflation is union wage push. That's just plain wrong.

What then are the real causes of *this* inflation?

Energy price increases were the biggest and the most obvious source of inflation. These increases were the result of the cartel policies of the major oil exporting nations and domestically of the decontrol policies and the extraordinary profits of U.S. oil and gas producers.

Tight money and high interest rate policies of the Reagan Administration and the nation's central bank, the Federal Reserve, have been another key source of inflation. These tight money, high interest rate

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policies pushed up the cost of housing, construction, consumer credit, private investment, and public investment in basic economic infrastructure.

The food price surges have been tied to unpredictable weather and international markets. Health and medical care costs rose at extraordinary rates because of the lack of a rational health care system.

The basic point is that inflation was produced by problems in basic sectors of the economy and by misguided monetary policy aimed at restricting aggregate demand. Instead this monetary policy pushed prices up throughout the economy while pushing the nation into a recession.

When unemployment jumped to 8.4 percent in November, the highest rate in six years, the Reagan White House informed the nation that "this is the price you have to pay for bringing down inflation." Unemployment is rapidly approaching 9 percent. Yet, the effect on inflation has been—and is expected to continue to be—only slight. Professor James Tobin of Yale has estimated that it would require five years of contraction, with unemployment rising to a level above 9 percent, for inflation to be reduced from 10 percent to 6 percent a year.<sup>1</sup>

Because of the ineffectiveness of current anti-inflation policies and the obvious failure of "supply side" tax-cuts based on tight money, union wages are once again being cast as the scapegoat for the persistence of inflation. One of the chief architects of the current recession is Paul Volcker, Chairman of the Federal Reserve Board. Realizing that the economic decline caused by tight money is having only a limited effect on inflation, he is trying to shift the blame for inflation from the monetary policy to wages. In September 1981, Volcker warned that success in ending inflation "will be related critically to the rate of productivity and wage increases." He said that wages are the crucial factor in keeping down costs and therefore prices. And in a classic case of reverse logic, the Fed Chairman declared that if we reduce wage costs, "we could look forward to combining reduced inflation with strong growth and favorable financial market conditions."<sup>2</sup> Thus, Mr. Volcker is making wage restraint the key determinant of the performance of the overall economy, the key weapon in the fight against inflation.

Wage controls are also being advocated in other quarters through a variety of devices ranging from compulsory arbitration to a tax-based incomes policy, all of which would undermine collective bargaining

<sup>1</sup> James Tobin, "Stabilization Policy Ten Years After," *Brookings Papers on Economic Activity* (1980:I), pp. 67-68.

<sup>2</sup> "Wage Restraint Held Essential Element in Campaign to Moderate Inflation," *Daily Labor Report*, Bureau of National Affairs, Inc., September 25, 1981, pp. A-9-10.

and not deal with the basic causes of inflation. All of those advocates focus only on wage and salary income and ignore all other income sources.

Any fair and effective fight against inflation, on the other hand, would directly attack the problem areas of high interest rates, energy, housing, food, and health care. Such a fight would also reverse the counterproductive tax and budget cuts which aggravate inflationary pressures. Unless these one-sided tax and budget policies that benefit primarily wealthy individuals and wealthy corporations at the expense of the workers and the poor are turned around, there can be no equity in an added-on, so-called "incomes policy."

In 1979, the AFL-CIO had agreed with the Carter Administration on an "incomes policy" that was based on an overall agreement on equitable economic policies.<sup>3</sup>

The AFL-CIO has proposed a detailed program to deal with high interest rates and those four specific inflationary forces of energy, food, housing, and medical care.

Lower borrowing costs are necessary to encourage expansion of the housing industry, investment in productive plant and equipment, and state and local public investment. Funds and credit should be selectively controlled and targeted for productive industrial development and needed housing expansion instead of being used for corporate mergers and takeovers or speculative actions without productive results.

Reducing inflation in energy requires maintaining controls on natural gas, continuing the authority to control oil prices, and rationing in time of need. Because oil companies evidently have found it more lucrative to buy other companies than to search for new sources of energy, conservation programs and the development of alternative energy sources should be encouraged by the government. The creation of a U.S. oil import agency would assure the nation an adequate supply of oil at a fair price.

To reduce food inflation, restrictions should be placed on the export of commodities in short supply. Foreign sales of U.S. grain should be handled by a National Grain Board, similar to the Canadian Wheat Board. Price support programs should be limited to small and moderate-sized farms.

Housing inflation can be moderated by funding government programs that increase supply, using below-market interest rate mortgages for low and moderate income buyers, and deterring condominium conversions in tight rental markets. The investment of union pension funds in long-term, fixed-rate mortgages should be encouraged.

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<sup>3</sup> "A National Accord, AFL-CIO *Federationist* (October 1979).

To reduce health care inflation, HMOs should be encouraged, and cost-reducing practices should be instituted. These include requiring second opinions before elective surgery and supporting health care planning to eliminate duplication of costly equipment and services. The entire health care system should be reformed through national health insurance.

The cause of the slowdown in the rate of inflation in 1981 is not lower wage increases but rather the halt in the inflationary push of oil prices, interest rates, and substantial moderation in food prices. Thus neither the rapid run-up in inflation nor the more recent slow-down in the Consumer Price Index is wage-related.

It is important to note that food, energy, and housing—all with insignificant increases in labor costs and rather negligible overall labor costs—make up nearly two-thirds of the CPI (63 percent). These items have been the real engine of inflation.

The traditional two-factor production function focuses solely upon capital and labor inputs. The large volume of purchases of energy and intermediate materials are netted out, leaving capital and labor as the basic factors of production. Therefore tremendous cost surges in energy—in no way determined by labor costs—are not directly incorporated in this approach. Using this two-factor model to evaluate inflationary trends, labor costs are weighted 65 percent. However, the rate of inflation has not been determined by trends in the costs of labor and capital, because the key role in the prices of these inputs was not related to the price of either labor or returns on new investment capital. In fact, industry paid 19 cents of every sales dollar for labor costs in 1980, the lowest amount in 26 years, according to a recent survey by Standard and Poor's Corporation.<sup>4</sup>

Furthermore, Data Resources, Inc. reports that capital cost increases have consistently exceeded labor costs over the past five years. For example, in 1980 labor costs rose 8.1 percent compared to an 11.3 percent rise for capital costs.<sup>5</sup>

Because prices have risen more rapidly than wages, workers' real earnings have declined and the distribution of income has become less equitable. Not only have workers' wages not been the initial source of inflation, but the lagged response of wages to price increases has failed to restore lost buying power. Workers have suffered a cut of 15 percent in their average after-tax buying power, their real pay, in the last three-and-a-half years. Between October 1980 and October 1981, workers'

<sup>4</sup> "Labor Cost Decline Seen," *New York Times*, December 16, 1981, p. D-5.

<sup>5</sup> Data Resources, Inc., *Data Resources U.S. Review* (November 1981), p. 1.110.



real spendable earnings<sup>6</sup> have decreased 3.6 percent. As of October 1981, however, real spendable earnings were 15 percent lower than in April 1978. Moreover, real spendable weekly earnings have never regained their pre-1973–1975 level. This decline in living standards also has affected all sectors of the economy, including basic steel and autos.

While union compensation increases have exceeded rises in nonunion compensation over the past five years, union increases have lagged behind the CPI. In 1979, for example, the average union wage adjustment was 9.1 percent, while the CPI rose 11.5 percent, and during 1980, union settlements averaged 9.9 percent while prices rose 13.5 percent.<sup>7</sup>

In sharp contrast executive salaries have exceeded the CPI.<sup>8</sup>

One group of workers that has been left behind, and will be left behind even further in 1982, are those earning the minimum wage. The last increase in the minimum wage in 1977 provided for automatic step increases from 1978 through 1981. The assumption was that wages and prices would increase during this period by 7 percent a year, and the built-in steps reflected this assumption. But this assumption proved to be too low, and minimum wage workers have fallen even farther behind than have other workers. And in 1982, no further automatic step is scheduled, and their condition will deteriorate even farther. One way to ameliorate this inequity would be to link the minimum wage to changes in the average wage level.

Some have tried to divert attention from the decline in the real spendable earnings of the average production worker by arguing that this decline has been offset by the increased number of earners in most households. This sidesteps the reality that workers' real wages have declined. Furthermore, 1980 U.S. Census data reveal that even with the increased incidence of multiple-earner households, median household earnings adjusted for inflation actually declined 5.5 percent from the 1979 level. While real average family income declined in all quintiles of the income distribution, the decline for the bottom fifth was more than twice as great as for the top fifth.

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<sup>6</sup> Average weekly earnings reduced by Social Security and federal income taxes applicable to a married worker with three dependents and then deflated by the CPI-W.

<sup>7</sup> U.S. Department of Labor, Bureau of Labor Statistics, *Current Wage Developments* (October 1981), pp. 42–44.

<sup>8</sup> For example, Sibson & Co. recently published the results of their survey of 500 companies, which revealed that executive pay leaped 12.3 percent this year. According to their survey, this was the largest rise in 17 years: *Wall Street Journal*, December 8, 1981, p. 1. Arthur Young and Co. also conducts a survey, which showed the salary levels for top executives increased by 14 percent in 1980. According to the Arthur Young company, executive compensation usually increases 25 percent faster than inflation (e.g., if prices rise 10 percent, executive compensation rises 12.5 percent): Daily Labor Report, October 1, 1981, p. A-5.

The increase in capital costs—largely interest payments ultimately paid out as income, generally to the affluent—and the big increases in executive compensation relative to workers' wages, have created greater inequity in the distribution of income. According to U.S. Census data, the trend toward greater equality in the distribution of income came to an abrupt halt in 1968. The wealthiest quintile increased its share of income from 40.5 percent in 1968 to 41.6 percent in 1980. The 20 percent of American families in the next to the lowest quintile suffered the greatest loss. These families, with incomes of \$10,300 to \$17,400 a year in 1980, saw their slice of the pie drop from 12.4 percent in 1968 to 11.6 percent in 1980. This group includes many of the nation's semi-skilled and unskilled workers, those who work in low-wage industries and generally the families who are the first to be victimized by inflation and recession.

The linkage between wage increases and price increases (or inflation) is not a simple or easy correlation. Prices are determined by a variety of factors, including monopoly power, target-profit pricing, so-called market or competitive pricing, and cost-based pricing. In theory, it is only the cost-based pricing strategies that will be affected in the short run by changes in labor costs.

Even the linkage between labor costs and wage changes is tenuous. As a matter of fact, the biggest factor increasing labor costs in 1982, particularly in manufacturing, will not be union-negotiated wage increases but rather recession-induced productivity losses.

High wage rates don't necessarily mean high labor costs. A number of studies have found that higher-paid workers were more productive than lower-paid nonunion workers.<sup>9</sup> Various explanations include the attraction of a union environment and union pay for higher quality workers, lower turnover and lower training costs, and consequently better personal relationships and worker morale.

Is it true that American workers are pricing themselves out of the market, relative to workers in other industrialized countries of the world? The fact is that the wages of American manufacturing workers have increased slower in the 1970s than in other major western countries. In terms of American dollars, between 1970 and 1980 hourly compensation increased 489 percent in Japan and 464 percent in Germany, compared to 128 percent in the United States. Even though these countries experienced faster productivity growth, their unit labor costs still

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<sup>9</sup> Charles Brown and James Medoff, "Trade Unions in the Production Process," *Journal of Political Economy* 86 (June 1978), p. 368; Kim B. Clark, "Unionization and Productivity: Microeconomic Evidence," NBER Working Paper No. 330 (March 1979); Steven G. Allen, *Unionized Construction Workers Are More Productive* (Washington: Center to Protect Worker Rights, 1979), p. ii.

rose faster than in the United States, according to BLS. During the 1970s, unit labor costs rose 192 percent in Japan, 252 percent in Germany, and only 78 percent in the United States.<sup>10</sup>

Thus, U.S. firms should be in a more advantageous labor cost position vis-à-vis major foreign counterparts in 1980 than in 1970. And while productivity rose faster in various other countries, the statistics indicate that the U.S. worker is still the most productive in the world.

But in 1981, the tight monetary policy pursued by the Administration and the Federal Reserve Board placed the American worker at a severe disadvantage. The high interest rates attracted foreign funds and led to a rise in the U.S. exchange rate by 20 to 25 percent against other major currencies. No change in U.S. wage rates could be expected to offset such counter-competitive monetary policy effects.

Some point a finger at cost-of-living adjustments (COLAs) in union contracts as a cause of inflation. But COLAs affect wages only *after* prices have increased, and the typical cost-of-living clause only recaptures 50 percent of the purchasing power lost to inflation.<sup>11</sup>

Escalator clauses are typically a quid pro quo for long-term agreements, which promote stability, and thus help in the fight against inflation.

In summary, inflation cannot be solved by recession, or by forcing an even further decline in workers' real purchasing power. Instead, we need to implement policies that address the structural problems that have produced such great food, energy, and housing price rises.

Today's inflation problem will not be solved by suppressing wages. Any "devil" theory of inflation that establishes wage increases as the "devil" is clearly unwarranted.

Today's inflation fight should deal with the factors responsible for inflation. Wages are not the villain; indeed, workers are the victims of the current inflation. Unless workers' real earnings increase, they and their families will not be able to buy the goods and services that the economy is capable of producing. The danger for the 1980s may well be the lag in real wage income and purchasing power for most Americans while a small elite continue to prosper. In such a two-tier economy characterized by massive inequality in income distribution, the lack of balance assures continued troubles for the economy.

The Reagan Administration's anti-inflation program is a thinly disguised attack on the jobs and the wages and the income of America's working men and women. The Administration's program of tax cuts,

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<sup>10</sup> U.S. Chamber of Commerce, International Trade Administration, *International Economic Indicators* (September 1981), pp. 64-65.

<sup>11</sup> This shortfall results from caps, corridors, inadequate COLA formulas, and delays between price and wage increases.

budget cuts, and tight money adds up to warfare against the disadvantaged and the poor, as well as on the working people of this nation. It is putting more people out of work and aggravates inflation. It is adding to inequity, unfairness, and divisiveness.

The tax cuts enacted in 1981 benefit mainly wealthy individuals and wealthy corporations. For most families with incomes up to approximately \$30,000, there is no real tax reduction, even by 1984. Just as "supply side" rhetoric was the "Trojan Horse" for OMB Director David Stockman to sell his new version of government support for the wealthy, so too is the wage-inflation cry the "Trojan Horse" for a trickle-down version of curtailing inflation.

Inflation is a complex problem that will not be solved by such simple prescriptions as high unemployment or clamping down on union wage settlements. The only program with any chance to succeed is one that recognizes and attacks the many structural factors underlying the inflationary process.

The basic principles behind the economic policies supported by the AFL-CIO are simple:

- Economic progress and social justice go together. Fairness and compassion are not in conflict with efficiency.
- Full employment is a moral, social, political, and economic imperative.
- The attack against inflation must focus on the true causes of inflation.

Inflation in America today is not caused by excessive government spending, nor can it be halted by cutting basic social programs and loading hardship on the weak and defenseless and tax breaks and tax loopholes on the rich. The tight monetary-high interest rate policies are aggravating inflation rather than curing it.

Restraining wages through government or engineered recessions diverts attention from the real causes of inflation and prolongs the adverse economic conditions. It also undermines free collective bargaining, the hallmark of a free society.

## II. DISTINGUISHED SPEAKER ADDRESS

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### Labor's Challenge in the 1980s

LANE KIRKLAND  
*President, AFL-CIO*

I appreciate this opportunity to share some thoughts with you about some of the challenges the labor movement will face in the 1980s.

I share with the late Sam Goldwyn the conviction that one should never prophesy, especially about the future. I see tomorrow only through a glass darkly, and my vision clouds rapidly with further projections of time.

Nevertheless, like everyone else here, I am often fascinated by the glib speculations on labor's future that enliven some journals. Unfortunately, I rarely find them useful in my line of work.

The stock lamentations about the dearth of "new ideas" are rarely, if ever, joined with any sign that the authors themselves have any more stirring or creative ideas than some variation on Taylorism or profit-sharing, notions that were already a bit moldy back when I quit going to sea for a living. To those critics, I can only respond with a plea, in the manner of one of Dickens's characters: "If you have any intelligence to convey, pray put me into the possession of it."

One challenge I do not expect American labor to face in the 1980s is that now confronting the workers of Poland. In that inspiring but hapless land, a military junta, fronting for the Soviet Union, has taken the reins of power from a disintegrating and discredited Communist Party, with the aim of crushing the first authentic and independent trade union movement to emerge in a Communist country.

Martial law has been declared.

General Jaruzelski holds Lech Walesa incommunicado. Polish workers have been murdered. Tens of thousands are reported detained in camps under harsh conditions. Communication lines have been cut off, a news blackout imposed, and censorship restored.

How has the West responded?

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The President—impeccably armed with evangelical anti-Communist credentials—slapped the Polish government on the wrist and wrote to Mr. Brezhnev asking him to “permit” a restoration of human rights in Poland. For the first time in my memory, an American President has implicitly recognized the Soviet Union’s right to “permit” or withhold from Poland the basic human rights affirmed in the Helsinki Accord.

From the business community came the voice of Thomas Theobald, senior vice-president in charge of Citibank’s international division, who asked: “Who knows which political system works? The only test we care about is: Can they pay their bills?”

Once again, the American corporate and financial community exposes itself as the soft underbelly of freedom.

Our European allies are not inclined to undertake economic sanctions against the Soviet Union, and most are only reluctantly suspending credit to the Polish junta—raising doubts whether we have, in fact, an alliance that can survive the test of events in Poland.

The reluctance to use the potent economic, political, and diplomatic weapons at our disposal is beguiled by wishful thinking and rationalized by the fallacy of false alternatives. The moderate, conciliatory speeches of General Jaruzelski are taken at face value in some quarters. Some are even tempted to seek redeeming value in his illegitimate, tyrannical regime—to see it as a preferred alternative to a Soviet invasion, as a stabilizing third force set between Moscow and an unruly Solidarity.

The AFL-CIO has informed the President that we do not accept this view. We have urged a series of strong measures—which I will not take the time to enumerate here—aimed at both the Polish government and the true authors of the crackdown, the Soviet Union. We hope the Administration will carefully weigh our proposals in the hours and days ahead. Time is running out.

We, for our part, will not rest until Lech Walesa and all other detainees are released, martial law is lifted, and negotiations are resumed between the Polish government and Solidarity.

Meanwhile, the Polish events put our labor problems in perspective: The President has used the full weight of his office to crush the air traffic controllers union, and no doubt there are others in our society who would like to see similar treatment meted out to the rest of the trade union movement.

But the AFL-CIO headquarters is not ringed by tanks, our Executive Council members are not in detention camps, we are free to assemble in our union halls, and we still have access to all communications channels.

No one was arrested for marching on Solidarity Day.

We are reminded by Poland of the unbreakable connection between trade union rights and human rights generally. Proven again is the raw truth that the destruction of freedom of association ends the capacity to defend and assert all other rights and freedoms.

If these observations strike you as somewhat afieid of our topic, they are not. I am suggesting that among the challenges facing labor in the 1980s is a shrinking and increasingly interdependent world in which, to quote Solzhenitsyn, there are no longer any internal affairs, and which will require more active and skillful trade union involvement in international affairs.

The AFL-CIO's reentry into the International Confederation of Free Trade Unions—with which we have cooperated closely in assisting Solidarity—is recognition of this fact of present and future life. So is our renewed participation in the ILO, and the Trade Union Advisory Committee to the OECD, not to mention our affiliates' activities in the International Trade Secretariats, the pursuit of bilateral relations with other national labor centers around the world, and the maintenance of an active trade union foreign service through our three institutes in Asia, Africa, and Latin America.

On the domestic scene, our fundamental challenge comes from the profound economic and technological changes that are reshaping our society. These changes generate pressures not only on the labor movement, but on all of our major institutions—the family, the university, religion, the press, the community, and government at every level.

Let those who suggest that labor's success in responding has been less than brilliant show us any other American institution that has tried one-half as hard and or done one-half as well.

In the last 20 years, all of these institutions have been judged to be in crisis. Institutional adjustments always lag behind the conditions that demand them. I would suggest that the more democratic the institution, the less dramatic its adjustments are perceived to be.

Take the universities—which, with all due respect, are inherently less democratic than trade unions. Hit in the 1960s by the postwar "baby boom," with all of its economic and cultural consequences, higher education expanded rapidly under stress, radical curricular experiments were initiated, and a political movement arose which proclaimed the university as the central agent of social change in American life.

The changes were dramatic and highly visible. As the baby boom receded, the turnabout was even more rapid. The expansion was reversed, federal aid curtailed, orthodoxy returned to the curricula, the campus upheaval simmered down, and the breeding ground for revolu-

tion became, once again, the training ground for future employment.

No such changes were perceived to be taking place in the labor movement in these years. To many commentators, this was proof that the labor movement had become stodgy, old-fashioned, and unresponsive to changing times. Inasmuch as the university had responded to the changing times by becoming "radicalized," labor's academic critics tended to see labor's problems as an insufficiency of militancy and social vision, an ultimately self-defeating preoccupation with narrow bread-and-butter issues, a selfish pragmatism, an indifference to the historical mission others had assigned to it.

One is reminded of Lenin's words in his tract entitled "What Is To Be Done." There he wrote:

We said that there could not yet be Socialist consciousness among the workers. This consciousness can only be brought to them from without. . . . The working class, relying solely on its own efforts, can only develop trade-union consciousness, i.e., it may by itself realize the need for combining in unions, to fight against employers, and to try to force the government to pass needed labor legislation, et cetera. . . .

The theory of Socialism however grew out of the . . . theories that were developed by the educated representatives of the propertied classes, the intellectuals. . . . The spontaneous labor movement is pure and simple trade unionism. Hence our task . . . is to combat spontaneity, to divert the labor movement, with its spontaneous trade-unionist tendencies . . . and bring it under the wing of revolutionary Socialism.

I believe these judgments were, and remain, irrelevant. They are irrelevant because they do not flow from an understanding of what the labor movement is; rather they misapply categories of thought developed in a different context.

An institution like the labor movement, representing a diverse cross-section of the American people, negotiating 180,000 collective bargaining agreements, and recruiting from workplaces and not from points on the ideological spectrum, is not likely to swing wildly from left to right and back again. An institution that fights for job security and for the economic means by which its members can participate fully in community life is not likely to advocate social upheaval and confrontation for its own sake as the appropriate response to social changes.

Late in the Carter years, after the Administration had wasted much precious time with academic nostrums such as tax-incentive pay-restraint schemes, jawboning, and guidelines divined and enunciated by various emigres from Brookings, the AFL-CIO negotiated with the



President and his agents an understanding that was entitled a "National Accord."

That Accord set forth the premises on the basis of which labor committed itself to participate fully in the common national effort to combat inflation, to distribute austerity and sacrifice equitably, and to resume the path of economic growth and revival, looking toward full employment. It proved that the American trade union movement, when reasonably approached and afforded the means and opportunity for full and effective participation, is prepared to share fully, in step with the rest of the national community, all the burdens of our times.

The Reagan Administration has taken all of the premises of that Accord, turned them upside down, and stood them on their heads. Nevertheless, they remain sound and valid and represent the only approach to our national economic and social problems that holds any real promise of long-term success. Labor remains ready, willing, and able to work with any Administration that will accept those principles and that approach. We shall, however, submit willingly to nothing that contravenes them.

If the radical misapprehensions of labor have receded with the times, they have left a residue which still influences less ideological commentaries.

There is still a tendency to see in labor's defeats evidence of labor's weaknesses rather than alarming signs of the growth of corporate power and increased employer resistance to unionism, signs that should trouble a democratic, pluralistic society.

Implicit in this tendency is the suggestion that if only labor had more power, more dedication, or a bolder strategy, or a deeper vision, or whatever, we would win more and lose less.

It has become fashionable to speak of labor's "declining clout" in politics, or of labor's inability to "deliver" the workers' vote. Here again we are haunted by the 1930s notion that there is a monolithic working class vote which can be delivered by a vanguard labor movement. Presumably, if we are doing our job right, Jimmy Carter would be in the White House today and the Congress would be in Democratic hands.

The fact is that even our very good political machinery could not compensate for the deep divisions in the Democratic liberal camp or for the political climate that brought Ronald Reagan to power.

This sort of reasoning—which exaggerates our power in order to deflate our egos—distorts the basic challenges confronting labor in this decade. It trivializes our problems—which are real and difficult—by

reducing them to subjective and ideological issues, and downplays society's stake in them.

If the decline in manufacturing jobs has contributed to the decline of union membership as a percentage of the workforce, it is not only the labor movement that has a problem. All of society needs to be alerted to the dangers inherent in the erosion of the nation's industrial base.

If the population shift to the Southeast and Southwest poses problems for us, it also poses problems for the Northeast and the Great Lakes region where central cities are rotting, unemployment mounting, communities decaying, and social problems proliferating.

The challenges we face are also opportunities.

The increased participation of women and minorities in the workforce is an opportunity for the labor movement to reach out to these workers and to address their special concerns. We are doing that.

The shift in population offers an opportunity for us to join in coalitions with groups in the Northeast which are adversely affected, and at the same time to accelerate our organizing efforts in the Southeast and Southwest. We are doing just that in Houston where some 40 international unions are now cooperating in a coordinated organizing drive.

In the two decades leading up to 1978, union membership in the public sector tripled, and I expect to see this trend continue in the 1980s.

Since 1978 there has been a sharp increase in the number of mergers among our affiliates, improving their efficiency and organizing capability. I expect that this trend, too, will continue, with the encouragement of the AFL-CIO.

The 1980s will see a major modernization of the labor movement's technical capacities for internal and external communication, enabling us to mobilize our forces more effectively around legislative issues and in political campaigns.

This year we will set up a labor institute for public affairs to provide our affiliates with expertise in telecommunication and other media skills, enabling us to mobilize our forces more effectively around public issues and in legislative, political, and organizing campaigns.

We cannot control or direct all of the social and economic trends, at home and abroad, that bear on labor's prospects in the 1980s.

We cannot, by ourselves, call forth new inventions or suppress labor-saving technologies.

We cannot command the snow to fall in the Sun Belt or the tropical breezes to warm New Hampshire in January.

We cannot by ourselves stop the concentration of corporate power,

alter the balance of international trade, or summon social responsibility from an Administration wedded to a different philosophy.

But *we* never said we could—alone.

What we can do is what each generation of trade unionists has always had to do—face up to the problems of inevitable change, to be vigilant for the new opportunities they present, to be diligent in representing the interests of the members, and to reach out to all who share our commitment to democratic values and to social and economic justice.

That's what we'll do in the 1980s, and I am confident we'll do it well.

Thanks for the use of the hall.

### III. CONTRIBUTED PAPERS: EFFECTIVENESS OF GOVERNMENT PROGRAMS

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#### Worker Differences in the Receipt of Health and Pension Benefits: Extending the Analysis of Compensation Differentials\*

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Fringe benefits have increased markedly in recent years and now account for roughly one-third of total compensation.<sup>1</sup> Despite this magnitude, relatively little is known about the distributional pattern of fringes across workers; most studies of the determinants of fringe benefits use firm or industry data.<sup>2</sup> While these studies provide much interesting and useful information, they have the same inherent limitation as studies that use firm or industry data to study wages. Only very limited controls for labor quality are available. Consequently, to the extent that observed determinants of fringes (unions, employer size, etc.) are correlated with worker characteristics influencing total compensation, the estimated effects of these factors will be biased.

A somewhat different problem is associated with empirical research on wage determination. Much of recent labor economics has involved examining wage differentials between specific groups of workers—blacks and whites, males and females, union and nonunion members.

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\* Points of view or opinions stated in this paper do not necessarily represent the position of the BLS or the views of its staff.

<sup>1</sup> See Chamber of Commerce of the United States, *Employee Benefits, 1977* (Washington: October 1978).

<sup>2</sup> See, for instance, Robert G. Rice, "Skill, Earnings and the Growth of Wage Supplements," *American Economic Review* 56 (May 1966), pp. 583-93; and Richard B. Freeman, "The Effect of Unionism on Fringe Benefits," *Industrial and Labor Relations Review* 34 (July 1981), pp. 489-509.

A common goal in these studies is to standardize the comparison for the numerous "other" factors that influence wages (education, experience, location, etc.). In principle, one would instead like to base these types of comparisons on a more complete measure of total compensation, one that includes fringes and the money value of working conditions.<sup>3</sup> Two generalizations about empirical research on worker compensation thus seem warranted. Existing research on the distribution of fringes has tended to control inadequately for labor quality. At the same time, existing research on wage determination has tended to ignore a sizable component of total compensation. Both of these limitations serve to frustrate a more complete understanding of compensation differentials among individual workers.

This paper represents a very rough attempt to address these limitations. New data on individual workers are utilized to answer the question: Who gets health and/or pension benefits as part of their compensation package? The data analyzed are from a special supplement to the May 1979 Current Population Survey (CPS). These data are well-suited to the task since they cover the entire workforce and provide worker-specific information on personal characteristics, union status, employer size, wages, and the receipt of health and pension benefits at the current job. Specific attention is given to the impact of personal characteristics, union membership, and employer size on the receipt of health and pension benefits.

### **Data and Estimating Framework**

The Current Population Survey is the monthly survey of 56,000 households used by the Bureau of Labor Statistics to estimate the official unemployment rate. In addition to questions on labor force status and personal characteristics, each monthly survey obtains information on hourly earnings (for workers paid by the hour), usual weekly earnings, and usual hours worked at the primary job from approximately one-fourth of employed survey participants. A special supplement to the May 1979 survey obtained information on a wide range of additional worker and job characteristics, including current job tenure, union membership status, employer size, and the receipt of health and pension benefits. For this analysis, the sample is limited to the 18,551 wage and salary workers providing responses to the supplemental questions in

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<sup>3</sup> In this paper I abstract from the problem of compensating wage differentials for undesirable characteristics of the workplace. For a comprehensive review and discussion of research on extending the measure of compensation in this direction, see Robert S. Smith, "Compensating Wage Differentials and Public Policy: A Review," *Industrial and Labor Relations Review* 32 (April 1979), pp. 339-52.

the May survey and the earnings questions in either the May or June surveys.<sup>4</sup>

Receipt of health insurance benefits is determined by response to the question: "Are you included in a group health insurance plan on your present job? Do not report insurance that pays *only* for accident or disability." Receipt of pension benefits is determined by the question: "Does your employer or union have a pension or other type of retirement plan for any of its employees?" If the answer is yes, respondents are then asked: "Are you included in such a plan?" (Respondents are told not to include Social Security, Railroad Retirement, or Veteran's pensions in determining their answers to the pension questions.) Under these definitions, 66 percent of the workers in our sample receive health benefits as part of their compensation package and 50 percent receive pension benefits.

These benefit receipt percentages are much lower than those typically found in studies based on firm or establishment data. For instance, the 1977 Chamber of Commerce study found that only 9 percent of the firms they surveyed reported no pension payments and less than 1 percent reported no health insurance payments. Similarly, a recent BLS study<sup>5</sup> found that in 1979 only 13 percent of workers in the establishments surveyed received no pension benefits and only 3 percent received no health benefits. The discrepancy is probably attributable to some combination of the following factors. Not all workers in a firm receive health and pension benefits, relatively new and part-time employees being particularly excluded.<sup>6</sup> In addition, surveys of firms typically exclude "small" employers (in most cases those with less than 100 employees). These small employers have much lower levels of benefit provision. Finally, employer surveys frequently exclude specific occupations and/or industries which may have low fringes.

The variables used in the analysis are described in Table 1. Columns 1-4 present mean values with the sample alternatively stratified by health and by pension benefit receipt status. A number of sharp differ-

<sup>4</sup> The CPS sample is composed of a rotating group of addresses. A particular address is in the sample four consecutive months, out eight, and then in four more months. Each month only those in rotation groups four and eight are asked the earnings questions. In the data file used in this analysis, responses to the earnings questions in the June CPS (for those in rotation groups three and seven in May) have been added to the individual data records. This matching process roughly doubles the number of participants in the May supplement for whom earnings data are available.

<sup>5</sup> Comparing responses to the two pension questions is instructive on this point. Although 50 percent of workers report they are included in an employer-provided pension plan, 61 percent indicate that their employer has a pension plan.

<sup>6</sup> U.S. Bureau of Labor Statistics, "Employee Benefits in Industry: A Pilot Survey," Report 615 (Washington: July 1980).

TABLE 1  
Logit Estimates of the Determinants of Receipt of Health and Pension Benefits<sup>a</sup>

Explanatory Variable	Mean Value by Fringe Receipt Status				Dependent Variable	
	Included in group health plan	Not in group health plan	Included in pension plan	Not in pension plan	HEALTH INSURANCE (1 if included in a group health plan at current job, 0 otherwise; mean = .60)	PENSION PLAN (1 if included in a private pension plan at current job, 0 otherwise; mean = .50)
<i>NONWHITE</i> (1 if nonwhite, 0 otherwise)	.09	.10	.09	.10	— .117 ( 9.98) — .022	— .156 ( 2.16) — .039
<i>FEMALE</i> (1 if female, 0 otherwise)	.37	.57	.35	.52	— .340 ( 1.62) — .064	— .276 ( 5.13) — .069
<i>EDUCATION</i> (years of formal education)	12.98	11.96	13.19	12.10	.278 ( 6.28) .052	.307 ( 4.65) .077
<i>(EDUCATION/10)</i> <sup>2</sup>	1.76	1.50	1.81	1.53	— .583 ( 4.64) — .109	— .664 ( 2.92) — .166
<i>JOB TENURE</i> (years at current job)	8.14	3.23	9.68	3.34	.178 (11.34) .033	.224 (14.39) .056
<i>(JOB TENURE/10)</i> <sup>2</sup>	1.40	.40	1.72	.42	— .307 (11.01) — .057	— .455 (18.37) — .114
<i>OTHER EXPERIENCE</i> (age- <i>EDUCATION</i> - <i>JOB TENURE</i> -6)	10.76	13.20	10.65	12.48	.073 ( 5.55) .014	.092 ( 6.48) .023

TABLE 1—Continued

(OTHER EXPERIENCE/10) <sup>a</sup>	2.26	3.64	2.15	3.29	— .066 ( 4.26) — .012	— .113 ( 6.59) — .029
(EDUCATION x JOB TENURE)/100	1.04	.38	1.25	3.92	— .343 ( 3.18) — .064	— .111 (10.35) — .028
(EDUCATION x OTHER EXPERIENCE)/100	1.29	1.48	1.31	1.40	— .479 ( 6.15) — .090	— .441 ( 5.20) — .110
UNION (1 if union member at current job, 0 otherwise)	.31	.07	.38	.08	.771 (11.67) .144	1.284 (21.96) .321
PERCENT UNION (in 3-digit industry)	.23	.07	.24	.16	— .220 ( .93) — .041	— 1.144 ( 5.61) — .286
PART-TIME (1 if works fewer than 35 hours per week, 0 otherwise)	.07	.44	.07	.32	— 1.663 (30.26) — .311	— 1.096 (17.30) — .274
Hourly Wage	7.10	4.49	7.58	4.89	.126 (13.69) .024	.094 (11.77) .024
Employer Size: <sup>b</sup> Small (25-99)	.14	.15	.11	.18	1.107 (17.66) .200	.917 (13.54) .229
Medium (100-499)	.16	.10	.16	.12	1.142 (21.35) .264	1.500 (22.00) .375
Large (500-999)	.07	.03	.07	.04	1.696 (16.74) .317	1.868 (20.01) .469



TABLE 1—*Continued*

XLarge (1000+)	.50	.17	.59	.19	1.689 (27.71) .316	2.223 (36.61) .557
Industry:						
Mining/Construction	.07	.07	.06	.07	.141 ( 1.09) .026	.86 ( 5.99) .216
Durable goods manufacturing	.19	.05	.20	.09	1.100 ( 8.41) .206	1.04 ( 7.63) .259
Nondurable goods manufacturing	.11	.05	.11	.07	.770 ( 6.00) .144	.88 ( 6.44) .220
Transportation and public utilities	.09	.04	.09	.05	.626 ( 4.25) .117	.75 ( 4.92) .188
Wholesale and retail trade	.15	.30	.11	.29	.232 ( 2.48) .043	.27 ( 2.32) .068
Finance, insurance and real estate	.06	.05	.06	.06	.468 ( 4.00) .088	.69 ( 5.20) .172
Services (except private household)	.23	.29	.26	.24	.167 ( 1.79) .031	.88 ( 7.58) .219
Public administration	.08	.03	.10	.02	.409 ( 3.15) .077	2.20 (14.59) .551
Occupation:						
Professional/technical	.21	.11	.24	.11	.441 ( 4.94) .083	.450 ( 4.89) .113

TABLE 1—Continued

Managerial	.12	.05	.12	.08	.655 ( 6.75) .123	.28 ( 2.81) .070
Sales	.05	.08	.37	.08	.221 ( 2.11) .041	.25 ( 2.10) .061
Clerical	.20	.20	.20	.21	.711 ( 9.59) .133	.55 ( 6.21) .137
Craftsman	.15	.10	.15	.12	.380 ( 4.20) .071	.28 ( 2.95) .071
Operatives, except transport	.13	.08	.11	.11	.320 ( 3.26) .060	.11 ( 1.10) .027
Transport operatives	.04	.04	.03	.04	.152 ( 1.20) .029	.35 ( 2.60) .088
Laborers	.04	.06	.03	.06	.131 ( 1.18) .025	.20 ( 1.56) .049
Sample Size	12,391	6160	9274	9277	18,551	18,551
$\chi^2$ (d.f.)					8,711 (42)	10,654 (42)

<sup>a</sup> Data are from a matched file of the May and June Current Population Surveys for 1979. Included in the sample are all wage and salary workers responding to questions on earnings, employer size, and fringe benefit receipt. Reported coefficients are maximum likelihood estimates of the parameters of a logit model. Also reported are the asymptotic *t*-statistics and derivatives (at sample means) respectively. The estimated coefficients indicate the change in the odds of receiving the indicated fringe benefit for a one-unit change in an explanatory variable, and the derivatives reveal the marginal effect of a change in an explanatory on the absolute probability of receiving benefits. Also included as explanatory variables are 2 SMSA and 3 Region dummies.

<sup>b</sup> Employer size is number of persons employed at all locations.

ences are readily apparent. Female, low-tenure, and part-time workers have much lower receipt percentages. Union workers and those working for large employers have much higher receipt percentages. Wages are positively associated with receipt of benefits, and sharp differences are observed among industries.

To examine the independent impact of these various factors, logit analysis is used to estimate two receipt-of-benefit equations. The logit formulation is adopted in order to account for the restricted nature of the dependent variable.<sup>7</sup> The probability that individual  $j$  receives fringe  $i$  is assumed to be given by

$$\Pr(\text{Fringe}_i) = \frac{e^{\beta'X_j}}{1 + e^{\beta'X_j}}$$

where  $X_j$  is the  $j$ th individual's vector of explanatory variables.

With the exception of the employer-size variable, the explanatory vector is quite similar to that typically used in cross-section wage regressions. Note, however, that current job tenure and wage are included as explanatory variables even though they are jointly determined with the receipt of health and pension benefits. Their inclusion represents an attempt to net out of the estimated impact of variables such as sex, union membership, and employer size any indirect effects operating through these two important channels.

## Results

Maximum likelihood estimates of the health and pension equations are reported in columns 5 and 6 of Table 1. As noted, the estimated coefficients indicate the percentage change in the odds of receiving the indicated benefit for a unit change in an explanatory variable, and the derivatives reveal the marginal effect of a change in the independent variable on the absolute probability of receiving the benefit, in the vicinity of sample means.

The estimates indicate that several major factors are associated with dramatic shifts in the probability of receiving benefits. Union members and those working in large firms have sharply higher benefit-receipt levels. Based on the derivative calculations, the absolute probability of receiving health (pension) benefits is .144 (.321) higher for union members. Regarding employer size, there is an increase of .200 (.229) in the absolute probability of health (pension) benefits associated with

<sup>7</sup> For a discussion of the logit framework, see Marc Nerlove and S. J. Press, "Univariate and Multivariate Log-Linear Logistic Models," Report R-1306-EDA/NTH, The Rand Corporation, 1973.

the first size category (25-99); moving to the largest size category increases the absolute probability of benefits by .316 (.557). Because the mean of the pension variable is smaller than that of the health variable (.50 versus .66), these estimates imply that the relative impacts of union membership and firm size are greater on the probability of receiving pension than health benefits.

Current job tenure and wage are both associated with an increased likelihood of health and pension benefits. An increase in job tenure from 5 to 15 years, for instance, is associated with an increase of .135 (.297) absolute probability of health (pension) benefits. A \$5 increase in the hourly wage is associated with an absolute increase of .120 in the probability of both health and pension benefits.

Sharp drops in the probability of receiving benefits are encountered by part-time workers. The estimated decline in the absolute probability of health (pension) benefits is .311 (.274). Given the large differences noted earlier in the comparisons of means, being female has a surprisingly modest negative impact on the probability of receiving benefits. Evidently, controlling for job tenure, part-time status, wage, industry, and occupation accounts for much of the difference between males and females in the probability of receiving benefits.<sup>8</sup>

The absolute probability of receiving both health and pension benefits is markedly higher in manufacturing and transportation and public utilities. In three industry groups, finance, insurance and real estate, services (except private household), and public administration, there is a modest increase in the probability of health benefits but a substantial increase in the probability of pension benefits. The extreme example is public administration with an estimated absolute increase in the probability of pension benefits of .551. (The excluded industry is private household workers and agriculture).

The estimated impacts of the occupational status and location variables can be briefly summarized. Occupational status has a much smaller estimated impact than industrial status. The largest change in the absolute probability of benefits is an increase of .123 in health benefits for managers and a .137 increase in pension benefits for clerical workers. (The excluded occupation is service workers.) The location variables (region and SMSA dummies) have no systematic influence on the receipt of benefits.

<sup>8</sup> If the wage variable is excluded from the set of explanatory variables, the estimated impact of being female on the probability of receiving benefits increases by roughly 50 percent. Changes in the estimated impacts of other factors are much more modest; typically, the increase in estimated impact (in absolute value terms) is about 10 percent.

## Conclusions

This paper has examined the receipt of health and pension benefits among a nationally representative sample of wage and salary workers. Compared to earlier studies, the analysis has the major advantage of including a range of worker-specific measures of personal *and* job characteristics as explanatory variables. The analysis has the obvious limitations that it examines only selected fringes, albeit probably two of the most important, and that the fringe variables are only dummies indicating receipt instead of a measure of their dollar value.

The reported estimates indicate sharp differences among workers in the likelihood of receiving health and pension benefits as part of the compensation package. Other things equal, receipt of benefits is much higher among full-time and long-tenure workers, union members, and those working in large firms. These are all factors which have also been consistently observed to have important independent positive impacts on wages. Moreover, it appears that the estimated impacts of these factors are somewhat greater in the fringe benefit equations than in conventional wage regressions.<sup>9</sup> That specific factors have different proportional impacts in the determination of fringes and wages suggests that accounting for fringes is important in making compensation comparisons among workers.

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<sup>9</sup> These differences are also observed if the data are used to estimate wage and "total compensation" equations (see Wesley Mellow, "Employer Size and Wages," *Review of Economics and Statistics*, forthcoming). In the "total compensation" equation, the dependent variable is expanded by adding to log wage the economy-wide average expenditure (as a percent of wages) on health and/or pension benefits for workers reporting they receive benefits at their current job. The explanatory vector is the same as in the fringe equations except for the exclusion of wage. Moving from a log wage to a log "total compensation" regression, the estimated impact of union membership increases by about 10 percent, while that of firm size increases by almost 50 percent.

# From Conflict to Cooperation: A Joint Union-Management Goal-Setting and Problem-Solving Program\*

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Conflicts between labor unions and employers have existed for more than a century in this country. Over the years scholars, practitioners, and legislators have created and utilized a variety of conflict-resolution methods and models in attempts to minimize disruptive labor disputes and to promote business and industrial peace. These conflict-resolution techniques have included conciliation, mediation, fact-finding, boards of inquiry, and arbitration. In most cases the applications of these techniques have taken place voluntarily, but under certain circumstances they have become compulsory. Despite the many successes of these techniques, there is still a need in many situations to move from a crises-oriented (or strongly adversarial) conflict-resolution approach to a relationships-oriented (or accommodative and cooperative) approach. Such an approach has been available through the Labor-Management Relationships-by-Objectives (RBO) program of the Federal Mediation and Conciliation Services (FMCS). This paper will (1) briefly describe this union-management relations improvement program, (2) provide some evaluative evidence concerning its degree of success, and (3) offer comments about the program's future.

## **Description of the RBO Program**

The RBO program is an intensive process-oriented preventive media-

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tion approach wherein the conflicting parties, with the assistance of federal mediators, seek to change a bitter strike-prone, conflict-ridden union-management relationship into an acceptable, constructive association.<sup>1</sup> In many respects the RBO program is an excellent example of a structured and systematic approach to changing the attitudes of the parties as conceptualized in the Walton and McKersie attitudinal structuring model.<sup>2</sup>

Considerable resemblance can be found between RBO and the much utilized approach and concepts of Management-by-Objectives (MBO). However, RBO probably has greater similarities to the union-management intergroup laboratory development application of Blake, Mouton, and Sloma.<sup>3</sup> The intergroup laboratory involved a systematic attempt to reduce the intense hostility between an employer and an international union and move the relationship from one of antagonism to one of constructive problem-solving through intragroup image clarification and diagnosis and intergroup team building. In addition to the RBO's focus on intergroup team building, the program utilizes several other intervention techniques of organization development (OD); these include the confrontation meeting, role negotiation, process consultation, and coaching and counseling.

The RBO program consists of four phases: (1) problem solving and goal setting, (2) action planning and programming, (3) implementation of plans and programs, and (4) periodic review and evaluation of progress toward goal accomplishment. Phases (1) and (2) take place off site (neutral location) and involve an intensive three-day series of sessions. Ten to 15 persons from each conflicting party attend these sessions along with three to five mediators. The union and company participants occupy different positions from various levels within their respective organizations.

After several separate and joint group sessions involving team concept and image development, group image exchange, and creation of a joint image through mutual understanding in the initial phase, the union and management participants focus on joint problem-defining, generating alternative problem solutions, and formulating goals designed

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<sup>1</sup> Federal Mediation and Conciliation Service, "Causes of Industrial Peace Revisited: The Case for RBO," paper presented at New Dimensions in Collective Bargaining, Los Angeles, November 18-19, 1976, mimeo.

<sup>2</sup> Robert E. Walton and Robert B. McKersie, *A Behavioral Theory of Labor Negotiations* (New York: McGraw-Hill Book Co., 1965).

<sup>3</sup> Robert R. Blake, Jane Srygley Mouton, and Richard L. Sloma, "The Union-Management Intergroup Laboratory: Strategy for Resolving Intergroup Conflict," in *The Social Technology of Organization Development*, eds. W. Warner Burke and Harvey A. Hornstein (Fairfax, Va.: NTL Learning Resources Corp., Inc., 1972), pp. 101-26.

for improving the relationship of the parties, the performance of the company, and the representation function of the union. The mutual problem and goal statements usually fall into five areas of concern: (1) union-management communications, (2) grievance handling procedures and outcomes, (3) supervisor and steward training needs, (4) attitudes and practices of management, and (5) attitudes and practices of the union. Nearly two days are necessary for problem solving and goal setting with the third day devoted to developing joint plans and programs of action for improvement. Implementation of plans takes place quickly after the three-day series of meetings, with FMCS personnel returning periodically (at approximately 90-day intervals) to review and track improvement progress.<sup>4</sup>

### **RBO Evaluation Study**

During the summer and fall months of 1977, the authors engaged in an evaluation project to determine whether the RBO program had been an effective third-party intervention for resolving union-management conflict and improving the union-management relationship. Much of this research effort focused on the four primary RBO phases of (1) problem solving and goal setting, (2) action planning and programming, (3) implementation, (4) review and follow-up, and on various characteristics of the union-management relationship.

Some of the RBO program aspects identified for investigation included: (1) general clarity of goals, (2) goal-setting within as well as between the parties, (3) feasibility of accomplishing goals, (4) individuals and groups involved within and between the parties, (5) changes in rules, practices, and procedures necessary for carrying out the program, (6) performance criteria or standards for program success, (7) permanency of improvements and commitment to continuation of the program, and (8) forms or methods of success reinforcement. Additionally, an effort was made to ascertain whether any significant perceptual and attitudinal changes had taken place along various dimensions of the union-management relationship. In short, the thrust of the evaluation project was to determine whether the union-management relationship had improved, remained unchanged, or deteriorated as a result of the RBO program.

Five evaluation sites were selected by the Federal Mediation and Conciliation Service. These RBO program locations varied by (1) industry, (2) union, (3) firm size, (4) employment mix, and (5) anticipated success-failure experience with the RBO program. While

<sup>4</sup> John J. Popular II, "Relationships by Objectives," in *Breakthroughs in Union-Management Cooperation*, eds. Joseph A. Loftus and Beatrice Wolfish (Scarsdale, N.Y.: Work in America, Inc., 1977), pp. 40-43.



site characteristics differed, all the union-management relationships had experienced very turbulent times during the two to three years preceding the RBO programs.

### **Research Procedures and Data Collection**

Managerial employees, union officers and members, Federal Mediation and Conciliation personnel, and various private reports and documents constituted the primary sources of data for the evaluation. Data-gathering devices included questionnaires, focused interviews, and examinations of various organizational documents. A lengthy survey instrument was developed and used (after revisions) which contained several sections with items in each section presented as statements. A seven-point ordinal scale with a common response set was attached to each statement; the scale and response set resembled a Likert-type of measuring device with response descriptors ranging from strongly agree to strongly disagree.

While the questionnaire was designed to obtain perceptual and attitudinal data concerning the union-management relationship and RBO program results, the schedule of interview questions was intended to elicit factual (hard) information along with some perceptual-attitudinal (soft) data. Thirty-nine interview questions were used.<sup>5</sup>

Unpublished and private documents and reports examined by the investigators included (1) the FMCS training manual for the RBO program, (2) portions of mediator RBO files, (3) company organization charts, (4) labor-management contracts, (5) goal and action step documents of RBO programs, (6) memos and letters of RBO correspondence, (7) minutes of union-management RBO meetings, and (8) grievance summary reports.

Most of the information for the evaluation study was gathered directly from the RBO parties through site visitations. One hundred and four private interviews were conducted and 74 survey instruments personally administered by two members of the research team; 45 managerial employees and 29 union officials completed the questionnaire.

### **Findings of the Evaluation Study**

Questionnaire data were analyzed by computing the means of the management and union participant responses to each item; these means were then compared to determine the existence of significant differences between management and union reactions to each item. Information

<sup>5</sup> Anthony V. Sinicropi, David A. Gray, and Paula Ann Hughes, *Evaluation of the Federal Mediation and Conciliation Service's Technical Assistance Program in Labor-Management Relations by Objectives (RBO)*, Federal Mediation and Conciliation Service, 1978, unpublished.

gathered from the interviews was used to assist in the interpretation of questionnaire responses.

Table 1 contains the means of management and union responses to the seven-point scale of selected questionnaire items. Items included in the table are those which attempted to capture overall experience with the RBO program, certain characteristics of the agreed-upon objectives, and some of the RBO outcomes. Additionally, some of the items reflect elements of the "hierarchy of important factors in union-management relations" as uncovered in a U.S. Civil Service Commission study<sup>6</sup> and researched by Martin and Biasatti.<sup>7</sup>

TABLE 1  
Union and Management Response Means  
for Selected Questionnaire Items

Questionnaire Item	Management Mean N = 45	Union Mean N = 29	t-Value
1. RBO goal accomplishment very feasible	3.3111	3.4483	0.37
2. RBO goals acceptable	2.9111	2.4138	1.70
3. RBO goals clearly stated	2.6000	2.2069	1.43
4. Company strongly emphasized RBO goal achievement	2.9111	4.1724	3.12 <sup>a</sup>
5. Union strongly emphasized RBO goal achievement	4.1333	2.0690	8.12 <sup>a</sup>
6. Company follows through on its RBO agreements	2.0444	4.6897	6.43 <sup>a</sup>
7. Union more cooperative since RBO began	3.0667	2.2069	2.61 <sup>a</sup>
8. RBO positive impact on grievance handling	2.7778	2.3793	1.18
9. RBO successful and worthwhile	3.1556	2.5862	1.45
10. Manager-Union Officer relationship improved	2.9778	2.5172	1.27
11. Union-Company relationship is very good	3.4889	3.3103	0.47
12. Foremen very knowledgeable about contract	3.7556	4.8966	2.94 <sup>a</sup>
13. Stewards very knowledgeable about contract	3.6222	2.9655	1.74
14. Important to have labor relations policies	1.8222	2.1379	1.11
15. Mediator performance very effective	2.2667	1.7586	1.60

<sup>a</sup> The response difference was described as "minor" if the difference between means was less than one point; "medium" or "moderate" was the designation for a difference of less than two points, but greater than one point; and "substantial" referred to a difference of more than two points. Application of the *t*-test resulted in a significant difference ( $p < .05$ ) in means when the means were separated by more than one-half point on the scale.

<sup>6</sup> U.S. Civil Service Commission, *Elements of Success in Federal Labor-Management Relations* (Washington: Office of Labor-Management Relations, 1974).

<sup>7</sup> James E. Martin and Lawrence L. Biasatti, "A Hierarchy of Important Elements in Union-Management Relations," *Journal of Management* 5 (Fall 1979), pp. 229-40.

Of the 15 items displayed in the table, two statements (5 and 6) revealed substantial differences in responses, two (4 and 12) showed moderate differences, and for the remaining 11 statements minor or insignificant differences were obtained.

Items 1, 2, and 3 reflected various characteristics of the RBO goals and objectives. As indicated by the response means there was close agreement between the parties with respect to the feasibility, acceptability, and clarity of objectives. Interview comments supported these findings, although many union and management respondents felt that certain problems could not be solved and objectives reached within the time frame (and schedules) agreed upon. Responses to item 6 were obviously polarized. Managers tended to agree with the statement and union respondents indicated slight disagreement; the difference between the means was 2.65 points. Interview remarks provided support for this difference of views. Many union RBO participants felt that the company had not followed through on some of its RBO commitments, whereas many company respondents were of the opinion that the company had carried out the changes it had pledged to do.

Items 4 and 5 reflected the importance the two parties attached to reaching the agreed-upon goals of the RBO program. Managers slightly agreed that the company strongly emphasized RBO goal achievement while union respondents were neutral to the statement; the difference was of a moderate degree. Unionists agreed with the statement that the union had placed great importance on RBO success and managers were neutral to the statement, a difference defined as substantial. From the interviews, each party felt that the other party was less committed and had worked less aggressively in attempting to effect RBO action plans and progress toward RBO goal accomplishment. Managers generally felt that the company was giving substantially more than the union and unionists felt that the company should have given more and been the initiator in implementing many of the RBO action steps.

With exception of item 12 the remaining items of Table 1 yielded minor or insignificant differences in union and management responses with the means of both groups falling into the slightly agree to agree portions of the scale. Union and company RBO participants felt that (1) the program had been reasonably successful and worthwhile, (2) grievance handling had improved, (3) foremen and stewards were more knowledgeable of contract provisions, (4) the union had become more cooperative, (5) specific labor relations policies were important, (6) better relationships existed between managers and union officials, and (7) although the company-union relationship was certainly less than some ideal relationship, it had greatly improved since prior to

the RBO program. When comparing items 12 and 13, union and company respondents felt that union stewards possessed more contract knowledge than supervisors.

Respondents from both parties reacted very favorably to item 15 which dealt with the effectiveness of mediators' efforts. As a whole, union RBO participants reacted more positively to this and other mediator performance statements. However, during many of the interviews, managers offered as much praise for the mediators' performance as did union individuals. The most frequently used adjective by interviewees to characterize the statements and actions of mediators was "excellent."

### **Discussion and Conclusions**

Overall impressions and findings indicated the program has been worthwhile. Its strengths appeared to be centered around the three-day intensive RBO sessions of problem solving, goal setting, and action planning. Union and management commitment and mediator expertise were appraised as being very high at that stage. Changing role relationships and positive attitudinal changes seemed to accompany the identification of problems. The parties felt that a certain stability in their relations began to occur as a result of the RBO effort and the beginning of a new labor-management association was initiated with the program. Certain other tangible evidence of success surfaced: (1) the level of grievance activity lessened with substantive complaints rather than political grievances becoming the norm; (2) plant morale appeared to improve; (3) productivity improvements were experienced; and (4) subsequent contract negotiations appeared to go more smoothly with agreements being reached early at two locations.

The evidence, even though after-the-fact in nature, does lead to the conclusion that the RBO program has been at least a partial success. Although the program is very process-oriented, it can lead to substantive improvements in the relationship through contract changes, alternative organizational arrangements for negotiating contracts, and more effective structural designs for administering labor agreements. With continued application and refinement of the three-day retreat, greater attention devoted to review and follow-up, and more frequent booster-shot mechanisms to produce successive cycles of program reinforcement, labor-management relations by objectives may become a firmly established technique for salvaging very poor and conflict-ridden union-management relationships.

# CETA Prime Sponsor Organization and Performance\*

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Evaluations of employment and training programs have concentrated primarily on estimating the aggregate impact of particular manpower programs.<sup>1</sup> Few attempts have been made to compare the performance of individual manpower agencies, to measure the relative effectiveness of different deliveries of similar services (i.e., large and small CETA agencies), or to examine the effects of different types of deliverers (city, county, consortium, or balance-of-state). Yet it is these types of comparisons that the national administration and Congress will be called upon to make when the Comprehensive Employment and Training Act of 1973 (CETA) is examined for reauthorization in 1982.

In addition, the types of evaluations previously conducted have often concentrated on either participant characteristics or local labor market characteristics to explain the performance of manpower programs. CETA legislation requires that particular segments of the population (youth, females, minorities, veterans) be served and the number and type of job openings are related to local economic conditions. Local prime sponsors, for these reasons, often maintain that those variables that affect the success of their programs are beyond their control and that the evaluations of performance based on the usual indicators such as placement rates, increased earnings, and cost per placement should be treated with great caution. Unfortunately, this approach neglects the effects that internal prime sponsor management can have on agency performance. By concentrating on the nonmanipulable elements of the context, such as participant characteristics and economic conditions, prime sponsors neglect those manipulable elements which would affect their potential for good program performance.

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<sup>1</sup> Reviews of these studies are in Charles R. Perry, Richard Rowan, Bernard E. Anderson, and Herbert R. Northrop, *The Impact of Government Manpower Programs* (Philadelphia: Industrial Research Unit, Wharton School, University of Pennsylvania, 1975).

There are no obvious direct relationships between the organization (structural) characteristics and managerial (process) characteristics of CETA prime sponsors and any particular performance indicator. There is a large body of research in the management literature which deals with the relationship between these characteristics and various micro- and macro-level criteria.<sup>2</sup> The only general conclusion is that the relationship depends upon what structural (size, authority, structure) or managerial (turnover, staffing patterns) variables one looks at, the context in which the organization functions (technology, environmental stability), and the effectiveness criteria that are chosen (profitability, quantity, or quality of output).

This paper has two objectives: (1) to examine the performance of local manpower agencies, and (2) to test the effects of organization characteristics on the performance of CETA prime sponsors where performance is measured by efficiency and effectiveness indicators (see Table 1).

The manpower program examined in this paper is Title VI, the public service employment (PSE) component of CETA. The primary function of PSE is to create jobs in the public sector in order to ease the impact of high unemployment. The two other major objectives are to provide useful public services and to help disadvantaged workers become job-ready and find and hold permanent employment. PSE does not provide for specific job training. The Title VI program was chosen for investigation here because several researchers have focused on the PSE program.<sup>3</sup> However, none of these other authors deals with the impact of the prime sponsor itself on program outcomes.

Using data from a survey conducted of CETA prime sponsors and from the management information reporting files of the Employment and Training Administration, we first undertake a comparison of the organizations and measures of their success. Tests were then made to determine the relationship between various organization characteristics and the most common indicators presently being used to estimate program performance.

<sup>2</sup> H. P. Dachler, *Person and Organization Characteristics Involved in CETA Program Effectiveness: Issues in Need of Research* (Washington: U.S. Department of Labor, Office of the Assistant Secretary for Policy, Evaluation, and Research, Tech. Anal. Paper No. 67, August 1979), pp. 60-66, and U.S. Department of Labor, Employment and Training Administration, *CETA Prime Sponsor Management Divisions and Program Goal Attainment*, R&D Monograph 56 prepared by Randall B. Ripley and associates (Washington: U.S. Government Printing Office, 1978).

<sup>3</sup> For example, George Johnson and James Tomola, "The Fiscal Substitution Effect of Alternative Approaches to Public Service Employment Policy," *Journal of Human Resources* 12 (Winter 1977), pp. 3-26, and Michael Wiseman, "Public Employment as Fiscal Policy," *Brookings Papers on Economic Activity* (1:1976), pp. 67-114.

TABLE 1  
Organizational Characteristics and Performance Indicators  
of CETA Prime Sponsors for PSE in Region IV

Dependent Variables	Definition	Mean	S.D.
EMPRATE	Percentage of participants employed	.140	.051
POSTERR	Percentage of participants who were positively terminated	.186	.077
CPP	Cost per placement	27560.357	14429.351
CPS	Cost per participant	3347.571	712.706
PLAPSMEM	Placements per staff member	6.557	8.275
POSTERPS	Positive terminations per staff member	8.728	9.948
Independent Variables			
STFENROL	Proportion of total staff to total enrollment	.019	.014
PERADSUP	Percentage of administrative and supervisory personnel	27.564	12.597
PERPLAN	Percentage of planning personnel	12.114	8.905
PEROPER	Percentage of operations personnel	18.703	15.249
TURSUPEM	Annual turnover rate of supervisory employees	18.711	22.604
TURNOSUP	Annual turnover rate of non-supervisory employees	21.863	17.699
ASSITEFF	Long-term assessment of programs (1 = yes; 0 = no)	.714	.460
ESINT	ES responsibility for intake and placement (1 = yes; 0 = no)	.643	.488
STAFSIZE	Staff size	75.143	88.833
FORMPSCI	Prime sponsor a city (1 = yes; 0 = no)	.143	.356
DOLEXP	Dollar expenditures for Title VI (in thousands)	9041.714	10870.436

## Data and Methodology

All CETA prime sponsors in the Southeast (Department of Labor Region IV) were surveyed during the spring of 1979. Of the 62 prime sponsors in the region, 28 returned questionnaires, for a response rate of 45 percent. The questionnaire was sent to the director of each prime sponsor, and the actual respondent in each case was either the director or his/her assistant. These data were supplemented with information from the regional office for the reporting period of June 1978. The data from both sources were combined to develop both the organizational characteristics and the performance indicators.

Table 1 presents the organizational characteristics and performance indicators of the 28 prime sponsors of PSE programs. The low employment and positive termination rates as well as the high cost per placement are explained by the primary goal of PSE, which is subsidized public-sector employment (rather than training and placement in private-sector jobs). For example, the 14 percent employment rate indi-

cates that 14 percent of Title VI participants found permanent employment in either the public or private sectors at the conclusion of their subsidized public-service employment period. The small proportion of total staff to total enrollment is an indication of the large numbers of participants in Title VI. PSE's budget increased far more than did that of other titles during the second half of the 1970s. The data indicate that administrators and supervisors composed a larger proportion of the local prime sponsor's staff than did planners or operations personnel. Nonsupervisory personnel were more likely than supervisory employees to leave the agency. Sixty-four percent of the prime sponsors indicated that they used the Employment Service (ES) for intake, and a surprisingly large 71 percent indicated that they carried out long-term assessments of their programs. Of course this is self-reported and may be subject to reporting error or misinterpretation of the question.

The evaluation literature on employment and training programs has generally ignored the organizational and managerial characteristics of local prime sponsors, and there is little in the literature that we can use in establishing hypotheses or a priori directions of causality to be tested. The most comprehensive examination of these variables was undertaken by Randall Ripley and his associates at Ohio State University.<sup>4</sup> They concluded that management characteristics and planning had a strong influence on performance and found no empirical support for the conventional wisdom which suggests that economic conditions and demographic characteristics of participants determined performance.

Empirical studies that have treated some of the same organizational variables as this study found that the use of the ES had a mixed effect on program performance. It had a positive effect on indirect placements; however, the cost per placement and cost per enrollee were likely to increase with greater ES involvement.<sup>5</sup> The evidence concerned with the assessment of long-term effectiveness and performance is also mixed. While assessment should improve performance, Gay and Borus found that this had not occurred in practice because of the time and effort required for establishing control groups and follow-up activities.<sup>6</sup> Ripley concluded that there was no association between quality of evaluation and any of the performance measures for the national sites; only for Ohio prime sponsors were placement rates increased as the quality of evaluation improved. Finally, the form of the prime sponsor seems to

<sup>4</sup> U.S. Department of Labor, Employment and Training Administration, *Areawide Planning in CETA*, R&D Monograph 74 prepared by Randall B. Ripley and associates (Washington: U.S. Government Printing Office, 1979).

<sup>5</sup> *Areawide Planning in CETA*, p. 91.

<sup>6</sup> Robert S. Gay and Michael E. Borus, "Validating Performance Indicators for Employment and Training Programs," *Journal of Human Resources* 15 (Winter 1980), pp. 29-48.



impact on program performance. Mirengoff and Rindler found that cities had the lowest placement rates and the lowest indirect placement.<sup>7</sup>

## Results

Table 2 shows stepwise multiple regression results where the 11 organizational variables are run against each of the six program-outcome variables. Only those organizational variables that show a statistically significant relationship to the particular dependent variable are entered in each equation. The first two outcome variables may be viewed as effectiveness measures (percentage of job placements and percentage of positive terminations), while the other outcome variables measure various aspects of efficiency.

Program effectiveness (as measured by both indices) appears to be greater in smaller prime sponsors. In the case of the percentage of job placements (*EMPRATE*), the significant size variable was the number of staff members (*STAFSIZE*). Dollar expenditures (*DOLEXP*) was the significant size index related to positive terminations (*POSTERR*). The largest prime sponsors are apparently less able to place their participants in permanent unsubsidized jobs than are the smaller primes, which may be due to the sheer volume of participants who must be handled by the larger primes who received the largest proportion of Title VI funds.<sup>8</sup> It should be noted that there are many other variables that affect both PSE funding and placements (i.e., local unemployment rates). These are not controlled for in this study and could intervene and affect outcomes.

The ratio of staff per participant (*STFENROL*) is also significantly related to job placements (*EMPRATE*). Obviously, the higher staffing ratio results in more intensive services per participant which should affect job placements. Finally, the percentage of operating personnel (*PEROPER*) in the prime sponsor was negatively related to job placements. There is no obvious reason for this relationship.

Regression results for the cost variables indicate few statistically significant relationships. Higher costs (*CPP*) appear to be associated with larger programs (*DOLEXP*) and a low proportion of planners (*PERPLAN*). Larger PSE programs, therefore, appear to have both lower effectiveness and lower efficiency. Planners apparently contribute to program efficiency by finding public-service placements in a more efficient manner than do others. The final correlate of costs is the use of

<sup>7</sup> William Mirengoff and Lester Rindler, *CETA: Manpower Programs Under Local Control* (Washington: National Academy of Science, 1978), pp. 229-33.

<sup>8</sup> For an examination of allocations among large cities, see Trevor Bain, "Formulas for Employment and Revenue Sharing," *Thrust* (Winter/Spring 1980), pp. 25-29.

TABLE 2  
Organizational Determinants of PSE Program Outcomes Among  
CETA Prime Sponsors in Region IV  
(stepwise multiple regressions with *t*-values in parentheses)

Organizational Variables	Outcome Variables					
	<i>EMPRATE</i>	<i>POSTERR</i>	<i>CPP</i>	<i>CPS</i>	<i>PLAPSMEM</i>	<i>POSTERPS</i>
<i>DOLEXP</i>		— .000 (2.747)*	1.005 ( 5.224)**			
<i>FORMPSCI</i>						
<i>STAFSIZE</i>	— .001 (3.821)**					
<i>STFENROL</i>	3.461 (3.689)**				—438.31 (3.190)**	—424.83 (2.528)*
<i>PERADSUP</i>						
<i>PERPLAN</i>			—592.38 (2.630)*			.412 ( 2.147)*
<i>PEROPER</i>	— .002 (2.959)**					
<i>TURSUPEM</i>						
<i>TURNOSUP</i>						
<i>ESINT</i>				— 534.06 (2.066)*		
<i>ASSLTEFF</i>						
Constant	.150	.217	26345.6	4017.9	13.297	10.232
<i>R</i> <sup>2</sup>	.534	.232	.556	.301	.289	.494
<i>F</i>	8.790**	7.546*	15.045**	5.177*	10.179**	11.732**

\**p* < .05; \*\**p* < .01 (two-tailed *t*-test)

the ES for participant intake and placement (*ESINT*). Apparently those primes which use these services are able to keep their costs down as compared to those which choose to perform these functions themselves. Perhaps the ES is efficient in processing participants in a public-service program where no other direct services (counseling, training) are required.

Staff member productivity as measured by employment (*EMPRATE*) or positive terminations (*POSTERR*) per staff member is shown in the last two columns of Table 2. Both productivity measures are related to the staffing ratio (*STFENROL*). Where staffing ratios are low, staff members can afford to spend more time with each participant. The result is greater placement and positive termination rates per staff member. The data also indicate that the percentage of planners is positively associated with staff productivity. As indicated earlier, planners can minimize wasted effort in placing participants in public-service jobs. This also increases the overall staff productivity.

Some of the most interesting findings involve the organizational variables which are *not* significantly related to any of the program outcomes in Title VI. The proportion of administrators and supervisors (*PERADSUP*) did not affect outcomes in either a positive or negative direction. Apparently there are opposing effects as this proportion increases. While an increased managerial component might theoretically improve outcomes, it might also increase problems of communication and coordination, thereby adversely affecting outcomes. The reality apparently is that the benefits of greater managerial inputs are offset by the coordination problems.

Turnover of supervisory and nonsupervisory employees (*TURSUPEM* and *TURNOSUP*) are other nonsignificant variables. Prime sponsors with higher employee turnover apparently perform no worse (or no better) than those with lower turnover rates. Turnover may reduce the level of experience held by agency personnel, but this may be offset by the reduced levels of cynicism and frustration among the newer employees. The form of the prime sponsor (*FORMPSCI*) and whether or not the agency undertakes an assessment of long-term effectiveness (*ASSLTEFF*) were other insignificant variables. Apparently the type of prime sponsor (city, county, or consortium) makes no difference in terms of PSE program outcomes. In addition, since the assessment of long-term effectiveness is self-described, it is not surprising that it does not relate to outcomes. The variable itself (even if it was accurately described by the respondent) does not measure either the frequency or the quality of such assessments.

## Conclusions

This study represents an exploratory attempt to quantify organization variables and their effect on local CETA prime sponsor performance. These data provide a baseline for further research in the area of prime sponsor organization and management. In examining the results, it should be noted that there are many other variables which could affect program outcomes. This paper is confined to activities under PSE. In subsequent research we will examine the impact of these additional variable categories in combination with organizational variables across all programs.

Unlike the study by Ripley and his associates, our data do not indicate a strong influence of organizational characteristics on program outcomes. There was some evidence that larger prime sponsors do not perform as well as smaller ones in terms of efficiency or effectiveness. Moreover, prime sponsors with a large staff per enrollee perform better in terms of placing participants in permanent nonsubsidized jobs. However, productivity per staff member is lower in agencies with a higher staffing ratio. The percentage of planners is also positively associated with good program performance in PSE. Agencies with a high percentage of planners have low cost per placement and high positive terminations per staff member. Finally, those agencies which use the Employment Service for participant intake have lower costs per individual served. The Employment Service appears to be efficient in the intake and placement process where the objective is subsidized employment.

# An Analysis of Compliance with Unemployment Insurance Earnings- Reporting and Job-Search Requirements<sup>\*</sup>

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The unemployment insurance (UI) program is faced with problems that are similar to those faced by most social insurance schemes. The UI program aims to be effective in delivering income to its intended beneficiaries while at the same time guarding against possible work disincentive effects. These objectives are reflected in a number of nearly ubiquitous obligations imposed on persons who wish to receive UI; in particular, (1) that they report their current earnings to UI officials, and (2) that they be able and willing to perform, and actively seeking, "suitable" work (however defined). The earnings-reporting requirement enables UI administrators to reduce or eliminate the claimant's weekly benefit as appropriate, and thus restrict benefits to those who are actually experiencing the phenomenon (earnings loss) that the program is supposed to be insuring against. However, to the extent that this requirement is effectively enforced, the incentive for unemployed workers to find jobs is lessened; hence, a potential problem of moral hazard arises, which the job-search requirement is meant to help prevent.

Compliance with these requirements have implications for the targeting of the program, the existence of claimant violations, and the generosity and coverage of the system and its financial integrity. Yet, there is very little systematic evidence concerning the incidence and magnitude of possible violations of either the earnings-reporting or job-search requirements, largely because of the lack of appropriate data. In this paper we briefly summarize the findings of our study of compliance with the UI earnings-reporting and job-search requirements in two cities.<sup>1</sup> We first discuss the unique combination of data sources that

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<sup>\*</sup> The research reported in this paper was sponsored by the National Commission on Unemployment Compensation. The conclusions herein are those of the authors and do not necessarily represent the position of any agency of the U.S. government.

<sup>1</sup> Two reports that discuss the methodology and findings of this research in more detail are available from the authors upon request.

have made these analyses possible, and then summarize our major empirical findings and their implications for policy.

## The Data

The empirical analyses have stringent data requirements. Use of administrative UI records is necessary, but insufficient alone because the central element of interest is whether information is reported correctly, or not reported, to the UI office. A second set of data must be collected independently from active claimants on the amount of weekly earnings and on job search conducted while receiving benefits. Ideally, the latter information would be collected frequently enough to minimize recall error and would be obtained in strict confidence independently of the UI system. By superimposing the second set of weekly data onto the administrative file, one could then observe what recipients report to UI offices versus what is reported independently and (apart from response error) can be assumed to have transpired.

These data needs have been a major stumbling block to this type of investigation.<sup>2</sup> However, we have assembled a unique combination of data sets that comes close to achieving the desired pairing of data bases mentioned above. Specifically, we employ data collected in conjunction with the Seattle and Denver Income Maintenance Experiments (SIME/DIME) that encompass the years 1971–1973 and 1972–1974, respectively. Persons participating in SIME/DIME were then matched on a case-by-case basis with administrative records in the state UI offices of Washington and Colorado.

One attractive feature of the merged files is that the SIME/DIME surveys were conducted independently of the UI system. The SIME/DIME study involved frequent (four times yearly) personal interviews with all participants over the age of 16. These interviews were especially designed to gather detailed and precise income information, data on employment, and information on all jobs held, hours of work, rates of pay, job-search activity, and availability for work, as well as other personal and family variables used in our multivariate analysis. The UI records consist primarily of weekly records of payments to SIME/DIME participants, reported earnings by claimants, and other programmatic information.

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<sup>2</sup> There have been a small handful of analyses of *detected* earnings underreporting using legal and administrative data (e.g., Papier, 1977; St. Louis et al., 1978); of course, they differ conceptually from our analysis, which examines all underreporting whether detected or not. Also, there have been studies of the job-search behavior of UI recipients using a special supplement to Current Population Survey (e.g., Barron and Mellow, 1979; Young, 1979); however, this data base is not without problems.

## Earnings Underreporting by UI Recipients

In order to study the extent of earnings underreporting, we created person-week files separately for the Seattle and Denver samples. In this context, the earnings-reporting decision is viewed as a weekly decision rather than a decision to misreport over an entire spell.<sup>3</sup> During the three-year analysis period, 613 persons in Seattle accounted for 13,649 weeks of insured unemployment and 394 persons in Denver accounted for 2,626 weeks.<sup>4</sup>

In our tabular analysis we found that the percentage of person-weeks in which earnings were underreported was 7.6 in Seattle and 13.6 in Denver. The average weekly amounts of underreported earnings for the subset of underreporters were \$90.39 in Seattle and \$122.58 in Denver. We believe that these site differences reflect primarily the greater opportunity for employment in Denver than in Seattle. If claimants are similar in their propensity to underreport, the temptation is less able to manifest itself when there are few jobs available for UI recipients.<sup>5</sup>

Using appropriate benefit formulas for the two states, our figures imply average benefit overpayments per weeks of \$50.63 and \$67.49 for the subsets of underreporters in Seattle and Denver, respectively.<sup>6</sup> For illustrative purposes, if one were willing to make the strong assumption that the analysis samples were representative of the claimant population in the two states, we could apply our estimates to arrive at an approximation of the maximum total dollars that may have been overpaid. Using the 12-month period ending October 1973 as an example, this exercise results in estimated total potential state overpayments of

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<sup>3</sup> This approach is supported by our finding that UI recipients typically underreport earnings for only a fraction of the weeks in which earnings are received. Also, our analysis assumes that the decision to accept employment and the decision to report (or not report) earnings are made sequentially rather than simultaneously.

<sup>4</sup> The disparity between the two sample sizes largely results from the fact that the unemployment rate in Seattle was generally twice that in Denver during the analysis period in question. Also, an extended benefits program was in effect in Washington at the time, permitting more compensated weeks per benefit-year.

<sup>5</sup> The higher proportion of person-weeks involving apparent underreporting in the Denver sample may be caused partially by the much shorter average duration of unemployment spells at that site. It may be the case that an important source of underreporting is the failure of UI recipients to report promptly that they have become reemployed. If that is so, any misreporting that occurs thereby will occur in the weeks at the end of a (compensated) spell of unemployment. If spells tend to be relatively short, as in the case of the Denver sample, those weeks represent a larger proportion of all compensated person-weeks.

<sup>6</sup> In Washington during this period there was a \$12 disregard, and above that amount benefits were reduced by \$.75 per dollar earned. In Colorado there was a \$3 disregard, above which benefits were reduced dollar for dollar. In both states earnings exceeding an individual's gross weekly benefit amount resulted in a complete loss of benefits.

\$7.91 million and \$2.36 million (in 1973 dollars) for Washington and Colorado, respectively. However, any conclusions drawn from such extrapolations should be tempered by the fact that the fraction of overpayment cases that can be classified as fraudulent (i.e., involving willful misrepresentation on the part of claimants) is probably low,<sup>7</sup> as well as the fact that underpayments are known to occur in some cases.<sup>8</sup>

To examine what factors encourage income underreporting, our multivariate analysis concentrated on a subset of person-weeks consisting of persons receiving UI payments (according to agency records) while concurrently working (according to SIME/DIME records). Compensated person-weeks in which there were zero earnings were excluded since, by definition, they were not "at risk" in terms of underreporting. Thus, our focus is on weeks of compensated "employment" instead of the usual analysis subject of compensated unemployment.

Of particular interest, though not surprising, is that the likelihood of underreporting in both sites is significantly and positively related to the potential payoff to withholding all earnings information from the UI office.<sup>9</sup> This result implies that, after controlling for the influence of other variables, pecuniary incentives play a substantial role—which is consistent with an economic theory of illicit behavior. A second key predictor of underreporting that was statistically significant was the potential cost associated with being detected for fraudulent behavior, approximated empirically by the maximum benefits allowable to a claimant for a benefit year (disqualification from future benefits being the most likely penalty imposed).

Our findings are limited for several reasons and suggest future avenues for research. First, the inherent limitations of using only two urban sites obviously constrains the ability to generalize to other jurisdictions. The unique, low-income situations of our two samples also introduce potential biases if these results are applied indiscriminately to the entire UI claimant population. Second, we were unable to examine the impact of administrative detection efforts on the incidence of underreporting. Third, the existence the undetected underreporting may be somewhat misleading as an indicator of fraudulent behavior because of unknown errors in the SIME/DIME data and the lack of a basis for a legal determination of fraud.

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<sup>7</sup> For instance, Burgess and Kingston (1980) estimate that 23 percent of overpayment cases are fraudulent.

<sup>8</sup> We found that 1.6 and 3.2 percent of the compensated person-weeks in Seattle and Denver, respectively, involved apparent cases of underpayment.

<sup>9</sup> The incentive variable was calculated as the difference between the maximum weekly UI benefit at zero earnings and what the benefit would be if *all* weekly earnings were reported.



Models of this sort may prove useful in detection programs that are intended to identify claimants who have a relatively high probability of misreporting as well as those who tend to underreport large dollar amounts. Furthermore, our results suggest that the benefit-reduction schedules used by state programs may themselves create reporting disincentives. Our estimates suggest that if more stringent schedules were relaxed in terms of the percentage benefits reduced per dollar of reported earnings, misreporting would be reduced.

### **Job Search by UI Recipients**

As we noted in the introduction, the policy concern about the possibility that UI may have the effect of subsidizing leisure and causing the level of unemployment to be higher than it would otherwise be is reflected in regulations that deny benefits to persons who are unavailable for work, who refuse specific offers of employment, or who do not look for work. However, there is a certain amount of discretion in the enforcement of these requirements, especially in cases of slack labor market conditions and certain personal circumstances. Hence, it is not always clear whether observed behavior by a UI recipient is in compliance with the applicable job-search requirements.

Accordingly, for the purpose of our analysis we defined two alternative measures of commitment to finding work. The first is active job search (taking specific steps to find employment). The second is the somewhat weaker requirement of "availability" (willingness to accept employment, with or without specific initiatives). Most states, including Colorado and Washington, have an active search requirement for continued UI eligibility, although it is not always rigorously enforced. However, availability for work is virtually always expected of UI recipients.

Our principal findings are as follows: First, we found that 23 percent of all weekly payments in Seattle and 35 percent of the weekly payments in Denver went to persons who reported that they were not actively seeking work. Second, 32 percent of all weekly payments in Seattle and 19 percent in Denver went to persons who reported they were not available for work.

Tabular and multivariate analyses revealed that the propensity to engage in search as well as to be willing to work was significantly correlated with a number of socioeconomic characteristics and other variables. Men are decidedly more likely to be willing to work, and to be actively seeking work, than women. This finding is at least partly explained by personal and family responsibilities being by far the most prevalent reported reason for not wishing to return to work; about half

of the recipients who did not wish to work gave this as their primary reason.

It was expected that UI claimants would be less likely to search as the unemployment rate rose, *ceteris paribus*, both because of the presumably diminished employment opportunities and because the active search requirement is likely to be enforced more leniently when the state of the local labor market is poor. However, our logit model found little confirmation of this hypothesis. The presence of young children (under 6 years of age) was found to have different effects on the search behavior of male and female claimants. Male claimants who had young children were more likely to be looking for a job than those without young children, whereas women displayed the opposite response.

We were also interested in determining whether indices of program generosity, such as the weekly benefit amount and the number of weeks for which a claimant is entitled to receive benefits, discouraged job search. In general, we did not find a significant effect of indices of program generosity on the level of job-search activity, although we did find that income from other sources generally had the depressant effect on search predicted by the economic theory of job search. One appealing hypothesis that explains these findings relates to the wage-based nature of the UI system. Persons who qualify for more generous UI benefits, in terms of both the weekly benefit amount and the number of compensable weeks, tend to be those with a stronger commitment to the labor force, as evidenced by previous work experience.

In summary, we found that, among the low-to-moderate-income urbanites in these two sites, there are widespread deviations from the "ideal" situation wherein all UI beneficiaries are actively seeking work.<sup>10</sup> Furthermore, we found that the propensity to engage in job-seeking activities varied across individuals in a manner that is generally consistent with economic theories of the demand for leisure and optimal job search.

Our results also suggest that the basic decision to search may be qualitatively different from the selection of an optimal search strategy (hours, methods, acceptance wage), given an affirmative labor force participation decision. Because the large fraction of recipients who were nonsearchers were also unavailable for work, often for noneconomic reasons, it is quite possible that the latter factors may frequently offset or even dominate the influence of economic stimuli in the search-non-

<sup>10</sup> If anything, these estimates are conservative because of the limitations of our data. We were only able to ascertain whether a SIME/DIME respondent was available for (or actively seeking) work on a monthly basis. Hence, respondents were considered to be available (or searching) if they were available (or searching) in any month as that overlapped a spell in which they drew UI benefits, even if they did not engage in those activities during the spell in question.

search decision. It is not obvious how systematically to police the week-to-week behavior of thousands of UI recipients vis-à-vis their availability and search for employment. Further inquiries of the sort presented in this study, especially using a more representative interstate sample, would be potentially enlightening and relevant to important policy questions.

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## DISCUSSION

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Wage determination studies are generally restricted to consideration of direct pay. Virtually none deals with indirect compensation. Inasmuch as the indirect component adds nearly 40 percent, the void created by this omission is severe. Furthermore, the 40 percent is an "average" reflecting a wide variation in the actual levels of supplemental benefits.

Wesley Mellow's examination of the distributional pattern of fringes across workers is thus a welcome addition to the literature. Data from the May 1979 Special Supplement to the CPS allowed him to look at the experience and the characteristics of individuals, beyond what is possible with establishment or industry data. Mellow's purpose was to isolate characteristics of private benefit recipients vis-à-vis those of nonrecipients.

The study was constrained to two specific benefits: pensions and health care provisions. While but two of a rapidly expanding array of offerings, these particular ones are logical points of focus for at least two reasons. First, they are among the primary cost items. Second, they affect and are affected by several major public policy considerations. Workers may object to few or no paid holidays or short vacations, for example, but such shortages are not of major social consequence. On the other hand, an absence of funds for retirement or purchase of health care services is clearly a matter of public interest. The costs have to be borne somehow.

Mellow found that 66 percent of the respondents received health care benefits and 50 percent pension benefits, somewhat lower than found in studies based on establishment data. Short-service employees, part-time employees, and employees of small firms are more likely to be picked up in the Special Supplement Survey than in establishment reports. Hence, the lower coverage. From a policy perspective, the critical distinction to be made is that between those who are employed where there is *no coverage* vis-à-vis those who are employed where they *will be covered* as soon as they meet eligibility conditions. In the

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pension area, for example, the President's Commission has reported that fewer than 60 percent are currently eligible (in terms of ERISA standards), and only 62 percent of those eligible are covered. Alternatively, the Commission looked at vesting as a measure of coverage, and saw that a scant 25 percent overall—and only 37 percent of those 55 or older—had vested pension rights. Clearly, Mellow's focus on individual differences is warranted.

While Mellow has not specified his expectations in the constrained space of this paper, the results are what one would generally anticipate. One possible interpretation could be that only lower-rung workers are precluded benefit receipt. Such an interpretation should be avoided, however. The results of other studies and the large percentages of nonrecipients here reveal that some notable proportion of "mainstream" workers are absent benefits as well.

The author says that being female has a "surprisingly modest negative impact on the probability of receiving benefits." He accepts that result, saying, "evidently" tenure, hours, wage, industry, and occupation controls account for much of the male-female differences. It would be surprising if such were *not* the case. Perhaps the sex variable might be more powerful if the dependent variables were dollar amounts of pension and health care benefits, but given that they are dummy variables the "modest impact" of being female would seem to be predictable.

As Mellow points out, the dollar values of the focal benefits would certainly hold a rich potential to analyze more precisely the question of individual differences in benefit receipt. Nonetheless, the data set exploited here has certainly offered a distinct step forward. Mellow's model has yielded understandable and potentially useful results. However, it would have been interesting to have had the benefit of the author's thinking in interpreting his results and in considering their possible policy implications.

Gray, Sinicropi, and Hughes deal with a phenomenon that quite obviously has a basic appeal to it. Most would argue that it would be pleasing to have a system of "accommodative and cooperative" labor-management relationships, as contrast to "strongly adversarial" ones. Their paper describes an experimental technique—RBO—designed as a means of "salvaging very poor and conflict-ridden union-management relationships." It would seem that RBO's potential for doing that is at least in part a function of how the relationship got that way and how long it has been that way.

The concepts behind RBO, it must be noted, were not developed to deal only with "bad" relationships. They are intended to apply to "good times" as well as bad. It is not immediately clear that the FMCS

system of RBO could be used on such a full-scale and continuous basis, since each event takes three days or more and requires 3-5 mediators.

The concepts are essentially those that go into "team-building." Team-building has as its basic tenet an environment embodying honesty, openness, task-orientation, and nondefensive behavior. These elements may be unlikely where the parties in the collective bargaining arena are concerned. They may be antithetical to the central strategies and tactics which traditionally underlie collective bargaining. It is not at all clear that union and management can become a very real "team." Indeed, some problems might arise if it appeared that they were a team.

The authors note that "... the methodology was probably the weakest of available research designs." This admission tends to catch the reader's eye. Unfortunately, space limitations caused the authors to provide only a small sample of their questionnaire items. It would be interesting to know what questions were asked in the interviews. Interview results were used to assist in the interpretation of questionnaire responses. Methodologically oriented readers could doubtless benefit from description of the procedure for combining the interview results and the results of the document reviews with the questionnaire responses.

The questionnaire was intended to elicit both procedural and attitudinal data, and behavioral data were said to come from additional sources. The behavioral data may be the most useful, but generally speaking only the perceptual data are reported here. A review of the wording of the 16 questionnaire items suggests that the questionnaire may have some amount of upward bias built into it. Finally, there is the issue of self-selection.

The results reported in the paper were largely as one would expect. Generally speaking, it was agreed that the results were good. However, given the self-selection and the possible upward bias of the questionnaire, it is not surprising that a set of essential positive feelings emerged from the study.

Team-building and other OD activities are greatly influenced by facilitator effectiveness. It was reported that both parties perceived the mediator as having performed well. An additional question that might be asked is how the mediators' performance after the first set of sessions might have been affected.

In the conclusion section, Gray et al. report "changing role relationships and positive attitudinal changes." A discussion of these changes and some elaboration on how they were measured would almost certainly be enlightening. Optimism springs from the results. The authors say that RBO may become a widely used and firmly established tech-

nique for salvaging poor relationships. To support (or modify) this prediction, the authors might have reviewed the experiences with the program since their 1977 evaluation project.

## DISCUSSION

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The Bain and Fottler study represents an "exploratory attempt to quantify organization variables and their effects on local CETA prime sponsor performance." Those of us who have undertaken field research on various aspects of the Comprehensive Employment and Training Act will be aware of perceptible differences in the effectiveness of various prime sponsors, and hence will welcome this focus as an important contribution toward understanding why these occur.

There would seem to be three groupings of factors affecting local program performance, namely (1) local social and economic conditions, (2) the demographic characteristics of local participation, and (3) the organizational and managerial characteristics of the local agency responsible for the program. As the authors indicate, other studies have dealt with the first two, to the exclusion of the third. At the same time it has been common practice for practitioners to foster the notion that it is factors external to the agency, like economic conditions or "the dictates of federal officials," and not local management characteristics, that determine local performance and efficiency. Consequently it is appropriate and timely, given the impending reauthorization of CETA in 1982, that these management and organization attributes be subjected to scrutiny.

Several aspects need to be taken into account in assessing this study. First, the type of organization structure of local CETA agencies was left to local discretion and a myriad of structures resulted. If there was any programmatic rationale underlying these organizational forms, it would be that they were unsuitable for Title I, the training and service core of the initial legislation. The Public Service Employment (PSE) component that is the subject of this study was of relatively minor significance until it mushroomed as part of President Carter's Economic Stimulus Package. My point is that this huge and rapid expansion of PSE, for largely macroeconomic purposes, was necessarily handled by an organization structure at the local level that was of a form designed to implement a somewhat different type of programmatic activity.

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Furthermore, of these structures, two basic forms prevailed at the time of this study. Some prime sponsors undertook all activities in-house, while others contracted out just about everything. The remainder were hybrids of these forms. The PSE program demanded a degree of numerical fine-tuning (e.g. monthly targets) and enhanced accountability not previously experienced, and it precipitated a change of structures toward the in-house model that has largely occurred since the timing of this study.

Two points emerge from this—first, the organization structures being examined at the time of the study for their effect on PSE were in fact not designed to handle that type of program and have been modified subsequently by that experience. Second, the external-internal dichotomy might be a better variable than the one used (city, consortium, balance-of-state), and found insignificant, to examine the impact of different types of delivery forms.

The authors acknowledge that their empirical results could be affected by the exclusion of control variables for local conditions and participant attributes. I would argue that this is definitely the case, and indeed question some of the specific results because of this exclusion. For example, because staff size is negatively related to job placement, the authors suggest that smaller prime sponsors may be more effective. But if large staff size and large city jurisdictions are highly correlated, and large cities were experiencing disproportionately difficult labor market conditions at that time due to eroding conditions in manufacturing, then it is the external considerations and not staff size that are causal with respect to a lesser placement performance.

Alternatively, these results might suggest that the large staff size of the in-house organization structure is less effective. But at the period of this study, for example, both Omaha and Kansas City, Kansas, were of somewhat equal population size, with Omaha being in-house in structure, with a large staff size, and Kansas City being of the external contracting type, with a small staff size. Yet Omaha's performance at that time was perceived to be the best in Region VII on the basis of the same indicators used here.

Similarly the study suggests that larger jurisdictions could be less efficient because costs per placement are positively related with dollar expenditure and negatively with the proportion of planners on staff. But the uniqueness of period of study—the peak of the massive 1977–1978 buildup of PSE, the stress placed on unprepared prime sponsor organizations through that period, and the total preeminence of the goal of macro target levels over client employability preparation and placement—cautions strongly against implications such as this which

run counter to field observation and to what one might expect from economies of scale and staff specialization in "normal" periods of program operation from medium to larger size organizations.

The indications from the study that turnover is not a significant factor is surprising. Again, the period of the study could be a factor here, in that while turnover would not unduly hinder efficiency and effectiveness in periods of rapid expansion and confidence in program continuation, it could be harmful, even significantly so, in periods of program cutback and modification, as has occurred in the past two years or so.

The authors conclude that the data do not indicate a strong influence of management and organization characteristics on program outcomes, and quite correctly they caveat the implications that they do draw. Yet field observation suggests that differential program performance cannot be attributed solely to local conditions and demographic characteristics and the challenge to the authors is to persist in this interesting line of research to identify those further factors that are germane to program performance.

The focus of the Black and Carr study is on the incidence and magnitude of possible violations of both the earnings reporting and job search requirements of the unemployment insurance program. The study is valuable because the unique data sources permit light to be shed on an important policy area.

The authors correctly caution against generalizing results to the whole population, but the temptation is great and the results interesting, even if only as conjecture. Earnings were underreported for 7.6 and 13.6 percent of person-weeks for Seattle and Denver, respectively. Given that UI recipients typically underreport earnings for only a fraction of the weeks in which earnings are received (footnote 3) and that for Denver the unemployment spells are short so that the underreporting weeks represent a larger proportion of all compensated person-weeks (footnote 5), we can perceive a more universal underreporting percentage of say 9 to 10 percent at most. This could be adjusted down several points if we conjecture that the relatively low-income participants of the Denver and Seattle samples would have a higher likelihood of underreporting, in terms of potential payoff and costs from doing so, than the average UI recipient. Finally, an offset of 2 to 3 percentage points for *over*reporting of earnings to the above would leave us with say 5 or less percent *net* underreporting of earnings.

Given the nature of this program, I would regard this to be surprisingly low. Further, it clearly suggests that the degree of deliberate

fraud in relation to the reporting requirement would be of minor magnitude.

On the other hand, the high percentage of UI recipients who were not available for work, nor actively seeking work, is disturbing. This gives credence to the perception that many persons regard UI as an earned entitlement rather than a safety net basis for job search and return to employment. The figures for females are significantly higher. This represents fraud of another nature. The results in relation to this requirement warrant close scrutiny by UI program administrators: if it cannot be enforced as it presently stands, how can it be modified to permit enforcement, or indeed should it be replaced by another requirement?

The value of a study of this nature is not so much that it confirms theoretical propositions, for example, that "claimant behavior is sensitive to the potential loss of benefits," but rather that it generates some orders of magnitude with respect to the intensity and nature of the problem.

## IV. DISSERTATION ROUNDTABLE

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### The Growth of Teacher Bargaining and the Enactment of Teacher Bargaining Laws\*

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The saturationist hypothesis about labor movement growth asserts that the readily organizable sectors of the American labor force were already unionized by the late 1940s. While some challenged this hypothesis, few predicted the upsurge of unionism among public employees in the 1960s and 1970s, and even fewer predicted that this upsurge would include white-collar and professional workers. This study tries to explain the development of collective bargaining among one of the largest white-collar groups, public school teachers. Particular attention is given to the importance of changes in teacher bargaining laws as both a cause and an effect of the growth of teacher bargaining.

Two main research methods were used. First, I conducted open-ended interviews with numerous officials and staff of the American Federation of Teachers (AFT) and the National Education Association (NEA), management personnel, lobbyists, neutrals, teachers, and others. Second, I derived quantitative data measuring the extent of teacher bargaining coverage and the nature of teacher bargaining laws in each state for the period from 1959 to 1978. I then analyzed this state-wide data using regression analysis.

The econometric results provide strong evidence that changes in teacher bargaining laws are the single most important cause of the spread of teacher bargaining. Other variables positively associated with the development of bargaining include employment concentration (the number of teachers per school and per school system), the level of economic development (real per capita income), the fraction of teachers who are male, and the tightness of the labor market. The interviews confirm these findings and also suggest that teacher bargaining spread

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\* This dissertation was completed at the University of Wisconsin, Madison.

(1) because superintendents and school boards have accepted white-collar unionism more readily than private-sector employers have, and (2) because competition from the AFT spurred the transformation of the NEA into a trade union. Examination of bargaining coverage data at the level of individual school systems yields an additional finding: teachers in large school systems tended to start bargaining before the enactment of laws mandating bargaining with majority representatives. Interpreted in this light, the econometric finding that laws have a substantial effect on the aggregate extent of bargaining means that legal changes must have a very substantial effect on the growth of bargaining in medium and small school systems.

The growth of bargaining also has an effect on the enactment of bargaining laws, but the effect is weaker. Variables positively associated with the enactment of more pro-union bargaining laws include previous increases in the extent of teacher bargaining, electoral gains by the state Democratic Party, the elimination of patronage in government employment, the level of economic development, and membership in the American Federation of State, County, and Municipal Employees. Bargaining laws also tend to follow the pattern set by neighboring states. Surprisingly, the membership strength of the state AFL-CIO and ratings by the AFL-CIO Committee on Political Education of each state's congressional delegation have little relationship to the enactment of more pro-union bargaining laws (after controlling for the other explanatory variables).

The study examined not only collective bargaining, but also two other trade union methods: political action and unilateral regulation. Teachers may place increasing emphasis on political action as their labor market position deteriorates. The effectiveness of such action, however, may be reduced by the rivalry between the AFT and the NEA, which seems likely to continue for some time. Teachers may also attempt to establish unilateral regulation by the occupation of working conditions and entry to the occupation. But, although plumbers and, later, physicians, succeeded in this strategy, teachers will face far greater obstacles.

# The Earnings of Immigrants in the American Labor Market\*

GREGORY DEFREITAS

*Barnard College, Columbia University*

The objectives of this research were twofold: first, to examine the entry of immigrants into the American labor force through information on unemployment and occupational mobility, and then to incorporate these findings in a comparative analysis of the level, rates of growth, and key determinants of the earnings of native-born and foreign-born workers.

Based on a review of the relevant literature on internal and international migration, a number of testable hypotheses were developed. Recently arrived immigrants are typically under considerable pressure to secure employment quickly in order to end dependency on family and friends and to begin accumulating information and training useful in the American job market. In consequence, it was hypothesized that foreign-born workers will have low rates of unemployment relative to otherwise-similar native-born workers during the initial postmigration period. The sole exception may be those "tied movers" migrating primarily for noneconomic family reasons.

The need to find employment quickly, however, coupled with the imperfect international transferability of many skills and state licensing requirements for various occupations, suggest a second hypothesis: that immigrants will initially experience downward occupational mobility from their occupational level at origin. This decline is likely to be most severe for those from less developed countries, refugees, and tied migrants. Finally, it is hypothesized that, after the first few adjustment years of retraining, language instruction, and acquisition of necessary credentials, the foreign born will experience upward occupational mobility from their first U.S. job and rapid increases in earnings. Previous research findings of self-selection in migration toward more highly motivated, risk-taking individuals with a relatively high propensity to invest in different kinds of human capital suggest that immigrant earn-

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\* This dissertation was completed at Columbia University. The research was supported by a dissertation grant from the Employment and Training Administration, U.S. Department of Labor, which is in no way responsible for its content.

ings may rise at a more rapid rate and eventually surpass the earnings of comparable native workers.

Empirical analysis of these hypotheses drew data from two sources: the 1970 Census of Population and a special 1977 retrospective survey of the 1970 immigrant cohort conducted under the auspices of the U.S. Department of Labor. Demographic and labor market data on 54,325 native-born civilian noninstitutional labor force members were obtained from the 1/1000 Census sample, while 25,511 foreign-born individuals were drawn from the 1/100 sample to permit more detailed breakdowns by nationality and years since migration.

Unemployment rates were cross-tabulated for each national group by race, sex, schooling, and years of U.S. work experience. Mobility among 12 major occupational categories was determined, for the Census samples, by comparing job level in 1970 with that reported for 1965. These results were then checked against the 1977 findings on movement from last job at origin to subsequent U.S. jobs. The earnings analysis employed multiple regression techniques to estimate standard earnings functions which were expanded (following the approach initiated by Chiswick) to control for country of origin and years of premigration and U.S. work experience.

The study's principal findings can be briefly listed:

1. Unemployment rates are lower for foreign- than for native-born men of the same race and educational attainment during the first four years in the U.S. labor force. Thereafter, no significant differential persists. In contrast, married female immigrants have higher rates than indigenous wives; the differential is especially large among the 54 percent who married before emigrating and are thus more likely to be tied migrants.

2. The hypothesis of a U-shaped pattern of occupational mobility was confirmed. Particularly sharp initial drops in status and weak recoveries occur among foreign-born blacks, Mexicans, Caribbean Islanders, and tied female migrants.

3. The earnings of the foreign-born were found to start out lower than otherwise-similar natives in the initial postmigration period, but subsequently to overtake and surpass the native earnings level after adjustment periods of variable length. Even after controlling for years since migration, region, and other variables, however, the earnings of men from Mexico lag behind other immigrants and natives. Significant earnings differentials exist between each race-sex group, with blacks and women at a substantial disadvantage—whether native or foreign-born.

# Arbitral Reaction to *Alexander v. Gardner-Denver Co.*: Analysis of Arbitrators' Awards, 1974-1980\*

STEPHEN D. OWENS  
*Western Carolina University*

The objective of the dissertation was to examine the extent to which labor arbitrators, in the resolution of racial discrimination grievances, have attempted to follow the guidelines in *Alexander v. Gardner-Denver Co.*<sup>1</sup> (hereafter referred to as *Gardner-Denver*). A review of the literature prior and subsequent to the *Gardner-Denver* decision revealed much discussion and debate as to the arbitral role in adjudicating grievances involving issues of employment discrimination.

The purposes of the study were: (1) to present data resulting from an analysis of the content of 97 published grievance-arbitration awards involving issues of racial discrimination occurring from April 1974 through December 1980, and (2) to determine from the data how labor arbitrators have reacted to the Supreme Court's ruling in *Gardner-Denver*.

The Supreme Court held that labor arbitration was a "comparatively inappropriate" forum for the resolution of employment discrimination disputes. However, the Court said that an arbitral award could be accorded "great weight" by a court where (1) the antidiscrimination provision in the collective bargaining agreement is similar to Title VII with regard to employee rights; (2) the arbitral proceeding is procedurally fair; (3) an adequate record of the discrimination issue exists; and (4) the arbitrator possesses special competence to decide Title VII issues. The content of each of the 97 awards was analyzed to determine the extent to which arbitrators responded to the above guidelines set forth in the *Gardner-Denver* decision.

The principal findings and conclusions of the study were the following:

1. In more than two-thirds of the cases the parties executed a labor contract incorporating provisions similar to that of Title VII into the

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\* This dissertation was completed at North Texas State University.

<sup>1</sup> 415 U.S. 36, 94 S.Ct. 1011, 7 FEP Cases 81 (1974).



antidiscrimination clause. The presence of such a clause enables the arbitrator to base the award on an interpretation of Title VII.

2. Arbitrators referred to public law associated with Title VII in 43 percent of the cases. Arbitral reference to relevant statutory, judicial, or administrative authority indicates an attempt to apply Title VII policy considerations to racial discrimination disputes.

3. The awards did not reveal any special effort by the arbitrators to provide the procedural fairness prescribed in *Gardner-Denver*. The data did show that one grievant was represented by individual legal counsel; the remainder were represented by a union attorney and/or a union official.

4. Predominately, the arbitrators included in the study had a legal background. More than one-half were also members of the National Academy of Arbitrators. While these data show considerable arbitral experience, they do not necessarily connote special competence in deciding Title VII issues.

5. Despite an indication of their increasing reliance on public law to decide racial discrimination issues, the overall response of the arbitrators studied indicated no concerted attempt to specifically follow the guidelines enumerated in the *Gardner-Denver* decision.

Continued reliance upon labor arbitration to resolve employment discrimination disputes should be determined in large part by the finality of such awards. Finality, in turn, should be influenced by arbitral reaction to *Gardner-Denver*. It is recommended, therefore, that future research examine judicial decisions involving an interpretation and application of *Gardner-Denver* to determine the weight accorded prior arbitral awards and the criteria used by courts to determine such weight. Also, an empirical investigation is recommended to ascertain how individual arbitrators resolve employment discrimination grievances—with emphasis on the procedural and substantive aspects of each arbitrator's dispute-resolution process.

# An Empirical Test of a Behaviorally Oriented Negotiations Model in the Public Schools in the State of Washington\*

ALAN CABELLY

*Portland State University*

The behavioral model of labor negotiations first proposed by Walton and McKersie in 1965 has been widely cited, but only infrequently tested. This first public-sector test of their model has two objectives: to determine if negotiators differentiate between Walton and McKersie's four types of bargaining, and to help train negotiators by identifying conditions underlying the negotiations and specific negotiating behaviors which are related to success in each of the four types (distributive bargaining, integrative bargaining, attitudinal structuring, and intraorganizational bargaining.)

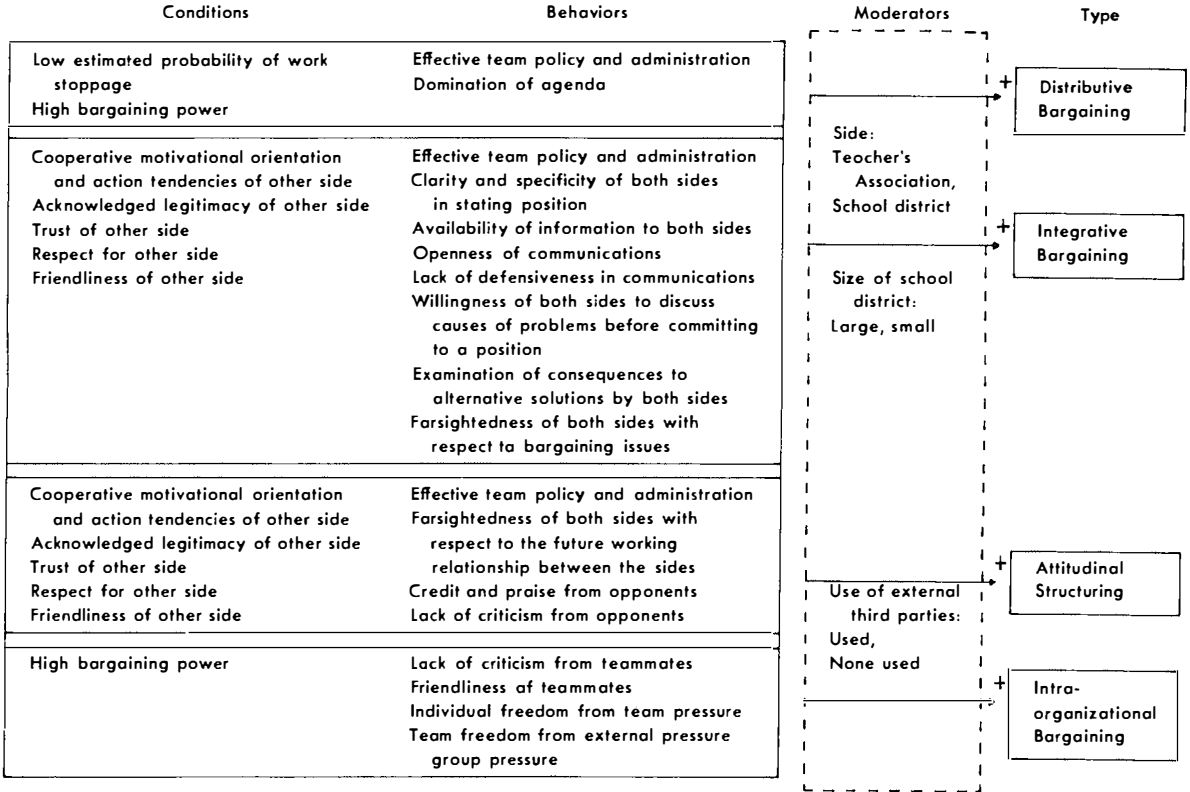
Negotiators for the school districts and for the teachers' association were asked, via questionnaire, to identify their perceptions of the behavior of the parties to the negotiations, as well as their descriptions of the negotiations' underlying conditions. Follow-up interviews of selected negotiators gave additional information concerning overall bargaining philosophy and strategy. Factor analysis of the questionnaire responses indicated that there were only three distinct types of bargaining. Integrative bargaining and attitudinal structuring collapsed to form one theoretical construct, while both distributive and intraorganizational bargaining remained relatively pure. Hypothesis testing, through the use of correlational analysis and multiple regression, confirmed our expectations. For example, a team that could successfully dominate the agenda was more likely to perceive success in distributive bargaining, while success in integrative bargaining was facilitated by the negotiators' having a cooperative motivational orientation toward each other.

The research bodes well for both theory and practice. Although we found the existence of three and not four theoretical constructs, the validity of the underlying model is not severely challenged. Our inter-

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MODEL OF CONDITIONS AND BEHAVIORS RELATED TO  
WALTON AND MCKERSIE'S FOUR TYPES OF BARGAINING



views confirmed that distributive bargaining is the norm, and that any movement toward integrative bargaining must be accompanied by an attempt to change attitudes. Additionally, the training of negotiators could be facilitated through the use of this model. The FMCS Relations By Objectives program is one such effort that attempts to develop problem-solving attitudes and behaviors in negotiators.

## DISCUSSION

RICHARD N. BLOCK

*Michigan State University*

The dissertations presented indicate the variety of research methodologies and paradigms that can be accommodated in industrial relations. Two of the dissertations are rooted in economics, one in the behavioral sciences, and one in the institutionalist tradition.

Professor Saltzman's research is based on economics. He examined the determinants of the extent of teacher bargaining across states and the nature of teacher bargaining laws. With respect to the first question, his results suggest that teacher bargaining is, as would be expected, associated with urban industrialized states. He also found that teacher bargaining was associated with states that have a higher percentage of male teachers. His qualitative results imply that the spread of teacher bargaining was aided by an attitude of acceptance of teacher unions among school boards and superintendents. The strength of collective bargaining legislation seems to be determined primarily by the extent to which state politics are controlled by the Democratic Party and the influence of the labor movement in state politics.

Professor DeFreitas analyzed the earnings profile of immigrants in the American labor market. Although never explicitly stated, his results seem to imply that, after an initial period of adjustment of approximately four years, the labor market performance of immigrants seems to be quite similar to what it would have been if they were not immigrants. For example, he found that after four years in the labor force, there was no unemployment rate differential for men after controlling for race and educational attainment. Similar results for men were also evident for occupational mobility and earnings. His results also suggest that there is some self-selection among immigrants, with some (male immigrants, at least) tending to show more motivation and greater investment in human capital. Female immigrants, on the other hand, seem to perform more poorly in the labor market than female native-born workers. He attributes this to cultural differences regarding the role of women in the United States vis-à-vis other countries.

Professor Cabelly uses a behavioral approach to test the Walton-

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McKersie model of collective bargaining. Using data from public school districts in the State of Washington, he found that distributive bargaining is likely to occur when one party has a great deal of bargaining power relative to the other party and can dominate negotiations. Integrative bargaining and attitudinal structuring tended to collapse into one construct, and generally took place when the parties displayed cooperation with each other and a great deal of trust. Intraorganizational bargaining tended to occur in situations where the bargaining team was cohesive, yet provided each member a substantial amount of input into the team's decision-making process. In essence, he seems to suggest that when the parties do not get along and when parties are unequal in bargaining power, distributive bargaining will result; otherwise the result will be integrative bargaining-attitudinal structuring.

Professor Owens used an institutional methodology to study the extent to which arbitrators abided by the deferral guidelines established by the Supreme Court in the *Gardner-Denver* decision, i.e., similarity between the antidiscrimination clause in the agreement and Title VII, procedural fairness, adequacy of the record on discrimination, and competence of the arbitrator. He examined 97 published arbitration awards that were issued between April 1974 and December 1980. In general, he found that there was no conscious attempt by arbitrators to follow the guidelines established by *Gardner-Denver*. Although "over two-thirds" of the cases had agreements with antidiscrimination provisions similar to Title VII, in only 43 percent of the cases did the arbitrators refer to public law. There seemed to be no special interest in insuring procedural fairness and, while "over one-half" of the arbitrators were members of the National Academy of Arbitrators, there seemed to be no indication that the arbitrators chosen had special competence or expertise in employment discrimination matters.

### General Comments

Under the assumption that these dissertations are representative of the research done by new entrants into industrial relations, do these dissertations tell us anything about the directions which industrial relations research may take over the next five to ten years? It seems to me that new Ph.D.s should have more than a set of up-to-date research tools. In addition, because they are not burdened by viewpoints and experiences of more senior researchers, they should also be asking questions that have seldom been asked, or answering questions that have seldom been answered. Two of the dissertations seem to be doing this, and the other two have the potential for doing so.

The DeFreitas and Cabelly dissertations seem to meet this standard.

DeFreitas's study of labor market performance of immigrants is an issue that has seldom been studied by economists, although apparently it has been a much-studied issue in sociology. His insights and findings are not only important in and of themselves, but they also raise questions about the role of motivation in reducing the unexplained variation in the human capital earnings equation. Cabelly's attempt to analyze empirically the Walton-McKersie model of negotiations is a welcome occurrence in the field. Generally, it is an example of the contribution that behavioral scientists can make to the study of industrial relations and collective bargaining. But we still need more knowledge of the determinants of attitudinal differences between the parties to collective bargaining.

The Saltzman and Owens dissertations contain the seeds of some new insights into the field. Saltzman said that the spread of teacher unionism was aided by an accepting attitude on the part of school administrators and boards of education. What caused this accepting attitude? In addition, if Saltzman can extend his analysis from teachers in particular to white-collar workers in general, he will make a significant contribution.

Owens's piece may contain more implications for unions, employers, and employees than for arbitrators. Why were there only 97 published arbitration cases dealing with racial discrimination in six-and-one-half years? Is racial discrimination not a major problem among unionized employees? Are unionized employees not taking their racial discrimination claims to the grievance procedure? Are racial discrimination claims being taken to the grievance procedure but not being processed to arbitration? Finally, based on the cases that were published, it seems that there is no great interest on the part of the parties in building a record to which courts may defer.

All four of the dissertations address important areas. Even more important, however, they all suggest as many or more questions than they answer. This, it seems to me, is a test of whether research makes a contribution.

## DISCUSSION

GEORGE H. HILDEBRAND

*University of Iowa*

These four papers well reflect two major trends in the development of research in the field of industrial relations. First, they exhibit a growing competence in the application of statistical procedures to what was once an almost entirely qualitative, institutional, and historical field. This is all to the good, for we need to know more about correlations and causal relationships involving the behavior of people in our area of study. The only latent danger in this new trend is the possibility that it will displace some important earlier intellectual interests that continue to require attention if the field is to prosper in a balanced way.

The second trend to be noticed is the extensive diversity of the field of industrial relations, as these papers well demonstrate. They range from the earnings of immigrant groups to the influence of protective legislation upon the organization of school teachers. This diversity is sound, because it reflects the complexity of the material itself. It also promotes a certain breadth of interest that encourages the development of some very valuable skills among professionals working in the field.

Next, let me venture a few general comments upon each of the four abstracts before us today. I shall do so with explicit acknowledgment that I have not had the complete papers before me. The first one, by Gregory M. Saltzman, contains the finding by means of sampling and multiple regression technique that "the single most important cause of the spread" of teacher collective bargaining has been legislation to promote majority choice regarding bargaining representation. This is hardly surprising when one reflects upon it: where would labor relations in the private sector of industrial relations in this country be today if the Wagner Act of 1935 had not imposed the duty to bargain? I think it very doubtful that the great unions of the former CIO ever would have emerged. Saltzman's paper also raises a collateral question: will the teacher organizations be able to turn to political action, as he suggests, with any success at the very time that their market environment is deteriorating? I doubt it, particularly because the demand side of the teacher labor market is so closely linked to the politics of public spending. If those politics turn toward contractions in spending, their

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very nature will make them unfriendly to political influence from the beneficiaries of that same spending.

Stephen D. Owens has raised a very different question. He asks to what extent have arbitrators in contract application disputes followed the precepts of *Gardner-Denver* in grievances charging racial discrimination. These precepts were that "great weight" could be given a particular award by a court if (1) the contract had a Title VII-type of clause; (2) the proceeding was "fair"; (3) the record was adequate; and (4) the arbitrator had the necessary competence to deal with such disputes. To me, the most interesting finding was the absence of a "concerted attempt" to follow the precepts set out by the Supreme Court. Does this mean that the profession of voluntary labor arbitration has yet to resolve the tough question: which is to govern in discrimination cases, the contract or the law and public policy?

The third paper, by Gregory DeFreitas, raises a very interesting problem: the comparative behavior of earnings over time of various immigrant groups relative to native-born groups of otherwise comparable characteristics—within the United States. DeFreitas finds that unemployment rates for immigrants are lower; that their occupations mobility profiles are U-shape; and that, given enough time, their earnings ultimately have exceeded those of the comparable native-born cohort. His reasons for these characteristics of the earnings of immigrant groups are well-stated and persuasive. However, there are some further questions that are worth exploration. One of them is: how do the earnings profiles compare as among the groups through time and across the groups at all times? I have in mind here the extremely important suggestion by Thomas Sowell that Orientals, Poles, and West Indian Blacks have led all other groups, including native-born white Americans, in earnings, after standardization has been employed to make the groups as comparable as possible. Perhaps what we have here is the ethnic factor of strong self-motivation, which as a cultural difference can vary among groups.

The last paper by Allan Cabelly, has applied the Walton-McKersie ideal types for different kinds of negotiating relationships, using for his data base the public school systems of the State of Washington. This study illustrates once more the high contemporary interest in teacher collective bargaining, an interest that while surely justifiable now seems to be passing the bounds of true proportion. More important, Professor Cabelly has found that "integrative bargaining and attitudinal structuring" actually emerge into one ideal type rather than two. In consequence, Cabelly says, dominating teams tend to approach their task as one of *distributional* bargaining, while integrative bargaining requires



a particularly intense mutual interest in cooperation. Given the current plight of some of our traditional industries today—for examples, steel, automobiles, and construction—do these findings have any potential importance? I think that the answer is strongly affirmative.

In these troubled industries, the adversarial bargaining tradition has always dominated. More important, management has long accepted the adversarial tradition, and, in my judgment, is therefore the primary source of today's problems in these industries. Because of the isolation of the product markets in these industries from substantial threat of competition either from new or foreign products until the last decade or two, it has been possible to develop a kind of bilateral monopoly-monopsony relationship between the employers and the unions in which substantial rents could be extracted from final consumers to be divided between the two producing groups. The adversary system has fostered this exploitative approach, but has long ceased to be serviceable in the interests either of stockholders or of rank-and-file members.

These remarks suggest certain areas of research that deserve renewed interest and attention. One of them would involve careful comparative studies among companies of their bargaining relations and systems to learn more about the potential for integrative bargaining within the American cultural tradition. The number of cases is undoubtedly small, and this will be a handicap. It would be desirable, however, to try to group the firms by industries to draw further comparisons. Examination of Scanlon plan cases should also be included. In addition, there is need for comparative bargaining studies within the private sector to learn more about those factors that promote the adversarial approach and those that instead encourage an integrative relationship.

As I suggested in Denver last year in another context, here again is an illustration of an opportunity to combine institutional with quantitative procedures for the mutual benefit of both approaches.

## V. SPECIAL MINIMUM WAGE ISSUES

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### The Case for Indexing the Minimum Wage<sup>\*</sup>

BRIGITTE SELLEKAERTS

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The wording of U.S. minimum wage legislation suggests that its purpose is the establishment of a *real* rather than a nominal wage floor. The present system of periodic legislated amendments to the Fair Labor Standards Act (FLSA) that sets the minimum wage for several years in the future is not capable of guaranteeing the purchasing power of a given minimum wage level, which has become particularly evident since the early 1970s. Minimum wage indexation, on the other hand, is an instrument of economic policy that permits the attainment of this social goal. This paper takes as given the stated goal of policy-makers, and its primary focus, therefore, is not the balancing of arguments in favor of and against indexing the wage floor. Of more direct relevance is the comparison and ranking of several automatic adjustment mechanisms to the minimum wage, based on their relative merit in preserving a real wage floor, and an assessment of the economic impact of application of such mechanisms in order to determine whether the establishment of a real wage floor conflicts with other social goals, in particular, high growth rates, price stability, and low unemployment rates.

#### I. A Feasible Set of Minimum Wage Indexing Methods

Not only are there a plethora of wages, prices, cost-of-living indexes, and poverty income indicators that may serve as the trigger for minimum wage escalation, but the adjustment mechanism with respect to each of these can be based on two alternative principles, *ex-ante* indexation and *ex-post* indexation or sliding wage scales.

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<sup>\*</sup> This paper is based on a study conducted while the author was a senior economist at the Minimum Wage Study Commission. Willy Sellekaerts provided many valuable insights.

The *ex-ante* indexation method, where new wage negotiations are slated whenever increases in consumer prices exceed a given threshold, is inappropriate for minimum wage adjustments, first, because it is a method requiring a collective bargaining framework and, second, because wage increases are scheduled in advance on the basis of a forecast of consumer price increases, which may not be accurate. In contrast to the *ex-ante* method, the "sliding wage scale" principle gears wage adjustments to the recent *actual* level of consumer prices, usually when this level exceeds that attained during the previous wage adjustment by more than a specified percentage. Since this method permits wage increases only after price increases have already taken place, it is not "inflationary" by design. Furthermore, it provides additional policy flexibility since the wage adjustment need not amount to 100 percent of the price increase in every time period and for every sector of the economy.

In Sellekaerts (1981), several indexes to trigger minimum wage adjustments were reviewed in detail according to their relative merits in preserving a real wage floor. Three indexes emerged as suitable for further consideration: the consumer price index with a user-cost housing component—a Laspeyres index reflecting changes in prices of a representative basket of commodities in a base period; the implicit deflator of personal consumer expenditures—a Paasche index with current period weights and presently the only official statistic that approximates a cost-of-living index; and average hourly earnings in the private business sector. The average hourly earnings index ranks last, because a real wage floor implies the use of a price and not a wage index and because average hourly earnings also reflect changes in productivity. The Minimum Wage Study Commission (1981) has recommended the use of an average hourly earnings index and thereby has implicitly recommended that minimum wage workers should not only be protected from inflation by automatic adjustments of their wages to advances in the cost of living, but that they should also share in national productivity gains. Therefore, the Commission has demonstrated concern about the preservation of the position of minimum wage workers on the income scale, relative to that of all other workers in the private sector of the economy.

## **II. A Model to Study the Economic Impact of Minimum Wage Indexation**

Tracing the macroeconomic impact of alternative minimum wage indexation schemes requires the use of an econometric model that reflects the interactions among various sectors of the U.S. economy, in

particular the interactions of wages, prices, and labor productivity with other macroeconomic variables. A modified version of the 1978 MPS Econometric Model of the U.S. Economy was selected for the analysis, for two reasons.<sup>1</sup> First, this model has a high degree of interdependence among equations and among sectors. Second, it has a proven track record as a tool to conduct macroeconomic policy studies.

To incorporate the impact of minimum wage legislation, the wage/price determination sector and the labor market were completely re-specified, estimated, and their working extensively tested, both as single equations and in the context of the complete model. A summary listing of the new equations is provided in Table 1, while a detailed description of their structure can be found in Sellekaerts (1981, Appendix B, and 1982). The overall predictive power of the resulting macroeconomic model is considerably better than that of the underlying MPS model, as demonstrated by the average number of iterations required to attain a solution and by the root mean square errors obtained from a dynamic simulation conducted over the 1973–1979 period with the two versions of the model.<sup>2</sup>

### III. Macroeconomic Impact of Alternative Minimum Wage Indexation Methods

To permit an analysis of the macroeconomic impacts of indexation applied as a long-run policy, the minimum wage increases scheduled by the 1966 and successive FLSA amendments were replaced by three hypothetical minimum wage indexation methods and the impact on the U.S. economy was simulated by means of the econometric model outlined in Section II.<sup>3</sup> It must be stressed from the outset that the macroeconomic effects of a given indexed minimum wage increase are generally not identical to those resulting from the same size increases under the present system of successive FLSA amendments, because *announced* minimum wage increases affect labor force participation rates as well

<sup>1</sup> The general working of the basic MPS model is well captured in Ando and Rasche (1971).

<sup>2</sup> In a dynamic simulation performed over the 1973:1–1979:2 period, the basic MPS model required 15 iterations to attain a solution, while the modified model required 13 iterations. The root mean square errors of selected variables were reduced as follows: from 42.6 to 14.7 for real GNP, from 17.8 to 8.8 for real consumption, from 1.6 to 0.97 for income of households, from 3.3 to 2.9 for consumer price inflation, from 1.5 to 0.7 for the unemployment rate, from 5.2 to 1.6 for total manhours, and from 3.2 to 1.3 for the GNP deflator.

<sup>3</sup> The simulations were performed for several additional forms of the sliding wage scale indexation method, varying according to (1) the length of the adjustment lag (three variants), (2) the periodicity of the adjustment (quarterly or annually), and (3) the underlying index trigger used (average hourly earnings in the private nonfarm business sector, the price index, and the implicit deflator for personal consumption).

TABLE 1  
Overview of Wage/Price and Labor Sector Equations  
Estimated for this Study

Equation <sup>a</sup>	Explanatory Variables <sup>b</sup>
Hourly compensation	Unemployment rate <sup>°</sup> Productivity <sup>°</sup> Minimum wage, adjusted for coverage <sup>°</sup> Inflationary expectations <sup>°</sup>
Producer prices	Unit labor costs <sup>°</sup> Unit domestic materials costs <sup>°</sup> Unit capital costs <sup>°</sup> Unit imported materials costs <sup>°</sup> Unused capacity <sup>°</sup> Price controls
Consumer prices	Wholesale prices <sup>°</sup> Price controls
Productivity (output per hour) and labor demand (number of workers)	Capital/labor ratio <sup>°</sup> Minimum wage expectations <sup>°</sup> Unused capacity <sup>°</sup> Employment share in federal government spending <sup>°</sup> Rate of change in nonfarm business output
Labor supply	Demographic variables, changes in military draft practices Minimum wage expectations <sup>°</sup> Unemployment rate (actual relative to trend) <sup>°</sup>
Unemployment rate (aggregate and prime-age workers)	Labor demand <sup>°</sup> Labor supply <sup>°</sup>

<sup>a</sup> The estimated behavioral equations for labor supply, productivity and labor demand are discussed in Appendix B of Sellekaerts (1981), while the equations for wage and price determination are presented in Sellekaerts (1982).

<sup>b</sup> Explanatory variables (or their components) that are themselves explained endogenously elsewhere in the econometric model are designated by an asterisk (\*).

as productivity. Moreover, the direction and the size of this difference in the impact under the two systems depend on the pattern of actual inflation and, hence, on the pattern of minimum wage increases.

In the first method, the minimum wage is adjusted on the basis of the average percent change in the aggregate consumption deflator (PC) in the four previous quarters. Percent changes in this index are fairly close to those of the consumer price index net of the mortgage interest component except when the weights in the latter are very much outdated. This was not the case in the period studied (1968–1979:2). Being an implicit deflator with current-period weights, PC closely approximates a cost-of-living measure and its use for minimum wage indexation assures the preservation of a *form* of real minimum wage floor. As an *ex-post* adjustment mechanism on the basis of four-quarter aver-

age price changes, this method is not likely to foster inflationary expectations and smooths out the impact of sudden exogenous impacts on the domestic rate of inflation. Under this scheme, the minimum wage would have increased more gradually than it did in reality, while its present level would have fallen below the one actually achieved (see Figure 1, Part A).

The second indexation policy links minimum wage increases to the previous four quarters' average percent change in the index of average hourly earnings in the private nonfarm business sector. It differs from the Minimum Wage Study Commission's recommended policy in that the latter advocates incorporation of wages in the farm sector in the index of average hourly earnings. The third method applies an annual adjustment based on the all-items consumer price index.

Estimates of the impact of the above three indexation methods are presented in Table 2. In addition to the global impact for the complete 1967-1979:2 period, the estimates are presented for relevant subperiods: 1967:1-1969:3, 1969:3-1973:4, and 1973:4-1979:1, three complete business cycles between peaks; 1973:1-1975:1, the downward phase of the last full business cycle, and 1975:1-1979:2, the upward phase of the same business cycle. The table shows that none of the three *ex-post* indexation schemes considered would have been inflationary in the long run. Although overall real GNP would have been somewhat higher, the effect is found to be rather small. The employment impact varies with the indexation method considered, but is always small. Corporate profits would be enhanced, supporting the hypothesis that firms find it easier to adjust to gradual and expected advances in unit labor costs than with ad hoc legislated increases that have occasionally served to exacerbate inflationary pressures.

The short-run impact of minimum wage indexation on the U.S. economy varies not only according to the particular underlying indexation scheme, but also according to (1) the time period during which the method is initiated, (2) the criteria of minimum wage adjustment other than adjustment of purchasing power, (3) the underlying rate of inflation, and (4) the phase of the business cycle.

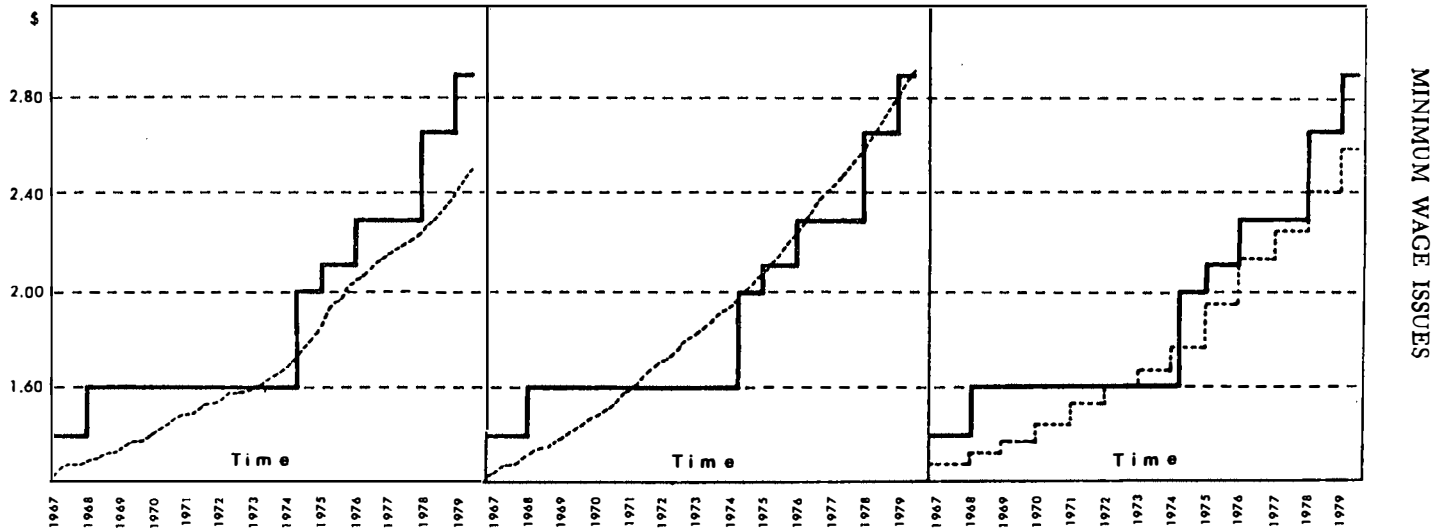
In 1977, inflation in consumer prices (all items) had cooled off to 5.74 percent while average hourly earnings growth was 7.24 percent. The 1977 amendments to the FLSA raised the minimum wage by four successive and annual increases of 15.2 percent, 9.4 percent, 6.9 percent, and 8.1 percent over the 1978-1981 span, of which the first provided a real gain no matter what yardstick for aggregate inflation is used, while the remainder did not. Resort to *ex-post* indexed minimum wage adjustments from 1978 on—disregarding other criteria of minimum

FIGURE 1  
Comparison of Legislated and Indexed Minimum Wage  
Under Alternative Indexing Scenarios<sup>a</sup>

A. Indexing Method: Quarterly adjustments on the basis of the average of the four previous quarters' rise in the implicit deflator for total personal consumption

B. Indexing Method: Quarterly adjustments on the basis of the average of the four previous quarters' rise in average hourly earnings in the private nonfarm business sector

C. Indexing Method: Annual adjustments on the basis of the previous year's changes in the all-items Consumer Price Index



<sup>a</sup> Since minimum wage changes affect inflation, price and wage patterns would have differed from their actual historical patterns under minimum wage indexation. Therefore, the indexed minimum wage levels in this figure were derived endogenously by successive approximations.

TABLE 2  
Long-Run Impact of Three Minimum Wage Indexation Schemes on Selected Variables<sup>a, b</sup>  
(Average Percentage Differences Relative to Historical Levels)

Indexing Method	Implicit Consumption Deflator (4-Quarter Average)				Average Hourly Earnings (4-Quarter Average)				Consumer Price Index (Annual Adjustment)			
	Consumer Price Inflation	Gross National Product	Corporate Profits Before Tax	Employment	Consumer Price Inflation	Gross National Product	Corporate Profits Before Tax	Employment	Consumer Price Inflation	Gross National Product	Corporate Profits Before Tax	Employment
(a) During complete business cycle												
1967:1-1969:3	+0.04	+0.02	+0.20	+0.45	+0.03	+0.04	+0.02	+0.31	+0.03	+0.05	-0.10	+0.35
1969:3-1973:4	-0.12	+0.21	+4.47	-0.08	-0.13	+0.15	+5.48	-0.38	-0.11	+0.16	+4.80	-0.07
1973:4-1979:1	-0.00	+0.05	-2.72	+0.43	-0.07	-0.01	-1.65	-0.08	-0.04	+0.06	-2.06	+0.34
(b) During an economic downturn												
1973:4-1975:1	-0.07	+0.08	+0.37	+0.24	-0.10	+0.12	-0.25	-0.15	-0.12	+0.08	+0.39	+0.12
(c) During an economic recovery												
1975:1-1979:1	+0.02	+0.03	-3.22	+0.44	-0.06	+0.05	-2.12	-0.04	-0.01	+0.04	-2.47	+0.35
(d) Average for the complete period												
1967:1-1979:2	-0.03	+0.10	+0.31	+0.27	-0.06	+0.04	+1.04	-0.09	-0.04	+0.09	+0.59	+0.21

<sup>a</sup> The simulation results were generated for all 326 endogenous variables in the econometric model, under twelve alternative minimum wage indexation scenarios and are available from the author.

<sup>b</sup> Business cycles were measured peak-to-peak.



wage adjustment—would thus have led to a smaller increase in 1978 and larger increases in 1979, 1980, and 1981. Empirical tests conducted over the 1978–1979 period indicate that a CPI-indexed minimum wage would then have been \$2.45 in 1978 and \$2.64 in 1979, rendering wholesale and consumer price inflation somewhat below their historical paths in 1978, while employment would have risen marginally.

If, on the contrary, indexing had been initiated instead of the 1974 FLSA amendments, again without any other adjustments to the minimum, the reverse pattern results. Indeed, indexation with respect to the CPI or average hourly earnings would have left the minimum wage in the neighborhood of \$2.20 in 1975, gradually increasing to \$2.70 in 1978, with the CPI-indexed minimum leading to somewhat higher values than the earnings-indexed minimum in 1976 and 1977. It is interesting to note that in 1978 the \$2.70 minimum wage would have been very close to the level actually legislated for that year, suggesting that policy-makers in 1977 may have attempted to introduce a catch-up increase compensating for previous losses in purchasing power. When the implicit deflator for personal consumption was chosen, the inflation results were slightly lower.

#### IV. Conclusion

The conclusions of this paper are threefold. First, minimum wage indexation benefits minimum wage workers by automatically guaranteeing the purchasing power of their hourly earnings. Second, this study shows that, in the long run, minimum wage indexation enhances real output growth and boosts corporate profits, while inflation is somewhat mitigated and unemployment is virtually unaffected. Third, a regime of minimum wage indexation will permit policy-makers to focus on other aspects of the Fair Labor Standards Act while being assured that the main intent of the Act is automatically achieved.

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# Minimum Wages and Agricultural Employment: A Review of the Evidence<sup>\*</sup>

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The effect of the minimum wage on employment and unemployment has received considerable attention in the empirical labor economics literature. Most of the analyses have measured the minimum wage effects on demographic subgroups of the population, and some investigate the effects on particular industry groups.<sup>1</sup> But relatively few have specifically focused on the employment effects of the minimum wage on agriculture.

Schuh (1962, 1968), Wallace and Hoover (1966), Coffey (1969), and Tyrczniewicz and Schuh (1969) have contributed to the development of the theoretical and applied modeling of the agricultural labor market. Schuh (1968), Gardner (1972, 1981), Lianos (1972), Gallasch (1975), Gallasch and Gardner (1978), and Trapani and Moroney (1981) have conducted empirical investigations of the employment effects associated with the minimum wage, and their findings are in accord with the received neoclassical theory which hypothesizes reductions in farm employment as the agricultural minimum wage rises.

The purpose of this research is to present a review of the previous empirical studies and to extend that research by employing a new model to test the robustness of the measured minimum wage effect.

## Review of the Literature

Following the standard competitive labor market model, an increase in the minimum wage would cause optimizing employers to reduce the quantity of labor that they demanded. On the supply side, workers would offer more of their services at the higher wage. The result would be an excess supply of labor as fewer jobs are now rationed among

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<sup>1</sup> See Brown, Gilroy, and Kohen (1982) for a survey of the literature.

more workers. All studies unequivocally support the competitive hypothesis that increases in the mandated minimum result in adverse employment effects. While the negative direction of impact is quite clear, however, the magnitudes of these effects appear to vary considerably.

Schuh (1968), for example, found that a 10 percent increase in the minimum wage would reduce agricultural employment by 2.6 and 4.9 percent in the short and long run, respectively. Grise (1971) concluded that if the minimum wage were set between 9 and 50 percent above the prevailing average farm wage, the decline in the hired farm workforce would vary between 2 and 10 percent in the short run and 8 and 33 percent in the long run. Gardner (1972) estimated that the 1966 extended minimum wage coverage reduced hired farm employment by about 18 percent from what it would otherwise have been in the 1967–1970 period. Lianos (1972) found the reduction in farm employment to be between 24 and 51 percent over the years 1967–1969. Using pooled cross-section data, Gallasch (1975) estimated that a 10 percent increase in the agricultural minimum wage would result in a decrease of 6 percent in hired farm worker employment in 1971. Using Census data, Gallasch and Gardner (1978) found that minimum wage legislation reduced hired agricultural employment about 42 percent from what it would otherwise have been in 1970. Gardner (1981) estimated that the minimum wage reduced the number of hired farm workers by about 115,000 or 9 percent of its 1978 level. Finally, Trapani and Moroney (1981) found that extended (1966) minimum wage coverage accounted for 65 percent of the 93,000 cotton-worker jobs eliminated between 1967 and 1969.

Unfortunately, it is difficult to compare the results of these studies since they differ considerably in time period analyzed and variables included. Furthermore, it is difficult to assess how differences in the models affect the results since most authors did not report how their findings changed as a result of changes in variables or equation specification. Nonetheless, for some studies a point employment elasticity can be derived.<sup>2</sup> The estimated elasticities are the effects of a 10 percent increase in the minimum wage (i.e., 10 times the elasticity) and range widely from  $-0.7$  to  $-6.6$ .

### The Model

The time-series studies which estimate the effect of the minimum wage on agricultural employment have most often utilized a single-

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<sup>2</sup> In a linear equation, the employment elasticity equals the regression coefficient of the minimum wage times the value of the ratio of the minimum wage to agricultural employment at some point in time. This is generally the last period (year) of the data time series.

equation model of the form  $Y = f(MW, NW, T, X_1 \dots X_n)$ , where the dependent variable  $Y$  is the measure of the level of hired agricultural employment. Independent variables include  $MW$  as the agricultural minimum wage;  $NW$  as the average wage in nonagricultural industries, a measure of the opportunity wage;  $T$  as a time trend; and  $X_1 \dots X_n$  as other exogenous variables such as the cost of nonlabor inputs, amount of land in use, and farm product prices. Although a business-cycle variable is not explicitly included, its effect is accounted for in  $NW$  since  $NW$  is multiplied by one minus the unemployment rate to adjust for the likelihood that a farm worker may not find work at the opportunity wage.

### *Replication of the Basic Model*

As an initial step, preliminary equations were estimated using ordinary least squares (OLS) with annual data over the 1946–1978 period. The variables used in the analysis were:  $MW$ , the federally mandated minimum wage in agriculture;  $UR$ , the unemployment rate in the non-agricultural sector;  $AHE$ , average hourly earnings of workers on non-agricultural payrolls;  $NW$ , the product of average hourly earnings ( $AHE$ ) and 1 minus the unemployment rate ( $1 - UR$ );  $PROD$ , an index of prices received by farmers for products sold;  $INPUT$ , an index of prices paid by farmers for nonlabor inputs;  $LAND$ , an index of the price of agricultural land; and  $T$ , time (1946=1, etc.). All nominal variables were deflated by the Consumer Price Index (CPI).

The variations incorporated here include: (1) a dummy variable ( $DUM$ ), which assumes the value of 1 for the years 1974 through 1979, and 0 for all years prior to 1974, to account for the sharp discontinuity of the agricultural employment series as a result of significant changes in the sample design and collection procedure of the Agricultural Labor Survey (ALS);<sup>3</sup> (2) a family labor variable ( $FAM$ ), the ratio of the number of family workers to *all* agricultural workers, to test for the substitutability of family labor for hired labor; and (3) the separation of the nonfarm wage variable ( $NW$ ) into its alternative nonfarm (opportunity) wage component ( $AHE$ ) and the unemployment (cyclical) component ( $UR$ ). Previous research has unnecessarily constrained these factors to ratio form.

Table 1 reports the results of variants of a typical equation found in the literature. The coefficient of the minimum wage variable ( $MW$ ) is negative and statistically significant in all equations (lines 1–4). The nonfarm wage variable in constrained form ( $NW$ ) in lines 1 and 2 is negative and significant, indicating that increases in the opportunity

<sup>3</sup> For an extensive discussion of this survey, see Holt and Elterich (1981).

TABLE 1  
Regression Coefficients Explaining Hired Farm Worker Employment, 1946-1978

	<i>MW</i>	<i>NW</i>	<i>PROD</i>	<i>INPUT</i>	<i>LAND</i>	<i>FAM</i>	<i>DUM</i>	<i>T</i>	<i>AHE</i>	<i>UR</i>
1.	-94.2 (2.42)	-668.3 (4.01)	-661.5 (3.19)	1098.9 (3.19)	-18882.1 (1.78)	-103.9 (1.03)	241.3 (1.88)			
2.	-88.3 (2.20)	-584.8 (2.90)	-713.7 (3.24)	1081.5 (3.11)	-15807.5 (1.38)	-106.1 (1.04)	279.2 (2.01)	-8.5 (0.75)		
3.	-92.4 (2.34)		-689.8 (3.08)	1080.3 (3.10)	-17897.4 (1.66)	-98.9 (0.97)	260.5 (1.91)		-678.2 (3.87)	14.0 (1.04)
4.	-84.7 (2.03)		-691.3 (3.05)	1093.1 (3.09)	-13152.5 (0.98)	-106.2 (1.02)	276.7 (1.97)	-16.4 (0.61)	-432.1 (0.98)	25.5 (1.10)
5.	-59.0 (1.16)	-400.8 (2.35)	-582.2 (2.76)	1055.2 (3.15)	-34244.4 (3.07)	-153.9 (1.35)	386.3 (3.00)			
6.	-9.6 (0.20)	-241.7 (1.57)	-732.4 (3.76)	906.1 (2.99)	-13468.5 (1.02)	-148.6 (1.44)	432.2 (3.84)	-36.5 (2.70)		
7.	-35.6 (0.73)		-696.2 (3.45)	789.9 (2.37)	-24284.1 (2.08)	-151.6 (1.41)	403.1 (3.44)		-732.9 (3.13)	-17.3 (1.33)
8.	-9.9 (0.20)		-736.9 (3.70)	861.6 (2.61)	-14811.6 (1.09)	-149.5 (1.41)	428.9 (3.73)	-29.0 (1.40)	-373.3 (1.08)	-1.7 (0.10)

Note: *t*-statistics in parentheses below coefficients.

(nonfarm) wage result in decreases in agricultural employment as workers are attracted by job opportunities in the nonagricultural sector.

Two variables whose signs are indeterminate are the index of prices *received* by farmers for products sold (*PROD*) and the index of prices *paid* by farmers for (nonlabor) inputs (*INPUT*). One might expect a positive relationship for *PROD* as farmers respond to increasing prices by expanding output. However, there is no a priori basis for expecting either a positive or negative sign, since Silberberg (1978, pp. 107–13) has shown that “. . . an increase in output price can lead to an increase or a decrease in the use of either factor.” Following Gardner (1981) *PROD* enters the regression equation with a one-period (year) lag as farmers are assumed to make production and hiring decisions on the basis of product prices observed in the past.

In terms of the price of materials variable (*INPUT*), one must have some a priori knowledge about the demand elasticities for nonlabor inputs before any predictions can be made on the direction of their effect in a labor demand equation. Its consistently positive and significant sign does show that as the costs of material inputs fall, farmers would substitute nonlabor inputs for the (relatively) more expensive labor.

On the other hand, the price of land (*LAND*) varies inversely with the amount of agricultural labor hired. Although its effect is not significant, some complementarity between these inputs is indicated.

The coefficient of *FAM* is also negative (although not significant), lending support to the hypothesis that hired and family workers are to some extent substitutable.

Finally, a trend variable (*T*), testing for secular influences not explicitly accounted for by other variables, verifies the overall downward trend in agricultural employment over the last three decades (lines 2 and 4). This variable, however, is insignificant.

Lines 3 and 4 separate the components of the nonfarm wage variable (*NW*) into *AHE* and *UR*. In these “unconstrained” equations the sign of *AHE* is everywhere negative, as expected (and significant in those equations excluding a time trend). Moreover, *UR* is positive (although insignificant) indicating that as unemployment rises in the nonfarm sector and the probability of finding employment there lessens, agricultural employment tends to rise. Indeed, Schuh (1962, p. 319) has argued that during declines in nonfarm economic activity, workers have been forced into agricultural employment where there are jobs, albeit at a lower wage.

Regardless of model specification, the size of the minimum wage effect remains quite stable. At 1978 values, a 10 percent increase in the

minimum wage is estimated to reduce agricultural employment by about 1.2 percent or about 15,000 workers.

However, because the OLS equations showed appreciable serial correlation in the disturbance terms, the equations were reestimated using generalized least squares (GLS) using the Cochrane-Orcutt method. The GLS estimates of the impact of a 10 percent increase in the minimum wage are considerably reduced—about half as large in those equations with no time trend ( $T$ ), and even smaller in those with  $T$  included (Table 1, lines 5–8). Most striking is the result that  $MW$  has lost its significance in all equations.

TABLE 2  
Estimated Effect of a 10 Percent Increase in the Minimum  
Wage on Hired Agricultural Employment<sup>a</sup>  
(In percent)

Specification	Constrained <sup>b</sup>		Unconstrained <sup>b</sup>	
	Linear	Logarithmic	Linear	Logarithmic
1. Basic <sup>c</sup>	-2.56 (2.16)	-1.57 (1.05)	-3.23 (2.42)	-2.03 (1.23)
2. Basic + <i>LAND</i> + <i>TECH</i>	-4.36 (2.49)	-4.61 (1.91)	-5.80 (3.08)	-5.34 (2.05)
3. Basic + <i>LAND</i> + <i>TECH</i> + <i>FAM</i>	-4.65 (2.57)	-3.20 (2.16)	-6.27 (3.22)	-3.63 (2.29)
4. Basic <sup>d</sup>	-1.47 (2.38)	-1.69 (0.93)	-1.86 (2.70)	-2.27 (1.14)
5. Basic + <i>LAND</i> + <i>TECH</i>	-2.68 (2.76)	-5.25 (1.83)	-2.98 (3.05)	-5.39 (1.83)
6. Basic + <i>LAND</i> + <i>TECH</i> + <i>FAM</i>	-2.76 (2.79)	-3.11 (1.75)	-3.12 (3.14)	-3.22 (1.79)

<sup>a</sup> Generalized least squares (GLS).

<sup>b</sup> Constrained or unconstrained refers to the form of the important nonfarm wage variable.

<sup>c</sup> The basic specification includes  $Q_2$ ,  $Q_3$ ,  $Q_4$ ,  $DUM$ ,  $MW$ ,  $PROD$ ,  $INPUT$ , and either the constrained or unconstrained version of the nonfarm wage variable.

<sup>d</sup> In addition to the variables listed in note c,  $COV$  is also included in the basic specification.

*t*-statistics in parentheses below coefficients.

Because serial correlation is evident in the data used here, the GLS estimates are to be preferred. The OLS equations are included, in part, because correction for serial correlation in the literature is rare. As a result, the apparent sensitivity of the estimates to the OLS-GLS choice has not been discussed in any of the studies. This is an important issue since it appears to call into question both the size and significance of the negative employment effects found in the literature.

### *Extension of the Basic Model*

This section presents additional time-series evidence of the effects of the minimum wage on agricultural employment. Those refinements discussed in the previous section (the inclusion of *DUM*, *FAM*, and the unconstrained version of *NW*) are also incorporated here as part of the extension of the basic formulation. As before, all nominal variables are deflated by the CPI. Further refinements to this model, however, are made.

First, the time period is limited to that during which the minimum wage was applicable to agricultural workers—1967 to the present (1979).

Second, quarterly data are used instead of annual observations. As a result, three dummy variables are included in the equation to account for seasonal influences ( $Q_2$ ,  $Q_3$ , and  $Q_4$  for the second, third, and fourth quarters, respectively). Quarterly data permit us to more precisely capture changes in the minimum wage since the change is often mandated to take effect at a time other than at the beginning of a calendar year.

Third, a measure of technical change (*TECH*), is introduced to account for innovation in agriculture.<sup>4</sup> First used by Schuh (1962), the form of this variable in the present study is that suggested by Griliches (1964) and later employed by Wallace and Hoover (1966), Gallasch (1975), and Gallasch and Gardner (1978). The variable is the sum of expenditures on experiment station research and extension work. A two-quarter lag was chosen as performing best.

Fourth, an attempt is made to account for changes in coverage of agricultural workers (*COV*) under the Fair Labor Standards Act (FLSA). Although coverage data are not rich, none of the studies attempted to control for any changes in coverage, nor was there any mention in the studies of its potential impact.

Finally, the analysis is extended to include the estimated employment effects by sex and age using data from the Current Population Survey (CPS).

Table 2 presents the minimum wage estimates using various specifications of the new estimating equation. The four columns reflect differences in the functional form of the equation (linear or double-log) and the form of the important nonfarm wage variable (constrained or unconstrained).

The rows of Table 2 differ in the control variables included in addition to the minimum wage variable in explaining farm employment (see

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<sup>4</sup> When a time trend is added to the complete equation which also includes technology, the size and significance of the minimum wage variable is adversely affected (not shown). For discussions of the relationship between *T* and *TECH*, see Schuh (1962, 1968) and Tyrczniewicz and Schuh (1969).



Table 2, notes c and d). The coefficients from these regressions have been converted to reflect the percentage change in agricultural employment as a result of a 10 percent increase in the minimum wage.<sup>5</sup> All equations are corrected for serial correlation.

The minimum wage effect is statistically significant at conventional levels in most equations, although the size of the impact shows some variation. The preferred model is that which is most complete, including all variables with sound theoretical basis (lines 3 and 6). Of these, the formulation which includes *COV* to account for changes in the proportion of workers subject to the provisions of the FLSA is most desirable (line 6).

The coverage variable is everywhere positive, but very small and statistically insignificant (not shown). Like most studies of the non-agricultural sector, coverage effects are found to be weak. This is not altogether unexpected as the proportion of farm workers covered is relatively low; with little variation, it has hovered about the 45 percent level throughout the 1970s.

Among the four estimates in line 6, the model which includes the unconstrained version of the nonfarm wage variable makes more intuitive sense. Combining average hourly earnings and unemployment into one variable (common to all previous studies which measure this effect) assumes that a given change in each affects agricultural employment the same. There is no basis to assume this would be true.

The choice between functional forms is more complicated. The tendency is to prefer the logarithmic specification as variance in the dependent variable is compressed; standards are then more stringent for levels of significance. The employment elasticities, then, become only marginally significant at conventional levels. The choice is not clear-cut, however, but the new estimates of the minimum wage variable from the preferred model imply an employment reduction of slightly over 3 percent, or 41,000 jobs. These employment effects are somewhat lower than those reported in line 3, but the difference between elasticities from the linear and logarithmic equations is generally less.

Employment data from the Current Population Survey permit the estimation of minimum wage effects in agriculture by sex and age. The employment elasticities for all workers and men remain fairly stable (between 2 and 3 percent) and statistically significant depending upon variables included (Table 3). This implies reductions in employment

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<sup>5</sup> In double-logarithmic equations, the coefficient of the minimum wage variable is simply the employment elasticity. In a linear equation, the elasticity equals the regression coefficient times and *mean* value of the ratio of the minimum wage to hired employment over the sample period.

of between 78,000 and 92,000 for all agricultural workers and between 55,000 and 80,000 for men.<sup>6</sup>

TABLE 3  
Estimated Effect of a 10 Percent Increase in the  
Minimum Wage on Agricultural Employment by Age and Sex<sup>a</sup>  
(In percent)

Specification	16 Years and Over	Men, 16 Years and Over	Women, 16 Years and Over	16-24 Years	25 Years and Over
Constrained <sup>b</sup>					
1. Basic <sup>c</sup>	-2.80 (2.51)	-2.74 (2.65)	0.15 (0.08)	-5.06 (3.46)	-2.10 (1.81)
2. Basic + <i>LAND</i> + <i>TECH</i>	-2.75 (2.00)	-2.45 (2.03)	-4.71 (1.88)	-5.37 (2.47)	-1.85 (1.45)
Unconstrained <sup>b</sup>					
3. Basic <sup>c</sup>	-2.79 (3.08)	-2.99 (3.42)	-1.39 (0.90)	-4.44 (2.85)	-2.29 (2.62)
4. Basic + <i>LAND</i> + <i>TECH</i>	-2.37 (1.84)	-2.09 (1.77)	-3.26 (1.46)	-5.71 (2.57)	-1.63 (1.27)

<sup>a</sup> Generalized least squares (GLS), logarithmic form.

<sup>b</sup> See note b, Table 2.

<sup>c</sup> See Note c, Table 2. *DUM* and *COV* are excluded since CPS rather than the ALS data are used.

*t*-statistics in parentheses below coefficients.

Although less significance is exhibited in the estimates for women, significant disemployment effects are reported for youth workers, 16-24. In the preferred model, a 10 percent increase in the minimum wage is estimated to result in a 5.7 percent decrease in youth employment in agriculture. Although larger, these results are consistent with those found in the literature estimating employment effects for *all* youth (Brown, Gilroy, and Kohen, 1981).

## Conclusion

Although all studies which estimate the impact of the minimum wage on agricultural employment find negative employment effects, the

<sup>6</sup> Despite the consistently negative employment effects found using both the CPS and ALS data, significant conceptual and methodological differences in the surveys exist which make the elasticities derived from equations based on both data sets not strictly comparable. For example, the ALS survey separates hired from family agricultural workers; in the CPS there is no way to distinguish between the two. Also, the CPS is limited to persons 16 years and over; the ALS has no age cut-off. In addition, the ALS counts all persons who do any agricultural work, including those with other jobs; the CPS includes only those whose major activity is agriculture. Finally, ALS data are collected four times a year on a quarterly-month basis from a sample of about 5,000 farm establishments, whereas the CPS is a monthly survey of about 65,000 households from which quarterly *averages* can be calculated.

differences in the measured effects are substantial. This study has attempted to extend the body of literature by estimating employment effects from two major data series, experimenting with various combinations of control variables as well as the form in which they appear, and by presenting estimates from equations using different functional forms with adjustment for persistent serial correlation.

The preferred estimate, which is based on a more complete model (including changes in both the *level* and *coverage* of the minimum wage) and a more up-to-date sample period than most of the previous studies, suggests that a 10 percent increase in the minimum wage would reduce hired agricultural employment by about 3 percent. This result appears to be quite robust as the estimated elasticities remain fairly stable when various combinations of theoretically appropriate control variables are included. Preferred estimates based on data from the Current Population Survey are also quite similar—within the 2.1 and 2.4 percent range. Disemployment among youth farm workers is considerably larger—about 5.7 percent in response to a 10 percent increase in the agricultural minimum wage.

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# The Role of Minimum Wages in the Rural South

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The federal minimum wage is applied uniformly across the country, but its impact is hardly equal in all areas. Effects will be greatest in those areas where a substantial portion of the workforce is employed in jobs paying at or below the established minimum wage. Relative to urban areas, a higher proportion of persons living in rural areas who are employed are subjected to low wages. Thus, rural areas in general and the rural South in particular, because it contains over 40 percent of the nation's rural population, will be affected disproportionately by minimum wage policy. For example, one study of the rural South found, in the Spring of 1974, that the average wage for the study population was \$2.69, substantially below the national average and that the wage distribution was skewed toward the lower end.<sup>1</sup> More importantly, over half the workers received an hourly wage equal to or below the existing federal minimum.<sup>2</sup> Such findings reinforce the belief that the minimum wage has a particular significance for the rural South.

In spite of the seemingly self-evident importance of the minimum wage, little research has been undertaken to assess the role of minimum wage policy in rural areas generally or in the rural South. Most studies have viewed the minimum wage from a national perspective even when the research involved subgroups such as teenagers. When research has included rural areas it has almost always involved estimating total employment effects. Analysis of people affected in rural areas, particularly the working poor, has not been forthcoming. There are several reasons for this apparent gap in minimum wage research. First, numerically, most minimum wage workers live in urban areas. A survey for the Minimum Wage Study Commission provides evidence of this attitudinal problem when it notes that 70 percent of all minimum wage workers

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<sup>1</sup> Brian Rungeling, Lewis Smith, Vernon Briggs, Jr., and John F. Adams, *Employment, Income and Welfare in the Rural South* (New York: Praeger Publishers, 1977).

<sup>2</sup> Rungeling et al.

are found in metropolitan areas.<sup>3</sup> No further discussion of rural workers is contained in the survey. Moreover, among the many support papers developed for the commission, none deals specifically with rural areas.

A second factor which helps explain the dearth of rural minimum wage research is the unfortunate tendency to equate rural workers with agricultural workers. An extensive literature has developed dealing with the effects of the minimum wage on agricultural workers and on agricultural employment. These studies often form the basis for discussions of minimum wage effects in rural areas. Yet, in 1970, only 12 percent of all rural workers and 11 percent of rural workers in the South were employed in agriculture.<sup>4</sup> Unless most minimum wage jobs in rural areas are in agriculture, which in fact they are not, the major effect of the minimum wage should be felt in nonagricultural employment.

Finally, minimum wage research is hindered by lack of data for rural areas. This deficiency stems in large part from the apparent inability to develop a common definition of what constitutes a rural area. There is little problem noting the difference between New York City and a county in Appalachia. It is the effort to distinguish between what is not obviously "urban" and that which is not obviously "rural" that encounters difficulty.

Efforts have been made to develop a measure of the degree to which an area is "rural." One such attempt identified 11 different indices which had been used by a federal agency or researcher at some time to distinguish rural from urban areas.<sup>5</sup> The Bureau of the Census, for example, defines a rural county as one in which there is no town with a population over 2,500. Alternatively, the Department of Labor defines a county as rural if the majority of the population lives in places of less than 2,500. The term nonmetropolitan, referring to counties with a population of less than 50,000, is increasingly being used interchangeably with rural. Such a definition may be convenient for delineating areas in order to collect data, but it does not cover the array of social and economic conditions that characterize nonurban places. In particular, equating nonmetropolitan with rural tends to submerge the important unique characteristics of rural areas among those of medium-sized cities. As a result, the data needed to study the effect of the minimum wage,

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<sup>3</sup> Curtis Gilroy, "A Demographic Profile of Minimum Wage Workers," in *Report of the Minimum Wage Study Commission*, Vol. II (Washington: U.S. Government Printing Office, 1981), p. 169.

<sup>4</sup> Ray Marshall, *Rural Workers in Rural Labor Markets* (Salt Lake City: Olympus Publishing Co., 1974), pp. 70-71.

<sup>5</sup> Some indices are based upon geography and population, such as population density or distance from an SMSA. Others are more economic such as an index of business activity or an economic development index. Most use some combination of geographic, social, and economic factors.

and many other important policy questions relating to rural areas, do not exist or are virtually impossible to separate from national data.

The purpose of this paper is to look at the possible unique role of minimum wages in rural areas by developing a profile of minimum wage workers in the rural South based upon a 1974 study of rural southern labor markets.<sup>6</sup> In addition, the paper addresses a particular aspect of minimum wage policy which has major implications for the rural South—the relationship between rural poverty and the minimum wage.

### **Rural Southern Labor Markets<sup>7</sup>**

In order to better understand the possible significance of minimum wage legislation, it is necessary to have a realistic picture of rural southern labor markets. The contrast between the rural South and the much discussed prosperity of the "Sunbelt South" could hardly be sharper. The rural South counts its workforces not in thousands or even hundreds. In the 1974 survey of rural southern labor markets, only 8 percent of the enterprises studied had more than 100 employees; nine out of ten had fewer than 20 and three out of four had seven or less. Not only are establishments small, the industrial base of the rural South is quite narrow and concentrated in low-wage industries. The majority of residents of the rural South find employment only in low-wage occupations. Operatives and general laborers are overrepresented relative to the rest of the nation.

On the one hand there is the predominance of low-wage occupations, many in the agricultural sector, and on the other there is the scarcity of jobs relative to the labor supply. Agricultural employment was for generations the mainstay of the local economy and it remains important despite its diminished role. The decline in agricultural employment has usually not been compensated for by increases in non-agricultural employment. New industries are sought, but more often than not the prevailing local interests prevent the entrance of new industries which compete for the small local pool of "good" labor. Those new industries which have come to the rural South were in general looking for cheap labor and low taxes, and they did little to upgrade the skills of workers or to broaden their opportunities. The minimum wage usually became the local prevailing wage for the majority of workers. In fact, the wage rates and hours of work reported by many of the families in the 1974 survey indicate that even the minimum wage

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<sup>6</sup> John F. Adams et al., *Report of the Southern Rural County Labor Force Study*, submitted to the U.S. Department of Labor, Manpower Administration, August 1976.

<sup>7</sup> The description of rural southern labor markets developed in this section is taken from Rungeling et al.

and overtime provisions of the Fair Labor Standards Act are often unobserved.

Not only are many firms low-wage in terms of hourly rates, but when the overall wage package is considered they are even lower. Fringe benefits offered by employers are limited, often consisting only of a few paid holidays and a small Christmas bonus. Insurance benefits are small and usually paid in part or in total by the employee.

Labor force participation rates are low in the rural South relative to national rates, a fact related both to available job opportunities and to local labor force characteristics. The available labor supply contains a disproportionate number of persons with few if any skills. Educational attainment is low. In fact in many rural southern counties more than half the adults over age 25 failed to finish high school and most stopped short of the eighth grade. Additionally, massive out-migration in the past, primarily of younger persons, has left the rural South with a labor force that is relatively old.

In short, rural southern labor markets are characterized by small, low-wage firms and a surplus of available labor, much of which is not reflected in official labor force data.<sup>8</sup> This surplus of labor in part explains the low labor force participation rates found in the rural South relative to urban areas. Given the labor force characteristics and the type of employment opportunities available, it is little wonder that poverty is pervasive even among those who are employed.

### **Minimum Wage Workers in the Rural South**

The nature of rural southern labor markets and local labor forces leads to an expectation that a profile of minimum wage workers might include characteristics significantly different from those for a national profile. The characteristics depicted in Table 1 are based upon primary data taken from a survey of 2,537 rural southern households conducted in 1974 for the U.S. Department of Labor.<sup>9</sup> The study sample contained 2,082 persons 16 years of age or older who were employed at the time of the survey. Almost half were minimum wage workers, that is, their hourly wage rate was at or below the prevailing minimum wage of \$2.20 per hour.

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<sup>8</sup>Rungeling et al., pp. 141-44.

<sup>9</sup>The sample was selected by stratifying rural southern counties by race and selecting for interview a 10 percent simple random sample from one county randomly selected from each strata. The counties selected were: Dodge County in Central Georgia, with a population which is 25 percent black; Natchitoches Parish in central Louisiana, with a population which is 37 percent black; and Sunflower County in west central Mississippi, with a population which is 60 percent black. The term rural as used in this study conforms to the definition developed by the U.S. Department of Labor. For a detailed discussion of the sample, see Adams et al.



TABLE 1  
 Characteristics of Minimum Wage Workers in the Rural South, 1974

Characteristic	Percent
<i>Sex:</i> Male	52.0
Female	48.0
<i>Race:</i> Black	44.6
White	55.8
<i>Age (years):</i> 16-24	20.2
25-34	15.4
35-44	18.9
45-54	22.8
55-64	18.0
65 and above	4.7
<i>Head of Household</i>	54.9
<i>Poverty household</i>	62.0
<i>Industry of employment:</i>	
Service	23.9
Retail trade	11.4
Manufacturing	19.0
Construction	14.4
Agriculture	24.0
Other	7.3

*Source:* John F. Adams et al., *Report of the Southern Rural County Labor Force Study*, submitted to the U.S. Department of Labor, Manpower Administration, August 1976.

Several of the characteristics reflected in the data in Table 1 have specific implications for minimum wage policy in the rural South. The majority of minimum wage workers are in the prime labor force age groups, while only 20 percent are younger workers. This represents a major deviation from the national profile in which almost half the workers were under 25 years of age,<sup>10</sup> and suggests that the much-discussed impact of minimum wages on teenage employment will be less important in the rural South while the role of minimum wages in determining family income may be more important.

Not only are minimum wage workers older in the rural South, but over half are heads of households, a figure almost twice that for all minimum wage workers.<sup>11</sup> In part, this is explained by the low levels of family income. Gilroy found that the number of household heads employed at the minimum wage was substantially greater for low-income families and fell consistently as family income rose.<sup>12</sup> Given the relatively large number of low-income families, the role of minimum

<sup>10</sup> Gilroy, p. 160.

<sup>11</sup> Gilroy, pp. 180-81.

<sup>12</sup> Gilroy.

wages in determining the average level of family income appears more important in the rural South than elsewhere in the nation.

As expected, a larger proportion of minimum wage workers in the rural South are employed in agriculture than is true nationally. The surprising finding is that almost twice as many are in manufacturing, while only a third as many are in retail trade.<sup>13</sup> These results reflect the relatively large number of small, low-wage manufacturing firms found in the rural South and the relatively small number of retail establishments. They may also reflect the smaller number of teenagers among minimum wage workers since nationally teenagers account for a large proportion of workers in retail establishments.

Given the number of household heads among minimum wage workers in the rural South, the finding that over 60 percent of all minimum wage workers are in poverty families is important. While Gilroy found that 43 percent of workers in poverty families were making the minimum wage or less, these workers accounted for only 11 percent of all minimum wage workers.<sup>14</sup> This small percentage helps explain why increases in minimum wage may not have a major impact on the number of persons nationally below the poverty level. More importantly for this paper, the comparative figures for the rural South indicate that if the minimum wage holds any significance in terms of poverty reduction, it should be most evident in the rural South.

### Poverty and the Minimum Wage

In general it has been shown that the inability to work substantially increases the probability that a person will be impoverished. However, the opposite does not hold. In fact, many people who work full-time still have an annual income below the poverty level. The over six and one-half million working poor in America attest to the fact that having a job does not assure economic well-being.<sup>15</sup> Many of these people are in the rural South. The area has a poverty rate twice that of the nation, with the result that 40 percent of the nation's rural poor are in the South.<sup>16</sup> Moreover, the poor in the rural South are more likely to be employed than the poor in any other section of the nation, making minimum wage policy particularly important there.

In the 1974 rural study, over 43 percent of the survey households were living in poverty. Most of the households were headed by males (61 percent). Though smaller in number, poverty households headed

<sup>13</sup> Gilroy, p. 163.

<sup>14</sup> Gilroy, pp. 180-81.

<sup>15</sup> Sar Levitan and Richard Belous, *More Than Substance* (Baltimore: Johns Hopkins Press, 1979), p. 11.

<sup>16</sup> Gilroy, p. 168.

by women appeared to be relatively worse off in terms of income levels than those headed by men. Almost 40 percent of the heads of poverty households were employed, while approximately one-third of the households had two or more wage earners.

In general, the working poor are not eligible for the antipoverty programs which have developed in the last two decades. As a result, earnings represent the major source of income. In fact, for most it is the only income source. This finding is supported by the Rural Negative Income Tax Experiment. Bawden reported that for low-income, non-farm wage earners, 93 percent of all family income, on average, was earned income.<sup>17</sup>

The role of earnings in determining the income level of poverty families has caused many to view the minimum wage as a vehicle for alleviating the plight of the working poor. This view is not unquestioned. In fact, Kelly has estimated that to reduce the number of families in poverty by 10 percent, the minimum wage would have to be increased by over 100 percent.<sup>18</sup> Kelly's results are generally supported by Kohen and Gilroy.<sup>19</sup> In part these findings can be attributed to the fact that the minimum wage helps families already above the poverty level. This alone does not negate the usefulness of minimum wage legislation. In responding to Kelly's findings, Levitan has argued that for working poor families every bit of income helps even if they are not moved beyond some arbitrarily defined poverty level. Further, to the extent that higher wages provide added incentive to work and provide additional self-esteem, they have a social value beyond the poverty-reducing effect.<sup>20</sup>

Such considerations aside, the relatively large percentage of minimum wage workers from poverty households in the rural South presents the possibility that increases in the minimum wage need be less dramatic to have a substantial effect on poverty in that area than nationally. The importance of the minimum wage for poverty families in the rural South is further supported by a study of Public Service Employment (PSE) eligible workers in the rural South.<sup>21</sup> In this study, Isbell found

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<sup>17</sup> D. Lee Bawden, "Work Behavior of Low Income, Rural Nonfarm Wage Earners, *American Journal of Agricultural Economics* (December 1974), pp. 1076-83.

<sup>18</sup> Terence F. Kelly, *Two Policy Questions Regarding the Minimum Wage* (Washington: Urban Institute, 1976), pp. 19-20.

<sup>19</sup> Andrew I. Kohen and Curtis L. Gilroy, "The Minimum Wage, Income Distribution and Poverty," in *Report of the Minimum Wage Study Commission*, Vol. VII (Washington: U.S. Government Printing Office, 1981), pp. 1-25.

<sup>20</sup> Levitan and Belous, pp. 110-14.

<sup>21</sup> Steven Isbell, "Effects on Earnings of Public Employment Programs in the Rural South," paper presented at the Southern Economic Association Annual Meeting, New Orleans, November 1981.

that the only factors which were significant in determining the hourly wage of persons in their last employment prior to entering PSE were race and the minimum wage at time of entry. While this study dealt only with a limited subgroup of the rural population, it supports the contention that for low-wage workers, a majority of all workers in the rural South, the minimum wage has a major impact on setting prevailing wage levels.

In the long run, the problems of low earnings and income among rural southern workers can only be alleviated through increased employment and earnings opportunities that accompany industrial development. Krumm has argued that increased minimum wages could have an impact on industry location.<sup>22</sup> Areas such as the rural South are most likely to experience a negative impact. Unfortunately there is little research to support or refute this possibility. While past research findings reveal little evidence of adverse industrial employment effects in the South resulting from increases in the minimum wage, the methodology used reduces confidence in the results.<sup>23</sup> Nor did these studies deal directly with the issue of industrial growth.

If, in fact, low wages or regional wage differentials are the major attraction for new industry to the rural South, higher minimum wage levels could be a deterrent to industrialization. This is particularly true given the levels of human capital, on average, found in rural labor forces. Such a result holds negative long-run implications for low-income workers in the area. If, as is often claimed, industry moves to the rural South seeking lower taxes, a more lax environmental attitude, and a union-free labor force, it is unlikely that the minimum wage will have a great impact, at least at the present levels.

## Conclusions

The minimum wage affects a greater proportion of workers in the rural South than in the nation as a whole or in most urban areas. Those affected are more likely to be members of poverty households dependent upon earnings as their sole source of income. It appears that the minimum wage level is a major factor in determining the prevailing wage rate for a majority of workers in the rural South and in so doing has a greater role as an antipoverty tool than is generally recognized.

The conclusions of this paper are at best preliminary. The role of

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<sup>22</sup> Ronald J. Krum, *The Impact of the Minimum Wage on Regional Labor Markets* (Washington: American Enterprise Institute, 1981), pp. 40–52.

<sup>23</sup> Charles Brown, Curtis Gilroy, and Andrew Kohen, "Employment Effects of the Minimum Wage in Low-Wage Sectors of the Economy," in *Report of the Minimum Wage Study Commission*, Vol. V (Washington: U.S. Government Printing Office, 1981), pp. 216–17.

the minimum wage in rural policy has not yet been defined. Some view it as a tool to combat poverty in the rural South. Others see it as an alternative to labor organization which has been unsuccessful in rural areas. Still others curse it as a major stumbling block to the efforts of rural areas to develop and attract industry. Not only has the question of the effect of the minimum wage on rural areas not been settled, it is probable that not all the issues have even been addressed.

## DISCUSSION

PAUL OSTERMAN

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The recent outpouring of papers on the minimum wage might lead an observer to wonder whether any additional writing is justified. However, these three papers succeed in filling gaps in the literature. Two of the papers—those by Gilroy and Smith—are about specific labor markets and hence add much needed institutional detail to the body of literature. The paper by Sellekaerts discusses implementation of the minimum wage, a topic which has generally been neglected.

The Sellekaerts paper is notable for its careful consideration of alternative indexing schemes and its recognition that any plan must be evaluated in the context of a general equilibrium model. The basic point of the paper, that the minimum wage is intended to provide a certain level of real rather than nominal support, is clearly correct. The results imply that smoothing the path of increases will improve economic efficiency, presumably by obviating the need for firms to make premature adjustments to announced future increases. My major concern with the paper is whether it is possible to use historical data (the time series) to predict the consequences of changes in the rules of the system. Without a good understanding of the role the minimum wage plays in organizing low-wage labor markets, I think we have to be careful of any econometric predictions. I will return to this point.

Gilroy's agricultural study is notable for its careful consideration of the consequences of different specifications of his model and for the use of several variables capturing the special character of agricultural labor markets. It should be understood that this paper measures the effect of an increase in the minimum but, because of the choice of sample period, it tells us nothing about the consequences of having a minimum compared to no legislation.

The second Gilroy paper contains some very interesting descriptive data. It is, however, important to be careful about several points in the paper. First, the correction for the size of the minimum wage population to reflect full-time labor force equivalents represents a welfare judgment. One can make the case that the minimum wage is intended to aid individuals and that such a correction is not appropriate. Second,

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Gilroy shows that only a small percentage of minimum wage recipients are in poverty families. However, we should remember that by raising the minimum level of wages in general there may be a substantial general equilibrium benefit for the poverty population. Also when evaluating a program of this kind it is important to examine levels as well as shares.

It is clear from this paper that the minimum wage is important in certain distinct labor markets. For example, Gilroy shows that 60 percent of eating and drinking establishment workers and 40 percent of agricultural workers are employed at the minimum or below and small businesses account for 85 percent of firms which employ any minimum wage workers. It follows then that careful examination of specific labor markets would be a useful approach for understanding the impact of the minimum. The Smith paper is a good example of this strategy. Smith provides a good description of the rural labor force and of the behavior of firms in those markets. This grounding in specific conditions enables Smith to arrive at some persuasive judgments concerning the impact of the minimum.

More generally, it seems to me that future research on the minimum wage should examine specific labor markets and institutional settings. It is often said that the minimum is the poor peoples' union. This suggests that it is appropriate to ask how the minimum influences wage determination in the special labor markets in which it is important. How is the timing of wage increases affected by the minimum, the size, possible cooperation among firms? How does the minimum help organize and structure labor markets? Future research should take up these kinds of questions.

## DISCUSSION

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Discussion of the impact of the minimum wage should begin with a clear statement of the intended policy goals. The recent emphasis on the impact of the minimum wage on inflation and unemployment is misdirected and misleading, since the role of the minimum wage in influencing these two important economic phenomena is insignificant, as Dr. Sellekaerts's simulations show. Inflation and unemployment are determined in a dynamic economy by other factors, including monetary and fiscal policies, external resource pricing, and the strength of the labor movement. Historically, the minimum wage has had as its goal the ensuring of a minimally fair wage for a fair day's work. It has been viewed as one small step toward greater equity in our economy, which is characterized by fewer jobs than workers seeking jobs and by the consequent rationing of good jobs.

Within this policy context, the recommendation that the minimum wage be indexed by average hourly earnings is sensible. Sellekaerts has made a contribution by showing that such a policy would have had beneficial effects on our economy if it had been in effect during the 1970s.

Dr. Gilroy's paper on the impact of the minimum wage on the agricultural sector increases our understanding of an important sector, but it leaves out at least two crucial factors. One, the discussion of labor supply must include the influx of undocumented workers and the policies of the Immigration Service. Two, the introduction and impact of new technology is much more important and complex than the simple variable Gilroy uses. I recall a talk by the owner of a major winery in California who stated that his company would use machines to pick grapes as soon as machinery were available that did not damage the grapes. This decision would be made regardless of the cost estimates of workers versus machines since the company wanted control over the harvesting. The availability of the technology would be determined by the university, where it was being developed.

Labor supply is more affected by migration policy and labor demand is more affected by technological developments than by changes in the

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minimum wage. Perhaps this explains why the "nontheoretical" time trend was so powerful in the lackluster regressions.

The fact that the uncovered sector in agriculture had remained at 55 percent of the workforce and has not grown relative to the covered sector is another indication of the lack of significance of the minimum wage as a major determinant of the outcomes in that sector.

Although the minimum wage cannot be used as a policy tool against poverty nationwide, as Gilroy's paper on descriptive variables shows, it can act as an antipoverty tool in the rural South where the cost of the prevailing lifestyle is much lower than in the rest of the country. In this region, the large percentage of workers with wages equal to or *below* the minimum wage indicates that enforcement of the law should be a major concern. Dr. Smith's paper underscores the importance of discussing the minimum wage as it affects different regions of the country. Our knowledge of the rural southern workforce is increased by his paper. Although we always need to know more, we can use common sense to discuss the impact of the minimum wage on the development of the rural South, which depends on the building of medium-sized industries. These industries will not be scared off by a minimum wage that is below prevailing wages in other parts of the country. Small businesses will arise to the extent that local services are needed as development progresses. Development itself is not led by the growth of small businesses, which are the businesses most likely to pay the minimum wage (or lower).

Whenever I am involved in discussion of the minimum wage, I recall the remarks made by a California State Assemblyman when I was testifying on proposed measures to improve the plight of low-income workers. This legislator opposed measures that would increase agricultural wages because "Strawberries just aren't worth more than 39¢ a basket." If we as a people decide that the cost of any good and service should include payment of wages of at least a minimal amount, then the price of goods and services must reflect the minimum value of labor. We can make the decision that without the minimum wage strawberries will be 39¢, so that most of us can eat cheaper strawberries at the expense of the farm laborer, who will live a meager existence. Or we can make the decision that with the minimum wage strawberries may be 59¢, so that as consumers we pay more in order to share more equitably the national product. Coupled with the commitment to the provision of a decent job for all workers, the minimum wage is one small step toward equity in pay.

## VI. INDUSTRIAL RELATIONS IMPLICATIONS OF PENSION INVESTMENT

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### Collective Bargaining for Socially Responsible Investment of Pension and Welfare Fund Assets: Another Look at ERISA \*

ELLIOT BREDHOFF

*Bredhoff & Kaiser*

In recent years the investment uses of the large and growing pool of assets accumulating in pension and welfare funds have been subjected to increasing scrutiny. Representatives of the labor movement have voiced concern that the money in these funds, much of it won through collective bargaining, has not been invested in ways that best serve the interests of the benefit plan participants and beneficiaries.<sup>1</sup> Joined by others, they have inquired whether pension and welfare fund capital could be channeled, to a greater extent than has been true in the past, into socially beneficial vehicles such as residential mortgages, socially responsible corporations, old age centers, nursery schools, health maintenance organizations, and other benign enterprises.

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<sup>1</sup> See, e.g., Proceedings of the 19th Constitutional Convention, United Steelworkers of America, AFL-CIO, at 18-19 (1978) (Keynote Address by Lloyd McBride, International President, USWA); Pension Fund Investment Policies, Hearings Before the Subcommittee on Citizens and Shareholders Rights and Remedies of the Senate Committee on the Judiciary, 95th Cong., 2nd Sess. (Part I) 127 (statement of William Winpisinger, President, International Association of Machinists and Aerospace Workers); 137-38 (statement of Jacob Sheinkman, Secretary-Treasurer, Amalgamated Clothing and Textile Workers Union) (1979).

These calls for socially responsible investment practices raise a number of legal issues. Chief among them, and the focus of this paper, is the question of whether and to what extent the fiduciary duty provisions of the Employee Retirement Income Security Act of 1974 (ERISA)<sup>2</sup> operate to limit the ability of private-sector<sup>3</sup> unions to bargain for and ensure socially responsible investing.<sup>4</sup>

Before embarking on an analysis of the fiduciary duties imposed by ERISA and their impact on union input into the investment process, we briefly discuss in Part I of this paper the manner in which such input might be achieved. Part II then sets out three types of socially responsible investing that may form the basis for a bargaining proposal and examines ERISA's prudence and loyalty rules. It concludes that consistent with ERISA, a collectively bargained agreement may direct the trustees to select investments that further social objectives, provided those investments are chosen from a pool of financially comparable, prudent alternatives and are not forbidden by ERISA's specific prohibited transaction provisions. In Part III, policy objections to this type of socially responsible investing are considered and rejected.

## I. Background

As a general matter, union involvement in investment practices of company-sponsored benefit plans will be shaped and secured through the collective bargaining process. Pension and welfare benefits constitute a form of compensation and, as such, are mandatory subjects of bargaining.<sup>5</sup> Yet, while collective bargaining has played a fundamental role in the establishment and structure of pension and welfare plans, the degree of union participation that has been achieved in the administration and management of these plans has been rather limited. Except for multiemployer plans, which for the most part are jointly trustee, most of the assets in collectively bargained pension and welfare funds are concentrated in plans administered exclusively by employer-selected trustees and/or investment managers appointed by them.

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<sup>2</sup> 29 U.S.C. § 1001 et seq.

<sup>3</sup> Public-sector pension and welfare plans, which lie outside ERISA's ambit, see 29 U.S.C. § 1003(b)(1), pose a range of issues this paper shall not attempt to address. We note in passing, however, that the movement for socially responsible investment policies has been progressing rapidly in the public sector. See, e.g., *California Public Fund to Offer Mortgages to Members*, Labor & Investments 8 (June 1981); *Study Finds Growing Interest in Alternative Investments*, id. 3 (September 1981); *Legislatures Expand Investments for Public Funds*, id. 8 (September 1981).

<sup>4</sup> Our discussion of socially responsible investing is limited to decisions concerning which securities to hold or not to hold. Another aspect of socially responsible investing—the voting of shares held by a plan—is beyond the scope of this paper.

<sup>5</sup> *Allied Chemical Workers v. Pittsburgh Plate Glass Co.*, 404 U.S. 157, 159 & n. 1 (1971).

Partly as a result of employer domination in the administration and management of benefit plans, unions generally have not been well informed about fund administration. This is unfortunate, because a prerequisite to actual negotiation about the investment policies and practices of a benefit plan is knowledge of basic details about how the plan has been administered in the past, including the market performance of its investments. The National Labor Relations Act (NLRA) provides the means for rectifying this information gap. The NLRA affords a union the right to request directly from the employer information regarding benefit plan management, and correspondingly imposes an obligation on the employer to comply with such a request.<sup>6</sup> In this manner, the union might obtain such information as the identities of those persons who have been entrusted with the management and investment of fund assets, including investment advisors, and the relationships, if any, these persons have with the employer, the costs of administration, the instructions given to investment managers by trustees, the investments the fund has made, as well as the rate of return on the fund assets as a whole and on particular investments.<sup>7</sup>

Once equipped with this basic information, unions may seek input into investment decision-making in a number of different ways. Generally, the most comprehensive kind of involvement would be joint administration of the plan along with the employer, whereby the union and the employer each appoint the same number of trustees.<sup>8</sup>

With respect to joint administration, a few words should be said about the recent decision in *NLRB v. Amax Coal Co.*,<sup>9</sup> in which the Supreme Court held that a trustee of a jointly administered trust owes "an unwavering duty of complete loyalty" to plan *beneficiaries*,<sup>10</sup> not

<sup>6</sup> *NLRB v. Acme Industrial Co.*, 385 U.S. 432, 435-36 (1967); *NLRB v. Truitt Mfg. Co.*, 351 U.S. 149, 152 (1956).

<sup>7</sup> Industrial Union Department, AFL-CIO, *Pensions: A Study of Benefit Fund Investment Policies* 4-5 (1980).

<sup>8</sup> Section 302(c)(5)(B) of the Taft-Hartley Act, 29 U.S.C. § 186(c)(5), requires equal representation by employer and union appointees in the administration of any pension or welfare plans in which unions play an administrative role. No such requirement applies to plans in industries covered by the Railway Labor Act, 45 U.S.C. § 151 *et seq.* In those industries, a plan could be administered solely by union-appointed trustees.

<sup>9</sup> 101 S.Ct. 2789 (1981).

<sup>10</sup> *Id.* 2794. The issue presented in *Amax* was whether the use of economic coercion to induce the employer to accept the previously selected management-appointed trustees of multiemployer pension and welfare trust funds violated the NLRA's prohibition against union coercion of "an employer in the selection of his representatives for the purposes of collective bargaining or the adjustment of grievances." 29 U.S.C. § 158(b)(1)(B). The Supreme Court found no violation and reversed the Court of Appeals for the Third Circuit, which had ruled that the management-appointed trustee of a jointly-administered trust fund was an "agent" of the employer as well as a fiduciary for the plan's beneficiaries.

to the appointing party.<sup>11</sup> The *Amax* decision thus establishes that union-appointed trustees, like their management-appointed opposites, cannot act as agents of the party who designated them. Yet, notwithstanding *Amax*, joint trusteeship can facilitate meaningful union input into a benefit plan's general administration, or its investment practices in particular.

There will undoubtedly be a wide range of issues on which trustees legitimately may differ as to how best to serve the interests of the participants and beneficiaries.<sup>12</sup> Joint administration places the union in a position to select trustees whose philosophy and expertise evince a tendency to resolve those issues in ways that, in the union's view, will most advance the interests of plan participants and beneficiaries.<sup>13</sup> Moreover, *Amax* does not require that union-appointed trustees be unsympathetic to suggestions by the union regarding judgments and policies that will best serve the beneficiaries' interests. This is not to suggest that union-appointed trustees should slavishly implement union proposals—ERISA's fiduciary duty provisions require each trustee to act independently in the exercise of his judgment. It is simply to say that nothing in the *Amax* decision and nothing in ERISA requires a union-appointed trustee to turn a deaf ear to the union's expression of the interests of the plan participants and beneficiaries it represents in collective bargaining.

Short of joint administration, union input into the investment practices of company-sponsored plans may take a variety of forms. The union might bargain for restrictions on the selection of trustees, such as requiring that trustees not be employees of the sponsor but rather neutral outsiders, or requiring that management's choice be subject to a union veto. Similarly, the union might wish to gain a voice in the selection of investment managers, investment advisors, or other institutions providing financial services to the plan. And, with or without joint administration, the union may advance proposals regarding particular investment strategies, as the UAW did in its 1979 agreement with Chrysler (discussed below). Such proposals, of course, need not be restricted to recommendations for socially responsible investing; they could, quite obviously, call for the establishment of more stringent procedures to ensure financially sound investment practices.

<sup>11</sup> The Court thought this interpretation was implicit in the language and legislative history of § 302(c)(5) of the Taft-Hartley Act, passed in 1947, and explicit in ERISA's provisions governing the fiduciary duties of trustees, enacted in 1974.

<sup>12</sup> See *Blankenship v. Boyle*, 329 F.Supp. 1089, 1095 (D.D.C. 1971), *stay denied*, 447 F.2d 1280 (D.C. Cir. 1971), *supplemental decision*, 337 F.Supp. 296 (D.D.C. 1972) (damages), *aff'd without opinion*, 511 F.2d 447 (D.C. Cir. 1975).

<sup>13</sup> Furthermore, to the extent that the union has less confidence in the judgment of management-appointed trustees, union appointees may serve the function of providing a check on the activities and propensities of their management counterparts.

## II. Socially Responsible Investing Under ERISA

As we have seen, whether a benefit plan is unilaterally or jointly trustee, the union and the employer may wish through collective bargaining to direct the trustees to engage in socially responsible investment practices. In so doing, the parties will have to keep in mind the obligations ERISA imposes on plan fiduciaries.<sup>14</sup> These may be divided into two major categories: (1) the duty to act prudently,<sup>15</sup> including the duty to diversify the plan's investments to minimize the risk of large losses;<sup>16</sup> (2) the duty to act "solely in the interest of the participants and beneficiaries"<sup>17</sup> of a plan for the "exclusive purpose of providing benefits" to them and "defraying reasonable expenses" of administration.<sup>18</sup> This general duty of loyalty is buttressed by a number of conflict-of-interest provisions setting out specific "prohibited transactions."<sup>19</sup>

In this section we briefly delineate three types of investment proposals that might fall under the rubric of "socially responsible investing." We then proceed to examine in some detail the impact of ERISA's above-mentioned fiduciary obligations on the approach that we term "social bonus investing."

The first type of socially responsible investing raises no questions at all under ERISA: taking the social performance of a company into account insofar as that performance affects the financial attractiveness of investing in the company's securities. This is something trustees should already, but may not, have been doing in accordance with the traditional view of investing as focusing solely on financial considerations, narrowly defined.

For example, if a company were found to be an egregious violator of federal labor laws, and this conduct led to negative media visibility, the institution of a nation-wide consumer boycott of the company's products, and other measures, a benefit fund trustee would be obliged to take this information into account in evaluating the security and profitability of investing in the securities of that company. Similarly, as

<sup>14</sup> At the outset, it should be noted that ERISA requires a trustee to ignore any provision in a plan document that is inconsistent with his fiduciary obligations under the Act. 29 U.S.C. § 1104(a)(1)(D). This marks a change from the common law, which allowed the terms of the trust to provide for certain deviations from what would otherwise be the trustee's fiduciary duty. See S. Rep. No. 93-127, 93rd Cong., 2nd Sess. 29 (1973), reprinted in Legislative History of the Employee Retirement Income Security Act of 1974, at 615 (1976) ("Leg. Hist."); 2 Scott on Trusts § 170.9 (3d ed. 1967); Bogert, The Law of Trusts & Trustees § 543(u) (rev. 2d ed. 1978). Any attempt to dictate through collective bargaining a course of action that would violate the trustee's statutory fiduciary duties would and should be frustrated by the trustee's obligatory refusal to follow that command.

<sup>15</sup> 29 U.S.C. § 1104(a)(1)(B).

<sup>16</sup> *Id.* § 1104(a)(1)(C).

<sup>17</sup> *Id.* § 1104(a)(1).

<sup>18</sup> *Id.* § 1104(a)(1)(A).

<sup>19</sup> *Id.* §§ 1106, 1107, 1108.

recent events in Iran and other countries have underlined, a trustee should consider the riskiness of investing in corporations with substantial overseas operations in unstable countries.<sup>20</sup>

ERISA poses no obstacle to collectively bargained guidelines that spell out for trustees the necessity of considering this financial aspect of social performance, as a number of authorities have recognized.<sup>21</sup> Indeed, trustees would be remiss in their duties if they failed to take such considerations into account, with or without a directive to that effect from the union and management. Because the legality of this type of socially responsible investing is not controversial, we shall not discuss it further herein. Yet this largely unexplored avenue for socially responsible investing is one whose importance cannot be overemphasized.<sup>22</sup>

A second type of socially responsible investing, which we shall call "social bonus investing," occurs where a trustee, confronted with a number of prudent investments that are equally desirable from the financial standpoint, chooses the one that provides incidental social benefits as well. Here, it is envisioned that the trustee, or the investment manager, if one exists, first conducts a financial analysis yielding a class of potential prudent investments that are equally attractive when taking into account security, return, liquidity, diversification of the portfolio, and any other financial criteria. The trustee then considers whether some of these investments might be more socially beneficial than others—consistent with any criteria arrived at by the union

<sup>20</sup> Staff of the Subcommittee on Antitrust, Monopoly and Business Rights of the Senate Committee on the Judiciary, 96th Cong., 1st Sess., *Beneficiary Participation in Private Pension Plans 1-2* (Comm. Print 1979) ("Staff Report").

<sup>21</sup> Staff Report, *supra* note 20; Hutchinson and Cole, *Legal Standards Governing Investment of Pension Assets for Social and Political Goals*, 128 U. Pa. L. Rev. 1340, 1344-45 (1980); Address by Ian D. Lanoff, Administrator, Department of Labor, Office of Pension and Welfare Benefit Programs, Presented Before the International Foundation, Washington Legislative Update Meeting, June 3, 1980, *The Social Investment of Private Pension Plan Assets—May It Be Lawfully Done Under ERISA?* reported in 295 Pension Rep. (BNA) (June 16, 1980) R-17 to R-19 ("Lanoff Address").

<sup>22</sup> Critics of socially responsible investing have contended that the social performance of corporations does not correlate positively with their economic performance, and even have suggested there may be an inverse relationship between these factors. See, e.g., Levy, *Social Investing Could Hurt Fund Performance*, Pensions & Investments, November 19, 1979 at 35. The experience of the Dreyfus Third Century Fund, however, provides an example that is hard to reconcile with this last thesis. Securities selected for this Fund are screened on the basis of the issuing company's record in occupational safety and health, equal employment opportunity, environmental protection, consumer protection, and product purity. Yet the Fund has consistently and significantly outperformed the market as a whole. See Staff Report, *supra* note 20, at 2, 10-11. Between December 1975 and December 1980, the Fund showed an increase in value of more than 250%, calculated on a reinvested basis. During the same period the cumulative performance of Standard & Poor's 500 was 92% and the Dow Jones Industrial Average only 49%. Lipper Analytical Services, Inc., *Special Fourth Quarter 1980 Report, Lipper-Mutual Fund Performance Analysis* (December 31, 1980).

and management—and opts for those with a social bonus. For example, assuming that investing in gold were determined to be financially equivalent to investing in mortgages in an area heavily populated by a plan's participants and beneficiaries, the trustee might select the latter investment because of the incidental social benefits that would accompany it.

ERISA neither bars fiduciaries from considering social factors in this fashion nor from choosing the investment that is more socially attractive. Collectively bargained instructions to a plan's trustees to follow such a procedure would therefore not run afoul of ERISA's fiduciary duty provisions. A more extended analysis of "social bonus investing"<sup>23</sup> will be ventured below.

Some commentators have argued that it is possible to go further and to choose socially attractive investments even though they are known to be financially unequal to other available alternatives.<sup>24</sup> The Department of Labor (DOL) has taken the view that such a course of conduct violates ERISA's fiduciary duty provisions.<sup>25</sup> Fiduciaries following this approach consequently run a serious risk of being subjected to litigation, and this probably will deter unions and employers from experimenting with it. Given this state of affairs, investing in financially unequal vehicles for social reasons would not appear to be a viable option at present.

Of the three types of socially responsible investing discussed above, then, the first needs no defense and the third probably will not widely be pursued, leaving the second—social bonus investing—for further inquiry.<sup>26</sup>

<sup>23</sup> Hutchinson and Cole call this type of socially responsible investing "socially sensitive." Hutchinson & Cole, *supra* note 21, at 1345. Professor Schotland prefers either "XX" or "moderate divergent" investing. Schotland, *Should Pension Funds Be Used to Achieve "Social" Goals?* (Part I), *Trusts & Estates* 10, 10 (September 1980). Unsatisfied with all of these names—"socially sensitive" because it is too broad, "XX" because it has no content whatsoever, and "moderate divergent" because the type of investing proposed does not in any way "diverge" from the goals of retirement income or benefit security—we have essayed yet a fourth label. "Social bonus" investing says what it means—investing that yields a social bonus.

<sup>24</sup> See, e.g., Ravikoff & Curzan, *Social Responsibility in Investment Policy and the Prudent Man Rule*, 68 Calif. L. Rev. 518 (1980).

<sup>25</sup> Lanoff Address, *supra* note 21; Lanoff & Antsen, *Impact of ERISA on Investments by Employee Benefit Plans in Residential Housing* 5 (November 9, 1981); Department of Labor letter to George Cox, January 16, 1981; Department of Labor letter to Raymond V. O'Connor, Esq., June 2, 1980.

<sup>26</sup> Although this paper is confined to an analysis of existing law, the possibilities for expansion of the scope of socially responsible investing through legislative changes should not be overlooked. The AFL-CIO, for example, has proposed that Congress pass legislation creating a new institution whose purpose would be to increase employment by providing the capital necessary to stimulate the development of new, and to modernize existing, industries. The institution would be financed in part by pension fund investments with returns guaranteed by the federal government. See AFL-CIO, *Investment of Union Pension Funds* iii (1980).



### *Social Bonus Investing*

In the last few years, a remarkable consensus of opinion has emerged confirming the legality of social bonus investing. Early in 1979, Senator Williams, a leading congressional expert on pension reform and an architect of ERISA, stated his view that ERISA permits fiduciaries to consider the social desirability of investments when choosing among comparable economic opportunities.<sup>27</sup> The same view has been expressed on a number of occasions by Ian D. Lanoff, until recently the Administrator of Pension and Welfare Benefit Programs at the Department of Labor. Testifying before a Senate Subcommittee in February 1979, Mr. Lanoff stated: "If after evaluating other factors, two investments appear to be equally desirable [in economic terms], then social judgments are permissible in determining which to select."<sup>28</sup> That opinion represents the view of the Department of Labor,<sup>29</sup> and has been endorsed as well in the Staff Report of the Senate Judiciary Committee's Subcommittee on Antitrust, Monopoly, and Business Rights.<sup>30</sup> In addition, the President's Commission on Pension Policy, while declining to take a stand on issues of ownership and control of pension fund assets, nevertheless recommended that ERISA not be narrowly construed "to prevent pension funds from taking into account the broader social interests of pension plan beneficiaries in making investment decisions."<sup>31</sup>

<sup>27</sup> 125 Cong. Rec. S.560 (January 24, 1979).

<sup>28</sup> Pension Fund Investment Policy, 1979, Hearing Before the Subcommittee on Antitrust, Monopoly and Business Rights of the Senate Committee on the Judiciary, 96th Cong., 1st Sess. (Part II) 4. See also Lanoff Address, *supra* note 21, Lanoff & Antsen, *supra* note 25.

<sup>29</sup> See, e.g., Department of Labor letter to Theodore R. Groom and Lawrence J. Haas, January 16, 1981.

<sup>30</sup> Staff Report, *supra* note 20, at 1, 21.

<sup>31</sup> President's Commission on Pension Policy, *Coming of Age: Toward National Retirement Income Policy* 46 (1981). See also Hutchinson & Cole, *supra* note 21, at 1384-88, and the recent addition to 3 Scott on Trusts § 227.17 (Supp. 1980), discussing socially responsible investing as a matter of general trust law. The latter authority states: "Trustees in deciding whether to invest in, or to retain, the securities of a corporation may properly consider the social performance of the corporation. They may decline to invest in, or to retain, the securities of corporations whose activities or some of them are contrary to fundamental and generally accepted ethical principles. They may consider such matters as pollution, race discrimination, fair employment and consumer responsibility."

"To an increasing extent institutional fiduciaries . . . have become aware of this problem as to the choice of investments, and have come to realize that they have a concern in the social behavior of the corporations in whose securities they invest. Of course, they may well believe that a corporation which has a proper sense of social obligation is more likely to be successful in the long run than those which are bent on obtaining the maximum amount of profits. But even if this were not so, the investor, though a trustee of funds for others, is entitled to consider the welfare of the community, and refrain from allowing the use of the funds in a manner detrimental to society [footnotes omitted]."

Notwithstanding this impressive array of authority favoring social bonus investing, some skepticism still persists. A brief examination of ERISA's prudence and loyalty rules will serve to demonstrate that such doubts are unfounded, and that social bonus investing represents a course of conduct fully compatible with a fiduciary's statutory obligations.

1. *The Prudence Rule.* ERISA § 404(a)(1)(B)<sup>32</sup> provides that: "a fiduciary shall discharge his duties with respect to a plan . . . with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims . . . ."

This command, which we shall call the prudence rule, essentially requires a fiduciary to manage the plan's portfolio in a manner calculated to ensure its security and profitability.<sup>33</sup> Simply as a matter of logic, such a rule cannot operate as a bar to social bonus investing since, by definition, social bonus investing allows no sacrifice in financial performance.<sup>34</sup> In fact, ERISA's prudence rule can be said to encourage social bonus investing by embracing a flexible standard of prudence that allows a broad range of nontraditional investments.<sup>35</sup>

<sup>32</sup> 29 U.S.C. § 1104(a)(1)(B).

<sup>33</sup> A number of advocates of socially responsible investing have argued forcefully that the prudence rule *requires* a fiduciary to consider the social benefit or detriment flowing from investment decisions. See Leibig, "You Can't Do That With My Money" —A Search for Mandatory Social Responsibility in Pension Investments, 6 J. Pension Planning & Compliance 358 (1980); Ferguson, *The Advocate's Arguments: A Review and Comment*, in Employee Benefit Research Institute, *Should Pension Assets Be Managed for Social/Political Purposes?* 94 (Salisbury ed. 1980).

<sup>34</sup> One criticism of social bonus investing holds that once social considerations are permitted to enter the picture, they will inevitably color the financial judgments of the trustees or managers. See Hutchinson & Cole, *supra* note 21, at 1367-68. It is possible and desirable, however, to erect procedures to guard against this kind of self-deception or dishonesty. For example, the Prudential Life Insurance Co.'s plan to create a separate account consisting primarily of mortgage loans on real properties developed or improved with union labor only, involves a procedure whereby the initial financial analysis, as well as the first level of review are performed by staff persons instructed to disregard the union-labor issue. Once that analysis and review are completed, a separate group of analysts determine which loans should be placed in the union labor account. This procedure won DOL's approval. See Department of Labor letter to Theodore R. Groom and Lawrence J. Haas, January 16, 1981. See generally Pyle, *Legal Restrictions on Investment of Pension Fund Assets in Enterprises Which Support and Benefit Trade Unionism* (paper presented at United Food and Commercial Workers Union Attorneys Conference, Durango, Colorado, August 11, 1979) (proposing a similar division of labor between investment managers and trustees).

<sup>35</sup> ERISA's formulation of the prudence requirement marks a departure from the common law rule. Whereas a trustee at common law was required to exercise the prudence that he would employ in investing his own assets, Restatement (Second) of Trusts § 174 (1959), the trustee under ERISA is held to a standard of conduct characteristic of one who is familiar with benefit fund administration and is engaged

The regulations interpreting the statute's prudence rule, issued by the Department of Labor in 1979, adopt a "whole portfolio" approach. These regulations allow, indeed require, the fiduciary to consider the soundness of an investment in the context of the role it will play in the entire portfolio.<sup>36</sup> DOL's comments accompanying the prudence regulations suggest that investment in high-risk, small or new companies or in non-income-producing vehicles, such as gold or collectibles, may be proper under the Act.<sup>37</sup> The DOL regulations, combined with the statute's diversification command,<sup>38</sup> thus facilitate and even encourage exploration of nontraditional types of investments.<sup>39</sup>

Further evidence of the flexible nature of ERISA's prudence requirement can be found in the Department of Labor's approval of the 1979 UAW-Chrysler agreement.<sup>40</sup> That agreement provides for the creation of a labor-management investment advisory committee composed of equal numbers of labor and management representatives. The function of the committee is to recommend to the trustees investments in debt obligations of nursing homes, nursery schools, health maintenance organizations, hospitals, or other nonprofit institutions in communities with large concentrations of UAW members, and also to recommend specified geographic areas containing large numbers of UAW members in which the plan could provide residential mortgage financing. The committee is expected to make enough recommendations to use 10 percent of Chrysler's annual contributions available for investment.

In addition, the UAW-Chrysler agreement provides that the union can list annually five companies that conduct business in South Africa but do not support the elimination of racial discrimination there and can recommend that the trustees not invest further in the listed companies. The agreement further provides that the trustees are free to

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in similar enterprises with similar goals. This formulation has led some commentators to suggest that the federal rule adopts a "prudent expert" standard, more stringent than the "prudent man" rule of the common law. Blakinger, *Fiduciary Standards Under the Employee Retirement Income Security Act of 1974*, 63 Geo. L.J. 1109, 1119 (1975); Garmager, *Economic Analysis and the Prudent Man Rule Under ERISA*, 7 Loyola L.J. 683, 700 (1976); Leibig, *supra* note 33, at 382. While it seems that the federal rule calls for greater sophistication on the part of fiduciaries of larger plans, see, e.g., Klevan, *Fiduciary Responsibility Under ERISA's Prudent Man Rule: What Are the Guideposts?* 44 J. Taxation 152, 152-54 (1976); 44 Fed. Reg. 37221, 37224 (1979), there is no indication at all that Congress intended to reduce the scope of permissible investments.

<sup>36</sup> 29 C.F.R. § 2550.404a-1(b)(2) (1981); see generally Note, *Fiduciary Standards and the Prudent Man Rule Under the Employee Retirement Income Security Act of 1974*, 88 Harv. L. Rev. 960, 967-68 (1975).

<sup>37</sup> See 44 Fed. Reg. 37,224-25 (1979).

<sup>38</sup> 29 U.S.C. § 1104(a)(1)(C).

<sup>39</sup> See 44 Fed. Reg. 37,224 (1979); Hutchinson & Cole, *supra* note 21, at 1356-57.

<sup>40</sup> Department of Labor Advisory Opinion 80-33A (June 3, 1980).

accept or reject any of these recommendations and will exercise their discretion in accordance with the requirements of ERISA. The Department approved the agreement, stressing the unimpaired freedom and responsibility of the trustees to observe the dictates of the Act. DOL's response is significant because it demonstrates that a broad range of nontraditional investment behavior is compatible with ERISA's prudence rule.<sup>41</sup>

In short, ERISA's prudence rule presents no obstacles to social bonus investing and, indeed, readily accommodates it.<sup>42</sup>

2. *The Loyalty Rule.* In addition to satisfying ERISA's prudence rule, fiduciaries must also comply with the stricture that they act "solely in the interest of the participants and beneficiaries"<sup>43</sup> and "for the exclusive purpose of . . . providing benefits to participants and their beneficiaries; and . . . defraying reasonable expenses of administering the plan."<sup>44</sup> As the Supreme Court made clear in its *Amax* decision, this language embraces the common law principle that a trustee owes a duty of undivided loyalty to the trust's beneficiaries.<sup>45</sup> At the very least, this duty of loyalty prohibits investments primarily intended to benefit

<sup>41</sup> Although DOL's Advisory Opinion did not purport to approve in advance specific transactions that might be undertaken as part of the UAW-Chrysler program, it concluded that if the program were put into practice as represented, it would not of itself involve any violation of the fiduciary duty provisions contained in the Act or in DOL regulations. While DOL's approval of the UAW-Chrysler Agreement marks a significant step forward in the evolution of collectively bargained, socially responsible investment practices, that Agreement by no means represents the outer limits of what is possible or permissible.

<sup>42</sup> Some theorists have contended that socially responsible investing inevitably entails either lower portfolio returns and/or greater risks, as well as greater transaction costs. See Barth & Cordes, *Nontraditional Criteria for Investing Pension Assets: An Economic Appraisal*, 2 J. Lab. Research 219 (1981); see also Langbein & Posner, *Social Investing and the Law of Trusts*, 79 Mich. L. Rev. 72 (1980) (greater risks but same expected return). This conclusion, however, is based in part on the assumption that socially responsible investing requires the categorical exclusion of significant investment options, thus substantially limiting the universe of possible investments and increasing the portfolio's risk quotient. This assumption is misplaced in the case of social bonus investing. First, social bonus investing by definition does not permit a trustee to exclude investment options on social grounds when doing so would dictate acceptance of a financially inferior portfolio. Second, some limitations of the investment universe or increments in transaction costs attributable to social bonus investing may be *de minimis* depending upon how a particular program is structured and implemented. See Rudd, *Impact of Non-Traditional Investment Criteria on Portfolio Performance* 20 (testimony presented to the President's Commission on Pension Policy, December 11, 1979); Langbein & Posner, *supra*, at 93-94. Finally, and of fundamental importance, social bonus investing may well result in an *expansion* of the investment universe previously considered by trustees or investment managers by adding to that universe nontraditional investment vehicles that promise a social bonus. See Department of Labor Advisory Opinion 80-33A (June 3, 1980); Litvak, *Pension Funds & Economic Renewal* 31-35 (1981).

<sup>43</sup> 29 U.S.C. § 1104(a)(1).

<sup>44</sup> *Id.* § 1104(a)(1)(A).

<sup>45</sup> *NLRB v. Amax Coal Co.*, 101 S.Ct. 2789, 2795-96 (1981).

the employer, the union, the trustee, or the investment manager. The important question here, however, is whether apart from such instances of self-dealing, the loyalty rule stands as an obstacle to selecting from financially comparable, prudent investments those that will provide incidental social benefits.

So long as the incidental benefits generated by social bonus investing accrue only to participants and beneficiaries of the plan, there cannot be any violation of a duty of loyalty to these same persons.<sup>46</sup> Thus, for example, no loyalty problems would arise if fiduciaries, choosing from a range of prudent, financially equivalent options, undertook to make mortgage loans to participants in accordance with the provisions of ERISA § 408(b)(1).<sup>47</sup>

The matter is less self-evident in the more common situation in which a social bonus investment is designed to produce collateral benefits to participants and beneficiaries as members of a larger group. The larger group may be as small as a local community heavily populated by the plan's participants and beneficiaries, or as large as society as a whole. At the far end of this spectrum the benefits to participants and beneficiaries may be as intangible as the moral satisfaction of investing in a new home for orphans several thousand miles away. In all of these cases, benefits would accrue not just to the plan's participants and beneficiaries but to nonparticipants and nonbeneficiaries as well. Does ERISA's loyalty rule proscribe social bonus investments merely because they confer incidental social benefits on third parties? Our answer is a firm "no."

The terms "solely in the interest" and "exclusive purpose of providing benefits" appear to be drawn from provisions in the Internal Rev-

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<sup>46</sup> However, a participant or beneficiary may be a "party-in-interest," under 29 U.S.C. § 1002(14), with the result that certain transactions with the plan would be prohibited. See 29 U.S.C. § 1106.

<sup>47</sup> 29 U.S.C. § 1108(b)(1). This section allows an exemption from the prohibition in § 406(a)(1)(B) against plan loans to parties-in-interest for loans to participants or beneficiaries. The exemption requires that such loans: "(A) are available to all such participants and beneficiaries on a reasonably equivalent basis, (B) are not made available to highly compensated employees, officers, or shareholders in an amount greater than the amount made available to other employees, (C) are made in accordance with specific provisions regarding such loans set forth in the plan, (D) bear a reasonable rate of interest, and (E) are adequately secured."

Although the Department of Labor has not issued regulations interpreting these provisions, it has issued an advisory opinion that interprets the "reasonable rate of interest" requirement to permit a plan in some circumstances to charge a lower rate of interest to a plan participant than it would charge to others. Such a reduced rate would be justified, for instance, if it were determined, based on knowledge of the participant's employment history, that the loan involved less risk than most similar loans. Similarly, a lower interest rate would be permissible if the loan, or some portion of it, were secured by plan funds, such as the participant's vested benefit. See Department of Labor Advisory Opinion 81-12A (January 15, 1981).

enue Code and the Taft-Hartley Act.<sup>48</sup> The provisions in those statutes have not been interpreted as proscribing an investment merely because it generates incidental benefits to nonbeneficiaries.<sup>49</sup> Rather, they have been interpreted as allowing such collateral benefits so long as investments are made *primarily* for the purpose of furthering the beneficiaries' interests.<sup>50</sup> Absent any indication that Congress in 1974 intended to depart from this common understanding, the loyalty rule should be treated as permitting investments that incidentally bestow benefits on non-participants and nonbeneficiaries of a plan.<sup>51</sup>

In fact, the legislative history of ERISA contains affirmative evidence that Congress intended the loyalty rule to be applied as it had been under pre-existing statutes. The Conference Report accompanying ERISA repeatedly refers to the "solely in the interest" and the "ex-

<sup>48</sup> Section 302(c)(5) of the Taft-Hartley Act, 29 U.S.C. § 186(c)(5), exempts from the prohibition against payment of money by employers to labor organizations, payments made to trust funds established "for the sole and exclusive benefit" of employees, their families and dependents. Section 401 of the Internal Revenue Code provides that in order for a pension trust fund to qualify for tax-exempt status, it must be "for the exclusive benefit" of the employees or their beneficiaries, and it also must be impossible for any part of the principal or income to be used for "purposes other than the exclusive benefit" of the employees or their beneficiaries. 26 U.S.C. §§ 401(a), 401(a)(2).

<sup>49</sup> *Blankenship v. Boyle*, 329 F.Supp. 1089 (D.D.C. 1971), *stay denied*, 447 F.2d 1280 (D.C. Cir. 1971), *supplemental decision*, 337 F.Supp. 296 (D.D.C. 1972) (damages), *aff'd without opinion*, 511 F.2d 447 (D.C. Cir. 1975), is not to the contrary. In that case, decided under the Taft-Hartley Act, the court found extensive self-dealing on the part of the fund fiduciaries, including the deposit of as much as \$75 million of trust funds in a non-interest-bearing account in a union-owned bank, and the investment of benefit fund assets for the primary purpose of inducing public utility companies to purchase coal mined by union members. While this latter practice in particular arguably produced indirect benefits for the beneficiaries of the fund, the court emphasized that the fund was acting primarily for the benefit of the union and the employers. Nothing in *Blankenship* supports the proposition that in the absence of self-dealing, where the primary purpose of an investment is to advance the interests of the beneficiaries, incidental benefits to third parties automatically trigger a violation of the "solely in the interest" requirement. See *Withers v. Teachers' Retirement System of City of New York*, 447 F. Supp. 1248, 1256 (S.D. N.Y. 1978), *aff'd*, 595 F.2d 1210 (2d Cir. 1979); *Culinary Workers and Bartenders Union No. 596 Health and Welfare Trust v. Gateway Cafe, Inc.*, 91 Wash.2d 353, 588 P.2d 1334, 1340 (1979); Leibig, *supra* note 33, at 371-73.

<sup>50</sup> *Internal Revenue Code: Central Motor Co. v. United States*, 583 F.2d 470, 490 (10th Cir. 1978); *Time Oil Co. v. Commissioner of Internal Revenue*, 258 F.2d 237, 238 (9th Cir. 1958); *Shelby U.S. Distributors, Inc. v. Commissioner of Internal Revenue*, 71 T.C. 874, 885 (1979); *Feroletto Steel Co. v. Commissioner of Internal Revenue*, 69 T.C. 97, 113 (1977); *Bing Management Co. v. Commissioner*, 36 T.C.M. 1633, 1636 (1977); Rev. Rul. 69-494, 1969-2 C.B. 88.

*Taft-Hartley Act: Lugo v. Employees Retirement Fund of Illumination Products Industry*, 388 F.Supp. 997, 1001 (E.D.N.Y. 1975), *aff'd*, 529 F.2d 251 (2d Cir.), *cert. denied*, 429 U.S. 826 (1976); *Toensing v. Brown*, 374 F.Supp. 191, 197, 203 (N.D. Calif. 1974), *aff'd*, 528 F.2d 69 (9th Cir. 1975); *Culinary Workers and Bartenders Union No. 596 Health and Welfare Trust v. Gateway Cafe, Inc.*, 91 Wash.2d 353, 588 P.2d 1334, 1340 (1979); cf. *Roark v. Boyle*, 439 F.2d 497, 505 (D.C. Cir. 1970).

<sup>51</sup> See *NLRB v. Amax Coal Co.*, *supra* note 45, at 2794.

clusive purpose" language as the "exclusive benefit" rule,<sup>52</sup> a term that immediately calls to mind the "exclusive benefit" language of §401(a) of the Internal Revenue Code and §302(C)(5) of the Taft-Hartley Act. Moreover, it is clear that Congress was aware of the IRS's interpretation of I.R.C. § 401(a),<sup>53</sup> a section which, as noted above, has not been read literally.

That Congress understood the "exclusive benefit" rule to mean no more than that a fiduciary must act *primarily* for the benefit of participants and beneficiaries is demonstrated by another provision of the Act as well as by several passages in the Conference Report. ERISA §408(b)(3)<sup>54</sup> allows a party-in-interest to make a loan to an employee stock ownership plan if "such loan is primarily for the benefit of participants and beneficiaries of the plan" and at a reasonable rate of interest. While this provision creates an exemption from the ban in §406(a)(1)(B)<sup>55</sup> on loans between a plan and a party-in-interest, it does not purport to affect the requirement that the fiduciaries negotiating the loan act "solely in the interest" of and for the "exclusive purpose of providing benefits" to the plan's participants and beneficiaries.

Indeed, there is not the slightest indication that Congress, by using the term "primarily" in §408(b)(3) instead of "solely," meant to impose a lesser standard of loyalty for such loan transactions than it required in §404(a)(1)(A) for fiduciary conduct in general.<sup>56</sup> On the

<sup>52</sup> H.Rep. No. 93-1280, 93rd Cong., 2d Sess. 294, 303, 311, 316, 320 (1974), reprinted in Leg. Hist. at 4561, 4570, 4578, 4583, 4587. ("Conference Report").

<sup>53</sup> See Conference Report, *supra* note 52, at 302, reprinted in Leg. Hist. at 4569; Department of Labor Advisory Opinion 81-12A (January 15, 1981).

In its discussion of the prudence rule, the Conference Report sets out the four criteria of "exclusive benefit" developed by the IRS and states that satisfaction of the ERISA prudence rule automatically satisfies the IRS requirements. The silence of the Report as to the converse proposition—whether compliance with the IRS criteria satisfies the ERISA prudence rule—led some commentators to suggest that Congress was unhappy with the IRS "exclusive benefit" standard and therefore must have meant ERISA's "exclusive purpose" language to embody a more stringent standard of loyalty. See, e.g., Hutchinson, *The Federal Prudent Man Rule Under ERISA*, 22 Vill. L. Rev. 15, 32 (1976-1977). This reasoning is fallacious.

Section 401(a) of the I.R.C. contains the "exclusive benefit" language but makes no mention of a prudence requirement. The IRS filled in this void by interpreting the "exclusive benefit" terminology to incorporate a four-pronged rule of prudence. To the extent that the passage in the Conference Report implies dissatisfaction with the IRS practice, it is a dissatisfaction with the IRS prudence criteria. See Report, *ERISA and the Investment Management and Brokerage Industries: Five Years Later*, 35 Bus. Law. 189, 234 (1979). Nowhere in the Conference Report did Congress express discontent with the IRS interpretation of the term "exclusive" as meaning "primary."

<sup>54</sup> 29 U.S.C. § 1108(b)(3).

<sup>55</sup> *Id.* § 1106(a)(1)(B).

<sup>56</sup> The Conference Report states clearly that administrative and statutory exemptions from the prohibited transaction rules do not affect the applicability of the basic fiduciary standards such as the loyalty requirement. See Conference Report, *supra* note 52, at 310-312, reprinted in Leg. Hist. at 4577-79.

contrary, the Conference Report shows that Congress was deeply concerned with the possibility of breaches of the loyalty rule in this context. Noting the potential problems inherent in loans by parties-in-interest, the conferees admonished the Department of Labor and the Internal Revenue Service to subject "all aspects of these transactions . . . to special scrutiny . . . to ensure that they are primarily for the benefit of plan participants and beneficiaries."<sup>57</sup> The only sensible interpretation of the use of different terminology in these provisions is that Congress understood the phrases "solely in the interest" and "exclusively for the purpose of providing benefits" to be synonymous with the phrase "primarily for the benefit," and that Congress saw nothing wrong with (nonprohibited) investment transactions that confer incidental benefits on third parties, so long as the transactions are "primarily for the benefit" of plan participants and beneficiaries.

Further proof of the correctness of this interpretation is provided by a passage in the Conference Report regarding the exceptions to the prohibited transaction rules for acquisitions of employer securities or real property.<sup>58</sup> The Conference Report warned that, with respect to such acquisitions:

the exclusive benefit rule also may apply. Thus, while a plan may be able to acquire employer securities or real property under the employer securities rules, the acquisition must be for the exclusive benefit of participants and beneficiaries. *Consequently, if the real property is acquired primarily to finance the employer, this would not meet the exclusive benefit requirements.*<sup>59</sup>

Obviously, when a benefit plan acquires employer securities or real property, the employer cannot help but derive some benefit. The necessary implication of the quoted passage is that Congress believed the incidence of such benefits to be compatible with the exclusive benefit rule so long as it does not constitute the primary purpose of the transaction.<sup>60</sup>

Finally, the Conference Report provides compelling evidence that Congress looked with favor upon prudent investments that yield a social bonus. In a discussion of § 408(a),<sup>61</sup> which authorizes the establishment of administrative exemptions or variances from the prohibited transaction provisions, the conferees recognized

<sup>57</sup> Conference Report, *supra* note 52, at 313, reprinted in Leg. Hist. at 4880.

<sup>58</sup> See 29 U.S.C. §§ 1107, 1108(e).

<sup>59</sup> Conference Report, *supra* note 52, at 320, reprinted in Leg. Hist. at 4587 (emphasis added).

<sup>60</sup> See Report, *supra* note 53, at 234–36.

<sup>61</sup> 29 U.S.C. § 1108(a).



that some individual transactions between a plan and a party-in-interest may provide substantial independent safeguards for the plan participants and beneficiaries *and may provide substantial benefit to the community as a whole*, so that the transaction should be allowed under a variance.<sup>62</sup>

As an example, the Conference Report mentioned a particular pension fund's commitment to invest in a joint venture that would own an office building in a downtown redevelopment project in Dayton, Ohio. The building, a key element in the redevelopment project, was to be leased to the employer sponsoring the pension plan. Noting that the transaction contained a number of safeguards to protect the interests of the participants and beneficiaries, the Conference Report cited "the importance of the project to the entire community of Dayton" as one of several reasons why the transaction should be granted a variance.<sup>63</sup> Clearly, such a variance would be incompatible with a literal reading of the exclusive benefit rule as prohibiting any investment that bestows collateral benefits on the community at large. The inescapable conclusion is that Congress gave its blessing to investments that have as a secondary objective the attainment of some social benefit.<sup>64</sup>

3. *Prohibited Transactions.* The Act, as noted above, specifically proscribes several types of transactions between a benefit plan and a "party in interest," and also provides for certain limited exemptions.<sup>65</sup> While this group of prohibited transactions was intended to flesh out the loyalty rule, the two do not overlap completely—an investment decision that passes muster under the prudence and loyalty rules might nevertheless be a prohibited transaction. These prohibited transaction sections could block particular proposed investments, but they pose no general bar to social bonus investing.

This brief review of ERISA's fiduciary duty provisions demonstrates

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<sup>62</sup> Conference Report, *supra* note 52, at 310, reprinted in Leg. Hist. at 4577 (emphasis added).

<sup>63</sup> *Id.*

<sup>64</sup> Hutchinson and Cole appear to take the view that Congress, by failing to act on several proposals expressly designed to encourage socially responsible investing, registered its opposition to investments that benefit the plan participants as part of a larger group. Hutchinson & Cole, *supra* note 21, at 1364–67. The legislative history to which the authors refer, however, consists entirely of statements made in hearings before a House subcommittee in 1969 and 1970 during the 91st Congress. Such statements have no bearing on the intent of the 93rd Congress when it enacted ERISA some four years later, at least absent any reference to such statements by the 93rd Congress. Moreover, the negative views expressed in response to these proposals were concerned solely with the fear of departing from the prudent man rule. None dealt with the question of what restrictions were imposed on otherwise prudent investments by the exclusive benefit requirement. Hutchinson & Cole, *supra* note 21, at 1370.

<sup>65</sup> 29 U.S.C. §§ 1106, 1107, 1108.

that collectively bargained guidelines that direct trustees or investment managers to choose socially beneficial investments from among a class of prudent, financially comparable, nonprohibited alternatives, are fully consistent with the statute. Quite apart from such legal considerations, however, questions have been raised about the feasibility or effectiveness of social bonus investing. It is to these questions that the final section of the paper is addressed.

### III. Some Policy Questions About Social Bonus Investing

Some commentators have expressed doubt whether social bonus investing is capable of application on a significant scale. They take the view that investments are rarely, if ever, financially equivalent and that to treat them as such more often than not merely betrays an incomplete financial analysis.<sup>66</sup> According to this view, only in rare instances could social considerations legitimately be taken into account.

This position has some appeal on a theoretical level, but it does not reflect the realities of the investment world. It would be prohibitively expensive and otherwise impracticable, if not impossible, in every instance to discern or attempt to discern financial distinctions among investment alternatives. Given the uncertainty of financial predictions and the necessity of timely action in a changing marketplace, there inevitably comes a point where the diminishing returns of an ever-more-refined analysis are no longer worthwhile.<sup>67</sup> As a practical matter, then, a trustee or investment manager should be able, consistent with ERISA's requirements, to identify a substantial range of financially equivalent investment options that create meaningful opportunities for the application of socially oriented investment criteria. Financial comparability, needless to say, is not measured solely by rate of return. Considerations such as diversification, liquidity, and security also come into play. And under the whole-portfolio approach, the financial desirability of an investment should be determined not by considering that investment in isolation, but in the context of other plan investments and the plan's investment objectives. Thus, notwithstanding that each of five possible investments might present unique advantages and dis-

<sup>66</sup> See Hutchinson & Cole, *supra* note 21, at 1367-68.

<sup>67</sup> In light of the mounting evidence that benefit plans managed in accordance with traditional investment criteria have performed dismally, see, e.g., Schotland, *supra* note 23, (Part I), *Trusts & Estates* 10, 14 (September, 1980); *Wall Street Journal*, April 15, 1980, p. 47, col. 3; (study prepared by A. G. Becker Fund Evaluation Service shows that benefit funds' total return averaged only 4.3% a year for the period 1970-1980, as compared with an annual inflation rate of 7.4%); one must view with a certain irony charges that social bonus investing cannot be reconciled with rigorous standards of financial analysis. While it is hoped that this poor performance record will be ameliorated, it underscores the fact that the mythical ideal of scientific exactitude in investment decisions is unattainable.

advantages and promise different rates of return, all five may be financially indistinguishable when the entire range of pertinent financial data is taken into account.

A second group of criticisms of social bonus investing has focused on alleged difficulties of implementation.<sup>68</sup> Snafus are predicted in determining how to define and measure what is socially beneficial, which social objectives shall be pursued, what priority shall be given to the variety of social goals, and who shall decide these issues. While such questions are not entirely without substance, they betray an unwarranted pessimism.

These issues, like more basic matters concerning eligibility standards and benefit levels, can be worked out in the collective bargaining process. The establishment of a benefit plan in the first place and the determination of what portion of worker compensation will be directed through that plan are matters legitimately and effectively negotiated by unions on behalf of plan participants and beneficiaries. By the same token, unions can and should negotiate, on behalf of plan participants and beneficiaries, for investment practices and policies that achieve the incidental social benefits conferred by social bonus investing. Of course, no representational procedure—short of an investment-by-investment survey, which would be impracticable and subject to the problems that plague all surveys—will fully and consistently reflect the preferences of participants and beneficiaries. But the collective bargaining framework has worked to date on basic pension issues and may be expected to accommodate social bonus investment issues as well.

In any event, not to confront the issues posed by a social bonus approach is to decide them by default. Investment choices having social implications are *now* being made, and they are typically being made unilaterally by corporate investment managers with no input whatsoever from plan participants and beneficiaries. Surely, it is difficult to maintain that these issues are better decided by fiat than through the representational vehicle of collective bargaining.

A third complaint made by the detractors of social bonus investing is that it will never be effective in achieving the social benefits it is designed to promote. Here again, while there may be some truth to this view, it is mostly just nay-saying. Some preferences such as disfavoring investment in socially irresponsible companies, may indeed turn out to have only symbolic or therapeutic value.<sup>69</sup> But other more affirmative approaches, such as local investing and investing in mortgage

<sup>68</sup> See Schotland, *supra* note 23, (Part II), *Trusts & Estates* 27, 30–37 (October 1980).

<sup>69</sup> See AFL-CIO, *Investment of Union Pension Funds*, 45–52 (1980).

pools, have already begun to make a difference.<sup>70</sup> As the importance of pension and welfare fund assets in capital markets continues to grow and competition for those funds increases, it is only reasonable to expect that the influence of social bonus investing will be felt in ever-widening circles.

Social bonus investing is neither a panacea for all of society's ills nor an instrument for radical change. The paramount concern must always be the "conservative" one of preserving the security of pension and welfare funds for the benefit of the participants and beneficiaries. Nevertheless, the secondary objective of channeling benefit fund assets into socially beneficial uses marks a significant step forward in the labor movement's historic effort to improve the work and retirement lives of American workers through collective bargaining. Just how much will be accomplished no one yet knows. But the effort surely is one worth making, and one that will be made.

<sup>70</sup> See, e.g., Smart et al., *Investment Targeting: A Wisconsin Case Study*, 121-257 (1979); Mares, *The Use of Pension Fund Capital: Its Social and Economic Implications—Some Background Issues*, 17-18 (Working Paper for the President's Commission on Pension Policy) (November 1979); *Hawaii Public Fund Invests Assets in Member Loans*, Labor & Investments 7 (May 1981); *California Public Fund to Offer Mortgages to Members*, id. 8 (June 1981); *Milwaukee Building Trades Fund Invests 21% of Assets in Mortgages*, id. 3 (June 1981).

There are signs that this trend toward greater investments in mortgages will accelerate. The Department of Labor in December 1981 proposed a class exemption from the prohibited transaction provisions that would remove certain impediments to the issuance by construction industry pension plans of commitments to provide mortgage financing to purchasers of residential construction and to the making of loans pursuant to those commitments. See 46 Fed. Reg. 58,773 (1981). President Reagan publicly has given his support to this change. See Lescaze, *Reagan Moves to Free Pension Funds for Investing in Housing*, Washington Post, December 4, 1981, §A at 3.

# Investment of Worker Funds: A Comparative International Prospective

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European trade union interest in pension fund investment is rooted in many of the same factors that lie behind the recent upsurge of activity by the AFL-CIO in this area. However, the involvement of the foreign trade unions has taken somewhat different forms than has occurred or appears likely to occur in the U.S. This paper looks at some of the recent developments in the investment of worker funds in several European countries and offers an explanation for the difference in approach as well as a cautious assessment of the impact of the foreign experience on the course of future developments in the U.S.

## **Impetus for Involvement the Same on Both Sides of the Atlantic**

The factors leading to increased concern with worker fund investment by trade unions on both sides of the Atlantic are the same. First and most important is the truly significant growth of pension funds over the past decade or two, particularly those funds established as a result of trade union pressure. In the U.S., private pension funds are growing at a rate of over 10 percent a year. Total assets of these funds were estimated at more than \$600 billion last year, and are forecast to reach \$1.7 trillion by 1990.<sup>1</sup> In the United Kingdom, assets of both private- and public-sector pension funds grew in 20 years (1957–1978) from approximately 2 billion pounds to over 31 billion pounds—an average annual growth rate of about 70 percent.<sup>2</sup> Pension funds of other western European countries have shown similar growth patterns. Since in many countries private pension schemes are a fairly recent development, this growth is not surprising. In The Netherlands, the private system supplementing Social Security was made mandatory for all employers in 1957. In Sweden, the mandatory supplemental system began only in 1960, and in France not until 1972. In the United Kingdom,

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<sup>1</sup> *Pensions and Investment Age*, November 23, 1981, p. 62.

<sup>2</sup> TUC Conference, *Pension Funds: The Trade Union Role*, January 22, 1981.

although the first supplemental earnings related schemes were established in 1961, not until 1978 was it required that all working persons be included in such a program. What has happened now is that the seeds planted from 10 to 20 years ago are bearing fruit—a lot of it. In almost every country today the funds generated by these relatively recent pension systems have become both very large and very important. Understandably, this phenomenon has not gone unnoticed by national trade unions.

Second, pension funds have come to represent an increasingly significant portion of the total investment capital pool in many western countries. In the United Kingdom approximately 50 percent of the equities traded on the British stock market are owned by pension funds, and it is said that pension funds own a controlling share of the stock of the 200 largest British enterprises.<sup>3</sup> In The Netherlands the supplementary private pension funds support at least 70 percent of the national debt and own almost a quarter of the equity stock on the Dutch market.<sup>4</sup> Pension funds in Sweden represent a “very considerable part of the capital market” there and Swedish economists agree that the creation of the supplementary funds provided an important impetus to the spectacular growth of the Swedish economy in the 1960s.<sup>5</sup> Purchase of government-guaranteed housing mortgages has been a principal use of the pension funds in Denmark.<sup>6</sup> As in the U.S., European trade unionists have come to appreciate the significant role which “their money” plays in the capital market. Not unexpectedly, that realization has raised questions concerning the way in which that capital is allocated or invested.

Third, with variations in degree of course, most European countries currently face the same economic problems that we face in this country. Traditional industries such as steel, textiles, auto, and shipbuilding have not been able to meet strong foreign competition and are suffering severe declines. These industries are, of course, the traditional strongholds of unions. Unemployment is high and increasing. This is true particularly in such countries as England, France, Belgium, and Holland, but even the Scandinavian countries and Germany are faced with rising unemployment. Neither industry nor workers have been able to readjust easily or painlessly to the changing economic situation. More-

<sup>3</sup> Bryn Davies, *Summary of Remarks*, AFL-CIO Pension Fund Seminar, January 19, 1981.

<sup>4</sup> F. Bahher and F. Salverde, *The Paralyzing Powers of Dutch Pension Funds*, Vrey Nederland, December 22, 1971.

<sup>5</sup> R. Spant, *Investment of Unions' Pension Funds, the Case of Sweden*, AFL-CIO Pension Fund Seminar, January 19, 1981.

<sup>6</sup> H. Jensen, *Trade Union Involvement in Pension Fund Management and Investment*, AFL-CIO Pension Fund Seminar, January 19, 1981.

over, the problem of finding the capital necessary to restructure industry and thus recapture or hold on to market shares is a difficult one in most countries. Increasingly, therefore, the European trade unions are looking at the pension funds as a source of salvation. With this in mind, the unions are searching for ways to steer investment of pension funds to projects that will increase employment and to uses that will advance their interests. In some countries, this is still just talk. In others, however, active use of pension funds to promote worker interests has already begun.

### **European Trade Union Involvement Takes Different Directions**

The European trade union involvement in worker fund investment has focused on three main issues. These are: union participation in the determination of investment policy; investment geared to employment; and use of funds to influence corporate policy.

In addition in some countries, particularly in Sweden and Denmark, the trade unions have pushed for use of pension funds as a means of redistribution of wealth.

Insofar as union participation in pension fund management and investment is concerned, for most European trade unions the battles are won. This is quite different from the situation in the U.S. where the struggle for union participation has just begun. In most European countries the so-called private pension systems are not really private at all. Instead they represent a government-mandated second layer of income protection, on top of a basic Social Security system. Although these systems may have originally been established as a result of collective negotiation between employers and unions, they now are required by law and funded through obligatory contributions on the part of employers. In the Scandinavian countries for example, the supplementary pension system originally established through collective bargaining for white-collar workers, was first made mandatory for all blue-collar workers by legislation, and was subsequently extended to all workers in both the public and private sectors. Even in the United Kingdom where British unions and employers have historically bargained separately—as in the U.S.—for pension systems which complement the basic Social Security system, since 1961 there has been a government-supported (but employer-funded) earnings-related system offered to those employers who wanted to take advantage of it. As indicated earlier, in 1978 legislation was enacted which made a supplementary system obligatory for all workers, at a level at least as favorable as that offered through the government program. Similarly in The Netherlands where most of private pension systems are the result of collective bargaining,

the law requires that if there is a plan for one part of industry, it must be extended throughout the industry and, moreover, must meet certain government standards. The French also require that all employers pay into a separate earnings-related pension scheme, the terms of which are at least marginally influenced by trade union action.

This intrusion of the law into the private pension domain carried with it mandatory participation by workers—or unions on behalf of workers—in plan management and fund investment. The principal exception to such legally required worker participation is the United Kingdom where the situation is much the same as in the United States. Although there are some jointly administered plans in the United Kingdom in which both the employers and the workers have equal representation on the board of trustees, representation of labor on such boards is a matter for negotiation, to be won at the bargaining table. However, the incidence of union or worker participation on these boards is greater in the United Kingdom than in this country, in part because of the greater degree of unionization in England.

In Sweden, Denmark, and France, workers share responsibility for pension fund investment policy determination not only with representatives of the employers, but also with representatives of government. In France, where the unions are relatively weak, the government—regardless of its political affiliation—clearly has the upper hand. In Denmark and Sweden, government representatives on the tripartite boards also appear to hold the balance of power. However, party affiliation is significant. As long as the Scandinavian governments were led by the Social Democrats—the party of the respective labor movements—it was the unions who were in fact the dominant actors in investment policy determination. When the Social Democrats lost control, management representatives found themselves in the driver's seat. In The Netherlands, although government is not included on the pension fund management boards, there is a tripartite governmental review body which oversees pension fund investment, thus giving the government there a decisive role in investment policy. The issue, therefore, in Europe is not whether there shall be labor or worker representation, but how to make it most effective.

It is important to note here that in most European countries, again excepting England, collective bargaining is highly centralized, with a national federation of trade unions bargaining with a national federation of employers. Similarly, the private pension funds are centralized. Thus, whereas in the U.S. there are thousands and thousands of pension plans, each with its own trustees, and hundreds of thousands of individual trustees—most representing the employers, but some rep-



representing the workers—in most European countries there is only a handful of pension plans, only a few boards of trustees, and therefore a select group of relatively influential trustees, either from labor or from employers. This centralized system should mean that effectiveness of labor representatives is more easily achieved. Whether this is so is not certain.

Investment of European pension funds is subject to constraints very similar to those that govern U.S. pension funds. The most important of these is the requirement that the funds be invested prudently. This requirement may be stated somewhat differently in different countries, but the intent and, indeed, the effect is the same. In Holland, for example, investments must be “solid,” reasonable, and diversified; in Denmark they must provide “maximum returns consistent with adequate security,” and in Sweden there must be a “safe and adequate return.” British trustees are bound by the Trust Law which provides the model for our own prudence rule.

The increasing interest in and need for using pension funds for particular economic or social purposes—an interest generally broadly supported by the trade unions—has led to the development of special-purpose pooled funds in some countries, as a way to accommodate such investments with existing constraints. There are several examples of such special purpose funds. The Swedes have a “Fourth Fund,” established specifically to help stimulate the Swedish capital market, encourage new stock issues, and thus increase employment. The Fourth Fund was created by drawing on the resources of the other three supplemental funds (for blue-collar, white-collar, and public workers) through a process of annual allocations mandated by the parliament. The amount allocated was never large; only 1 percent of assets of each fund, thus minimizing risk to any one of the regular funds and providing an acceptable accommodation to the constraints under which the regular funds are required to operate.

In the United Kingdom, the British Trades Union Congress has proposed the creation of a new independent investment fund designed to help correct what is perceived as a failure of the capital market by providing a new source of venture capital leading to increased employment opportunities. The proposed fund would be capitalized by requiring that each of the existing private pension funds subscribe 5 percent of all incremental increases as they accrue. To overcome the legal constraints of the Trust Law, the proposal includes a government-guaranteed investment return. Although this proposal is at this writing simply that (and clearly will not have the support of Mrs. Thatcher’s government), it is aimed at the same problem that concerns trade

unionists throughout the western world. This is the need in every country for new capital investment. Employment is, of course, the ultimate goal. Increased investment for reindustrialization and modernization, for the introduction of new technology and the development of high technology industries is seen as the solution to rising unemployment, while pension funds are regarded as the best available means for achieving these goals.

The Danes may well have gone farthest in putting some of these ideas into effect. In 1980, a new fund, the Employees Capital Pension Fund (ECPF), was established with three specific investment policy goals: to improve employment, to improve the social condition of pensioners, and to influence corporate policy in ways considered favorable to workers. The ECPF represents the outcome of an incomes policy bargain struck between the government and trade unions in 1977. At that time, the unions agreed to accept a specified wage level for two years, forgoing normal cost-of-living increases, in return for a proviso that the money to cover such cost-of-living increases would be paid by the government into the supplementary pension system for eventual distribution to the workers as they reached retirement age. The ECPF is managed by a bipartite board made up of representatives of labor and government, but with the unions in the majority. Only 20 percent of the fund's assets can be invested in the equity market; the remainder must be invested in government bonds, government-guaranteed housing mortgages, real estate, or cooperatives (dairies, slaughter houses, etc.), an important factor in Denmark's export trade.

The Fund's investment priorities include the promotion of employment in manufacturing industries, especially in export-oriented manufacturing. Typical of the kind of investments that the Fund is making are loans to a Danish company producing computer parts, and to another making communications equipment. Rates of return are somewhat lower than those prevailing in the long-term bond market but have been higher than the rate of inflation, thereby reducing the potential conflict between pension obligations and investment goals. Although the new fund is probably not large enough by itself to have a significant impact on the Danish economy, to the extent that it acts in collaboration with the other supplementary pension funds—the boards of which are also dominated by labor representatives and their government allies—the potential impact is much greater than the Fund's modest size would indicate.

The ECPF is relatively small and therefore its impact limited. To further support reindustrialization and reduce unemployment this year, the government, led by Social Democrat Anker Jorgensen, proposed

that the constraints which now apply to the investment of the regular supplementary pension funds be relaxed, and that a substantial portion of these funds be directed to industrial investment. The proposed plan was defeated by the parliament in November and subsequently became the focus of general elections held in December—elections which resulted in the fall of the Jorgensen government. Apparently the proposal went too far for the majority of Danish voters, who agreed with the Conservative-Liberal position that the plan would be too costly and give too much power to the trade unions.

Use of pension funds to maintain or create employment could also become a political issue in The Netherlands. The trade unions in that country have sharply criticized their pension fund investment advisors for following traditional investment policies, and particularly for making overseas investments while Dutch industry declines and Dutch workers are idled. The unions have called for greater investment in worker housing and a ban on foreign investment in favor of increased support of advanced technology and export oriented industries. Thus far their proposals have not won general acceptance.

Some British trade union funds have, on their own, adopted employment-oriented investment policies. For example, the Postal Workers pension fund sets aside a small amount, 1 to 2 percent of the incremental additions to the fund, for investments each year in small business. The rationale for this set-aside is that it is small business which most often develops the new technology which will provide new jobs, and further, that it is small business which has the most difficulty raising capital. Another British union, the Mineworkers, deliberately seeks investment opportunities in places where miners live. The fund is not interested in mining investments, however, but rather in creating alternate employment opportunities for their members, particularly in firms which have a potential for exports.

In the U.S., trade unions are only beginning to consider how they might take advantage of their position as shareholders to influence corporate policy. The concept has already had practical application in some European countries, particularly Denmark and Sweden. Both the Swedish Fourth Fund and the Danish pension funds have used their rights as shareholders to nominate and elect their own candidates on some corporate boards of directors. By 1980, the Fourth Fund had named "its" people to serve on the boards of 14 Swedish companies in which it holds stock. In Denmark a codetermination system permits workers to elect two representatives to corporate boards of directors, but frequently, without economic clout behind them, their participation has been limited. Purchase of corporate stock by union pension funds

and the subsequent exercise of shareholder rights has helped to increase the effectiveness of these worker-directors.

Although the fear is sometimes expressed in this country, particularly by the investment community, that increased worker or union participation in pension fund investment will lead to creeping socialism, for some European trade unions—particularly in Sweden, Denmark, and The Netherlands—this notion is expressed not as a fear but as an expectation. In Sweden, for example, the debate over use of pension funds as a means for the redistribution of wealth is highly politicized, and in fact contributed to the 1976 defeat of the Social Democratic government after more than 40 years in office.

There are several variations of the original Swedish proposal for the establishment of so-called wage-earner funds, but all start with the current economic situation—a falling level of savings and inadequate industrial investment. The proposals also take into account the concentration of wealth in Sweden.<sup>7</sup> Through wage-earner funds, it is hoped to correct both problems.

Wage-earner funds can be construed as another form of pension fund since, like pension funds, they represent workers' deferred compensation or a kind of forced saving, and since eventually they pay out benefits on the basis of some relationship to the workers' previous earnings. The principal difference is in the way the funds are managed and invested. The Swedish trade unions have set up three goals for wage-earner funds: that they should increase capital formation, increase wage earners' influence on corporate decisions, and prevent the distribution of wealth from becoming more unequal. As proposed by northern European trade unions, management of such funds should be vested in the unions as the rightful guardian of workers' interests. Under these proposals ownership (of corporate stocks and bonds) that results from such collective investment would also be collective rather than individual. It is this factor which has caused the most trouble and which, at least so far, has prevented adoption of any of the proposals, even on a modified basis. Even in Sweden where a special parliamentary commission spent two years trying to hammer out an acceptable compromise, the effort was unsuccessful and has been at least temporarily deferred.

In Holland the trade unions proposed and, in fact, introduced in the parliament a two-sided capital growth profit-sharing plan. One side would give individual workers additional cash or benefits; the other

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<sup>7</sup> Spant, "One percent of all Swedish Households holds 75 percent of all corporate shares owned by households, and another 10 percent holds all the rest, leaving 89 percent of the population with no shares at all."

would benefit workers collectively by adding to pension plan funds, the investment of which would be controlled by unions. The proposal failed to get parliamentary support and, like the Swedish proposals, has been put aside.

### **Lessons for the U.S.**

The collapse of the Swedish effort, the demise of the Social Democrats' government in Denmark, and the Dutch experience all indicate that the time for wage-earner funds has not come—not yet anyway. This is probably also true in regard to the extension of worker or union influence or control of the investment of existing pension funds. Yet there are some important lessons for the U.S. in the European experience.

1. Worker or union participation in the management of pension funds does not mean that the funds will be poorly or unwisely managed. In most European countries labor participation is not only accepted, but mandated, and with perfectly good results.

2. Pension funds—or rather some part of the whole—can be used to support particular economic or social policy objectives without detriment to achievement of their basic objective (the provision of pensions to beneficiaries) through various devices such as special purpose funds, limitations on such investments, and government guarantees.

3. Socialism in the form of workers' collective ownership of the corporate world via pension funds has not gotten very far even in countries with politically strong labor parties. It does not appear to be a real "threat"—certainly not at this time.

# Setting Pension Investment Policies: Joint Control and Management Issues

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Providing for retirement income in the United States has taken on economic dimensions foreseen in the past by very few. The long-term costs of meeting promises already made are staggering.<sup>1</sup>

- Several trillion dollars for Social Security.
- Nearly one trillion dollars for federal employees.
- Billions of dollars for state and local employees.
- Billions of dollars for private-sector employees.

While control of pension investments has risen as an issue due to substantial asset accumulations, professionals and policy-makers must not lose sight of the liabilities that also exist. Meeting these costs will prove to be a major policy issue in the retirement-income area in the decades ahead. Who controls the assets accumulated to pay these benefits will also be a major issue for labor and management as the proportion of all investment capital accounted for by pension funds grows and as government money becomes less available for social projects. How these issues are responded to is of tremendous importance to all those involved—participants, beneficiaries, employers, employee representatives, service providers, and government regulators.<sup>2</sup> Their resolution will be an increasingly important issue in collective bargaining and for public policy.

All decisions regarding retirement-income programs will be important to consider. For example, were the decision made to expand benefit provisions through Social Security and to raise payroll taxes to a level sufficient to meet all Social Security obligations, the demand for private

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<sup>\*</sup> Any positions taken in this paper represent the views of the author and not of the Employee Benefit Research Institute.

<sup>1</sup> Employee Benefit Research Institute (EBRI), *Retirement Income Policy: Considerations for Effective Decision Making* (Washington: 1980).

<sup>2</sup> William J. Chadwick, *Regulation of Employee Benefits: ERISA and Other Federal Laws* (Brookfield, Wis.: IFEBF, 1978).

plans would likely fall with the dollars available to fund private plans and the level of assets both likely to decrease.<sup>3</sup>

For those concerned about industrial relations, pension assets, or capital markets, there must be a concern for all aspects of retirement policy due to the intricate interaction of change in any area of retirement-income provision.

### **The Scope of Private Pensions**

The Employee Retirement Income Security Act (ERISA)<sup>4</sup> established age 25, one year of service, and 1000 hours of work as the required minimum standard for pension-plan participation.<sup>5</sup> After adjusting for agricultural and self-employed persons, this workforce is 49.7 million workers, out of a total workforce of 95.4 million. Seventy-four percent of this "ERISA" workforce is covered by an employer plan; 68.3 percent actively participate. Of participants with 10 or more years of service in current jobs, 78 percent are vested and another 11.4 percent do not know their vesting status.<sup>6</sup>

Private pension plan growth has not stopped. In 1950, 9.8 million participated in private employer-sponsored plans; by 1979, 35.2 million participated in these plans. This represents participation growth of 263 percent, compared to labor force growth of 89 percent. And, in spite of adverse experience immediately following passage of ERISA, net plan formation since 1974 totaled 197,523 plans. In 1976 there were only 3,494 net new plans; in 1980, 56,063.<sup>7</sup>

### **The Size of Pension Funds and Allocation**

Pension funds held assets of \$653 billion at the end of 1980 (\$450.7 private, \$202.7 state and local).<sup>8</sup> These funds grew from 5 percent to 16 percent of total financial assets from 1950 to 1979. The top 25 corporate funds held \$120 billion; the top 25 public funds held \$126-130 billion; the top 25 Taft-Hartley funds held \$12 billion. Private assets grew 30-fold from 1950 to 1979 (12.4 percent per year); state and local assets grew 21-fold (11.1 percent per year) with a net inflow in 1979 of \$16.5 billion.

<sup>3</sup> Sylvester J. Schieber and Patricia M. George, *Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement* (Washington: EBRI, 1981) (hereafter "EBRI Coverage Study").

<sup>4</sup> Employee Retirement Income Security Act of 1974, 29 U.S.C. §§1001 et seq. (1976) (hereafter cited as ERISA).

<sup>5</sup> ERISA Title I, Part 2.

<sup>6</sup> EBRI Coverage Study, Ch. II.

<sup>7</sup> EBRI Coverage Study, Ch. III.

<sup>8</sup> EBRI, *Retirement Income Opportunity in an Aging America: Funding, Capital Markets and the Economy* (forthcoming).

The U.S. Department of Labor and the U.S. General Accounting Office have both made estimates of future asset levels—assuming no changes in public policy. These forecasts project total assets of \$3 trillion in private plans and \$975 million in state and local plans by 1995.<sup>9</sup> According to an Urban Institute study, assuming no changes in public policy, benefit payments may exceed contributions by 2010 at the latest, producing a drain which could totally deplete assets by 2050.<sup>10</sup>

Major public policy changes may well be made in the Social Security program which could have a dramatic effect on these future asset projections.

### *Investment Allocation*

There have been only limited shifts in the allocation of private fund assets since 1970. About 60 percent (57.6 in 1979) of private pension assets have been invested in corporate equities and 25 percent in bonds (23.3 percent in 1979), with 10.7 percent in U.S. government securities in 1979 as compared to 2.7 percent in 1970. Only 1.5 percent of assets were in mortgages in 1979, even though activity of the past three years indicates that this share may rise.

State and local funds have been more active. By 1979, 24.5 percent of state and local assets were invested in corporate equities, up from 16.7 percent in 1970. Bonds accounted for 48.2 percent of assets, down from 58.1 percent in 1970. U.S. government securities accounted for 17.9 percent of assets, with 5.3 percent in mortgages—down from a high of 11 percent in 1965. Looking beyond traditional investment patterns, one sees that public and private plan assets in “social,” “non-traditional,” or “divergent” investments have not yet reached a level sufficient to make them clearly identifiable. In addition, there is a question of whether the reporting now done will clearly identify such investments to allow tracking in the future.

While units such as the Southern California Construction Industry Real Estate Development Financing Foundation are clearly identifiable, this is the exception. Under present policies, as pension assets grow they are being shifted, even if not dramatically, in the way that they are invested.

The growth of pension assets, combined with the needs for reindustrialization and reduced levels of government spending, make increasing concern over control of these assets inevitable.

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<sup>9</sup> ICF, Incorporated, “A Private Pension Forecasting Model,” Final Report to the Department of Labor (Washington: 1979).

<sup>10</sup> Urban Institute, “The Future of State and Local Pensions,” final report to the U.S. Government (Washington: 1981).



## Pension Funding, Investment, and Economic Issues

Pension funds influence both the level of capital accumulation in the U.S. economy and the allocation of capital to various forms of investment. Pension funds also affect the input of labor because employer pensions and Social Security impose a cost on employers and workers and augment incomes of the retired. Retirement programs affect, therefore, the allocation of costs among groups in the population and the benefit security of participants. The funds provide a means of meeting "social needs." These are the two major policy issues that create a framework for the "social investing" debate:

Allocation of Costs: federal tax policy has historically been the primary mechanism for influencing the allocation of costs and the rate at which plans are advance-funded.

Benefit Security: Federal standards of fiduciary responsibility provide the legal framework for ensuring that benefit security interests are observed.

### *Social Investing*

The debate itself in the United States and foreign nations centers around two issues: first, what social considerations are legal, and second, who should control or participate in the investment decision-making process. "Social investing" is a phrase used to refer to a number of economic and investment policy issues.<sup>11</sup> Whether the knowing acceptance of inferior risk/return investments is appropriate is the first and most crucial question. Investments made on a reduced net return basis can be referred to as "political," "socially dictated," or "divergent." The second selection question is whether comparable investments can ultimately be discerned based upon social factors given equal net-return characteristics. Such "comparable" investments can be referred to as "social," "socially sensitive," "moderately divergent," or "social bonus investing."<sup>12</sup>

The legal environment present under the common law and highlighted by enactment of the Employee Retirement Income Security Act of 1974 (ERISA) and existing state and local legislation consists primarily of legal constraints on behavior. The fiduciary responsibilities of plan trustees, especially those based upon the ERISA prudent-man rule, are viewed as creating severe difficulties in justifying investment at reduced rates of net return, but generally as allowing the inclusion of

<sup>11</sup> Dallas L. Salisbury, ed., *Should Pension Assets Be Managed for Social/Political Purposes?* (Washington: EBRI, 1980).

<sup>12</sup> Elliot Bredhoff, "Collective Bargaining for Socially Responsible Investment of Pension and Welfare Fund Assets: Another Look at ERISA," p. 102 in this volume.

social considerations once equal net-return investments have been identified. Still, some lawyers do argue that social and political investment, at lower returns, can be prudent.<sup>13</sup>

Proponents of reduced net returns have cited moral, humanitarian, and political reasons when calling for increased socially dictated investments. Increased emphasis is being placed on socially sensitive investments designed to benefit plan participants directly. Two examples are investments by joint-trust plans which encourage unionization, and investments to encourage economic development in areas where plan participants live. Investment advocacy of this type has been viewed as sometimes having economic, political, and social components.

### *Make Pension Assets Work for the Workers*

Proponents of "social investing" with increased worker or union control appear to come principally from the ranks of organized labor. Most proponents hold that alternative investment approaches can be pursued without harming pension security and that joint control of this selection process is desirable. Union studies have concluded that plans frequently exhibit investment characteristics that seem inconsistent with the long-term interests of fund beneficiaries and that this provides justification for participation.

Proponents believe that even though employer-plan sponsors have the ultimate liability for fund deficiencies, employees should be concerned about rates of return and, therefore, should have a role. An AFL-CIO Industrial Union Department report<sup>14</sup> notes that:

1. Contributions to plans represent deferred compensation and thus employees have a vital interest.
2. Concern over rates of return and a desire for involvement in the investment process in no way threatens the security of pensions and, the goal of higher returns actually promises greater security.

The IUD study urged unions to seek direct involvement in fund management through the collective bargaining process. The report outlined a number of options: (1) full joint administration, (2) participation in the appointment of fund advisor, (3) participation in the specification of investment goals, (4) security input to proxy voting.

The IUD report contends that pension security will not be adversely affected by worker/union participation or by alternative investments.

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<sup>13</sup> Ribikoff and Curzan, "Social Responsibility in Investment Policy and the Prudent Man Rule," *California Law Review* 68 (1980), p. 518.

<sup>14</sup> Industrial Union Department, AFL-CIO, "Pensions: A Study of Benefit Fund Investment Policies" (1980).

Additionally, it cites specific examples of actions some plans have already taken to support their contention.

The IUD report, however, appears to be a relatively conservative document. For example, at the forum on "social investment" sponsored by EBRI in 1979, some union representatives made the following points: (1) elected officials and union representatives should have total control over investment decision-making; (2) rate of return may not be as important as other investment considerations to participants and beneficiaries.

There is not, it would appear, a clear consensus among the proponents of "social investment" as to what it is or how it should be achieved. There is a consensus, however, that worker/union should have greater involvement in the investment process.

### *Preserve Pension Security*

Traditionalists argue that "socially dictated" investments may involve costs and/or increased risks that should not be borne and are not legal. Concentrating funds in geographical areas or specific types of investments may violate reasonable diversification principles. Some approaches may present problems due to increased transaction costs or restricting trustee discretion beyond what is reasonable. Banning investments in certain areas which offer attractive returns could affect optimum fund performance. Opportunity costs associated with the inability to act rapidly could further dampen investment performance.

Opponents of "social investment" that involves greater worker/union involvement raise a number of issues. Bernard Curry, a senior vice president of Morgan Guaranty Trust Company of New York has written:<sup>15</sup>

1. If the fund does not perform up to expectations as a result of such worker/union intervention, who will make up the deficiency? Who will answer for lost opportunities?

2. People without investment experience will have equal participation with experts in the investment of pension reserves. At best, a multiplicity of views on the making of investments usually results in the lowest level of performance—and at worst, havoc.

3. Funds should continue to be invested solely with the interests of beneficiaries in mind with the primary goal being pension security.

4. To achieve any substantial diversion of investment thrust would require massive disinvestment and reinvestment at substantial loss.

<sup>15</sup> Bernard F. Curry, "Pension Funds and Social Responsibility," *Industrial and Labor Relations Report*, Vol. 19, No. 1 (Ithaca, N.Y.: Cornell University, Fall 1981).

Curry also makes three points regarding investment decisions per se:

1. Taking nonfinancial factors into account is highly subjective and would make common standards for evaluating investment performance nearly impossible.
2. The flow of pension assets cannot reverse a contracting economy and other economic conditions.
3. Advocates of change must be burdened with showing that their particular vision can be addressed without diluting the economic interests of present and future pensioners.

In short, those who are opposed to “socially dictated” and greater worker/union involvement believe that the payment of pensions is a sufficiently desirable social purpose and that other economic and social objectives should be secondary. And they believe that the present control structure should not be modified.

## **Conclusion**

The debate over the control of pension assets will continue. While arguments will persist at the extremes over sacrificing return, “alternative” approaches are being adopted even where control is not shared.

Concerns over implementation of changes from the status quo relate to administration, oversight of investments, performance evaluation, investment selection, policy development—and conflicts of interest persist. The extent of implementation problems would depend upon the percentage of pension fund assets allocated toward nontraditional investments, the nature of the rules governing the investments, the time frame in which portfolio changes are required to be made, and what decision has been made regarding who controls the investment process.

As pension plan participation and the beneficiary population grow, the political pressure surrounding investment policy will grow commensurately. Poor economic conditions and a retracting government will serve to increase pressures as well. As a result, the time to anticipate and plan for the future is upon us.

## DISCUSSION

GLADYS W. GRUENBERG

*St. Louis University*

To be opposed to the suggestion in Elliot Bredhoff's paper that unions begin using pension fund accumulations for investments which yield a "social bonus" is like being against God and motherhood. But for the sake of discussion I would like to warn such would-be social advocates that the practical problem of determining what constitutes a socially beneficial investment is not as simple as appears on the surface. There has consistently been lack of consensus about what socially responsible conduct actually is, and to identify companies and projects by their "social bonus" potential presents serious pitfalls for trustees in several categories.<sup>1</sup>

First, Mr. Bredhoff's cavalier determination that fiduciaries may give consideration to the social desirability of investments when choosing among comparable economic opportunities severely begs the question. What are socially desirable investments, and how is the comparability of alternate economic opportunities weighed? Top accounting firms in the United States have found great difficulty in devising some form of social auditing procedure whereby companies may inform their stockholders and potential investors of their performance in this area. The Securities and Exchange Commission has also attempted to come up with some form of uniform reporting for social accountability. But the best that can be done is a negative approach whereby potential damage and legal fees for violation of specific laws must be reported in 10K statements to acquaint investors with the effects such conduct is likely to have on profits in the future. And auditors have suggested that companies list specific costs for conformity with environmental and safety/health requirements for similar effect.

However, comparison between companies is exceedingly risky since there is no common basis for making the original determination of either costs or benefits. Thus, trustees of pension funds are likely to

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<sup>1</sup> For the problems in social auditing, see George A. Steiner and John F. Steiner, *Business, Government and Society* (New York: Random House, 1980), pp. 227-37; and Ernst and Whinney, *Special Study of Social Measurement Disclosures in Annual Reports*, published annually.

fall back on their own subjective gut feelings about various socially oriented activities, which brings us to the second and more important problem—one which has serious impact on the collective bargaining relationship between the parties, especially for funds which are jointly administered by company and union representatives.

Multiemployer funds are regulated not only by ERISA, but also by Section 302 provisions of the Taft-Hartley Act, and thus trustees are thrust into a negotiation stance often enough when there is disagreement about what the plan should be doing and how benefits may be enhanced. To add the philosophical potential of disputes which really have no resolution (at least not the type of resolution which dollars and cents make possible) only serves to make their task even more difficult than it is. Trustees are usually not experts in the field of pension investment, and they must rely on their consultants and administrators for most of their knowledge. In the normal fields of law and finance such advice is usually reasonably objective so that there is no serious disagreement among professionals about the responsibility of trustees in connection with investment alternatives. But the injection of “social bonus” into the consideration would not only make such unanimity almost impossible, it would require the type of information which trustees are not likely to have. The turnover among trustees, especially of multiemployer funds,<sup>2</sup> further increases the risks and makes the potential for adverse spillover into the collective bargaining relationship that much greater.

It has been suggested by Mr. Bredhoff that union funds should not be used for union-busting or for investment in companies that are sending U.S. jobs overseas. Again, one can hardly disagree with the philosophy of such a statement, but unions are not always faced with J. P. Stevens situations, and many overseas investments create rather than remove jobs among the U.S. labor force. Thus, while the idea is tempting, the implementation is virtually impossible.

The other area which was mentioned—creation of jobs in the construction industry by investment in residential mortgages and public housing—has even greater pitfalls since it involves directly the risk factor for the investment as well as the conflict-of-interest element for the trustees. Multiemployer funds predominate in the skilled crafts, most of which are involved in construction. Selection of investment sources in the very industry in which the trustees have an interest is

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<sup>2</sup> The Multiemployer Pension Plan Amendments Bill of 1980 highlights the problem of turnover among multiemployer plans and introduces new responsibilities for trustees to protect the financial stability of the plans; see CCH *Pension Plan Guide* No. 380, August 8, 1980, pp. 8–9, and American Bar Association, Section on Labor and Employment Law, 1981 *Committee Reports* v. III, pp. 5–10.

suspect at best and represents the type of potential temptation which could carry antitrust implications for the employer associations involved. Even the discussion of such alternatives could lead to the type of boycott which the Justice Department frowns upon.

For pensions that are administered solely by the employer, the potential for disruption of the collective bargaining process is equally apparent, but for a different reason. While it is true that the Chrysler-UAW desire to seek out potentially socially desirable investments has not been prohibited by the U.S. Department of Labor, it should be pointed out that the advisory opinion merely stated that philosophically such "socially desirable" investments were not violative of the law, but each specific decision made under this general rubric will be closely investigated.<sup>3</sup> Hence, as "social bonus" investments are discussed, their potential for violating the trustees' fiduciary and conflict-of-interest responsibilities will be carefully scrutinized. In other words, trustees beware!

But where companies do not see eye-to-eye with the unions representing their employees as to what socially responsible activities are and what types of social bonus are advantageous to the beneficiaries of pension plans, an element is injected into negotiations which has no bread-and-butter resolution since the definition of social bonus is grounded in ethical, moral, political, and social beliefs which are usually diametrically opposite at the bargaining table, especially in the normal adversary relationship. To suggest that cooperation can be achieved in this ideological area is not only naive, it is downright dangerous for the entire system of collective bargaining as we now know it.

And this brings me to the second paper, outlining the success that various European countries have had with socially oriented investments. As Jocelyn Gutches has so well pointed out, most of these investments are mandated by law and thus are surrounded with the necessary restrictions and procedures which amount to still another area of co-determination or social democratic political activity supported by various labor parties. It is also clear that the number of pension funds and trustees involved in such activities is very small compared with the hundreds and thousands of actors in the U.S. scenario. As with most every other comparison between U.S. and European unions, there is no basis for concluding that what is good across the Atlantic is equally workable in the United States. Without enabling legislation to guide socially desirable conduct, trustees would act at their peril. In summary,

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<sup>3</sup> For a statement on this advisory opinion, see American Bar Association, 1981 *Committee Reports* v. III, pp. 24-25. For additional prohibited transactions, see the same report, pp. 22-24, with special reference to multiemployer plans and the construction industry.

the potential for danger both to the responsibilities of the trustees and to the collective bargaining climate is much too great to risk the slight benefit which would result from such investment for social bonus gains. Advisory language is hardly worth the effort.

In conclusion, there are many other ways in which socially desirable goals of unions can be achieved without jeopardizing pension funds and their administration. Unions have fought too long at the bargaining table for the pension benefits which they now enjoy to use these funds as a pawn in an ideological struggle which even their members are not unified on and which can better be achieved through political action.

Therefore it is not the goal that I decry, it is the means suggested here—namely, that pension funds be used to further union activity and that investments be made for nebulous social goals which can better be achieved through the ballot box.



## DISCUSSION

HERVEY A. JURIS

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As I read these papers and listened to the presentations, I was struck by two things: why is this an issue now and not earlier, and why didn't the authors deal with the really controversial issues?

### **The Timing**

Twenty-five years ago, several authors were concerned about the potential size of Taft-Hartley pension funds and the use of those funds by unions to control industry. Today we are discussing whether social considerations have any role in determining pension fund investment policy. What happened in the intervening years? Why weren't the worst fears of those earlier authors realized? Why is socially responsible investing an issue today? The answers, I believe, lie in the nature of unions as political institutions and in the impact of the environment on the rank and file.

The early 1960s to the mid-1970s was a period of great prosperity—for the economy, for the labor force, and, by and large, for the union movement. Through all of the social activism of the 1960s, however, there was not a great deal of discussion of the use of benefit funds for socially acceptable purposes. There was a lot of talk about the social responsibility of corporations and churches, but most comments about the labor movement were along the lines of "why had the labor movement forgotten its roots?"

In point of fact, the labor movement was remembering its roots. The union as an institution was being responsive to the needs of the membership. The membership was relatively unthreatened by the environment so there was little or no pressure for social bonuses (an interesting choice of terms for a process designed to convey private benefits). The period since the mid-1970s has seen profound changes in the environment. Plant shutdowns, runaway plants, the export of jobs, and the social welfare needs of displaced constituents have all put extraordinary pressures on the unions. With the change in the environment, the members' interests have changed. Therefore it is appropriate that the unions now respond to these changes by initiating discussions about investing

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funds to achieve a social bonus. If you believe as I do that the 1980s are going to be very difficult from a labor market perspective, then the pressure for social bonuses will increase rather than decrease over the course of the decade.

### **What Was Not Said**

What surprised me most about this session is not what was said, but rather, what was left unsaid. What we heard was a relatively passionless and gentle look at the issues. The emphasis was on using pension funds to do good. What was not discussed was the range of issues to which the concept of social bonus might be applied if it were to become accepted on the basis of the benign arguments used here. For example, what will unions do about firms generating a maximum rate of return on an investment if those firms are the ones undermining the jobs of union workers by abandoning a particular geographic region? Would investment in these firms cease with the notion of social bonus? Will benefit fund investments be used to help in organizing? For intervention in labor disputes? For the development of influence within organizations? None of these issues was discussed. Nor was there a discussion of whether there is a limit to how aggressive unions will be in using these funds to stop the hurt.

### **The Papers**

Three papers were presented: an overview, a European comparison, and a legal evaluation. I will take them in inverse order. Elliot Bredhoff is a consummate advocate—nothing in the law *as he reads it* would stand in the way of a social bonus conservatively defined. Whether we agree or disagree with him, we are all aware that the issue will be litigated on a case-by-case basis until some strong principles are established. The key issues highlighted in the paper are prudence and loyalty. The more interesting of these is loyalty: what constitutes an investment in the best interests of the beneficiaries. Inasmuch as the benefit funds are deferred earnings of the beneficiaries, can they be used to save jobs as well as to provide pension security? Some beneficiaries will argue that at this point in time the former would be in their best interest. The conflict, however, is with the concept of prudence which requires diversification of investment to protect pension security. This, to me, seems to be the central issue—the one that will have to be overcome if pressure for social bonus investing will be a continuing issue for the 1980s.

Jocelyn Gutchess looks at Europe where social bonus investing should have its strongest chance for success. She finds that even where

politically strong labor parties exist, pension fund "socialism" doesn't appear to have gotten very far. This should relieve the "worst fears" crowd. In addition, historically labor relations in the United States has been more expedient than ideological. It is not likely, on this basis, that benefit fund social bonus investing will ever progress beyond using the deferred income of the injured to "protect themselves from perceived wrongs" to "control of capital" as an ultimate goal.

Dallas Salisbury sets up a nice straw man in the person of Bernard Curry of Morgan Guaranty Trust who, on the one hand, seems to raise some narrow objections to social bonus investing, but on the other, makes a major point which needs to be considered in this discussion. Mr. Curry is opposed to social bonus investing because it would involve amateurs, would be administratively more costly because of high asset turnover, and most importantly would be subjective. Obviously, he overlooks the fact that if all investment decisions were not subjective, there would be only one investment model and it would be practiced by everyone. The question of amateurs and churning are left to die of their own weight.

More importantly, however, Mr. Curry asks who will make up the deficiency if the fund does not perform up to expectations as a result of social intervention? Who will answer for lost opportunities? As Mr. Salisbury says, someone must assume the costs. Why not the workers?

If the workers want to define loyalty as encompassing more than pension security, then perhaps they should also be asked to formally share the risks. Mr. Curry correctly points out that the flow of pension assets cannot reverse a contracting economy or reverse the direction of basic economic conditions in a declining industry in an expanding economy. Capital does flow with the underlying forces. Social bonus investing may stem the tide in the short run, but, over the long haul, investing against the tide of underlying conditions may truly jeopardize the pension rights of affected employees. While one can understand the workers' short run reaction—save our jobs—there is, in fact, a fiduciary responsibility which must be met. Perhaps this conflict can be resolved by holding an election in which a fully-informed electorate specifically waives all rights and assumes all risks.

## Conclusion

Times are tough and they're going to get tougher for the sectors of the economy which have historically been most heavily unionized and which have the greatest pension investments. Expediency and adaptation, however, are the hallmarks of collective bargaining in the United States. There will be a collective bargaining response to these tough

times given the resources available in benefit funds. Some sharing of risk may be the only way out of the prudence requirement, because there surely will be risk involved in investing against the underlying flow of forces in the economy.

## VII. SPECIFIC EXPERIENCES OF LABOR-MANAGEMENT COMMITTEES

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### The Retail Food Industry

PHILLIP E. RAY

*Joint Labor Management Committee  
of the Retail Food Industry*

The Joint Labor Management Committee of the Retail Food Industry was born in the wake of turmoil that welled from that frustrating experiment in wage and price controls that inflicted immeasurable confusion on an already shaky labor-management relationship. The Committee was a frail child at birth. It was given just an eight-month life-span.

With the constant nurturing of such luminaries as John Dunlop, who was later to become Secretary of Labor, and Bill Usery, who was Director of the Federal Mediation and Conciliation Service and, like Dunlop, later the Secretary of Labor, the JLM Committee took its first tender steps toward becoming a cohesive unit.

Having been a participant in those formative days, I can tell you that trust was less than universal—not just between the labor and management representatives, but even within the ranks of those adversary forces. Opening the path to communication and tearing at the barriers of mistrust was the Committee's first chairman, Wayne Horvitz.

The syndrome that Wayne had to overcome is one that I think was best expressed by the late Mayor Richard J. Daley of Chicago. Asked to comment on a crippling Teamsters' strike, he said: "What keeps people apart is their inability to get together." Wayne in the early days was faced with just this situation. But he stayed at the task—constantly reminding the parties that "I am an impartial chairman."

About three months after the Committee was formed, Wayne gave

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a clue to his feelings in a speech he delivered in San Francisco. Acknowledging that he, indeed, was Chairman of the JLM Committee, he added: "The only powers I have as a result of that position are those which are granted mutually by the members of the Committee. So far, they have granted me no powers—except the power to run the meetings." As it turned out, for someone of Wayne's determination, that was power enough. He became the catalyst that brought the JLM Committee ever closer to fulfilling its original agenda.

That agenda called on the Committee to "serve as a forum . . . to strengthen the ability of the industry to reach constructive decisions in collective bargaining." The originators realized that "the Committee cannot and should not be a mandatory industry disputes settlement organization," but added that the Committee "may be able to assist the industry in key contract discussions that otherwise might lead to major confrontations."

The Committee also accepted the responsibility to become "an ongoing forum to broaden the base of communication between labor and management at all levels and on all subjects of mutual concern to labor and management."

The crux of the Committee's self-imposed obligations—and the degree of success it has tasted since—is the ability of adversaries to gain sufficient trust in one another to concentrate their efforts on resolving mutual problems through mutual understanding and teamwork. This was—and remains—a challenge that is unique in the annals of American labor-management relations. And yet it would seem that we are meeting that challenge.

When the eight-month pilot program came to a close, the JLM Executive Committee renewed the Committee for the full year of 1975. In mid-1975, the fragile time limits that implied that the JLMC was preordained to fade away, leaving an imprint of a well-intentioned experiment that had seen its day, were discarded with the decision to provide it with a three-year charter to function through 1978. That decision showed that chief executives from management and labor had found value in the trust that was developing within and between their ranks. To me, that decision epitomized the desire of the leadership in the retail food industry—labor and management alike—to continue the search for effective means to strengthen through a unified effort one of the more fragmented industries in the nation. In addition, that decision has made it possible for the Committee to address, in a realistic time frame, some of the gnawing problems that have had a quarter of a century or more to develop in the industry.

How has the committee fared? Has it served its original purpose. An

objective look at the scorecard, I believe, will bring an affirmative answer.

Before addressing that most crucial, the least structured, and potentially the most rewarding aspect of the Committee's activities—its work in collective bargaining—let us briefly review a few of its accomplishments involving other pressing industry problems.

Concern over the health and safety of workers has escalated in the past several years into one of the major and more costly problems confronting nearly every industry. Both labor and management recognized this field as one where a mutual effort could bring satisfactory results—the safest possible working conditions combined with protection from exposure to potentially hazardous materials, particularly in the wrapping of meat.

A health and safety subcommittee was formed, and the JLM Committee adopted a policy “to use its influence to avoid and discourage litigation in the industry on health and safety matters and also to avoid and discourage labor-management confrontations on health and safety issues.” The subcommittee appointed an on-site inspection group that conducted a series of retail meat department inspections and made recommendations on protective gloves and aprons required in using knives and other cutting equipment. The goal of the project was to provide the JLM Committee with fact-based recommendations that it could submit to the Occupational Safety and Health Administration on the interpretation and enforcement of regulations on personal protective equipment used in the retail food industry.

The results were flattering. OSHA issued a clarification of the standard that contained the exact language the JLM Committee recommended. I am confident that the fact that the JLM Committee's recommendations were those representing both labor and management was taken into account by OSHA's decision-makers.

In the health field, the JLM subcommittee responded to clinical reports of “meat-wrappers' asthma” by bringing together the necessary financial support to have the Harvard School of Public Health conduct a thorough research program of the situation. That long-term study carried the full endorsement of the National Institute of Occupational Safety and Health. The study, funded by the plastics industry, is now in its final phase.

The JLM's activities have met their objectives of improving safety and health in the workplace and of discouraging litigation and labor-management confrontations on safety and health issues. But more than that, this joint effort has shown that labor and management in the retail

food industry can coalesce in a common effort to resolve mutual problems.

In another area of common concern to all in the industry, the JLM Committee launched a program keyed toward getting some control over the soaring costs of health care delivery. The Committee retained the Martin E. Segal Co., renowned health and welfare specialists, to conduct an industry-wide study of the cost and benefit structure of a representative group of health and welfare plans. Segal provided us for the first time with an accurate picture of the plans that have been negotiated over the years, how they work, their effectiveness, and their cost. Armed with this knowledge, the JLM Committee—labor and management alike—looked for options to put the brakes on the spiraling costs of medical coverage. There is mutual acceptance of the fact that escalating health care costs are sapping the economic strength of the industry, as well as undermining the stability of the plans for the employees who are covered.

In line with the Segal study, we have expanded the scope of the JLM Committee's subcommittee on health and welfare. In addition to working closely with the Segal firm, the subcommittee began monitoring the effectiveness of federal government health care delivery programs that are reflecting the universal concern about health care costs. Many Committee members feel it is imperative that we be prepared to make a joint labor-management contribution should legislative developments continue in the direction of national health care insurance.

By 1977, the JLM Committee had also formed a subcommittee on productivity and technology. This subcommittee was charged with studying and making recommendations on technological changes, including the Universal Product Code with its computer-assisted check-out, as well as reviewing suggestions for the implementation of programs aimed at improving productivity. It is my feeling that programs geared to improving productivity should be coordinated with efforts to measure productivity accurately—a chore that is peculiarly difficult in our industry. The accurate measurement of productivity is, however, becoming increasingly important in our dealings at the collective bargaining table, with consumer organizations, and with the federal government.

It appears to me that our productivity measurements need to be assembled in finite terms. We know, for example, that productivity in the marketing of the increasingly popular delicatessen items, fresh fish, and baked goods varies widely with that involved in the marketing of shelf items. In our highly visible industry, we have an obligation to ourselves to be concerned with precise productivity measurements. I feel that this



is a primary area where the JLM Committee can be of greater assistance.

Just recently the Committee called upon one of its principal architects, John Dunlop, to direct a joint staff subcommittee to review industry economic developments. The parties hope jointly-developed and agreed-upon economic premises will enable them to confront their tasks at the bargaining table with realistic expectations and a better understanding of one another's problems.

The area where the JLM Committee has spent the most time and effort, where it has been most visible, and where, to my way of thinking, it has made the most progress, is collective bargaining. All of the Committee's activities—in safety and health, in health care delivery, in UPC and productivity efforts—have had their impact on collective bargaining. This is so not just in the direct effects of the actions, but in the building of an attitude of cooperation and trust between the parties. This attitude is increasingly being reflected in negotiations.

That fact alone means the Committee has come a long way from its early days when substantial segments of both labor and management saw the Committee as a potential tool of the enemy.

Nick Fidandis, Director of Mediation Services for the Federal Mediation and Conciliation Service and a person whose contributions to the success of the JLM Committee cannot be overstated, referred to this transition to enlightenment in a speech he delivered two years ago. Nick said he detected "a recognition by the members as to the worth and importance of the JLM Committee. In the early months, there were those on both sides of the table who did not believe in the concept, did not think it would work, and attended the meetings only because they were instructed by their Chief Executive Officers and International Presidents."

And now? Well, Nick has found that "the transition in the attitudes and feelings of the Committee members has evolved from one of mutual distrust, suspicion, and wariness, to one of candor, frankness and trust. . . ." At this point Nick's mediator's conscience took over and he had to add: ". . . at least to a certain extent, as much as can be expected." In the area of his considerable expertise—the area of collective bargaining—Nick reported that the JLM Committee "has made a positive and substantive contribution toward its stated objective of improving collective bargaining, preventing unnecessary strikes, and promoting stability in the retail food industry."

Yes, the JLMC has come a long way. And yes, it still has a long way to go. It does not have—and shouldn't have and won't have—the authority to impose a settlement, be it on a contract or on a specific issue. What the Committee does have is an obligation to pinpoint

potentially volatile bargaining situations and to make a contribution toward reducing tensions and creating a climate in which reasonable agreements can be reached in peace.

The Committee selects certain negotiations to "target," to monitor, so the Committee will be equipped to render further services if necessary. Three criteria are used in selecting which negotiations to monitor: first, the conduct of prior negotiations; second, whether the ultimate agreement is likely to establish a pattern for others to follow; and finally, whether the number of employees and stores covered by negotiations hold the potential for inflicting widespread hardship should either side resort to an economic action.

The parties in such negotiation circumstances may receive a call from the JLM Committee asking them to take part in prenegotiation conferences. The prenegotiation conferences usually involve representatives from the Committee, from managements and unions directly involved in the negotiations, as well as the JLM Committee chairman and representatives of the Federal Mediation and Conciliation Service. To date, nearly two dozen such conferences have been held—generally with good results. This, in turn, has brought a growing willingness by the parties—and in some cases even an open desire—to take part in prenegotiation conferences.

What do the parties do in the prenegotiation conferences? If the Committee has gotten to the scene early enough, its representatives try to assist the parties in the structure of bargaining; they often encourage managements to form associations and unions to coordinate their efforts. They then urge each side to recognize and deal with that structure. Ideally, and again where time permits, the prenegotiation conference encourages the parties to identify particularly important issues that will be on the bargaining table. The hope is that early identification and discussion will lead to the gathering of accurate and mutually acceptable facts that can be used in negotiating these issues to a satisfactory conclusion. The JLM Committee, in conjunction with the FMCS, follows through by making itself available to the parties as they work toward an agreement.

The prenegotiation conference concept has passed the experimental stage. Committee members are becoming aware of its strengths, and they recognize many of its weaknesses. For example, it is clear there is a need to improve preparation for negotiations by identifying key issues earlier and by assembling accurate data to address those issues. It has also become obvious that we must design our system so that we have far more lead time. The JLM executive committee has suggested that the committee chairman request the parties to targeted negotiations

to attend a prenegotiation conference at least 120 days before their contract expires.

Finally, the Committee needs to establish a mechanism for the costing of settlements in a way that will not defy comparability.

Problems? Yes, we have them. But we also have, as we enter our eighth year, an opportunity as an industry to show the consumer and the government that the retail food industry, labor and management, is capable of solving its own problems and has developed a mechanism to do so.

I firmly believe that the Joint Labor Management Committee, operating in a fragmented, competitive, politically visible industry, is the best idea to come along to promote responsible, reasonable bargaining.

# The Health Care Experience

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In 1974 Congress removed the exemption in Section 2(2) of the National Labor Relations Act (NLRA) for employees of nonprofit hospitals and extended the protection of the Act to employees of "health care institutions."<sup>1</sup> This completed the coverage of most health care institutions in the private sector by the NLRA and applied to hospitals with an annual gross revenue of at least \$250,000 and to nursing homes with an annual gross revenue of at least \$100,000. Proprietary hospitals and nursing homes had been subject to the Act since 1967 when the National Labor Relations Board (NLRB) asserted jurisdiction over such employers on its own motion under the then existing provisions of the law.<sup>2</sup>

During the hearing which preceded the passage of the 1974 Health Care Amendments (HCAs), interested unions and health care employers were given the opportunity to voice their concern before congressional committees. In the course of the hearings, Congress was persuaded that exemption of nonprofit hospitals from the Act in the past had contributed to numerous instances of organizational activity by labor unions, including strikes and picketing, which interrupted the continuity of patient care. Consequently, Congress sought, by the 1974 HCAs, to remedy this interference by placing a million and a half employees of nonprofit health care institutions, or 56 percent of all hospital employees, under the protection of the NLRA.

There was testimony before the lawmakers which convinced them that health care institutions deserved some special considerations because of their role in providing continuous care to the sick and the injured. These special considerations took the form of earlier contract opening requirements than were imposed upon other employers under the Act; special notices to federal and state mediation services; Federal

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<sup>1</sup> Pub.L. 93-360, 8 Stat. 395, 396, 397; 29 U.S.C. 152(2)(14).

<sup>2</sup> *East Oakland Community Health Alliance, Inc.*, 218 NLRB 1270, 89 LRRM 1372 (1975); *Butte Medical Properties d/b/a/ Medical Center Hospital*, 168 NLRB 266, 66 LRRM 1259 (1967); *University Nursing Home, Inc.*, 168 NLRB 263, 66 LRRM 1263 (1967).

Mediation and Conciliation Service (FMCS) authority to require mediation of disputes during negotiations and to appoint a Board of Inquiry to find facts and make recommendations; an obligation of a striking union to give ten days' advance notice to the employer and the FMCS; an alternative to union membership for employees with conscientious objections to joining or financially supporting labor organizations; and Congressional Reports accompanying the 1974 HCAs explaining intent and giving direction to the NLRB and the courts.<sup>3</sup> In effect, the 1974 HCAs wrote the state mediation agencies out of the private-sector health care institutions and involved the FMCS to a greater extent than in any other industry.

Shortly after the passage of the 1974 HCAs, a government-sponsored Labor-Management Health Care Industry Advisory Board was established in July 1975. Meetings of the Board were open and a matter of record, the media were invited to attend, and the participants used the meetings as a forum to express their respective biases. This format was not successful in producing constructive results, and the Advisory Board was abolished by the Office of Management and Budget (OMB) in 1977.

### **Labor-Management Health Care Advisory Committee**

Notwithstanding the disbandment of the Advisory Board, Wayne L. Horvitz, Director of the FMCS, saw the need for a labor-management committee, and in the fall of 1977 he approached health care employers and unions representing health care employees about a self-sponsored, joint labor-management committee which would have as its charge the improvement of collective bargaining in the health care industry, the prevention of unnecessary strikes, and the promotion of long-range stability. Such a committee, he suggested, could serve as a means of high-level communication between the parties on a complex variety of issues facing the industry.

Labor organizations and health care employers were less than enthusiastic about another committee, but, apparently, neither side wanted to be responsible for outright rejection. Different from the customary factual situation where a labor-management committee is formed, the health care industry is only 20 percent organized across the nation, and unorganized health care employers had vigorously campaigned against the extension of the Act to nonprofit institutions. That they should now join with the unions in clarifying the 1974 HCAs and improving collective bargaining was out of the question. There were, however, health care administrators or their lawyers, especially on the West and East Coasts, who were negotiating with unions in the health care setting and

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<sup>3</sup> 93rd Cong., 2d Sess., Sen./House Rep. No. 93-766, Sen./House Rep. No. 93-1175.

who, on an independent and individual basis, were willing to explore the concept. The unions and employee associations were just as tentative as the employer representatives in their reactions.

Horvitz designated one of his experienced staff members, Nancy Connolly Fibish, as the coordinator of the program and called a meeting in December 1977. All parties agreed that the committee should be a private matter, with each participant paying his or her own way. The FMCS would coordinate the meetings and carry out procedural arrangements, including the preparation of minutes of meetings, but that would be the extent of its participation.

Almost all of the management members of the committee are lawyers, whereas almost all of the union and employee organization members are not lawyers. Management members come from New York, Chicago, Baltimore, Cleveland, Boston, Kansas City, Philadelphia, Phoenix, St. Paul, Los Angeles, and San Francisco. Unions and employee organizations represented on the committee are: National Union of Health Care Employees, District 1199, AFL-CIO; Service Employees International Union (SEIU), AFL-CIO; Laborers' International Union of North America, AFL-CIO; American Nurses' Association, Inc.; National Federation of Licensed Practical Nurses, Inc.; International Union of Operating Engineers, AFL-CIO; United Food and Commercial Workers, RCIU, AFL-CIO; and International Brotherhood of Teamsters.

Reaching agreement on an agenda for committee meetings took time and patience because the parties had decidedly different interests. It was only when the unions and employee organizations agreed that union organization and recognition subject matters would not be involved that hope of the committee's survival appeared to be a possibility.

### **Boards of Inquiry**

One of the first matters which the committee addressed was Section 213 of the NLRA, which was added by the 1974 HCAs.<sup>4</sup> This section authorized the Director of the FMCS to appoint an impartial Board of Inquiry (BOI) to investigate the issues involved in a dispute and to make a written report containing findings of fact, together with recommendations for settling a dispute. Both management and labor were critical of the time constraints. For example, in the case of an existing contract opening or termination, the Director must determine whether a threatened strike would substantially interrupt the delivery of health care in a locality and appoint a BOI within a 30-day period following receipt by the FMCS of the 60-day dispute notice under Section

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<sup>4</sup> 29 U.S.C. 183(213).

8(d)(4)(A) of the NLRA. Such a determination of at least 30 days before a contract expiration date is often impossible to make because the parties may not have met or, at best, although they may have met and exchanged and discussed proposals, they may not have begun serious bargaining. In the case of an initial contract, the Director must appoint a BOI within a 10-day period following receipt by the FMCS of the 30-day dispute notice under Section 8(d)(4)(B) of the Act. With respect to a first contract, this time limit presumes that prior to serving a 30-day notice a considerable amount of bargaining has taken place, but this is assuming a fact not in evidence.

In the early stages of the advisory committee involvement, the FMCS had, on its own motion, allowed the parties under the 1974 HCAs to extend by mutual consent the time during which the Director could appoint a BOI. Discussion with the advisory committee had some influence on the content of the stipulation forms, although neither side indicated approval of the BOI procedure as such. The forms provided a means by which the parties authorized the Director in his or her discretion to appoint a fact-finder under Section 213: (1) by a mutually agreed upon date; (2) by the termination date of the agreement; or (3) on such date as the Director determined. The remainder of Section 213 was intact under the stipulations, except that the status quo between the parties prior to the expiration of the contract, in terms of the exercise of economic action, was to be preserved for 15 days after the fact-finder issued his or her report.

Discussion of the criticisms of BOI appointments by the advisory committee gave rise to regulations published in the *Federal Register*.<sup>5</sup> Again, neither party would take any credit for the change, nor would they express approval of the changes. In response to criticism that the Director chose the BOI without any input from the parties, the FMCS provided that at least 90 days prior to the expiration date of a collective bargaining agreement in a contract renewal situation, or at any time in the negotiation of an initial contract prior to the 30-day dispute notice required in Section 8(d)(4)(B) of the NLRA, the parties may jointly submit to the FMCS a list of arbitrators or other impartial individuals who would be acceptable BOI members. The FMCS indicated it would make every effort to select a BOI from a list submitted in this manner. Even in the case where a BOI is appointed without the use of a list, the FMCS is on record with the advisory committee that the FMCS Regional Director will be consulted with respect to which individuals would be most appropriate to serve as BOI members or fact-finders.

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<sup>5</sup> Vol. 44, No. 141, pp. 42683-85 (7/20/79).

The FMCS regulation also provided for deferral to the parties' own private fact-finding process and deferral to the parties' own interest arbitration procedures. However, the FMCS imposed conditions on referrals so as to satisfy the FMCS responsibilities under the Act. Aside from procedural protections, deferral to fact-finding prohibits a strike or changes in conditions of employment, except by mutual agreement, during the fact-finding process and for seven days thereafter. Deferral to final and binding arbitration also carried with it a prohibition against a strike or changes in conditions of employment, except by mutual agreement.

Section 213(b)(2) of the Act establishes compensation for a BOI member at a rate to be prescribed by the Director of the FMCS, but in no case is it to be in excess of the daily rate for a public employee in Grade GS-18. Since this rate is considerably less than the standard fees of the most experienced arbitrators, and since some arbitrators prefer to be approved and compensated by both parties, advisory committee members were informed that the parties could each bear half of a supplement payment to a BOI of which they both approved. In an informal interagency memorandum, the U.S. Department of Justice advised the FMCS that supplementing compensation of a BOI by the parties would be permissible under federal conflict-of-interest laws.

### **Strikes and Stoppages**

Congress was in error when it concluded that interruption of patient care in health care institutions was largely due to union organizational activities. In places like New York City and the San Francisco Bay area, collective bargaining in health care institutions had been in full operation in the private sector. High inflation has increased the expectations of employees, while reimbursement under Medicare/Medicaid below cost has caused health care employers to resist wage and benefit increases. The consequence of these two conflicting forces has been the threat of strikes and actual strikes.

In an effort to identify the causes of strikes and to suggest ways in which strikes can be avoided or settled quickly, the FMCS arranged to have two strike situations described by the participants: the 1979 SEIU strike against an association of hospitals in San Francisco's East Bay and a strike by nurses represented by District 1199 at New Jersey's largest medical center, St. Barnabas. The committee found that the causes for strikes could be readily identified and that the consequences of strikes were harmful to the employees, the hospital involved, and the public. However, the committee did not suggest any easy solutions. As might be expected, the committee discussed the need to explore



alternatives to strike, such as mediation, advisory fact-finding, interest arbitration, final-offer arbitration, and mediation-arbitration, but could not agree that there was any one method or combination of methods for achieving peaceful settlement. In its analysis of recent strikes, the committee saw some different elements in hospital collective bargaining. Registered nurses, influenced by professional considerations and by the women's movement, rebelled at the way in which they were treated by physicians and management. Compensation based upon comparable worth and participation in hospital decision-making as it affected the quality of care and staffing were emerging as demands of nurses. Temporary employment agencies were the subject of criticism due to the large-scale movement of nurses to part-time work through the agencies, which allowed them to choose the shifts and times they wanted to work. Discussion also included the difficulty of providing nurses with special incentives because of the RN shortage and of denying such incentives to other health care employees who were not in short supply. This turned the committee's attention to the arbitrary way in which federal and state governments were dealing with the quality of patient care and reimbursement under government programs below cost, which affected the employment of all employees in a health care institution. So that the committee could better understand how to cope with such government regulation in the future, it asked the FMCS to arrange meetings with the appropriate government agencies.

### **The Third-Party Payor**

In 1980 the advisory committee met with the Health Care Financing Administration (HCFA), which is the federal agency under the Department of Health and Human Services with jurisdiction over Medicare reimbursement and over the approval of state Medicaid plans. HCFA stated that it is not equipped to make determinations with respect to labor cost and that its exceptions are only applicable to drastic changes in the patient mix or variations in the reimbursement formula where a hospital is the sole provider in a community. It is HCFA's mission to buy services for beneficiaries at the best price the agency can obtain.

At an FMCS-arranged meeting in November 1981 between the advisory committee and the OMB, the committee was informed that Medicare/Medicaid demands for services, now at \$50 billion a year, were doubling every four years and that the Administration was removing restrictions on the states. In the case of Medicare, the government's policy is to cut back. The OMB is not interested in what hospital employees receive in compensation or benefits, nor is it interested in

how or in what number nurses and health care professionals are educated. The OMB insists that it is not engaged in price control but, instead, considers Medicare as a purchaser of services which it will buy up to a maximum price. Extension of this concept to ancillary services may soon be taking place, along with several other cost-saving programs designed to restrain the growth of Medicare, to return to local government the obligation of providing health services, and to relieve the federal government of the burden of regulating the health care field.

Another ongoing discussion by the advisory committee has been the assessment of the role of the third-party payor. A committee member pointed out that 25 states have some form of rate review of private patient fees and charges. Of these, 23 have prospective rate setting, 15 by voluntary agreement of the institutions involved, and eight mandated by law or regulation. Both parties agreed that collective bargaining cannot take place to any extent under these circumstances since limitations are set by an agency that is not at the bargaining table. Although the State of California is not subject to prospective rate setting, its 1981 reimbursement level can increase only 6 percent above last year's cost. Rather than engaging in the reduction of patient care or the quality of such care by the layoff and termination of employees, labor and management have undertaken a variety of strategies to get the third-party payor to the bargaining table. The committee is convinced that it must communicate the facts to the third-party payor so that the quality of care will not suffer.

## **Conclusion**

The 1982 budget dealt such a severe blow to the FMCS that the health care coordinator position was abolished, and the continuation of the advisory committee was in question. It is significant that management and labor members who had been lukewarm to such a committee three years earlier jumped to its defense. Having been prodded by the FMCS into meetings, management and labor committee members now recognize their value. No long list of accomplishments can be recited, but there is a record of progress. Controversial topics have been thoughtfully and openly discussed, and, if solutions have not been found, at least there has been an identification of problems and an examination of such problems from several points of view. This, indeed, gives promise that the search for solutions will continue and a greater understanding will develop among the participants as they direct their joint attention to the problems of the health care industry.

## DISCUSSION

BEN BURDETSKY

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There are three characteristics which are common to the industry experiences described at this session. First, each of the joint labor-management committees evolved out of crises. Second, the formation and organization of the committees progressed slowly largely due to traditional fears and distrust of each side toward the other. Finally, each of the industries—Health Care, Retail Food, and Steel—are under intense public scrutiny.

The Health Care Committee has evolved from an Advisory Committee set up after the passage of the 1974 amendments to the NLRA. After its dissolution by OMB in 1977, FMCS helped establish an industry-based committee. Frankly, the Advisory Committee was dissolved because it was felt to be unproductive.

The current joint committee is still meeting regularly. Its accomplishments are few in number and certainly have not changed labor-management relationships in the Health Care industry. Like all such committees, it is still constrained by long-standing partisan attitudes, and it is moving very slowly. There are many in the industry who are skeptical as to its ability to play an important role in collective bargaining or in any other important area of administration or management of health care activities.

The Joint Labor-Management Committee in the Retail Food Industry has been around for almost eight years. It too evolved slowly and still must deal with deep-seated suspicion and distrust that the parties feel toward each other. It has, however, gained much greater acceptance by the parties in recent years because of its clear neutrality in information-gathering and method of operating. While it would be very difficult to create a long list of achievements, the committee has led the way in exploring collective bargaining structural problems plaguing the industry, helped establish a program to study impact of automation on workers and operations, introduced pre-negotiation sessions to help explore sensitive, sticky issues that would deter effective collective bargaining, and a host of similar activities.

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The strength of the committee is the continuity of its leadership and the fact that both labor and management have made it clear that they would rather have it in being than see it disappear. Unfortunately, it is subject to an annual reauthorization vote which somewhat restricts its actions. It is probably time for longer-term contracts.

With respect to the Steel Industry Committee(s), it has also evolved over the years. In fact, plant-level productivity (employment security) committees have been in vogue for over a decade. This industry is fighting for survival, and there is a clear need for joint cooperative efforts. The battle is not between management and workers. Instead, it is management and workers against a number of competing forces.

Foreign competition has greatly reduced the American producers' share of domestic and international markets. U.S. plant and equipment are in need of modernization. Pressure must be brought to halt the kind of "dumping" which has increased recently wherein European steel has been heavily underwritten by European governments, allowing greatly reduced prices. In other words, labor and management are in it together, and only through joint cooperative efforts can any of the important economic or production problems get top-level attention and support. In this industry it is a matter of mutual survival.

The fact is that the problems in steel cannot be solved by local people. What is suggested is a multifaceted approach at all levels. Improve productivity and quality at all levels, but move forcefully to bring about basic and essential systemic changes which will make the industry competitive in the long run.

While it is difficult to prove that the committees discussed above have been "effective" in solving major labor-management problems, they are in being, and neither side is anxious to see them abolished. The parties *are* talking, issues that need mutual understanding and good information *are* being discussed, discussions are being held in a less tense atmosphere where deadlines and public coverage are not factors in positioning. There *is* some trust and respect being built up in the process, and from time to time a noteworthy outcome is reported. It would seem to this discussant that the committees are well worth the time, energy, and resources which they require to do their work. Time will tell.

## DISCUSSION

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Industry-wide union-management committees<sup>1</sup> deserve far more attention from the industrial relations community than they have received to date. The United States is wrestling with an international economic crisis, the answers to which cannot be found in plant-level quality-of-work programs. The experience of these industry-wide committees reviewed in this session demonstrates the potential for the existing institutions of industrial relations in the United States to innovate, expand, and tackle the basic economic and political challenges of the late 20th century. However, cooperation between union and management on these problems requires well-understood preconditions corroborated by these studies of industry-wide committees. Unfortunately, these well-understood preconditions for cooperation between union and management are largely absent in the United States today. Therefore, although industry union-management committees are an essential step in the direction of solving basic economic problems, and although ample evidence exists to guide participants in such endeavors, any attempts at joint union-management cooperation in the United States today are largely irrelevant.

This paper first reviews briefly a series of propositions about cooperation between union and management in the light of past research as well as the industry-wide experience presented here and, second, closes with the reasons for the irrelevance of cooperation at this historical juncture.

### **A Theory of Union-Management Cooperation**

Industrial relations now includes a set of general propositions about the nature, preconditions, and effects of labor-management cooperation (Kochan, Lipsky, and Dyer, 1976; Driscoll, 1981; Walton and McKersie, 1965). The experience of industry-wide committees conforms generally to these propositions. The implication is that industrial relations profes-

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<sup>1</sup> I prefer the phrase "union-management" to the euphemism "labor-management" for reasons that will become clear. Basically, the word "labor" in the session title probably reflects the unwillingness of U.S. management to accept the legitimacy of labor unions as representatives of the workforce.

sionals now know how to facilitate cooperation in order to solve joint problems. Indeed, as Jacoby (1981) reminds the profession, union and management have always known how to cooperate. The question is whether and when the interests of both sides suggest cooperation.

*1. A Union-Management Committee Is a Reorganization of the Negotiating Structure of a Collective Bargaining System*

As a practical matter, whatever the parties call a committee is a committee. Unfortunately some parties choose to call the last step in a tripartite grievance arbitration procedure a "labor-management committee." At minimum, the establishment of a committee therefore implies only reorganization of collective bargaining on one of the following dimensions: people, authority, topics, time, place, and behavioral process. At least one of those dimensions is different from past practice.

As a general rule, these committees or reorganizations work best where the information-processing demands of the relevant industrial relations system are not being met by existing institutions. In the retail food and health care industry, the decentralized collective bargaining systems cried out for a national body to discuss problems extending beyond local labor and product markets. Such committees have made their greatest contribution where national problems are addressed. By contrast, the major recent innovation in the steel industry, a relatively centralized bargaining system, has been the establishment of local plant-level, union-management committees.

*2. Union-Management Committees Attempt Cooperative Problem-Solving*

Most commonly, union-management committees represent an attempt at a new way of behaving, termed variously "cooperative problem solving" or "integrative bargaining." Regardless of the particular participants, agenda, or setting, the committee attempts the following specific behaviors: (a) to arrive at a common definition of problems confronting them, (b) to generate and explore new approaches to their problems, and (c) to share information openly in the process.

*3. The External Environment Influences the Extent of Cooperation*

Conditions in the external environment encouraging cooperation are the following: (a) pressure for change, whether economic, political, or social; (b) equality of bargaining power; and (c) legitimacy of both parties as a bargaining representative. For example, pressure from within the government led to the formation of both the retail food and health

care committees. By contrast, the low level of unionization in health care has hampered that committee. Most importantly, given the generally low level of acceptance of labor unions by the United States management community, the overall prospects for cooperation are limited.

#### 4. *Individual Expectations Affect Cooperation*

Although the committees connect the two institutions of union and management, it is individuals who must meet and cooperate. Committees work best where the participants know, like, and understand each other. Ideally, participation in the committee is seen by individuals as a way to advance their own personal career interests. Perhaps the greatest dilemma facing the committee concept results from the question of goals. Too often union-management committees flounder for long periods without clarifying the specific goals of both parties. The fear always exists that not enough commonality exists to justify the committee and that explicit examination of goals would end the experiment. Clarification of goals is a risky business, but successful committees are those where intentions are explored early and where specific objectives for the committee are set.

#### 5. *Cooperative Problem-Solving Is Limited*

Union-management committees are not likely to approach the behavioral-science ideal for problem-solving behavior. Regardless of particular areas of agreement, the basic difference in goals between union and management makes decisions by consensus difficult. Participants may indeed share information more broadly in defining common problems and seeking creative solutions. But when *decisions* have to be reached, the parties revert back to traditional internal deliberations with both sides exercising a formal veto as prescribed by the relevant collective bargaining agreements. Therefore, cooperation between union and management at the industry level is best conceived as an attempt to make only *limited* changes in existing behavior.

#### 6. *Effective Committees Engage in Cooperative Problem-Solving*

To the extent the participants are able to achieve the behavioral components of cooperative problem-solving—that is, to define common problems, to generate new alternatives, to evaluate alternatives consensually, and, indeed, to develop a cohesive social group—*then* the effectiveness of the committee increases. Given the limits cited above on the extent of such cooperative problem-solving behavior in committees, it is not surprising that their results are usually quite limited.

### *7. The Selection of Committee Members Can Increase Problem-Solving*

Two groups of people are critical to the success of the committee as a cooperative effort. First, an outside, neutral third party can greatly increase the extent of problem-solving behavior, both by example and his or her explicit instruction. Second, the inclusion of new people *not* directly involved in negotiations increases the likelihood of cooperative problem-solving. By contrast, negotiators must always balance their desire to cooperate against the expectations of their constituents for "tough" bargaining behavior.

### *8. The Major Effects of Committees Are Interpersonal*

Almost invariably, the participants in union-management committees come to like, respect, and understand each other better as a consequence of their meetings. Industry committees are not exceptions. Indeed, participants in union-management committees regularly cite these interpersonal benefits as the major outcomes of the committee.

### *9. The Indirect Impacts of Committees Are Most Important*

Rarely do union-management committees accomplish major changes. Much more likely is an indirect or spillover benefit by way of traditional collective bargaining. The improved relationships in attitudes resulting from the committee make contract negotiation, contract administration, and grievance processing more effective. Such indirect impacts are difficult to predict and assess; yet such benefits predominate in descriptions of committees.

In summary, cooperation between union and management in industry-level committees is a relatively well-understood phenomenon and appears remarkably similar in origin, life-cycle, and impact to findings at the plant and company level. The question remains as to the relevance of union-management committees to the current situation in the United States.

## **The Current Irrelevance of Union-Management Committees**

The extent of the current crisis in the United States society is documented daily in newspaper headlines. Chronically high inflation and rapidly escalating unemployment are the signals. More basically, the United States consumes a disproportionate share of the world's resources and relies on the threat of violence, including nuclear war, to preserve that disproportion. How will the United States meet this crisis?

Obviously, the industrial relations system is, as always, already re-



sponding, but joint union-management activity is excluded from the response. Management and government as industrial relations actors are working together in a strategy including (1) declining real wages, (2) the systematic elimination of labor unions, and (3) dramatic budget increases in the militarization of the economy.

Labor as an actor in that strategy is missing. Refused legitimacy by management and government and weakened by their attacks (from the defeat of Labor Law Reform to the Air Traffic Controllers' dispute), labor lacks both the acceptance and power necessary as preconditions for cooperation. Organized labor is left to contemplate the alternatives to collective bargaining: (1) the formation of a labor political party, or (2) militant direct action.

These are the major issues facing industrial relations both as a profession and as an academic discipline today. What are the impacts of an industrial relations system increasingly dominated by management interests? What direction will labor take as a force in the postindustrialized United States? Will labor abandon the traditional accommodation with management in collective bargaining and with other interest groups in the Democratic Party? While industry-wide union-management committees have intrinsic appeal as innovations within collective bargaining (vintage 1955), their relevance to the new industrial relations system of the United States is marginal.

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## VIII. DEVELOPMENTS IN EQUAL EMPLOYMENT FOR THE 1980s

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### Pay Equity: An Emerging Labor Issue

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Although the Civil Rights Act has prohibited discrimination in compensation since 1964 and lawsuits attacking discrimination in compensation have been filed since at least 1970, the issue has until the last few years attracted little attention. "Pay Equity," "Comparable Worth," or "Equal pay for work of equal value" has now apparently become the women's economic issue of the 1980s. It appears that the general populace—women as well as men—are just beginning to understand that there is more to discrimination in compensation than the slogan of equal pay for equal work and that equal pay for equal work is just the tip of the iceberg.

The Equal Pay Act (EPA) generally offers little protection to women workers because most jobs continue to be illegally segregated by sex. This is because the EPA applies *only* to those job classifications in which men as well as women are employed and to employees in a so-called "female" job who are performing essentially the same work as employees in a historically segregated male classification. Women in sex-segregated jobs are, therefore, rarely able to obtain relief under the EPA.

The average full-time female worker earns less than 60 percent of the average male's wage or—put another way—men earn 70 percent more than women.<sup>1</sup> Economic research and a growing line of pay equity

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<sup>1</sup> U.S. Department of Labor, *The Earnings Gap Between Women and Men* (Washington: U.S. Government Printing Office, 1979).

lawsuits indicate that the denial of equal pay for equal work explains little of this differential and that a significant part of the earnings gap can only be explained by the perpetuation of job segregation and pay discrimination between so-called "men's" and "women's" jobs which are *different in job content*.<sup>2</sup> Such discrimination would occur if the lower-paid "women's job" is of equal or greater value to the employer, when measured under standard job analysis terms of skill, effort, responsibility, and working conditions.

The basic thrust of this article is:

*First*, that the issue of discrimination in compensation is "old hat" to the industrial relations scene.<sup>3</sup> In its most obvious form it is little more than a job rate inequity problem common to the world of industrial relations which is frequently resolved through collective bargaining, including arbitration.

*Second*, that unlike the concept of equal pay for equal work, the pay equity issue exists only where there has been a history of a sex- (or sometimes race-) segregated workforce, and that the passage of the EPA may have had the unintended effect of providing an incentive to employers to segregate by sex in order to avoid violating the EPA.

*Third*, the push for future action can be expected to come from unions and/or women's organizations, and not from the government.

The most blatant form of systemic wage discrimination becomes apparent when sex-based wage disparities result from initial assignment discrimination (IAD). IAD occurs when women and men arrive at the workplace with equivalent education, training, and ability—or an equivalent lack thereof—and the employer assigns them on the basis of sex to predominantly female or male jobs. Experience in the electrical, glass, restaurant, and many other industries shows that a consistent effect of IAD is that women not only regularly get assigned to the lower paying job—a discriminatory assignment violation of the Civil Rights Act in its own right—but that the rate for the work performed is also discriminatory because the job frequently requires equal or greater skill, effort and responsibility than the so-called "men's" job.

The recent pay-equity rulings in *County of Washington v. Gunther*<sup>4</sup>

<sup>2</sup> See Committee on Occupational Classification and Analysis, National Academy of Sciences, *Women, Work and Wages: Equal Pay for Jobs of Equal Value*, eds. Don Treiman and Heidi Hartmann (1981); *Taylor v. Charley Brothers*, 25 FEP Cases 602 (W.D.Pa. 1981).

<sup>3</sup> Winn Newman and Carole W. Wilson, "Job Segregation and Wage Discrimination," statement before the Equal Employment Opportunity Commission, reprinted in *Daily Labor Report*, April 28, 1980, E-1, at E-11.

<sup>4</sup> 101 S.Ct. 2242 (1981).

and *IUE v. Westinghouse*<sup>5</sup> established that sex-based wage discrimination violates Title VII of the Civil Rights Act. In the *Gunther* case, the matrons guarded fewer prisoners than the male guards, but, unlike the guards, also performed clerical work. The record indicated that the matrons who received 70 percent of the pay of the guards would—but for sex—have been classified in a labor grade higher than that of the matrons but lower than the labor grade of the male guards.

In the *IUE* case, the record indicated that Westinghouse had properly evaluated men's and women's jobs irrespective of sex, but thereafter established a rate for the women's jobs which was less than the "men's" jobs that had been given an equal number of job evaluation points on the basis of the company's own job evaluation plan. This resulted, for example, in female assemblers ultimately being placed three and four labor grades below that of the janitor and other unskilled common labor jobs which were awarded the same number of job evaluation points.

While it is not yet known what kinds of evidence will be required to show that a wage disparity is illegal under the *Gunther* test, it is important to recall that the issue of wage inequities resulting from sex-segregated jobs is not new to the industrial relations world. During World War II, the War Labor Board (WLB) applied standard job evaluation techniques to resolve "intraplant inequity" cases—those involving disputes over the correctness of rates paid for jobs in relation to rates for other jobs *in the same plant*, whether occupied by men or women.<sup>6</sup> The same standard was applied in comparing "female" jobs to "male" jobs.

The WLB decisions make clear that third-party resolution of disputes relating to the proper rate for a job has been a standard industrial relations technique for more than 40 years and judges in EPA cases routinely determine on the basis of job content, with and without the assistance of expert testimony, whether two jobs which are not identical are nevertheless substantially equal, and therefore, should be paid the same rate.<sup>7</sup>

Moreover, as stated above, the correction of job inequities through arbitration is "old hat" to the industrial relations scene. Unions have regularly grieved and arbitrated the proper rate for a job, and arbitrators have been called upon to resolve the dispute by establishing the proper wage rates for a particular classification, frequently by com-

<sup>5</sup> 631 F.2d 1094 (3d Cir. 1980), *cert. denied*, 49 U.S.L.W. 3954 (June 22, 1981).

<sup>6</sup> Newman and Wilson, pp. E-2-3.

<sup>7</sup> Newman and Wilson, p. E-12.

paring the grieved rate with rates paid for different jobs requiring equal skill, effort, and responsibility.<sup>8</sup>

Unfortunately, however, studies of arbitration decisions since the days of the WLB show that the male-dominated world of industrial relations and arbitration wore "blindness" when women's jobs were compared with men's jobs.<sup>9</sup> These intraplant wage inequity cases present the clearest examples of what will *not* pass muster under the *Gunther* and *IUE* cases.

### **AFSCME's Post-Gunther Activities**

In the public sector, commencing on June 8, 1981, the same day as the *Gunther* decision issued, AFSCME has included litigation as a major component of its collective bargaining program regarding pay-equity issues. In the past few months, AFSCME has filed lawsuits and/or charges with EEOC and state equal employment agencies alleging discrimination on behalf of all female employees of the cities of San Jose and Los Angeles and the States of Washington and Connecticut.

In San Jose, AFSCME and the City had engaged in a joint job evaluation study which showed that predominantly women's jobs averaged 15 percent less pay than predominantly men's jobs that were given equal "point" values. The study was an eye-opener for the employees of San Jose. They wondered:

1. Why librarians were getting less pay than male jobs requiring less than an eighth grade education?
2. Why female M.A.'s and Ph.D.'s who supervised as many as twenty-five people earned less than street sweepers and gardeners?
3. Why nurses earned less than tree trimmers, painters, tire service-men, and male parking lot attendants?
4. Why male toll collectors earn more than medical stenographers, etc.?

After more than a year of fruitless meetings with the City, AFSCME filed charges with EEOC alleging that the study showed discrimination in compensation on the basis of sex and that the City's refusal to correct the pay differentials violated the Civil Rights Act. The nine-day strike—which had the support of male and female members and which

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<sup>8</sup> Newman and Wilson, p., E-11.

<sup>9</sup> Jean McKelvey, "Sex and the Single Arbitrator," 24 *Industrial & Labor Relations Review* 335 (1971); Winn Newman, "Post-Gardner-Denver Developments in the Arbitration of Discrimination Claims," in *Arbitration—1975, Proceedings of the 28th Annual Meeting, National Academy of Arbitrators* (Washington: BNA Books, 1976), pp. 36, 47.

occurred shortly after the filing of these charges—represents the first major successful strike over pay equity.

Job evaluation studies conducted by the public employers of Connecticut and Washington, where legal action is also pending, showed that in Connecticut male employees were paid between 10 and 20 percent more than women in job classes requiring the same levels of skill, effort, and responsibility, and that the differential was between 22 and 35 percent in the State of Washington. These and other job evaluation studies in other states and cities show that the San Jose eye-openers are typical throughout the country, regardless of the city or state in which the comparison is made. Other equally horrendous examples are readily available.

To those who argue that the lower wage rates do not result from sex discrimination, but reflect an oversupply of women for traditionally female jobs, suffice it to note that the long-time shortage of nurses has not yet resulted in increasing their pay to the level of tree trimmers or tire servicemen of the same employer. Indeed, it is ironic that men who watch over buildings or trees or parking meters are “worth” more than women who take care of human beings—young and old—in jobs that frequently require substantial training.

AFSCME has also used pay equity as an effective organizing tool. In two recent close AFSCME elections involving 3,000 and 7,500 eligible voters, AFSCME successfully made its approach to pay equity a major campaign issue, winning each election by 80–85 votes.

### **Government Abdication of Pay Equity and the Emerging Union Role**

In the foreseeable future, it does not seem likely that federal agencies will take action to correct sex-based discrimination. The Reagan Administration has made clear that at best it will deal with individual complaints and that it is not interested in the problem of wage discrimination or other forms of class action or systemic discrimination.<sup>10</sup>

With respect to Executive Order 11246, which also prohibits discrimination in compensation by government contractors, the Reagan Administration has made clear its intention to revise regulations promulgated by former Secretary Marshall, which were designed to enforce and implement the Executive Order's prohibition against sex-based pay discrimination. The Administration openly acknowledges that the Marshall regulation is being revised because it was “perceived as an effort to cover the so-called ‘comparable worth’ issue.”<sup>11</sup>

<sup>10</sup> Statement of Assistant Attorney General William Bradford Reynolds before House of Representatives' Labor Subcommittee on Employment Opportunities, *Daily Labor Report*, September 23, 1981, p. F-1.

<sup>11</sup> 46 *Fed. Reg.* 42,971.

Management and union representatives agree that immediate comparable worth initiatives "will not come from the government," but rather from "private plaintiffs and predominantly labor unions in the public sector."<sup>12</sup> Indeed, in predicting that AFSCME would be taking the initiative in future pay-equity litigation, Bruce Nelson, a leading Title VII defense lawyer, stated that "public employers seem to be more vulnerable to the equity argument than private employers." Nelson also stated that "the most horrendous fact situations arise in the public sector" and that "if I were going to prove this legal theory, I would sue municipalities all the time."<sup>13</sup>

In bringing pay-equity and other discrimination lawsuits, unions have a distinct advantage over private plaintiffs and can be expected to take greater advantage of the financial and legal resources available to them. Through their knowledge of employer practices and their access to civil rights-related information from employers, unions are in an excellent position to identify discriminatory practices which may otherwise have gone unrecognized by the affected employees.

Unions are also able to inform affected workers about their rights and to assist them in bringing their complaints before the proper authorities. Moreover, as a number of courts have recognized, through their expertise, their ability to offer financial and legal resources, and their knowledge of the plant or employer, unions can and should contribute immeasurably to the effectiveness of fair employment litigation.<sup>14</sup>

In a series of IUE cases,<sup>15</sup> which may prove in the long run to be more significant than *Gunther* or *IUE v. Westinghouse*, the National Labor Relations Board and the Court of Appeals for the District of Columbia have recently affirmed that *litigation is an integral part of the collective bargaining process*, and that an employer therefore must supply information dealing with race and sex data even where the union has said that, if necessary, it would use the information to file suit against the very same employer. *IUE* and *AFSCME* have frequently used litigation to compel compliance with EEO laws.

Given the total disinterest of the Reagan Administration in the pay-equity issue, it appears that unions will take up the gauntlet. In-

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<sup>12</sup> Bruce Nelson, unedited speech, Fourth Annual Conference, Employment Discrimination Law Update, in Washington, D.C., August 13, 1981. See also Carole W. Wilson, *Breaching the Next Barricade: Pay Equity for Women*, Americans for Democratic Action, June 1981.

<sup>13</sup> Nelson.

<sup>14</sup> See Winn Newman and Carole W. Wilson, "The Union Role in Affirmative Action," 32 *Labor Law Journal* 334-36 (1981).

<sup>15</sup> *IUE v. Westinghouse Electric Corporation, et al.*, 648 F.2d 18 (D.C.Cir. 1980).

deed, at its convention last month, the AFL-CIO adopted a resolution calling for its affiliated unions to:

1. Treat sex-based pay inequities in contract negotiations like all other inequities which must be corrected.
2. Initiate joint union-employer pay equity studies, as AFS-CME has already done with a number of public employers; and
3. Take all other *appropriate action* to bring about true equality in pay for work of comparable value and to remove all barriers to equal opportunity for women.

Although the Federation did not spell out what action should be taken, it would appear that the reference to "appropriate action" coming on the heels of the AFSCME litigation program, fully sanctions and encourages the filing of charges and lawsuits where corrective action cannot be achieved at the bargaining table.

While the litigative route is an essential back-stop, the more traditional collective bargaining approach offers a far more effective method of handling the massive amount of pay discrimination that exists. The concept of joint employer-union committees which study job rates, with or without the assistance of a job evaluator, could play a major role in correcting the pay of historically undervalued female jobs.

Disputes that cannot be resolved by the joint committee may be submitted to arbitration and may be handled in the same manner as any wage-rate dispute is now handled by an arbitrator. If the wage rate properly reflects the skill, effort, and responsibility of the traditional women's job when contrasted with the rate of men's jobs of comparable skill, effort, and responsibility, there would probably be no violation of the collective bargaining agreement or the civil rights laws.

While treating pay-equity issues as a mere job inequity would take much of the mystery out of this issue in unionized establishments, such action would not fully resolve the myriad of problems which result when job comparisons cross bargaining unit lines. This is no reason not to utilize fully the collective bargaining and arbitration process in the first instance and to minimize the use of administrative agencies and the courts. These alternatives would still be available where the arbitration process does not work.

On the other hand, if employers are to be encouraged to utilize more traditional collective bargaining mechanisms to resolve this issue, it is essential that unions continue to assert the right to utilize federal and state antidiscrimination laws, the NLRA, and other collective bargaining laws. Where the issues are not resolved at the bargaining table, unions can be expected to respond to their increasingly militant female



membership and to litigate more frequently when collective bargaining is not successful.

Finally, the effect of a segregated job structure on pay rates cannot be overemphasized. The Supreme Court spoke to this general issue in the landmark school segregation case, *Brown v. Board of Education*.<sup>16</sup> In the *Brown* case, the Court stressed that "separating the races is usually interpreted as denoting the inferiority of the Negro group."<sup>17</sup> That holding has equal validity to sex segregation in the workplace, i.e., separating the sexes in the workplace also denotes the inferiority of women and results in inferior wages and other conditions of employment. It is apparent that this separation, which is frequently the result of illegal initial assignment discrimination by employers, continues to be the linchpin for occupational segregation and wage discrimination and results in the denial of better jobs for women.

## Conclusion

Sex-based wage discrimination continues unabated. Initial assignment discrimination or the channelling of women into sex-segregated jobs is the heart of occupational segregation, wage discrimination, and future promotional opportunity. The wage gap will continue as long as women and minorities are shunted into the lower paying jobs upon hiring and remain there, are denied equal pay for work of equal value, and are denied access to higher paying jobs.

Systemic changes must be made if women are ever to close the wage gap resulting from initial assignment discrimination, occupational segregation and wage discrimination and are to achieve economic equality. This can be accomplished through collective bargaining, including joint union-management pay-equity studies and "interest arbitration" of wage structure bias disputes, and litigation, with unions utilizing with more and more frequency federal and state antidiscrimination laws, the NLRA and other collective bargaining laws where the issues are not resolved successfully at the bargaining table.

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<sup>16</sup> 347 U.S. 483 (1954).

<sup>17</sup> *Id.*, at 494-95.

# The Access of the Foreign-Born to Jobs and Labor Market Protection in the U. S.

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This subject, essentially the labor market rights of the foreign-born, is complex, and this paper (given the time constraint) can best be viewed as an introduction to a complicated, not to say convoluted, aspect of industrial relations. For these reasons what follows is largely descriptive rather than analytical. The subject is also highly topical because a number of forces in the society, ranging from the Reagan Administration to the AFL-CIO, have been pressing for changes in this field, although, as one would imagine, not the same changes.

## **Populations of Interest**

The 1970 Census counted 9.6 million foreign-born persons in the U.S., divided almost equally between naturalized citizens and aliens. That was surely an undercount by a million or two, as the Census has the same troubles enumerating the foreign-born as it does native-born disadvantaged populations. The total number of foreign-born in the U.S. in 1980 was in the 16 to 18 million range. In addition to some four million or so newly arrived legal immigrants, we have also taken on hundreds of thousands of refugees, and perhaps as many as four million illegal immigrants in the last decade. A disproportionately large segment of the illegal immigrants are in the workforce (which is not the case with the other foreign-born subpopulations), so the number of the foreign-born in the labor market *is* significant. This is particularly true in cities and states where they cluster, such as the sagging old East Coast seaports, on one hand, and the boom cities of the South and Southwest, on the other (Miami, Houston, San Francisco, and particularly Los Angeles).

For our purposes we will divide the foreign-born into six subpopulations, each of which has its own mix of labor-market-related rights. They are:

- naturalized citizens
- permanent resident aliens (PRAs)
- Class A refugees

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- Class B refugees
- nonimmigrants
- illegal immigrants

*Naturalized citizens* have all of the labor market rights of citizens, with two statistically minor exceptions: they are barred from the Presidency and the Vice Presidency, and they must serve a waiting period after naturalization prior to election to the House and the Senate. Because of their wide span of rights, we will not mention them again in this paper.

*Permanent resident aliens* (PRAs) would be called landed immigrants in Canada. They have arrived here legally, may become naturalized citizens after the passage of time, and are free to move about the labor market.

*Class A refugees* are those recognized as such by the Refugee Act of 1980, as amended. Most refugees currently in the nation are from Indochina, but there are others from Afghanistan, Ethiopia, and Eastern Europe. These refugees, after a year's time, may apply for PRA status. Also included in this class (which is my term, not the government's) are Cuban-Haitian Entrants, a group that the Carter Administration, in 1980, tried to treat as a lesser class, an attempt thwarted by the Florida congressional delegation.

*Class B refugees* may look like refugees to an observer, but in the eyes of the Immigration and Naturalization Service (INS), they are here illegally and are ultimately subject to deportation. At the moment, they may stay legally, if temporarily. In technical terms, these aliens have been admitted "under color of law" and have been granted "indefinite voluntary departure." (Many Ethiopians who arrived in the U.S. as tourists, and subsequently sought political asylum, fall in this category. Most Haitians arriving after October 11, 1980, however, are simply viewed by INS as illegal immigrants, a group we will discuss shortly.)

*Nonimmigrants* are aliens admitted to the U.S. legally and temporarily. Their permitted stay is finite in length, and they are admitted to perform a particular function (to be a diplomat, a tourist, or a foreign student). There are 12 major classes of nonimmigrants and numerous subclasses, each identified by an initial (from A for diplomats, to L for multinational corporate employees).

*Illegal immigrants* have either arrived surreptitiously or have come into the country bearing legitimate documents which they subsequently abused (by staying too long, or by working when they were not supposed to do so). The first group are called EWIs (for having entered without inspection) and the second visa-abusers.

## Rights to Employment

Some aliens may work legally in the U.S., and some may not. (Those who work illegally risk deportation.) Under some circumstances an employer who hires an alien not qualified to work in the U.S. may suffer a penalty, but these penalties, to date, are rarely imposed.

PRAs and both Class A and Class B refugees may work anywhere they can find a job. Some classes of nonimmigrants may work only in designated segments of the labor market, a few anywhere they choose, but most (including all holding tourist visas) are not allowed to work at all. Illegal immigrants are not, per se, barred from employment, but they are barred from physical presence in the U.S. If they are apprehended on or off the job, they are subject to deportation.

While PRAs (and the two classes of refugees) are free to seek any job they can find, they are generally not protected from employment discrimination on the grounds of their status. The federal government, all private-sector employers, and sometimes state and local governments may legally refuse to hire, for example, an Ethiopian PRA on the grounds that they will hire no PRAs—but they would be violating Title VII of the Civil Rights Act of 1964 if the decision were made on the basis of nation of origin or skin color. As a matter of fact, it is very difficult for most domestic federal agencies to employ PRAs, and virtually impossible for them to hire either class of refugees. Even the refugee-serving units of government, such as the Office of Refugee Resettlement, may hire refugees only after they have secured PRA status, and even those appointments require special dispensation from federal personnel authorities.<sup>1</sup>

Private-sector employers may discriminate against PRAs only if the action is not designed to hide a bias against would-be employees of a certain nation of origin. (The relevant case arose in El Paso, Texas, where a Lebanese-born garment manufacturer demanded U.S. citizenship of his workforce. Virtually all of his employees were Chicanos, but he would hire no Chicano who was not a citizen.<sup>2</sup>)

State governments are generally not allowed to discriminate against PRAs,<sup>3</sup> but the State of New York carried a case to the Supreme Court, successfully arguing that only citizens should be members of the state police force.<sup>4</sup>

<sup>1</sup> For more on aliens and equal employment opportunity, see David Carliner's very useful *The Rights of Aliens: The Basic ACLU Guide to an Alien's Rights* (New York: Avon Books, 1977), and David S. North and Allen LeBel, *Manpower and Immigration Policies in the United States*, Special Report No. 20 for the National Commission for Manpower Policy (Washington: February 1978), pp. 77–78.

<sup>2</sup> *Espinoza v. Farah Manufacturing Co.*, 414 U.S. 86 (1973).

<sup>3</sup> *Sugarman v. Dougall*, 413 U.S. 634 (1973).

<sup>4</sup> *Foley v. Connelie*, 435 U.S. 291 (1978).

Those nonimmigrants who may work legally in the U.S. largely may do so only along the lines permitted by the visa that they carry. A Jamaican who secured an H-2 visa to cut sugar cane in Florida, for example, may not legally pump gas in the service station across the street from the cane field. Once a diplomat leaves the service of his nation, he may not stay in the U.S. and work as a lawyer, for example, without getting a different kind of visa.<sup>5</sup>

The law regarding the employment of illegal immigrants is an interesting one because the penalty for the employment transaction (with a couple of minor exceptions noted below) always falls on the worker, and never on the employer. If an illegal alien is found working, he is subject to deportation, but his employer is subject to no penalty (beyond the nuisance of hiring another worker). This is the case because, in 1952, Congress added the so-called "Texas Proviso" to the immigration law, making it a federal offense to "harbor" an illegal immigrant, but declaring that the employment of an illegal immigrant did not constitute "harboring."<sup>6</sup>

Currently the Congress is considering, in effect, repealing the Texas Proviso by imposing "employer sanctions," that is, penalizing employers for hiring illegal immigrants. The notion is that such a law would discourage employment of illegal immigrants which, in turn, would decrease the flows of illegal immigrants without having to resort to expensive law enforcement activities at the border. This proposal is offered, in a watered-down form, by the Reagan Administration, and pressed for in a more vigorous form by the AFL-CIO. The Carter Administration's Select Commission on Immigration and Refugee Policy voted 14-2 for an employer sanctions legislation, but split 8-7 when it came to proposing that a secure identity card be required of all workers to make the program enforceable.<sup>7</sup>

Employer sanctions laws are currently on the books in several states

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<sup>5</sup> The precise labor market rights of all the classes of nonimmigrants cannot be covered here; for more on this, see Sam Bernsen, "Employment Rights of Aliens Under the Immigration Laws," *Interpreter Releases* 56 (May 16, 1979), pp. 240-55; and David S. North, *Nonimmigrant Workers in the U.S.: Current Trends and Future Implications* (Washington: New TransCentury Foundation, May 1980).

<sup>6</sup> Immigration and Nationality Act, as amended § 274(a) (8 USC § 1324). I am grateful to Notre Dame's Julian Samora for pointing out to me that Senator Bentsen, then a very young border-region Congressman, pushed this provision through the House.

<sup>7</sup> For more on this subject, see *U.S. Immigration Policy and the National Interest: The Final Report and Recommendations of the Select Commission on Immigration and Refugee Policy to the Congress and to the President of the United States* (Washington: March 1, 1981), pp. 61-71; Appendix E of the *Staff Report of the Select Commission on Immigration and Refugee Policy*; and *Hearings Before the Senate Subcommittee on Immigration and Refugee Policy on Employer Sanctions*, September 30, 1981.

(but have rarely been enforced), and a mini-employer sanctions program has been applied to farm labor contractors (crew leaders) who hire seasonal farm workers. There has been some enforcement of the latter law by the U.S. Department of Labor.

### **Labor Market Protection**

While it is against the law for illegal aliens to work in the U.S., their employers are required to provide them with all the protections demanded for other workers. Thus an employer of illegal immigrants must meet the provisions of the Occupational Safety and Health Act and of the Fair Labor Standards Act, on the federal level; and, in every state but Vermont, employers are required to provide workers' compensation protection (for injured workers) by state legislation. This is the case because the civil status of workers is not specified, and the employers are required to extend the protection to *all* workers—not that the coverage of illegal workers is called for specifically.

Similarly, an employer must pay Social Security taxes on all of his workers, legal and illegal.<sup>8</sup> These all-worker provisions tend, in a small way, to reduce the incentive for employers to hire illegal immigrants—which we feel depresses the labor market for competing U.S. resident workers.<sup>9</sup>

### **A Proposed New Class of Alien Workers**

The Reagan Administration, dusting off a Carter Administration proposal, has suggested the creation of a new class of foreign-born workers: temporary resident aliens. The category would include persons now in the U.S. in illegal status who, for a period of years, would be allowed to work in the U.S. and to pay taxes, but would not be eligible for income transfer programs for which they are not currently eligible. The objective would be to permit the legalization of a substantial number of illegal workers without increasing the cost of social service programs. Hispanic organizations have attacked the proposal for creating a new, second- or third-class group of workers.

This is an intricate field, and I have hurried over some of the lovely nuances (the various levels of suspension of deportation available to Class B refugees), but the overview may be useful to generalists working in the industrial relations field.

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<sup>8</sup> Some legal, nonimmigrant workers are excluded by law from Social Security coverage, giving their employers, in a sense, a 6.13 percent discount on their wages. Temporary (H-2) farm workers, foreign students (F-1), and exchange visitors (J-1) fall into this category.

<sup>9</sup> For more on the effects of illegal aliens on the labor market, see David S. North and Marion F. Houstoun, *The Characteristics and Role of Illegal Aliens in the U.S. Labor Market: An Exploratory Study* (Washington: New TransCentury Foundation, March 1976).

# An Empirical Analysis of the Filing of Discrimination Claims

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This paper is an attempt to examine why union members, particularly females, file complaints or suits with external government agencies against their unions and employers. The process of filing a suit has been described by some as a process involving a "risk." Whether or not one files a complaint may depend on what the perceived benefits are as measured against the perceived risks. Thus, this paper examines the factors in general which lead individuals to take these "risks" and file complaints, as well as the relative importance of gender and sex-associated characteristics in this process.<sup>1</sup>

In order to do this, this paper first considers the historical and legal status of women in the workplace to provide a context within which the problem can be better appreciated. This is significant because in recent years there have been changes in our industrial relations laws that have given the unionized as well as nonunionized employee independent statutory rights by which he or she may seek external redress of work-related grievances. The focus of this study is on the unionized employee who seeks external redress to his or her grievances rather than solving grievances solely through the available arbitration procedures. There are four important factors which may bear on whether women file: (1) the evolution of "employee-employer" relations law, (2) the changing status of working women in the workforce, (3) the status of women in unions, and (4) the "new breed of worker or the litigious" worker. The external suits or complaints referred to in this study can take the form of a suit under Sections 301 or 8(b)(1)(a) of the National Labor Relations Act (NLRA) or a complaint under Title

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<sup>1</sup> Gleason argues that there may be considerable risks to female filing. See Sandra Gleason, "The Probability of Redress: Seeking External Support," in *Outsiders on the Inside: Women and Organizations*, eds. Barbara L. Forisha and Barbara Goldman (Englewood Cliffs, N.J.: Prentice-Hall, 1981).

VII of the Civil Rights Act of 1964 against the union and/or employer.

Historically, the legal status of women reflected the attitude of society as a whole toward women. In the past, public laws permitted employers and unions to treat female employees differently from their male counterparts. As a consequence, this lawful form of sex-based discrimination became an integral part of the "law of the shop" and industry custom. A chief example of this was the existence of state protective legislation, which contributed greatly to what soon became termed "male" jobs and "female" jobs.<sup>2</sup> Notwithstanding the adoption of the Fourteenth Amendment, the judiciary has generally accorded great deference to sex-based discriminatory laws. Although new constitutional standards have since evolved (primarily under the equal protection and due process clauses of the Fourteenth Amendment) to test the validity of the *Muller* principle,<sup>3</sup> sex is not a suspect class under the Fourteenth Amendment even now.<sup>4</sup> Furthermore, the early arbitration cases involving sex discrimination generally followed the less rigid evidentiary criterion which parallels the court's "any rational basis test." Recently, this may be changing due to the post-Title VII litigation which held that the state protective laws violate Title VII. The issue of why females may file complaints may be seen in the broader context of a shift in the substance and emphasis of industrial relations law. Since World War II, this shift has become obvious—reaching its peak in the passage of the Equal Pay Act of 1963 and Title VII. Feller has termed this shift in the law as the evolution of "employee-employer relations" law.<sup>5</sup> These laws have not only given the individual worker a statutory cause of action independent of his or her labor organization, but they have also placed an unprecedented emphasis on the individual worker's rights in the workplace. In the wake of this era, there has developed a new breed of worker—"the litigious worker."

In addition, more and more women are entering the workforce. Women account for nearly three-fifths of the increase in our workforce.<sup>6</sup> Second, most women are working because they must. Of all the women in the workforce in 1979, two-thirds were single, divorced, widowed, or separated or had husbands who earned less than \$10,000.

<sup>2</sup> See Judith Baer, *The Chains of Protection: The Judicial Response to Women's Labor Legislation* (Westport, Conn.: Greenwood Press, 1978).

<sup>3</sup> *Muller v. State of Oregon*, 208 U.S. 412 (1908), affirming *State v. Muller*, 85 Pac. 855 (1906). Also see *Bradwell v. The State*, 16 Wall 130 (U.S. 1872).

<sup>4</sup> Margaret A. Berger, *Litigation on Behalf of Women* (New York: Ford Foundation, 1980).

<sup>5</sup> David E. Feller, "Arbitration: The Days of Its Glory Are Numbered," *Industrial Relations Law Journal* 2 (Spring 1977), pp. 97-130.

<sup>6</sup> See, e.g., U.S. Department of Labor, Women's Bureau, *Twenty Facts of Women Workers*, 1980, p. 1.



In other words their economic stake in employment is greatly increased. The number of women with a dual role—worker and mother—has also increased. Given the status of women in society, they often have characteristics such as membership in several protected groups or other attributes which make them “doubly” vulnerable to discrimination. For instance, the group of black women or the group of single parents may experience discrimination that is not simple sex discrimination.<sup>7</sup> It would appear that unions have the potential of playing a critical role in representing women in the workplace. However, currently it appears that the status of women in unions is not such that they can currently expect unions to be their primary advocacy group.<sup>8</sup> Although the response to women’s demands varies across different unions, there have recently been developments of an encouraging nature—with certain individual unions aggressively pursuing sex discrimination cases and with the establishment of the Coalition of Labor Union Women.

### Hypotheses

There are seven hypotheses concerning what factors may be predictors of who would be more likely to file. It is expected that filing will be greatest for employees if they are: (1) female employees; (2) individuals who are nonwhite, young, and file many grievances; (3) individuals dissatisfied with the grievance process or bargaining process; (4) individuals who feel efficacious; (5) individuals who perceive the decision-making in the local to be indirect (made by leaders) rather than direct (made by members); (6) individuals with a liberal attitude on women’s equality; and (7) individuals who perceive their economic “stakes” in the job to be high, as indicated by a high salary or greater amount of seniority.

### Methods

This analysis was based on a random sample of 2,000 union members from a large statewide union in Illinois. The response rate was 44.4 percent. The survey contained demographic characteristics and filing activity. In this study, all forms of filing were considered to represent the same concept, notwithstanding the basis upon which the suit

<sup>7</sup> See, e.g., Elaine Shoben, “Compound Discrimination: The Interaction of Race and Sex in Employment Discrimination,” *New York University Law Review* (Fall 1980).

<sup>8</sup> Ronnie Steinberg Ratner and Alice Cook, *Women, Unions and Equal Employment Opportunity*, Working Paper No. 3, Center for Women in Government, Albany, N.Y., January 1981; Alice Cook, “Women and American Unions,” *Annals of the American Academy of Political and Social Sciences* (January 1968), pp. 124–32. See also Karen Koziara and David Pierson, “Women Leaders: Why So Few?” draft paper, Temple University Department of Industrial Relations and Organizational Behavior.

or charge is brought or against whom. This concept of filing is essentially the process of the employee exercising "voice" by filing externally.

### Findings

Although there were many predictors which were important on the simple level, the significance of these factors could be due to a large sample size alone. In order to test which variables remain important when other factors are controlled, a log linear analysis was used. The criteria for selecting the three variables were the variable's stability and significance over a large combination of variables, as well as its theoretical meaning. Based on this, the three variables which are consistent and meaningful predictors of filing are: (1) race, (2) union activity, and (3) status as a single parent. As indicated in Tables 1 and 2, if the person is nonwhite the odds of filing are 2.06 times greater than if he or she is white. If the person is a union activist, the probability of his or her filing is approximately 3.5 times greater than that of a nonactivist. If the person is a single parent, his or her chance of filing is 2.9 times greater than a person who is not a single parent. Single parents are disproportionately female.

Once the three best predictors were selected, the best fitting model had to be chosen—one that best describes the structure among these variables and filing. The model which best describes the data in this

TABLE 1  
Odds of Filing by Race, Union Activity and Status as a Single Parent

Race	Union Activity	Single Parent Status	Filing Suit? <sup>a</sup>		Odds <sup>b</sup>
			No	Yes	
White	Low	No	420	13	.034
White	Low	Yes	12	1	.100
White	High	No	102	13	.118
White	High	Yes	1	1	.342
Nonwhite	Low	No	152	13	.070
Nonwhite	Low	Yes	29	5	.206
Nonwhite	High	No	34	6	.244
Nonwhite	High	Yes	3	3	.716

Results: Calculation of Improvement in Odds<sup>c</sup>

Single Parent Status = 2.94 (.100/.034)

Union Activity = 3.47 (.118/.034)

Race = 2.06 (.070/.034)

<sup>a</sup> These are the observed frequencies. The odds are calculated on the expected frequencies of the model that fits best.

<sup>b</sup> The odds are calculated on the expected frequencies of the model that fits best.

<sup>c</sup> The numbers represent the improvements in odds when it is known with certainty that a person falls in one category rather than another of that variable. For example, a 2.06 means that if the person is nonwhite rather than white, the odds are 2.06 times as high that the person will file a complaint.

TABLE 2  
Possible Models and Preferred Models:

	Degrees of Freedom	Chi-Square
1. Independence model (No effect of independent on dependent)	7	32.49
2. Main effect of single parent status on filing	6	23.70
3. Main effect of union activity on filing	6	18.01
4. Main effect of race on filing	6	23.37
5. Joint effect of single parent status and union activity	5	7.76
6. Joint effect of single parent status and race	5	18.42
7. Joint effect of union activity and race	5	8.03
8. Joint effect of union activity, race, and single parent status (Preferred Model; Improvement over others at .05 levels)	4	2.07
9. Interactions: Not reported because no added improvement		

$X^2 = 2.07$ , overall probability = .72,  $df = 1$   
 Main effect of single parent status = 8.79 (32.49 - 23.70)  
 Main effect of union activity = 14.48 (32.49 - 18.01)  
 Main effect of race = 9.12 (32.49 - 23.37)

case is a model in which there are joint effects of the three variables. There are no interactions among the variables.

### Sex and Sex-Related Factors

One explanation of why sex does not appear to be a predictor may be that of all the discrimination suits filed, those based on sex represent only a small fraction. This is not the case. Of a total of 63 individuals who filed suits or charges, 27 (or 40 percent) of them filed suits on the basis of sex discrimination. It may be worth examining closely who is filing the sex discrimination suits—men or women. In this sample, the filing rate for males appears to be roughly equivalent to that of females. The low filing rate among female workers may be due to nonwhite women filing on the basis of race alone. It is also possible that the reason the males and females file at equivalent rates is that union officials (who are predominately male) are filing on behalf of female workers. There is some support for this in that union activists do file significantly more than regular members. This explanation remains highly speculative since the nature of these data only permits us to know that these charges were filed on the basis of sex; they do not permit us to know whether they alleged discrimination against females or against males. Although sex is not significant, one sex-related characteristic, single parenthood, does predict very well. This may be because single parents feel they have a greater "stake" in their job and therefore that it is worth the considered "risk" of filing. The respondent's

attitude to women's equality, when controlled for other factors, does not predict filing, however.

### Conclusions

There has been substantial discussion in the industrial relations literature about a "new breed of worker." Because of his or her characteristics, this "new breed" is less likely to accept the answers provided by the traditional institutions.<sup>9</sup> Inasmuch as the nonwhites and the single parents are workers who can be characterized as the new breed of worker, there is some support for the rising concern over the litigious behavior of these employees. This may pose challenges to the authority of the traditional relationship between labor and management. Thus, the proliferation of external law which provides a private cause of action upon which an employee may base a statutorily-related complaint has given the individual a potentially new role and legal status in the workplace. Given what had been considered by some critics to be the inadequate protection and inferior legal status in the workplace of women and minorities, it would be expected that women and minorities would file frequently. This is true with nonwhites, but not with women.<sup>10</sup> There is no definite explanation for this. However, one possibility is that at least some sex discrimination claims are being filed by males on the basis of reverse discrimination.

A sex-related characteristic, the person's status as a single parent, was one of the strongest predictors of filing. The group of single parents is heavily female in this sample. Given divorce rates and the increasing number of young unmarried women bearing children, it is expected that this group will continue to increase as a percentage of the total workforce. Therefore it is logical that policies which are of particular benefit to single parents will gain more attention. The most obvious policy is the provision of day care—either as a part of national policy, as a benefit negotiated by a union and employer, or as a benefit established by an employer. Of course day-care programs are an issue for all parents, not just single parents. Women's organizations have pointed to the need for adequate day care based on day care being a woman's issue. However, it is suggested that day care is a problem for society, rather than solely for women. Therefore, it may be a sound strategy for both labor and management to take a leading role in responding to this issue.

Another implication of the finding that union activists and non-

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<sup>9</sup> Albert Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations and States* (Cambridge, Mass.: Harvard University Press, 1970).

<sup>10</sup> Females have a 3.8 percent filing rate for sex discrimination as compared to a 3 percent filing rate among males.

whites are filing at a greater rate than other members is that labor and management should consider instituting procedures that lead to the final resolution of statutorily-related grievances, including discrimination claims. This is especially true in the light of *Gardner-Denver* and now the Supreme Court's recent decision in *Arkansas-Best Freight Inc.*<sup>11</sup>

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<sup>11</sup> *Alexander v. Gardner-Denver Co.*, 415 U.S. 36, 7 FEP Cases 81 (1974), and *Barrentine v. Arkansas Best Freight, Inc.*, — U.S. — (1981).

## DISCUSSION

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The Newman and Hoyman and Stallworth papers both explore important current issues. Newman discusses comparable worth, or pay equity, perhaps the equal employment issue which most concerns employers, unions, and employees alike. Much of the reason for this intense interest is that no consensus exists as to its definition, extent, or remedy.

Given Winn Newman's involvement with comparable-worth cases pursued by both the International Union of Electrical, Radio, and Machine Workers (IUE) and the American Federation of State, County, and Municipal Workers (AFSCME), it is most fitting that he should be the author of a paper on this subject. Few people have more experience in dealing with the issue from the context of organized labor. Perhaps the paper's most important contribution are Newman's observations about how the issue will be pursued by unions. His suggestion that joint union/management committees be formed to consider solutions to problems of unequal pay for jobs of comparable worth is interesting and certainly would encourage removing the issue from litigation.

Newman's most controversial observation is that the *Westinghouse* and *Gunther* decisions extended Title VII to include equal pay for jobs of comparable worth. The language used by the Court in *Gunther* indicated that the finding was not to be construed to mean that comparable worth was the issue on which the Court decided. The exact limits of this important decision will not be determined by academic arguments or further research, but by the courts in future cases. However, Mr. Newman's opinion is important as an influence on unions and their members to litigate comparable-worth cases and employers as they determine the policies for answering wage structure modification demands.

Several other observations made by Mr. Newman are important to consider. First, the paper suggests the change in administration will have little or no impact on comparable worth litigation because the EEOC had not pursued any such cases. However, it should be remembered that the issue became popularized toward the end of the

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Carter Administration. It is pure speculation, but had the administration not changed and the EEOC been allowed to continue on its previous course, it is reasonable to say that the agency would undoubtedly have pursued comparable-worth cases. Thus, the change in administration probably had a continuing impact on the issue. Mr. Newman is in fact saying that the issue is being pursued regardless of the inattention given it by the EEOC. This cannot be denied.

Mr. Newman further observes that the issue will be pursued primarily within the public sector. Clerical workers are more organized within the public than the private sector, meaning that unions are most likely to pursue the issue within the public sector. However, there is nothing inherently different about wage structures in the two sectors which would make the public sector more vulnerable to comparable-worth charges. Given the tight fiscal environment facing public employers, they are probably no more likely to acquiesce to pressures to equalize male and female wage structures than are private employers. Additionally, as the issue becomes more known, and assuming Mr. Newman's observations that the courts will accept equal pay for jobs of comparable worth as consistent with Title VII, unions will be able to use the issue as a lever in organizing private-sector clerical workers. Private-sector employers employing large numbers of clerical workers are clearly concerned about this aspect of the comparable-worth issue.

Two further comparable-worth issues, one mentioned by Newman and the other not, deserve comment. The measurement of job worth is still a major issue which needs confronting. It has not been overcome to everyone's satisfaction, as Newman implies. The circumstances surrounding both the *Westinghouse* and the *Gunther* cases involve rather blatant differential treatment of jobs held by men and women. More frequently, employers do not overtly treat male and female jobs differently, but nonetheless have wage structures with female jobs concentrated at the lower end of the wage structure. The primary question then is whether the wage structure does or does not reward comparable jobs equally. Merely saying that people are more important than trees does not necessarily imply that tree-trimmer jobs should be less valued than jobs dealing with people. A systematic and fair manner of assessing the value of jobs by using a common measurement technique reflecting the organization's values is necessary. As Schwab and Milkovich<sup>1</sup> have argued, job evaluation plans as currently used are often insufficient, particularly when there are separate systems for factory and

<sup>1</sup> George T. Milkovich, "The Emerging Debate," and Donald P. Schwab, "Job Evaluation and Pay Setting: Concepts and Practices," both in *Comparable Worth: Issues and Alternatives*, ed. E. Robert Livernash (Washington: Equal Employment Advisory Council, 1980).

clerical jobs or where wage information comes from surveys of separate and segregated labor markets.

Another method of measuring job worth which utilizes job content and incorporates organizational norms was used in a public-sector study.<sup>2</sup> This study used a self-administered quantitative job analysis to measure job content and assigned job worth by applying the wage/content relationship observed for the male jobs to the female jobs. We found about a 10 percent differential between wages currently paid for traditionally female jobs and what wages would be if job content were valued in the same way as in men's jobs. This represents only one way in which value can be assessed and compared across different jobs, but the measurement of job worth is at the heart of the comparable-worth issue and needs considerable attention by practitioners and researchers.

Another issue for consideration, particularly within unions, is the potential for internal conflict resulting from comparable-worth concerns. Employers may be willing to grant wage adjustments as long as male job incumbents are content to accept smaller wage increases than they might otherwise receive. Obviously this places the issue squarely within the union's court and negotiators must decide how to deal with it in this context. Union members may see the issue as a competitive one, which can result in problems for union leaders concerned with maintaining a unified membership.

Hoyman and Stallworth pursue an issue on which relatively little empirical research has been done. Further information on the characteristics of people who file discrimination suits would be beneficial to a number of audiences. Certainly union leaders should be interested in this information because filers feel they have been wronged by their employer and unions usually perceive their role as providing protection and support for members. Union leaders could use this information to help identify people most likely to need assistance. Employers concerned with providing a relatively nondiscriminatory working environment could also use this information to help identify people and groups most likely to file suits. They could thus try to eliminate discriminatory practices before employees resort to suits.

This research is part of a developing stream in which behavioral techniques are employed to study union-related problems. Too often little cooperation exists between unions and behavioral scientists for a variety of reasons. Evidence of cooperation such as demonstrated in the Hoyman and Stallworth paper helps develop a badly needed rapport.

<sup>2</sup>David A. Pierson, Karen S. Koziara, and Russell E. Johannesson, "Equal Pay for Jobs of Comparable Worth: A Quantified Job Content Approach," working paper, Temple University.



This paper's introduction reviews the situation of working women over a number of years and documents specific problems women have confronted. The paper also develops tentative hypotheses specific to this research on who will most likely file discrimination suits. The hypotheses and their development are more relevant to the paper than are the earlier more general comments. A more fully developed set of hypotheses would allow the results of the research to be placed better into a larger research context and the results more easily generalized. The specific problems women confront at work are important as general knowledge to the reader, but do little to lay the groundwork for this empirical investigation.

Methodologically, the research and its description could be more straightforward. Multiple discriminant function analysis would have specifically shown which independent variables are the best correlates differentiating union members who file suits from those who do not. A model specifically including interaction terms would have allowed the "sex-plus" terms, such as women who are single parents or women who are nonwhite, to be easily investigated. Finally, the "preferred model" could be easily determined by step-wise techniques.

With respect to the validity of the results, the finding that women are not more likely to file discrimination suits is counterintuitive. Finding union activity, race, and single-parent status related to filing discrimination suits is easily explained, as the authors have done. But if fully 40 percent of the suits in this sample are filed on the basis of sex, it is curious that sex of the filer is not a significant predictor. Assuming this sample is representative of a larger population, further explanations of the results are needed.

Perhaps attitudes toward filing suits are more homogeneous among nonwhites than among women as a group. Certainly women are not unanimous in their demand for equal treatment at work and do not all view specific employer actions in the same manner. Some may file suit on an employer action which others overlook. Further research on this finding is necessary. The current study allows for interesting speculation, but not definitive conclusions.

## DISCUSSION

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Mr. North's work provides a brief explanation of the different classifications of foreign-born persons that we have in the U.S. today. However, I believe he must, as he has stated, use this material only as an introductory paper. If the paper is rewritten, it would be worth his time to provide the numbers of persons in each of the six classes. Furthermore, he should explain in greater detail the present complicated system of deportation. Finally, he should provide comments on the new proposals on aliens and give his readers some insights into alternatives which are now being considered.

The papers presented earlier raised a number of questions about resolving discrimination issues. They implied that there are problems with filing a complaint with EEOC at this time. One of the ways to judge the success of the Commission is to compare statistics on charges and cases in Fiscal Years 1980 and 1981. However, when making these comparisons, one must recall that during Fiscal 1981 EEOC lacked a quorum for a number of months. This problem was resolved on December 21 when Catherine A. Shattuck, a labor lawyer, was nominated by President Reagan and subsequently sworn in as a member of the Commission by Acting Chairman Smith.

Let us begin by considering EEOC's compliance area, which includes the handling of charges and cases under (1) Title VII of the Civil Rights Act of 1964, as amended; (2) the Age Discrimination in Employment Act; and (3) the Equal Pay Act, as amended.

We see in the top panel of Table 1 that in all areas except Equal Pay, the number of charges filed was greater in Fiscal 1981 than in 1980. This increase probably can be attributed to an understanding of the value of bringing a charge with the agency whose function it is to protect individuals' rights and resolve complaints under these titles.

The number of closures on file also increases under all three statutes in Fiscal 1981 (second panel of Table 1), and with the number of closures at a higher rate, the number of people benefiting from compliance activity also increased (where this could be measured under

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TABLE 1  
EEOC Compliance—Charges Received,  
Settlements, and Monetary Benefits

	FY 1980	FY 1981	Percent Change
Charges filed			
Title VII	\$45,343	\$47,447	+ 5%
Age	8,779	9,550	+ 9
Equal Pay	2,303	1,757	- 24
Total	56,425	58,754	+ 4
Closures			
Total	57,327	71,690	+ 25
Monetary benefits (000s dollars)			
Title VII	\$43,082	\$60,589	+ 41
Age	12,312	28,031	+128
Equal Pay	1,926	3,091	+ 60
Total	57,320	91,711	+ 60
Average dollar benefits			
Title VII	\$ 2,811	\$ 3,787	+ 35
Age	n.a.	11,631	
Equal Pay	n.a.	1,861	

Source: Adapted from *Compliance, Production Report*, FY 1980-81 (Washington: EEOC, 1981), pp. 2, 4, 8, 9. Charges filed concurrently are included under both statutes.  
n.a. not available.

Title VII). This is a sign of the agency's increased administrative productivity during FY 1981.

The closure rate and the number of beneficiaries has been coupled with higher monetary benefits for persons under all of the Acts (third panel of Table 1). Thus, these increases in monetary benefits show that EEOC secured more benefits (in dollar amounts) in Fiscal 1981 than in FY 1980 while achieving a substantial increase in charge closures.

Statistics for average dollar benefits for all three statutes are not available for comparative purposes for FY 1980 and 1981, but the available average benefits for Title VII gives an indication of the difference (fourth panel of Table 1).

The other area by which EEOC can be judged is litigation—cases and settlements achieved (see Table 2). The record here can be compared to the compliance area for the same fiscal years. The three sub-areas of major concern here are the number of cases filed (panel 1), the number of settlements of cases filed (panel 2), and the monetary benefits (panel 3).

According to EEOC data, monetary benefits obtained for the victims of employment discrimination, principally back-pay awards, declined by 23 percent from almost \$21 million in FY 1980 to slightly more than \$16 million in FY 1981. Remedies other than back pay secured by the

TABLE 2  
EEOC Litigation—Cases, Settlements Achieved,  
and Monetary Benefits

	FY 1980	FY 1981	Percent Change
Cases filed			
Title VII	200	229	+ 15
Age	47	89	+ 89
Equal Pay	79	50	- 37
Total	326	368	+ 13
Settlements (of cases filed)			
Title VII	141	172	+ 22
Age	42	22	- 48
Equal Pay	9	43	+378
Total	192	237	+ 23
Monetary benefits			
Title VII	\$18,674,901 <sup>a</sup>	\$13,145,403	- 30
ADEA/EPA	2,261,126	3,071,357	+ 36
Total	20,936,027	16,216,760	- 23

Source: Adapted from *Enforcement, Litigation Activity/Monetary Benefits, 12-Month Comparison Report*, FY 1980-81 (Washington: EEOC, 1981), pp. 3, 4, 5.

<sup>a</sup> Includes one \$12.5 million settlement which should be considered when FY '81 figures are compared to similar FY '80 figures.

Commission included training programs, apprenticeship funds, and affirmative action programs.

All of these statistics indicate that EEOC activities and settlement rates in most areas in Fiscal 1981 exceeded those in Fiscal 1980, and there is no foreseeable reason why this pattern of progress should change in future years.

EEOC has been and still remains an effective government agency determined to carry out its mandates under all three Acts. A successful program conducted by EEOC will benefit not only the persons covered by a particular charge or case, but others employed in a similar industry or area, through the visibility of the agency's record.

## IX. INTERNATIONAL INDUSTRIAL RELATIONS: SELECTED TOPICS

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### Collective Bargaining in Korea

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This paper presents a brief historical account of collective bargaining in Korea. It distinguishes between unionism and collective bargaining. Unions, defined simply as “employee” organizations, have sustained a relatively long existence in modern-day Korea. Quotations highlight the word employee to avoid misunderstanding. These organizations have never been autonomous in the sense that their objectives and operations have been free of either employer or government domination. Collective bargaining, defined as a system of processes through which workers participate in the determination of employment terms, can claim only irregular secular viability. It is concluded that at present (1) collective bargaining has very limited use in Korea, and (2) the future of unionism in Korea is uncertain.

This paper lacks a comprehensive theory to explain the unfolding of events (facts) leading to Korea’s current state of industrial relations. Any theory offered no doubt would contain a complex of variables. Five thousand years of Confucian tradition with the nodding approval it affords authoritarian rule may be a factor explaining why collective bargaining has never become a significant labor market institution. Other variables might include the continuing military threat posed by North Korea, the role of the military in Korea’s political system, and the close business-government relationship resulting from Korea’s tightly framed plans for economic development. One functional explanation

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implicit in this paper is Korea's heavy reliance on the production of labor-intensive manufactured goods targeted for export markets as *the* country's dominant strategy for economic development. Such a program places labor market operations on stage-center since the competitive edge on the world markets in which Korea competes is closely linked to labor productivity and pay. Successive governments and economic planners appear to believe that collective bargaining may threaten this strategy for at least two reasons. First, it may cause wages to increase (toward or) above market clearing levels, and second, collective bargaining is antithetical to controlling development.

### Early Day of Unionism<sup>1</sup>

Unions began to form in Korea following its 1910 colonization by Japan. Motivated by odium and harsh working conditions, these early unions irregularly won employment concessions through bargaining. More often than not, they were engaged in activities designed to thwart Japanese colonial rule. Thus, during most of the 35-year period of Japanese occupation of Korea, unions in Korea were forced underground because of their persistent campaigning for political independence. Therefore, while there were unions, there was relatively little collective bargaining.

Following the Second World War, unions resurfaced during the three-year period of U.S. Military Government rule (1945–1948). Organized as “business unions” in pursuit of “bread and butter” gains for their members, Korea's unions soon found themselves again embedded in internal domestic political affairs. A communist *versus* anticommunist schism formed within the labor movement. The newly formed Daehan Nochong (Federation of Korean Trade Unions—FKTU), in cooperation with business and the Syngman Rhee government countered the “Red-led” Chun Pyong's (General Council of Korean Trade Unions) efforts to communize the workforce. By 1949, the Chun Pyong was completely dismantled and had it not been for the outbreak of the Korean War, the Daehan Nochong might have been able to turn its attention to collective bargaining.

At the close of the Korean Conflict, President Syngman Rhee's government enacted three major pieces of legislation which, to this date, represent the statutory essence of Korea's labor relations policy. The *Labor Union Law* (Law No. 280, promulgated on March 8, 1953 and amended in 1963, 1974, and 1980) mandated that unions fade out of

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<sup>1</sup> Historical references appearing in this section of the paper were taken from Young-Ki Park, *Labor and Industrial Relations in Korea: Systems and Practice* (Seoul: Sogang University Press, 1979), pp. 34–43.

political activity and that they pursue the heretofore illusive goal of collective bargaining. Thus, this law extended to workers the right to organize, to bargain collectively, and to engage in collective action. Companion legislation included the *Labor Committee Law* (Law No. 281, promulgated on March 8, 1953 and amended in 1963, 1973, and 1980) and the *Labor Dispute Adjustment Law* (Law 279, promulgated on March 8, 1953 and amended in 1963, 1973, 1974, and 1980). The former piece of legislation created the administrative agency and structure required to enforce the other two statutes; the latter law prescribed the administrative procedures to be followed in dispute resolution. Thus, it would appear that the institutionalization of collective bargaining in Korea took root in 1953. Workers had good reason to believe that now unions would represent their employment interests through collective bargaining. This expectation failed to materialize.

During the decade of the 1950s, the leadership of the Daehan Nochong continued its close relationship with business interests and it was all but openly dominated by the Liberal Party chaired by Dr. Rhee. The labor policies promulgated in 1953 had little bearing on labor practices of the day. Corrupt union leaders, business-dominated establishment unions, and government control of the KFTU led to havoc within the labor movement. Workers wanted union "autonomy." Thus, in 1960 workers participated in demonstrations leading to the fall of the Rhee Government.

Following his coup in May 1961, General Chung Hee Park placed a ban on trade unions. Under close government supervision, the ban was lifted shortly thereafter, and a new KFTU (simply known as the Han Kook No Chong) was organized and the sprawling fragments of Korea's unions were restructured into industry-wide, national union organizations, each affiliated with the new KFTU.

Many academics and union leaders view the decade of the 1960s as the only period in Korea's contemporary history during which unions were permitted to function as genuine collective bargaining agents. The continuing absence of union autonomy spawned worker discontent; however, during this period the constitutional and statutory rights of workers to organize, bargain, and strike were given some leeway.

### **Collective Bargaining in Korea: 1961-1971**

Resource-poor, low incomes, over-population, widespread unemployment, industrial blight, and a poor balance of payments position were a part of President Park's economic legacy. Dramatic economic steps were needed to stabilize Korea's political and social condition. In 1961 Korea broke from its inward-looking tradition with the introduction of

an outward-looking growth strategy. A major economic innovation, Korea's First (1962-1966) and Second (1967-1971) Five-Year Plans witnessed success beyond expectations as Park's strategy of economic growth led by expansion in labor-intensive manufactured exports began to unfold.

Between 1962 and 1971 the real GNP growth rate was approximately 9.5 percent. Real per capita GNP increased by nearly 80 percent from the beginning of the First Five-Year Plan through the close of the Second Five-Year Plan. Throughout this period, Korea kept sharp vigilance over the economic performance of its major export competitors: Taiwan, Singapore, and Hong Kong. All competed for markets in such light industry commodity lines as textiles, clothing, footwear, and fishery products. By 1971, exports from these standard industrial classification groups alone represented nearly 50 percent of Korea's total exports. The central role exports played (and continue to play) in Korea's early growth process may be summarized in the statistic 2.82 which is the multiple by which Korea's export growth rate exceeded its GNP growth rate during the 1962-1971 period.

The employment growth and industrial/occupational restructuring that transpired between 1963 and 1971 were equally impressive. Over this period, approximately 2.5 million new jobs opened up, a 31.37 percent increase in total employment. Job formation exceeded the rate of labor force growth; thus, while the unemployment rate exceeded 8 percent in 1963, it plunged to 4.5 percent by 1971.

Korea's outward-looking industrialization strategy took full advantage of its reserve of labor resources. The success of this strategy is evident in structural changes that gripped Korea's labor market. Once predominately agricultural, by 1971 this sector claimed less than one-half of all employment. Between 1963 and 1971 the relative share of employment in the manufacturing and mining sector grew by a dramatic 64 percent from 8.7 percent to 14.2 percent of total employment. As one might guess, the vast numbers of those holding and seeking jobs in Korea's growth sector moved into sales, service, and production occupations. Throughout the decade of the 1970s, it was the latter category that continued to expand in sharp relative terms. In a matter of a few short years, Korea's programs of economic growth spawned a class of factory workers (which now number about half of the nation's non-agricultural employed workforce of approximately nine million).

Net, almost 1.8 million workers were newly mobilized and allocated to jobs in manufacturing and mining between 1963 and 1971.

The size of this mobilization and the relatively greater role being played by the modern, market sector created labor problems never be-



fore encountered. Social tensions took new shape as industrialization led to a clear conflict between efficiency standards of employers vs. economic security standards of workers. Thus, union membership during the period of the first two Five-Year Plans grew faster than growth in the number of workers who qualified as potential union members. The union membership penetration rate increased from 7.53 percent in 1962 to 12.39 percent in 1970, representing 176,000 and 473,000 union members for each year, respectively.

Until 1981, organizing involved relatively simple procedures and local chapters were free to combine into area-wide branches, multiplant branches (single employer), or multiemployer branches for purposes of bargaining. These liberties and the large proportion of the negotiated agreements with closed shop or union shop clauses virtually guaranteed subsequent membership growth.<sup>2</sup>

As implied earlier, these were the "golden years." Collective bargaining appeared to be developing into a meaningful social institution. With full collective bargaining rights, unions offered workers entrée into the process of joint wage determination. Unions became a means through which worker rights under Korea's *Labor Standards Act*<sup>3</sup> were enforced. However, all of this ended in December 1971 when President Park issued his Special Law on National Security—a law which remains in force today. Under this enactment and agency regulations issued subsequent thereto: (1) unions were (are) required to secure government approval prior to engaging in wage negotiations; (2) the *Labor Dispute Adjustment Law* was (is) suspended and replaced by direct government intervention into all labor disputes; and (3) all "work actions" were (are) prohibited.

The reasons for this reversal in labor policy are not clear. However, the following considerations would surely account for some part of the decision to suspend "free" collective bargaining:

1. In 1971 the Nixon Administration reduced the U.S. troop level in Korea by one-third; thus, a labor policy permitting work action arguably could compromise a policy of military readiness as dictated by the continuous threat posed by North Korea.

2. In 1971 economic planners began to question the standing of Korea's competitive advantage in export markets. The

<sup>2</sup> In 1973, 2,620 or 73 percent of all establishments with labor contracts contained either a closed shop or union shop clause; by 1976 and 1979 these numbers and percentages increased to 3,301 or 82 percent and 4,623 or 90 percent, respectively. Taken from an unpublished briefing document entitled "Major Policies in Korea's Labor Relations: Fifth Five Year Economic Development Plan," issued by the Korea Development Institute (Seoul: May 1980), p. 40.

<sup>3</sup> Labor Standards Law (Law No. 286, promulgated May 10, 1953, amended).

rise of protectionism, the weakening of the dollar relative to other currencies, and the desire to develop its own defense industries resulted in multiple policy determinations: first, to diversify trading partners; second, to accelerate the growth of heavy and chemical industries; and third, to engage in "informal" wage regulations, if for no other reason, than to protect the competitiveness of its exports vis-à-vis its principal competitors in regard to its traditional export groups and in its planned new export ventures. (The latter included, for example, electrical machinery, ships and transport equipment, iron and steel, and petro-chemicals as referenced in the Third Five-Year Plan.)

3. Finally, in regard to point (2) above, the construction and operation of heavy industries and the initial development of ideas for exporting construction services to the Middle East led to forecasts of mounting increases in the demand for skilled labor, resulting pressures on wages, and, thus, an even greater concern for unregulated wage adjustments.

### **A Return to Unionism without Collective Bargaining: 1972–1980**

With enactment of the Special Law on National Security, collective bargaining as a means of worker participation in decisions regarding their wages, hours, and other conditions of employment began to wane. Negotiations were constrained by the threat of government intrusions; wage patterns were set in the Blue House via the instrumentality of the Administration for Labor Affairs; and work actions were banned.

By 1979, union autonomy in Korea existed only in theory. Many unions did not command leadership over their members. Workers were aware of the extent to which business and government agencies exercise control over the selection of their leaders and over the employment terms "negotiated." Since the labor contract and some labor leaders lack "legitimacy," many workers turned to nonunion organizations, largely unsympathetic to industry and government, for aid in airing their complaints.

Having put the brakes on collective bargaining, the Park government did not restrict organizing activity. By 1979, 16.78 percent or 1,094,000 eligible workers were organized. Moreover, by 1979, approximately 52 percent of the organized worked in establishments with 1,000 or more employees—large-scale enterprises which grew rapidly in relative number during the 1971–1979 period. These are interesting, if not puzzling developments. A policy that permits the union sector to grow, particularly in large enterprises, would seem to beg for companion policies leading to the development of a stable collective bargaining insti-

tution, rather than the converse. One explanation for this apparent policy contradiction is that of worker appeasement. Throughout the decade of the 1970s the government repeatedly promised a return to "free" collective bargaining: permitting union growth was consistent with this pledge. This promise, plus the tremendous growth in employment and real wages and the risk of harsh government reprisals for violations of the 1971 law may have combined to hold workers' discontent in check. Even so, signs of worker uneasiness were apparent. In 1972 and in 1979 the number of "registered disputes" in Korea increased from 452 to 2,039.<sup>4</sup> Between 1975 and 1979 there were 100 or so illegal work actions annually. Perhaps the most striking index of Korea's low quality of labor-management relationships occurred in 1980 when 206 work actions were reported.<sup>5</sup> Following a decade of real wage gains (averaging 9.8 percent per annum between 1971 and 1979), real wages declined by 4.5 percent in 1980. More importantly, however, following the assassination of President Park on October 26, 1979, the government appeared to relax its labor relations controls. Many of the strikes, sit-ins, hunger strikes, and other forms of demonstrations reported in 1980 were not over future contract terms or contract violations; rather, many involved intraunion disputes. Some union members demonstrated in opposition to leaders who held their positions as a result of rigged elections, vote "buying," and/or through the assistance of government agents who discouraged "unsuitable" opposition candidates from running for union offices. Other union members simply objected to the operation of "company unions."

During the first few months of 1980 (until May 17 with the imposition of martial law), Korea's newspapers were replete with stories highlighting the presence of industrial problems stemming from the absence of union democracy, union autonomy, and the disquiet created by the government's "informal" wage guideline of 15 percent. The turbulence on the labor scene climaxed with the Sabuk Coal Mine incident in April 1980, when some 3,500 striking miners, with community support, took control of the town and held it hostage for nearly four days. This conflict was followed by a sit-in strike of some 1,000 workers at a steel mill in Pusan. Both strikes led to serious riots and clashes with the authorities. Throughout this period labor protests spread to nearly every major city in Korea.

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<sup>4</sup> "Major Policies . . .," p. 29.

<sup>5</sup> Considerable confusion surrounded the period during which the Administration of Labor Affairs collected the 1980 data; thus, this figure probably represents a lower-bound estimate.

### Unionism Threatened: 1980—

On September 1, 1980, General Doo-hwan Chun was inaugurated President. By this time, the future of collective bargaining and that of the Federation of Korean Trade Unions (FKTU) was uncertain. Numerous FKTU leaders were purged for "corrupt" practices during mid-1980. Further, the activist role played by union workers in support of labor reforms during the interim period from October 1979 to May 1980 was interpreted as a threat to reversing an economy in decline and returning to social/political calm.

Even before Park's assassination, inflation, growing unemployment, and reductions in merchandise exports were taking their toll. In 1979, Korea experienced a 0.9 percent decline in its exports, expressed in constant prices, while exports increased by 6.6 percent in Taiwan, 20.1 percent in Singapore, and 16.6 percent in Hong Kong.<sup>6</sup> An important factor contributing to the deterioration of Korea's critical export performance was the decline in the competitiveness of its manufacturing exports which account for over 90 percent of the total. Korea's real exchange rate, calculated by adjusting the nominal exchange rate for changes in unit labor costs relative to Korea's principal trading partners, declined 29 percent between 1975 and 1979.<sup>7</sup> Interest attaches to this finding since it demonstrates the loss in competitiveness of Korean producers by directly linking cost pressures on producers due to increases in nominal wages adjusted for variations in labor productivity.

It is difficult to assert that anything other than market pressures and government interventions, but certainly not collective bargaining, were acting on the wages of Korean workers during this period. Nevertheless, it comes as no surprise that a key plank in President Chun's program for economic recovery and political restoration was enforced moderation in nominal wage increases. In mining and manufacturing nominal wages increased at an annual average rate of 26.3 percent between 1971 and 1979. Corresponding figures for 1980 and 1981-III are 22.9 and 21.8, respectively. More telling, however, is the fact that the year-to-year difference between percentage changes in labor productivity and real wages has increased annually from -6.5 in 1978 to +22 in 1981-III. Currently, unrestricted collective bargaining is barred and Korea's upward trend in union membership growth is reversed.

A reading of Korea's new constitution suggests that the rights of workers to associate, bargain collectively, and engage in collection ac-

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<sup>6</sup> Bela Balassa, "Korea During the Fifth Five-Year Plan Period (1982-1986)," *An Advisory Report Prepared for the Government of the Republic of Korea* (Seoul: Korea Development Institute), Table 1, p. 3.

<sup>7</sup> Balassa, Table 2, p. 4.

tions remain intact. However, a critical inspection of the numerous pieces of legislation enacted in December 1980 suggests that Korean unions and the FKTU may be on hard times. Many Korean labor leaders view the new *Labor Management Council Law* (Law No. 3348, promulgated on December 31, 1980) as a management-controlled subterfuge to thwart unionism. More importantly, however, a number of amendments to the *Labor Union Law* are changes that have weakened the FKTU and its ability to organize. For example:

(1) under most circumstances, branch unions are now prohibited; (2) FKTU and national industrial unions are now prohibited from organizing, financing, and negotiating on behalf of chapter locals; (3) 30 employees or one-fifth of the total number of employees at an establishment is now a minimum requirement for chapter certification; (4) dues may not exceed 2 percent of monthly wages and specified percentages thereof—depending on chapter size and dues percentage—must be allocated to “worker welfare” projects; and (5) under the new regulations closed shop and union shop clauses are banned.

### **A Concluding Note**

Collective bargaining should operate to quiet industrial conflict. It should be the means to conflict resolution and stability in Korea's labor sector. Herein lies the rub! Korea permits unions, but genuine collective bargaining is prohibited. This contradiction is dysfunctional. Despite antistrike laws, work actions have not stopped in Korea.

# The Public/Private Wage Differential in a Poor Urban Economy: A Summary

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The occupational structure of wages is generally more compressed in high- than in low-income countries. This may simply be due to the relative scarcity of educated workers, more generally of human capital, in poor nations. If so we can expect the wage structure to be compressed in poor countries, with obvious distributional consequences, as human capital accumulates in the course of economic development. Alternatively, the large wage premiums received, for example, by white-collar workers may be due to nonmarket forces brought to bear on the wage structure by trade unions, multinational corporations, or the government. In this case the evolution of the wage structure in the course of development is less predictable.

The role of nonmarket forces in determining the structure of wages is of interest for reasons of allocative efficiency as well as for distributional concerns. There is a strong presumption that the greater the distortion of the wage structure by nonmarket forces the greater the inefficiencies in the allocation of human resources, with consequent negative implications for the pace of economic growth.

Our focus in this note is on wage differentials between the public and private sectors in urban Tanzania in 1971. The general issue of public versus private compensation has not received nearly as much attention in high-income economies as, for example, wage differentials between unionized and nonunionized establishments. In the United States this is because the "prevailing wage rate" model has been used to both determine and hence explain government pay scales. The government is viewed as just another price taker accepting a market-determined rate. In a perfectly competitive labor market, group affiliation should not influence wages. Irrespective of differences among groups of workers in goods produced, in the technology or organization

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used to produce them, in the profitability of such production, or in the ownership of the establishments in which they work, competition in the labor market will ensure that all workers with the same personal characteristics and preferences for work activity receive the same rate of pay. If public/private wage differences occur, they are generally interpreted, within the competitive model, as due to short-run adjustment problems to lags in government wage movements.

Group affiliation matters only if nonmarket forces are sufficiently powerful to prevent competition in the market from eroding differentials among homogeneous workers. The public sector holds a commanding position in the labor markets of many developing nations. It is not uncommon to find 50 percent or more of all wage earners in the employ of the government or of parastatals.<sup>1</sup> Moreover not all governments of developing nations either choose or are in a position to choose the "prevailing wage" model in setting their pay scales. Government pay policies are often influenced by distributional, fiscal, employment, or political goals.<sup>2</sup> In sum, in many low-income countries the public sector has neither the need nor the desire, nor even the ability, to act as if it is another wage taker.

In order to study the relationship of public to private wages, data for this analysis were obtained from the 1971 NUMEIST<sup>3</sup> survey conducted by one of the authors. A random sample of households in Dar es Salaam and six other urban areas was surveyed. Over 5000 individuals, including 1500 male African regular wage earners, are included in the sample. Respondents provided information on their monthly earnings, nonwage benefits, education, employment history, and other personal characteristics, as well as the type of employer they worked for. Roughly one-third of the sample fell into each employment category—private firms, government, and parastatal enterprises.

In this note,<sup>4</sup> we present measures of differences in mean wages between government workers and workers in the employ of privately owned enterprises, between parastatal employees and workers in private enterprises, and between parastatal and government employees.

<sup>1</sup> The pay of government employees is generally governed by civil service pay codes. Parastatals are enterprises wholly or partly owned by the government, but with some autonomy in factor and product pricing decisions.

<sup>2</sup> There is evidence, for example, that in Tanzania, colonial wage and salary structures, geared to the supply prices of Europeans, were not dismantled at Independence because to do away with what many regarded as the Fruits of Independence would have been politically untenable. See R. H. Sabot, *Economic Development and Urban Migration* (Oxford: Clarendon Press, 1979), p. 210.

<sup>3</sup> National Urban Mobility, Employment and Income Survey of Tanzania.

<sup>4</sup> For a fuller discussion, see David L. Lindauer and R. H. Sabot, "The Public/Private Wage Differential in a Poor Urban Economy" (Washington: World Bank, 1982).

Both  $G$ , the absolute differential, and  $\alpha$ , the relative differential, are presented where  $G = \bar{W}_a - \bar{W}_b$  and  $\alpha = (\bar{W}_a - \bar{W}_b / \bar{W}_b)$  with  $\bar{W}_a$  representing the mean wage of the higher paid group. We go on to contrast  $\alpha$  with the value of  $\beta$ , where  $\beta$  represents the average percentage by which the pay of group  $a$  exceeds that of group  $b$  after standardizing for various personal characteristics of the wage labor force. Standardization is performed by estimating a simple wage function of the following general form:  $\ln W_L = f(X_L)$ , where the log of monthly earnings of the urban wage earner is the dependent variable and  $X_L$  is a vector of his characteristics.  $\beta$  is derived<sup>5</sup> from the coefficient on the ownership dummy denoting group  $a$  (the high-paid group, with group  $b$  as the base category) in the earnings function for the full sample.

### Gross and Standardized Wage Differentials

In 1971 government urban employees earned, on average, 133 sh. (51 percent) more, and parastatal employees 146 sh. (56 percent) more than employees in privately owned establishments. However, labor demand in the public sectors is much more skill intensive than in the private sector. Because of differences in composition, the government/private differential for particular occupations is much less than the differential in mean earnings. If the private sector had the occupational composition of the government, the differential in mean wages between the two sectors would only be 16 percent and would be almost entirely due to the higher salaries of managers in the government than in the private sector. With respect to skill intensity, the parastatal sector falls between the other two and, therefore, differences in occupational composition do not explain as much of the parastatal/private as of the government/private gross wage differential. If the parastatal sector had the occupational composition of the government, the differential in mean wages between sectors would remain a substantial 23 percent.

Alternative hypotheses to explain these differentials abound. The premium paid to public-sector employees at the top of the occupational hierarchy could be a residual of the colonial wage structure. The relatively inferior wage position of the least skilled government workers may reflect the resolution of a conflict between the government's employment goals and fiscal constraints. The premiums paid by parastatals could reflect the sharing of rents accrued as a consequence of monopoly power in product markets. Or, given that in Tanzania in 1971 many of the parastatals were recently nationalized multinationals, they could be the residuals of premiums once paid by foreign firms as a way of se-

<sup>5</sup> See Robert Halvorsen and Raymond Palmquist, "The Interpretation of Dummy Variables in Semilogarithmic Equations," *American Economic Review* 70 (June 1980), pp. 474-75.



curing the loyalty of employees or of avoiding charges of "exploitation." Of course, simply disaggregating mean wages by occupation is not sufficient to reject the hypothesis that wage differentials between ownership categories are due to differences in labor force composition, for example, with regard to levels of education or employment experience. To examine this last hypothesis further we consider the results of our multivariate analysis.

Public-sector employees have more education than employees in the private sector; within the public sector the proportion of postprimary leavers is higher in government. Similarly, public-sector employees are somewhat older and, on average, have 50 percent more experience in their current job than workers in the private sector. Moreover, parastatal enterprises have a higher proportion of workers in the capital city. Standardizing for each of these differences in characteristics is likely to reduce the magnitude of differences in earnings between ownership categories.

Estimation of our aggregate wage function,  $\ln W_L = f(X_L)$ , yields the following results (note: standard errors appear in parentheses):

$$\begin{aligned} \ln W = & 4.758 + .219E_1 + .914E_2 + .018L - .00016L^2 \\ & (.036) \quad (.045) \quad (.003) \quad (.00011) \\ & + .012A + .138D + .068Go + .194Pa \\ & (.002) \quad (.027) \quad (.034) \quad (.032) \\ \bar{R}^2 = & .365 \qquad \qquad \qquad n = 1291 \end{aligned}$$

where  $E_1$  and  $E_2$  are dummy variables representing primary and post-primary education,  $L$  measures years of experience on current job,  $A$  is the respondent's age,  $D$  equals 1 if the worker is employed in the capital city, and  $Go$  and  $Pa$  are dummy variables indicating employment in either the government or parastatal sector.

All but one of the coefficients, that on the squared experience term, are significant. As expected, the coefficients on education, experience, and location in Dar es Salaam are positive and substantial and, as between the education variables, are in the usual size order. Nevertheless, the coefficients on the government and parastatal variables are significant and positive. The government coefficient is small; the parastatal coefficient is nearly three times its size. What this implies is that even after standardizing for differences in their education, employment experience (and age), and the location of work, wage earners employed by the government earn a premium with a point estimate of 7 percent relative to private-sector employees; parastatal workers earn a premium of 21 percent.

These estimates of public-private differentials may be biased, how-

ever. The employer shift parameters only permit differences in the intercept terms of employer-specific earnings functions. Because it constrains all three functions to have identical slopes, the aggregate equation may be misspecified. This constraint can be relieved by running separate earnings functions stratified by ownership category. It is then possible to test for significant differences across equations. When this is done,<sup>6</sup> it is found that most of the observed public/private differential is due to differences in the level of pay (i.e., intercepts) rather than to differences in the respective structures of earnings (i.e., coefficients).

## Conclusion

Our analysis of public/private earnings differentials in urban Tanzania in 1971 suggests that worker characteristics cannot account for all of the differences in earnings between the public and private sectors of the formal economy. Both government and parastatal employers pay more than wage rates prevailing in the private sector. Public-sector employers do not appear to be acting simply as wage takers. The government paid a modest premium while parastatal workers earned considerably more than private-sector workers with the same characteristics. Whether the labor market distortion indicated by these premiums persisted throughout the 1970s has important implications both for reasons of allocative efficiency and, thence, economic growth and for the distribution of income in Tanzania. Analysis of changes over time in public/private wage differentials using comparable data and similar techniques is currently under way.

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<sup>6</sup> For further details, see Lindauer and Sabot (1982).

# Human Capital and Earnings: Some Evidence from Brazil and Mexico\*

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Although the theoretical and empirical literature dealing with the conventional economic growth model is by now quite extensive and needs no review here, one cannot say the same for the issue of human capital and development. In the first place, much of the research has been carried out in the industrialized countries.<sup>1</sup> Moreover, those studies that have had an LDC context have focused almost solely on returns to general training or education without touching those questions associated with on-the-job specific training.<sup>2</sup> Blaug, in his 1976 review of human capital theory, summed up the situation very well when he concluded:

All in all, the question of labor training continues to haunt the human capital research program. It is ironic to realize that the program was first developed in its most general form with reference to training, of which formal schooling is only a special case. Nevertheless, the bulk of the work in the human-

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<sup>1</sup> The standard references are, of course, Gary S. Becker, *Human Capital*, 2nd ed. (Chicago: University of Chicago Press, Phoenix ed., 1980), and Jacob Mincer, *Schooling, Experience and Earnings* (New York: Columbia University Press, 1974). See also Mark Blaug, "The Empirical Status of Human Capital Theory: A Slightly Jaundiced Survey," *Journal of Economic Literature* 14 (September 1976), pp. 817-55.

<sup>2</sup> See, for example, Carmel U. Chiswick, "On Estimating Earnings Functions for LDCs," *Journal of Development Economics* 4 (December 1977), pp. 67-78; Pak-wai Liu and Yue-chim Wong, "Human Capital and Inequality in Singapore," *Economic Development and Cultural Change* 29 (January 1981), pp. 275-93; and George Psacharopoulos, "Schooling Experience and Earnings: The Case of an LDC," *Journal of Development Economics* 4 (December 1977), pp. 39-48.

capital research program has been devoted to investment in education. . . .<sup>3</sup>

This void in the human capital literature is particularly important from the standpoint of LDCs given their reliance on economic development via industrialization and the preeminent role in this process assigned to foreign capital. For example, it is not clear to what extent investment in general education actually pays off in higher earnings for those workers either aspiring to or actually gaining access to the modern sectors of a developing country. Related questions also involve the emergence of credentialism as a consequence of general education investments, the incidence of specific training in modern sector firms and its payoffs, the way in which training investments are funded and who bears the costs in such firms, and so on. Without adequate evaluation, educational policy may not only be ineffectual but, in fact, may produce negative consequences.<sup>4</sup>

It is hoped that the research reported here will shed some light on human capital investment in developing countries both as it relates to the continuing development of the theoretical models and in terms of its implications for educational policy formulation. In Section I, the conceptual framework for the research is presented. Section II contains a brief description of the data. Section III presents the results, and this is followed by a summary in Section IV.

## **I. Conceptual Framework and Methodology**

Broadly speaking, two competing hypotheses may be considered. The first is that the presence of multinational corporations in a host country stimulates the investment in human capital. This could result either from on-the-job and other training (and other human services) provided by the multinational corporation to its employees or from an increased incentive for the domestic population to engage in schooling and "off-the-job" training. Such increased incentive is presumably the result of the presence of modern-sector jobs provided by the multinational corporation. Alternatively, it may be argued that multinationals contribute only marginally to the development of human capital in less developed countries since they tend to import capital intensive technologies implying the need for relatively few skilled employees and that even these may be imported from developed nations.

The intent of this research is to address these questions by develop-

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<sup>3</sup> Blaug, p. 840.

<sup>4</sup> For an example, see Claudio de Moura Castro, "Vocational Education and the Training of Industrial Labour in Brazil," *International Labour Review* 118 (September/October 1979), pp. 617-29.

ing a standard human capital model and testing its applicability to particular multinational corporations in developing countries. The model to be estimated is the standard human capital wage equation proposed by Mincer:<sup>5</sup>

$$\ln E_t = \ln E_o + r_s S + (r_p K_{s-1})j - \frac{(r_p K_{s+1})j^2}{(2T)} \quad (1)$$

Here  $E_t$  is earnings in period  $t$  and  $r_s$  and  $r_p$  are the impact coefficients of years of schooling ( $S$ ) and on-the-job training of  $t - S$  years, where  $j$  refers to years on the job and "ln" refers to the natural logarithm.  $K_i$  is the proportion of earnings invested in training in year  $i$  and is assumed to decline linearly from a value of  $K_{s+1}$  in year  $S+1$ , the first postschool year, to a value of zero in year  $S+t$ .

This model may be enriched in two directions. First, some workers in our samples held other jobs between the end of their formal (pre-work) schooling and their current job. Second, it is possible for persons to receive formal on-the-job training. The work experience variable,  $j$ , is therefore divided into  $j$  and  $j'$ , referring to work experience on previous jobs and the current job, respectively. In addition to the years of formal (prework) schooling, variable  $S$ , we define two additional formal training variables,  $TR$  and  $TR'$ , referring to formal training on previous and current jobs, respectively.

The statistical model to be estimated is,

$$\ln E_i = B_0 + B_1 S + B_2 TR + B_3 TR' + B_4 j + B_5 j^2 + B_6 j' + B_7 j'^2 + U_i \quad (2)$$

Here  $i$  indexes the observation unit (the particular person surveyed), the  $B$ s have the usual interpretation derived from (1), and  $U_i$  is a random error term. It is expected that  $B_0 > 0$ ,  $B_1 > 0$ ,  $B_2 > 0$ ,  $B_3 > 0$ ,  $B_4 > 0$ ,  $B_5 > 0$ ,  $B_6 < 0$ , and  $B_7 < 0$ . The null hypothesis is  $B_0 = B_1 = B_2 = B_3 = B_4 = B_5 = B_6 = B_7 = 0$ . Rejection of the null hypothesis supports the view that multinational corporations stimulate human capital investment.

As an alternative to the hypothesized education-productivity-earnings relationship of the human capital model, the screening hypothesis, or theory of credentialism, asserts that employers prefer more- to less-educated workers for reasons other than increased productivity. Therefore, they will treat educational qualifications merely as a screening device when hiring new workers.<sup>6</sup> It is argued that the employer's main concerns are with trainability and with administrative expediency.

<sup>5</sup> Mincer.

<sup>6</sup> See Blaug, pp. 845-49.

Hence, as educational levels rise in a society, so too will the educational hiring standards. If the hypothesis is confirmed, the implications are enormous, particularly for a developing country. First, cohorts of older workers may become increasingly disadvantaged vis-à-vis younger workers and thereby society more stratified. Second, returns to education may be more highly correlated with starting wage than long-term earnings. Third, the incidence of credentialism may be highest among those firms with the strongest internal labor markets, i.e., modern-sector multinational firms, thereby contributing further to occupational and economic stratifications. And, finally, from a general social standpoint, educational expansion in general is unlikely to have much impact on earnings differentials.

The incidence and costs of on-the-job training are generally considered to be more difficult areas of human capital theory to deal with conceptually and empirically. As one observer points out, "From the earliest formulations of the human-capital model by Schultz, Becker and Mincer, it was on-the-job training and not formal schooling that was taken to be the paradigm case of self-investment."<sup>7</sup> Yet the difficulties in measuring returns to such investment grew as it became clear that it was possible to identify a number of forms of on-the-job training: on-the-job general vs. on-the-job specific, on-the-job specific which occurred under supervision, or was, most simply, learning by doing. The training in fact might be off-the-job but while still employed by the firm and this, too, might be general or specific. Thus simply to speak of general vs. specific training or even off-the-job vs. on-the-job training is methodologically inadequate. In turn, the conceptual framework chosen has obvious shortcomings concerning the identification and measurement of who bears the training investment costs and who reaps the returns. Therefore, alternative information will be analyzed to answer these questions.

## II. Description of the Data

The data for this analysis were collected in Mexico City, Mexico, in 1975-1976 and Sao Paulo, Brazil in 1977 and consist of a 10 percent random sample of employees at one plant or location for two American multinational firms in Mexico and in Brazil. In order to standardize the data as much as possible, the main sample is comprised of workers from the same auto manufacturing and retail trade firms in Mexico and Brazil. In addition, supplementary data were also gathered in Brazil from two additional U.S. multinational corporations plus a large Brazilian utility company. The total sample consists of 1,137 workers.

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<sup>7</sup> Blaug, p. 836.

### III. Empirical Results

The ordinary least squares results for our regression model are presented in Table 1. Almost without exception, the current wage was not significantly associated with such variables as previous training, current training, and years of work experience prior to current employment in the Brazilian firms, but prior work experience was significant in the Mexican firms. On the other hand, education and tenure are significantly related in firms in both countries.

The above findings lend themselves to several conclusions. Those variables such as prior experience and prior training do not seem to pay off directly in higher earnings in the Brazilian firms as one might expect if they are to be interpreted as a form of specific investment in human capital that workers have paid for. Rather, they enhance the credentials of the job applicant and thus help him gain access to the modern sector or represent investments that workers did not pay for. Education, however, clearly plays the role of enhancing credentials as well as providing a direct payoff. In the Mexican firms, however, prior work experience as well as education and tenure provide a direct payoff.

The fact that our tenure and experience variables were significant raises questions for which the answers can be only speculative. However, if one assumes that as work experience increases, so too will skills, knowledge, and productivity, it can thus be interpreted as a demonstration of returns to learning by doing. This assumption seems plausible and these results along with the significant coefficients on education can be interpreted as support for the hypothesis that multinational corporations do reward individuals for investment in human capital.

Regarding the credentialism hypothesis, our interviews and data suggest that credentialism exists in both Mexico and Brazil. In the auto assembly plants, managers freely admitted that 80 percent of the work required no previous experience or skill and another 16 percent could be classified at best as semiskilled. Yet these same firms presently hired no one without at least the completion of primary education. For example, if one examines the mean years of education at the date of hire at the Mexican auto plant, the mean has increased from 4.8 years in the 1940-1950 period to 6.9 years in 1970-1980 with no corresponding increase in job requirements. In both Mexico and Brazil this would effectively shut out 65-70 percent of the urban job-seekers and nearly all the urban migrants.

In order to analyze the incidence and costs of on-the-job training in our main sample of firms, one needs to differentiate between the auto companies and the retail trade organizations. In the former case, formal

TABLE 1  
OLS Regression Results for Equation (2)

Businesses & Sample Size	Constant	<i>S</i>	<i>TR</i>	<i>TR'</i>	<i>j</i>	<i>j</i> <sup>2</sup>	<i>j'</i>	<i>j'</i> <sup>2</sup>	$\overline{R^2}$
<i>Mexico</i>									
Auto+ (133)	.346	.047 (2.44)**			.043 (2.43)**	-.0016 (-2.37)**	.106 (4.74)**	-.0022 (-3.34)**	.26
Retail+ (198)	7.32	.025 (2.53)**			.030 (3.01)**	-.0006 (-1.81)*	.074 (5.89)**	-.0016 (-2.98)**	.34
<i>Brazil</i>									
Auto+ (351)	2.64	.039 (5.63)**					.048 (2.39)**	-.003 (-2.89)**	.10
Retail (55)	2.00			1.28 (3.26)**					.15
Tires & tubes (26)	1.98			.21 (1.13)					.01
Manufacturing (80)	1.88						.192 (8.78)**	-.012 (-5.63)**	.61
Utility (294)	1.89	.107 (15.89)**					.056 (3.41)**	-.0009 (-.84)	.53

*t*-statistics in parentheses.

+ Data on Training (*TR* and *TR'*) were not available for this firm.

\*\* Significant at .01 Level. \* Significant at .05 level.



on-the-job training is almost entirely nonexistent. The basic approach is learning while doing. Perhaps 4 percent get formal training and another 16 percent are permitted, on their own time, to practice other jobs and prepare themselves for promotion.<sup>8</sup> On the other hand, the retail trade firms were much more inclined to engage in formal on-the-job training, averaging better than 3 months of such training among the workers surveyed.

It seems those modern-sector firms that employ primarily blue-collar workers show a marked reluctance to bear the costs of formal training.<sup>9</sup> Moreover, one must also conclude that such employers appear to place a high value on the forgone production that would occur under such "training." For their part, the retail trade firms do not seem to share this reluctance and train employees even in the face of much higher rates of voluntary turnover. This observation implies a much higher rate of return to such training investments for these particular employers. Assuming that workers leave before their earnings equal their marginal productivity, their employer is enabled to pay off the investment in training and still retain a significant surplus in the classical sense.

#### IV. Conclusions

Several policy implications emerge from our research. First, it is not clear that general education no longer has an earnings payoff. For most of the modern-sector firms we surveyed, it does pay off. One could argue that LDCs should not slacken their education efforts, but perhaps even redouble them, particularly as far as migrant, older workers and rural inhabitants are concerned.

Second, it is not clear that policies that would force more training investments on the part of otherwise reluctant organizations would indeed produce desired results. The pay-offs do not seem to be there for these investments or, if they are, may be captured by the firms. Moreover, unanticipated negative consequences may in fact result, including increased hiring standards and induced turnover. At the very least, the issues should be systematically examined empirically before further policy steps are taken.

Finally, our results support the hypothesis that multinational corporations do reward individuals for investments in human capital, especially formal education and work experience. It is not clear, how-

<sup>8</sup> This finding is supported by Morley et al. in their study of 82 Brazilian firms. Samuel A. Morley, Milton Barbosa, and Christina C. de Souza, "Evidence on the Internal Labor Market During a Process of Rapid Economic Growth," *Journal of Development Economics* 6 (June 1979), p. 267.

<sup>9</sup> Morley et al., pp. 166-69. Also see issues of *Business Latin America*, May 2, 1979, pp. 139-41, and June 6, 1979, pp. 182-83, for a description of relevant laws.

ever, whether the higher rewards associated with this human capital are for increased productivity, as the human capital model would suggest, or the result of credentialism.

## DISCUSSION

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The conclusion to which Dr. Bognanno came in his presentation—that because of the present prohibition of collective bargaining in Korea “the threat of worker upheaval remains”—brought to mind various conversations I had in the spring of 1980 in Korea with trade union leaders, Korean professors of industrial relations, representatives of Korean employers’ associations, and American observers of the Korean labor scene. I found a consensus among all four groups that Korea needed to develop an effective collective bargaining system, both to contribute to the political and social stability needed for economic growth, and to assist the effective operation of a modern industrial system which had grown too large and complex for the centralized direction of labor-management relations. All four groups also felt that both Korean workers and managers were finally ready for full collective bargaining, and that a return to centralized control would be a cause of long-term social unrest.

These observers all drew their lesson as to the need for collective bargaining from the events of the previous fall. As described by Dr. Bognanno in his presentation, since 1972 both economic and political actions to advance their interests were forbidden to Korean workers. Strikes were banned, collective bargaining replaced by compulsory government arbitration, and union political action prohibited. In 1980 it was hard to find *any* Korean trade unionist who identified as strongly with a political movement, and felt as represented politically, as did the *average* trade unionist in many Latin American countries. The suppression of workers’ rights in Korea in 1979 was a recipe for trouble with a capital “T,” and that rhymed with “P,” and that stood for “Park.” Trouble did come, with the worker/student riots in Masan and Pusan in the late summer of 1979. A split developed among President Park’s advisors as to whether the restoration of stability required a loosening of restrictions, including those on workers’ rights, or a further tightening. When Park decided in favor of the hard line, the leader of those advocating a soft line assassinated both Park and the leader of the hard-line group.

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Like labor observers, one lesson which the successor government under Premier Shin Hyon-hwack drew from the chaotic events of 1979 was that collective bargaining was one institution needed for stability. As the Bognanno/Kim paper notes, the Shin cabinet relaxed enforcement of government controls on labor relations and began leaving many negotiations to labor and management alone. Naturally, after having been built up in the absence of bargaining for nine years, worker discontent produced considerable turbulence on the labor scene, as documented in the Bognanno/Kim paper. The Shin cabinet felt that long-term stability required that the government ride out the storm, so that an effective collective bargaining system could be built. General Chon Do-hwan concluded exactly the reverse—that a crack-down was needed in all sectors, including labor. He led a military coup which overthrew the Shin cabinet, and during 1980 the new regime purged the trade unions, restored the ban on strikes, reimposed compulsory government arbitration, and banned branch-level unions. The lid was back on.

In late December 1980 one can hardly ponder the labor scene in Korea without being struck by the parallels between Korea and the events in Poland which came to a climax this month. In both Korea and Poland the denial of collective bargaining rights to the workers for many years helped create serious instability. Outbursts of workers' discontent (in Masan and Pusan in 1979, in Gdansk in 1980) were factors in the fall of the incumbent governments in both countries (with the assassination of President Park, and the dismissal of Party Secretary Giereck). In both nations the successor governments began allowing collective bargaining and free unions, in efforts to build long-range stability. In both Korea and Poland, the relaxation brought strikes and demonstrations, as long-contained worker rage was vented. Both successor governments tried to weather the storms, in labor relations as in other social sectors. In both countries, however, the armies panicked, overthrew the successor governments, and clamped down, in the labor area closing free unions and again banning collective bargaining. In both cases, U.S. labor protested the coups and the renewed suppression of bargaining rights.<sup>1</sup>

In both the Polish and Korean cases, the army coups and the denial of collective bargaining threatened U.S. national security interests: in Poland the suppression of Solidarity clearly strengthened Soviet control in a key East European country; in Korea an important U.S. ally entered into a new cycle of weakness, in the labor sector through the banning of collective bargaining, the resultant build-up of worker discontent,

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<sup>1</sup> See the October 1980 *AFL-CIO Free Trade Union News*, p. 13, on Korea, and the *AFL-CIO News*, January 9, 1982, on Poland.

and the probability of new outbursts of violence damaging to future economic growth. The most notable difference between the Korean and Polish situations is that in the Polish case the U.S. government vigorously protested the army coup and imposed economic sanctions on the new military regime, while in the Korean case both the Carter and Reagan Administrations said nothing about the suppression of workers' rights and imposed no economic sanctions. This policy is a betrayal of both our national values and our national interests.

The Lindauer/Sabot paper on Tanzania proved convincingly that workers in the public sector there, especially in government-owned enterprises, make higher wages than do similar workers in similar jobs in the private sector. What remains for discussion are some suppositions in the paper. For example, the authors suppose (probably correctly, I think) that if it were the desire to hire the "cream of the crop" which led managers in government-owned firms to pay more, the premiums paid would be larger in the higher-skilled jobs. The paper *proved* statistically that those premiums were *not* larger. Does that "prove" then that "creaming" was not the reason for the wage differences? No, because the initial supposition, though it sounds reasonable, is not subject to statistical proof.

An even more intriguing supposition is presented in passing on the paper's first page: that if wages are affected by nonmarket forces, this will increase inefficiencies in the allocation of human resources and thus slow down economic growth. Since the paper makes clear later that trade unions are one such "nonmarket force," this supposition becomes "fightin' words" in the view of trade unionists. I might offer a counter-supposition: that when unions have no influence on wages, then the link between what a worker earns and the value of his production is weakened, and that whenever that link is weak, terrible things happen in economies. In our own country one bad thing resulted in the 1930s when workers were not being paid a fair share of the value of their production: the Great Depression. Today, another bad thing is happening where unions are not allowed to affect wages: plants are being located by multinational corporations not on the basis of rational economic factors, but simply on the basis of where workers can be exploited the most. This indeed is causing a misallocation of resources and thus is stunting world economic growth.

## DISCUSSION

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The Lindauer and Scott (LS) paper and the Miller and Zaidi (MZ) paper examine critical aspects of the process of wage determination in developing countries. The studies are concerned with both absolute and relative wages in different sectors of the economy: the public, quasi-public or parastatal, and private sectors in Tanzania (LS), and the large-firm sector containing multinational corporations and the smaller-firm sector in Brazil and Mexico (MZ). Both studies apply the human capital model in discussing wage determination and question its applicability in the context of developing economies exhibiting relatively large and persistent wage differentials. Both studies use large and carefully selected micro data on firms and individuals which allow them to test their hypotheses appropriately. Both papers contribute to our understanding of wage determination in developing economies.

The LS study finds that the human capital model explains much, but not all, of the observed wage differentials between the public and private sectors and between the quasi-public or parastatal and the private sectors. The analysis was performed rigorously and controlled for as many influences on wages as possible.

What I think could be added to the model is a more explicit treatment of the feedback on wage rates from the different product markets of each sector, particularly the ability of firms in the different sectors to set their output prices. Since firms cannot pay a wage greater than the marginal product of labor indefinitely, which is what the results of the analysis imply, firms in sectors paying a wage premium must be able to pass on the higher wage in its product market where competitive forces will not bid the wage rate down. The authors could also discuss whether these persistent sectoral wage differentials create unemployment and, if so, how equilibrium in the labor market would be characterized.

The MZ paper argues that factors other than the traditional human capital variables are important in determining wages of workers in MNCs in Brazil and Mexico. The hypotheses which the authors wish to test are whether MNCs stimulate investments in human capital, and

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whether the human capital embodied in the workforces of MNCs actually contributes to productivity or whether it merely serves as credentials. The authors test the latter hypothesis. They estimate a traditional earnings equation using data on workers in five industries in Brazil and two industries in Mexico. The results are mixed but do support the human capital model in that the variables representing the human capital of the workers, i.e., education and job tenure, have the predicted effects on earnings. The results do not give strong support to the hypothesis of credentialism. Additional evidence on these issues was obtained from personal interviews with workers and managers at the plants being studied but is not brought to bear directly on the issues. The authors' conclusions that public policy should stress specific training as opposed to more general education should be tested in a broader sample of firms and industries.

I suggest that the authors expand their analysis in the following ways. First, since pre-job education and training are expected to have equal returns across all sectors, being of a general rather than firm-specific nature, a regression run on the full sample, rather than one equation for each sector, may yield more persuasive results. Second, the results regarding the effect of education on wages could be compared to the estimated effects of education on output in a production function context which may yield additional evidence on the role of education in developing economies. Third, for public policy purposes, the estimated value of the rate of return to education is important. A return of 2-3 percent has different policy implications than the 13-15 percent return to education estimated in developed economies. Fourth, the information collected in the case studies should be summarized in the paper and combined with the regression results where it bears on the issues. Finally, the behavior of MNCs of different nationalities in the two countries should be compared to determine if there is any variation in behavior which may be important for public policy.

## X. CONTRIBUTED PAPERS: RELATIONS BETWEEN INDIVIDUALS AND ORGANIZATIONS

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### A Preliminary Analysis of the Participation Rate and the Margin of Victory in NLRB Elections

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The rate of voter participation in National Labor Relations Board (NLRB) representation elections has been considered one of the strongest and most successful aspects of the National Labor Relations Act. Typically, about 90 percent of eligible employees vote in NLRB elections,<sup>1</sup> as compared to a participation rate of roughly 50 percent in major political elections. It is not surprising, therefore, that the participation rate in NLRB elections is seen as strong evidence of the acceptability of the process by which representation disputes are resolved. However, in work recently completed, we found that this seemingly satisfactory situation may obscure some disturbing characteristics of the participation rate. Our evidence suggests that variations in the participation rate across NLRB elections may not be random, and possibly linked to the outcome of some elections.<sup>2</sup>

The purpose of this paper is to explore in a preliminary fashion the

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<sup>1</sup> These and other data on NLRB elections have been taken from magnetic tapes containing the agency's administrative records for fiscal years 1973-1978.

<sup>2</sup> Myron Roomkin and Richard N. Block, "Case Processing Time and the Outcome of Representation Elections: Some Empirical Evidence," *University of Illinois Law Review*, 1981, No. 1, pp. 75-99.



role of voter participation in NLRB elections. The next section presents a brief statement of the standard theory of voter participation as it may apply to participation in NLRB elections. Following this, some potential explanations for nonparticipation in NLRB elections will be discussed. Next, preliminary tests of one of the explanatory hypotheses are presented. The concluding section summarizes results and discusses their implications for national policy.

### Voter Participation

The basic models of voter participation all appear to be based on the work of Anthony Downs.<sup>3</sup> Using a utility maximizing framework, Downs hypothesized that a person would vote in an election when the benefits of voting exceeded the costs. According to Downs, the benefits of voting to an individual are a function of (1) the party differential, i.e., the difference in utility to the individual if one party wins as compared to the other party's winning; (2) the effect of the individual's vote on the outcome of the election, i.e., the extent to which the individual's vote will make a difference; and (3) the utility to the individual from participating in the democratic process. The primary cost of voting is time—in this case the time it takes to obtain information about the opposing parties and the time it takes to vote.

In view of this, it is not surprising that voter participation in NLRB representation elections is high. To begin with, workers have strongly held views on the question of unionization, which should motivate people to participate in the decision-making process. Second, the difference in the bundle of economic and noneconomic terms and conditions of employment with and without collective bargaining might be sufficiently large such that all workers are likely to perceive a positive differential between the union's winning and the employer's winning. Third, any individual employee's vote is important. Elsewhere, we found that, for the period July 1972 through September 1978, a change of 7.8 votes would have changed the outcome of the average single-union election.<sup>4</sup> In addition, a marginal voter might still be influenced to participate in the election by a strong sense of obligation to his employer, fellow workers, and the election process itself.<sup>5</sup>

<sup>3</sup> Anthony Downs, *An Economic Theory of Democracy* (New York: Harper, 1957), pp. 36–50, 260–76. For some other work in this area, see, for example, William H. Riker and Peter Ordeshook, "A Theory of the Calculus of Voting," *American Political Science Review* 62 (March 1968), pp. 25–42, and John A. Ferejohn and Morris P. Fiorina, "The Paradox of Not Voting: A Decision Theoretic Analysis," *American Political Science Review* 68 (June 1974), pp. 525–36.

<sup>4</sup> Roomkin and Block. This was the average for all (45,115) single-union, nonde-certification representation cases closed between July 1972 and September 1978.

<sup>5</sup> See Downs, Riker and Ordeshook, and Ferejohn and Fiorina.

Apart from the benefits, the costs of voting are minimal. Voting occurs at the workplace; thus, no time need be allocated to it that is not already allocated to work. Moreover, the costs of acquiring information are minimized, since NLRB and court decisions have given the parties the right to campaign at the workplace.<sup>6</sup>

Although these forces work to encourage voter participation, our earlier study found that voter participation in NLRB elections tended to decline the longer it took to conduct the election. Furthermore, this decline was asymmetrical between union wins and employer wins, the decline being less pronounced in the latter case. More important, however, NLRB representation elections tend to be close enough, and are decided by a sufficiently small number of voters, that the number of nonvoters could make a difference in the outcome. For example, during the period July 1972 through September 1978, on the average, 89.9 percent of all eligible voters voted in NLRB single-union, nondecertification elections. The average election unit size during this time period was 56.1 employees. This means, then, that in the average election, roughly 5.6 employees did not vote. As noted, a change of only 7.8 votes would have altered the outcome of the average election.<sup>7</sup> Variations around these means strongly suggest that nonparticipation affected the outcome of many elections. For example, assuming that all nonvoters would vote against the winner, union victories would be reversed into losses in elections occurring after three to four months.<sup>8</sup>

### **Voter Participation in NLRB Elections: Some Hypotheses**

Why might employees, in spite of the obvious importance of the outcome of the election, choose to refrain from voting?<sup>9</sup> Four non-mutually exclusive reasons should be considered. First, turnover during the campaign might result in some new employees being unaware of the costs and benefits of collectivizing the employment relationship with their (new) employer. Second, some employees might be truly disinterested. We believe that nonvoting for these two reasons is likely to be minimal and, more important, unlikely to be altered by Board policy.<sup>10</sup>

Other causes of nonparticipation seem more crucial. Delay might cause uncertainty in the minds of the voters. This may be a result of the

<sup>6</sup> See, for example, *Livingston Shirt Corp.*, 107 NLRB 400 (1953), *General Knit of California*, 239 NLRB 619 (1978), and *Republic Aviation v. NLRB*, 324 U.S. 793 (1945). Unions may have access to the employer's premises only if there are no other reasonable means to reach the employees. See *NLRB v. Babcock and Wilcox Co.*, 351 U.S. 105 (1956).

<sup>7</sup> Roomkin and Block.

<sup>8</sup> Roomkin and Block.

<sup>9</sup> We exclude from our analysis nonvoting due to normal absenteeism.

<sup>10</sup> Roomkin and Block.

parties' campaign. Because the union is associated with change, and change implies risk, it was thought that the employer would stand to benefit from nonvoting that occurred for this reason. It would be expected that the uncertainty would be concentrated disproportionately among nominal union supporters. Generally, the results discussed earlier suggest that this factor is operating.

Also, some employees may be risk averse, fearful of the enmity of one party should they be identified with the other. Thus, an employee who supports the union might be concerned that, if the union loses, the employer will take some retaliatory action against him or her. Similarly, a pro-employer employee may have similar fears about retaliation from his fellow employees and/or the union if the union wins.

Still, it is reasonable to believe that these employees are interested in the outcome of the election. Such nonvoters could constitute free-riders,<sup>11</sup> who abstain from voting only if they believe their vote will not alter the outcome of the election and if by voting they may bear a cost. In Downs's terms the costs of voting in terms of risk of retaliation are sufficiently great so as to offset the small benefits from voting in an election which is not perceived to be close. Thus, even a nominal union (employer) supporter will not vote if he or she believes that the employer (union) will win without the additional vote. Analogously, a union (employer) supporter who believes the union (employer) will win without the extra vote will also abstain. The benefits of voting in this latter case are also low, as are the risks of retaliation, compared with the previous case. However, the costs or risks are nonzero, since even in the presence (absence) of a union, the employee may still perceive that he or she can be harassed by the employer (fellow employees). In general, if prior to the election an employee is known to be a supporter of the (ultimately) losing side, that employee, by not voting, can at least claim that he or she did not participate in the decision.

There are two assumptions underlying the free-rider hypothesis: (1) the individual employee-voter can accurately "handicap" the outcome of the election, and (2) other employees and the employer know the preelection preferences of the employee-voter. These strike us as reasonable assumptions. The average election unit is small (56.1 employees between July 1972 and September 1978). Considering the intensity of many election campaigns, the length of the average campaign (approximately two months after a petition is filed), and the amount of employee interaction that is likely to occur in small units, it is reasonable to believe that these assumptions will hold. Although an em-

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<sup>11</sup> See Robert Abrams, *Foundations of Political Analysis* (New York: Columbia University Press, 1980), for a discussion of free-riders in political elections.

ployee's actual vote is secret, other employees and the employer will perceive an employee who votes as voting in accordance with his or her (known) preelection preference.

### A Preliminary Test of the Hypothesis

If "risk-aversion" does motivate nonvoters' behavior, participation should be lower in elections which represent the largest risk or in which the margin of victory is greater. As a preliminary and very rough test of the validity of this hypothesis, the zero-order correlation was computed between the following variables:

$$\text{Percentage voting} = T_i/E_i \times 100$$

where  $T_i$  denotes the total number of votes for both the employer and the union in election  $i$  and  $E_i$  denotes the total number of employees eligible to vote in election  $i$ ; and

$$\text{Margin of victory} = (V_i^w - V_i^m)/T_i$$

where  $V_i^w$  denotes the total votes for the winning party in election  $i$ ,  $V_i^m$  denotes the minimum number of votes necessary for the losing party to have won election  $i$ , and  $T_i$  is as defined above.

Table 1 presents these zero-order correlations using data for approximately 45,000 single-union, nondecertification representation cases closed between July 1972 and September 1978. Separate coefficients were computed for union and employer victories and for units of varying size. Seventeen of the 21 calculated coefficients are negative at levels of statistical significance above the .10 level, suggesting that as the margin of victory in the election increases, the percentage of employees voting declines. This is what would be expected if nonvoters were risk averse, handicapped the outcome of the election, perceived that their preferences were known, and deduced that their vote would not make a difference.

The results also indicate that the negative relationship is stronger in elections in which unions win as compared with elections in which employers win. Although we can only speculate on the reasons for this, it may be that when the employer wins, the union is not present at the worksite to take actions against the employees who voted against it. When the union wins, however, the employer is still present.

Finally, the relationship appears strongest in larger units, i.e., units with more than 50 employees. It may be that employees perceive that larger employers are more likely than smaller employers to be able to retaliate even in the presence of a union. This could be consistent with

results from our previous study which suggested that larger employers have a greater capacity than do smaller employers to resist unionization.

TABLE 1  
Zero-Order Correlation Coefficients Between Percentage of Eligible  
Voters Voting and Margin of Victory for all National Labor Relations  
Board Single-Union, Nondecertification Elections,  
July 1972–September 1978

	Employer and Union Victories	Employer Victories	Union Victories
All Sizes n	-.08*** (45085)	-.10*** (24094)	-.08*** (20991)
1-50 EES n	-.09*** (33618)	-.10*** (16664)	-.096*** (16964)
51-100 EES n	-.18*** (5707)	-.11*** (3431)	-.24*** (2276)
101-200 EES n	-.128*** (3980)	-.076** (2661)	-.314*** (1319)
251-500 EES n	-.114*** (1245)	-.063* (933)	-.313*** (312)
501-1000 EES n	-.042 (401)	.035 (401)	-.342*** (100)
GT 1000 EES n	-.02 (134)	-.057 (114)	-.341* (20)

\*Significant at .10 level

\*\*Significant at .05 level

\*\*\*Significant at .01 level or less

Because the total number of voters appears in the numerator of one variable and the denominator of the other, a negative bias is introduced. Using a 10 percent random sample of the data (in an effort to reduce the costs of computer runs), zero-order correlations were calculated between the log of the margin of victory and percentage voting. Another specification substituted for the margin of victory variable a variable that used in the denominator the number of votes cast in favor of the winner. Both sets of correlation coefficients by size and winner were almost identical in magnitude to those in Table 1.

There may be additional tests that one could run given the risk aversion hypothesis and the richness of available data on representation elections. One option would be to aggregate turnout and outcome indicators across elections by some sorting variable (say, city or region) and year of the election. Election turnout could be correlated with lagged values of the outcome for the sorting variable, thus dealing with the potential negative bias introduced in the variables used above. As we design these tests, however, we are mindful that the theory of risk

averse behavior is predicated on the insights of individual employees and the role the campaign plays in helping workers identify the preferences of fellow employees. Consequently, any test relying on aggregated data would also have its limitations.

### **Summary and Conclusions**

As suggested by the literature of political science, nonparticipation in NLRB elections is not a random occurrence, but one related to the closeness of the election. Also, previous results indicate that nonparticipation is related to the amount of time it takes to conduct an election after a petition is filed. Both sets of results indicate that nonvoting takes on a more systematic pattern in union wins than in union losses.

If employees are not participating in union elections because of fear of retaliation from the loser, and if the nonparticipation influences the outcome of elections, then it might be necessary to reevaluate existing rules governing the campaign and the election to see how they actually encourage or discourage participation. Obviously, no agency can require all employees to vote, nor should they interfere with a worker's right to abstain. Rather, it may be time to improve our understanding of the election process by improving our knowledge of those who do not vote.

# Officer, Member, and Steward Priorities for Local Unions: Congruities, Differences\*

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As unions in the United States face important challenges in the 1980s, the question is asked, "What should unions be doing?" It is appropriate to ask this question about local unions since this is where the grass-roots strength of the labor movement is located. However, there is little information available about rank-and-file member and officer priorities for their unions.<sup>1</sup> This is all the more surprising given the importance of local unions, and especially large locals, to the functioning of the industrial relations system in this country.

This study provides an answer to the question, "What should unions be doing?" from the perspective of participants in a diverse set of local unions. Priorities for a group of large local unions are reported by members, stewards, and officers. Priority congruence among these roles is compared within and between unions. Finally, the implications of priority choices by the various groups are considered.

## The Locals Surveyed

Eight large local unions in the Mid-Atlantic region were studied. They varied in size from 1,500 to 12,000 employees represented. In total, these locals negotiated for some 51,000 workers. Table 1 shows each local's industry, number of employees represented, and number of respondents. The private-sector locals included apparel, automobile, paper, electrical workers, and sales clerks. Public-sector locals included two of social-service workers and a Postal Service local.

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<sup>1</sup> The paucity of local union research is noted in Joseph B. Shedd, "Patterns in Industrial Relations Research," a background paper for the Conference on Labor Research, Boston, Mass., March 13-14, 1980. The most recent national survey of member priorities for their unions was reported in Thomas A. Kochan, "How American Workers View Their Unions," *Monthly Labor Review* 102 (April 1979), pp. 23-31.

TABLE 1  
Industry, Size of Local, and Number of Respondents

Local	Industry	Number Represented	Number of Respondents		
			Officers	Stewards	Members
A	Apparel	3,400	5	81	127
B	Paper manufacturing	1,800	9	76	64
C	Social service— state	12,000	7	374	287
D	Social service— municipal	12,000	8	262	183
E	Automobile	4,800	7	16	181
F	Retail sales	12,000	10	210	182
G	Electrical	1,500	6	12	78
H	Postal Service	5,000	5	83	166
All Locals		51,000	57	1,114	1,268

### Data Collection

Data for this study were collected during the Winter of 1978-1979 as part of a broader study of union administration. Information on priorities which officers, stewards, and rank-and-file members had for their local unions was obtained in structured interviews with officers and from self-report questionnaires for stewards and members.

#### *Officers*

A total of 57 officers were interviewed in the eight local unions. In each local, between five and ten interviews were conducted. The officers included presidents, vice-presidents, secretary/treasurers, and other key officials.

#### *Stewards*

All stewards or their functional equivalent in each local were included in the survey. A total of 1,967 stewards were sent self-report questionnaires. The overall steward response rate was 57 percent, with a range from 78 to 45 percent by local.

#### *Members*

A proportionate sample of members from each local's membership list were sent questionnaires. A 10 percent sample was used for the smaller locals, with a minimum sample size of 200. For the larger locals (greater than 4,000 represented), a proportionate sample of approximately 400 was used. Across the eight locals, 2,863 members were surveyed. The overall response rate was 44 percent, with a range from 31 to 56 percent by local.



### Priority Measures

Officers and rank-and-file members were asked to select and rank-order the three most important items on a list in terms of time and effort which their local leadership *should* spend on them. The list included the following: improving pay and benefits, helping members solve day-to-day problems and grievances on the job, organizing social activities, improving safety and health at work, keeping members informed, organizing nonunion workers, improving the way the union is run, and other. Growing concern over job security would require its addition to any future list of priorities to be surveyed. Stewards were asked to check the three most important priorities from the same list as was used with officers and members.

Member priorities were rank-ordered and weighted so as to allow comparison of priorities on a relative basis. Priority weights for each local were constructed by assigning three points to a first priority response, two points for a second priority, and one point for a third priority. The sum resulting from this calculation became the numerator of a fraction whose denominator was the number of potential responses for each priority times three. In the event all respondents from a local selected the same item as their first priority, the score would be 1.0. The higher the decimal score for a priority, the more important it is to members in the local.

### Findings

The rank order of priorities by officers, stewards, and members is reported in Table 2. Members ranked improving pay and benefits as their most important priority, followed by helping members solve day-to-day problems on the job. Officers and stewards, however, reversed these priorities. Members concentrated on the instrumentality of the union in providing them with aspects of financial gain. Stewards, not unexpectedly, placed primary importance on their role as grievance processors and problem solvers. The first priority choice of officers reflects their principal activity of problem-solving. It appears that members give first priority to what they want—money and benefits—while officers and stewards perceive their first priority as the activity which is consistent with their union roles.

Another reversal occurs in the priorities ranked third and fourth. Members rate improving safety and health ahead of keeping them informed, while officers and stewards reverse the priority order. The relative importance of safety and health to members is an important finding. Attention given to the Occupational Safety and Health Act (from proponents and opponents of both concept and implementation), and the

TABLE 2  
Rank Order of Priorities—by Local and Role

Local and Role	Priorities						
	Improving pay and benefits	Helping members solve day- to-day problems	Keeping the mem- bers in- formed	Improving safety and health	Improving the way the union is run	Organizing nonunion workers	Organizing union social activities
A							
Officers	1	2	5	3	7	4	7
Stewards	2	1	3	4	5	6	7
Members	1	2	3	5	4	7	6
B							
Officers	2	1	3	4	5	7	6
Stewards	4	1	3	2	5	6	7
Members	1	3	5	2	4	6	7
C							
Officers	1	2	3	6	4	5	7
Stewards	3	1	2	5	4	6	7
Members	2	1	3	3	5	6	7
D							
Officers	1	2	3	4	4	7	7
Stewards	2	1	3	5	4	6	7
Members	1	2	3	3	5	6	7
E							
Officers	4	1	3	2	5	5	7
Stewards	5	2	3	1	4	7	7
Members	3	1	5	2	4	6	7
F							
Officers	3	2	5	6	4	1	7
Stewards	3	1	2	5	4	6	7
Members	1	2	3	5	4	6	7

TABLE 2—*Continued*  
Rank Order of Priorities—by Local and Role

Local and Role	Priorities						
	Improving pay and benefits	Helping members solve day- to-day problems	Keeping the mem- bers in- formed	Improving safety and health	Improving the way the union is run	Organizing nonunion workers	Organizing union social activities
G							
Officers	1	2	4	3	5	5	7
Stewards	2	1	5	3	3	6	7
Members	1	2	5	4	3	7	6
H							
Officers	4	1	2	3	4	7	7
Stewards	5	1	2	3	4	6	7
Members	1	2	4	3	5	6	7
All Locals							
Officers	2	1	3	4	5	6	7
Stewards	2	1	3	4	4	6	7
Members	1	2	4	3	5	6	7

heightened consciousness in this field have apparently led members to give safety and health a higher priority than communications. Members recognize that communications are important, but stewards perceive communications as ranking just behind money and problem-solving.

The remaining three priorities do not receive high ratings from any of the three groups, with one exception. Stewards, again reflecting their roles, are concerned with improving the way the union is run as much as with safety and health. On an overall basis, none of the groups shows any substantial interest in organizing the unorganized or involving the local in social activities. The latter finding suggests that those officers who spend considerable time and effort on social activity for their membership may be doing so without there being any real interest in the activity among members.

Some priority choices by local or group warrant highlighting by rank and/or weight. Table 3 reports member priority weights by local. The single highest weight involved improving pay and benefits in Local D. The weight of .82 reflects low wage increases in recent years in a major metropolitan center. The lowest weights are reported for organizing nonunion workers and conducting social activities.

Local E, autoworkers, gave a relatively low priority weight to improving money and benefits. Autoworkers are generally well paid, and this local's members were much more concerned with solving day-to-day problems and safety. Local E gave the highest priority weight of any local to these two items. Automobile manufacture involves processes and equipment which lead to safety concerns. Similarly, Local B, paperworkers, who also use heavy equipment, show similar intensity of concern for safety and health. Conversely, Local F's members are engaged in retail trade and perceive safety as a relatively low-level priority as reflected by its low weight.

Members of Local H, Postal Service Workers, ranked money and benefits as their first priority for the local. Officers and stewards gave money a much lower priority rating than members, apparently reflecting the reality of their distance from the money bargain. Since bargaining for postal-worker wages and salaries is on a system-wide basis, the impact of any one local is limited.

Although organizing nonunion workers ranked relatively low as a general priority, officers of two locals gave it a substantial rating. Local F had lost membership to store closings, and the local's leaders recognized that replacement of lost membership was vital to continued local viability and success. Neither their members nor their stewards concurred in their priority rating on this item. Local A, apparel workers, had some potential for unionization among new shops. Local A officers

TABLE 3  
Membership Priorities for Leadership  
(Weighted and Rank Order)

Priority	Local								
	A Apparel	B Paper	C Social Service State	D Social Service Municipal	E Auto	F Retail	G Electrical	H Postal	I Overall Rank
Improving pay and benefits	.54 1	.64 1	.54 2	.82 1	.35 3	.62 1	.76 1	.51 1	1
Helping members solve day-to-day problems and grievances on the job	.48 2	.40 3	.56 1	.47 2	.63 1	.48 2	.38 2	.47 2	2
Improving safety and health at work	.22 5	.41 2	.29 3	.28 3	.54 2	.22 5	.33 4	.35 3	3
Keeping the members informed	.41 3	.32 5	.29 3	.28 3	.18 5	.37 3	.21 5	.32 4	4
Improving the way the union is run	.29 4	.38 4	.27 5	.20 5	.20 4	.34 4	.35 3	.29 5	5
Organizing nonunion workers	.04 7	.10 6	.14 6	.08 6	.04 6	.11 6	.06 7	.15 6	6
Organizing union social activities	.05 6	.09 7	.03 7	.07 7	.03 7	.08 7	.11 6	.05 7	7

saw this as a moderately important priority; again, their members and stewards did not agree.

In sum, members consistently rate money and benefits as more important than stewards or officers do. The priority weights reflect the importance of this item to members. On those few occasions when members rank pay and benefits as less than a first priority, they tend to rank it higher than officers or stewards do. All groups agree on the relative importance of solving day-to-day problems, but stewards translate their role into a higher local priority than does any other group. Although officers, stewards, and members support the need for good communications, an important priority, particularly among members, is safety and health. Other priorities rate low with the exception of specific institutional needs perceived by officers, such as the importance of greater organizational effort in certain locals.

### **Discussion**

The member priorities reported in this study differ in several ways from those reported in another recent study of member priorities for their unions. Kochan (1979) reported that the highest priority area was that of handling member grievances. The second highest rated set of priorities involved internal union administration and included the amount of feedback the union provides its members and members having a say in their union. However, rank-and-file members in the present study ranked improving pay and benefits as the highest priority. Second was helping members solve day-to-day problems, including grievances. The Kochan study reported much lower rankings for fringe benefits/wages, which were ranked third and fifth, respectively.

The two studies also differ in the importance that members attach to safety and health concerns. Kochan found that members placed safety and health among the lower priorities. However, the present study reveals that rank-and-file members rate health and safety concerns third after pay and benefits and handling grievances. Among the lowest priorities in the present study was organizing the unorganized; this item was not included in the Kochan study.

The differences between the findings of the present study and Kochan's may be due to the roles of the unionists surveyed in the two studies. While the present study distinguished among officers, stewards, and rank-and-file members, it is not known whether the category union "members" in Kochan's study included officers and stewards. If so, then the priority rankings would be more congruent with those for officers and stewards in the present study.

The high priority that members placed on money and benefits in

the present study clarifies and also makes the role of local leadership difficult. At times, neither the structure of bargaining nor economic realities permit locals to achieve substantial financial gain, but members continue to have high expectations in this area. It should be noted that the results reported here are essentially a snapshot in time and suggest the desirability of longitudinal work among these and other locals to determine the effect of time on priority choices.

All groups agree that problem-solving is an on-going activity of great importance. Therefore, regular review of these procedures and consideration of emerging alternatives such as expedited arbitration become important. Effective communication within a local requires continued emphasis. Members indicated quite emphatically that they wanted to be kept informed. The growing importance of safety was underscored by this study. Proposals for joint approaches to safety improvement and additional expenditures for safety and health are likely to be more important in the future.

On the basis of this study, local leadership may well question expenditure of funds and time on what is apparently perceived by all groups as an unimportant local activity—social and recreational programs. Finally, those officers who wish to pursue local growth by further unionization must do a more effective job of selling this activity to members and stewards.

# The Relationships Between Union Member Preferences for Bargaining Outcomes, Union and Job Satisfaction

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The study of unions and collective bargaining is a fruitful area of research for those interested in organizational behavior because union members belong to two organizations that interact on a continuous basis in the work environment. As employees, individuals develop attitudes and behavior toward their jobs and employer which may affect attitudes toward the union or behavior as a union member. Surprisingly, however, few studies have jointly examined union and job attitudes of employees after they become union members.

One important set of relationships between attitudes toward the job or employer and the union that deserves investigation is how preferences for different bargaining outcomes are affected by an individual's satisfaction with his job and union. These relationships are likely to affect negotiations, contract administration, and the political fortunes of the union leadership. A few obvious examples illustrate this point. Dissatisfaction with a particular dimension of the work environment is likely to cause union members to demand that their union try to obtain improvements in wages, hours, and working conditions from their employer. Based on the variety of demands from the membership, the union leadership must determine the priorities of the membership for different outcomes and successfully translate the membership's conflicting priorities into new contract terms that are acceptable to the rank and file. The successful performance of this union leadership task is likely to influence satisfaction with both the union and the job.

In this paper we analyze the relationship between job satisfaction, preferences for bargaining outcomes, satisfaction with outcomes, and perceived union effectiveness. We hypothesize that union members demand changes in working conditions that they are least satisfied with and then evaluate the union leadership based on the union's bargaining success. Although these hypotheses are not startling, we test them using

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scaling techniques that provide an interval scale to union member preferences for bargaining outcomes. This technique provides an unambiguous measure of the relative importance of different bargaining outcomes.

### Sample and Survey Design

A mail questionnaire was sent to all 1,160 members of an industrial local of a national craft union. The union represented production workers employed by 15 different firms in one geographic area. The survey instrument included items measuring satisfaction with bargaining outcomes, job satisfaction, perceived effectiveness of the union leadership, and paired comparison-Likert items used to measure the importance of nine union bargaining demands. No follow-up was conducted of non-respondents. Two hundred and twenty-nine individuals or 20 percent of the population returned usable responses.

The preferences of the respondents for different bargaining outcomes could be measured with several techniques. One technique is the use of a simple Likert scale that measures the preferences of each union member for changes in each bargaining topic or working condition. A disadvantage of this technique is that it is difficult to make inferences about the relative importance of different demands. While a union member may indicate that he or she wants "a lot more" in wages *and* health insurance, the technique does not indicate which demand the member would prefer when given a choice between the two demands. The ability to measure these trade-offs is important because agreement between the union and the employer involves trade-offs among issues and, *within* the union, these trade-offs are necessary to achieve internal consensus.

An alternative technique that captures the relative importance of the demands is to ask individuals to rank the demands. One method of obtaining ranks is to use paired comparisons and then infer the relative importance of each demand. Paired comparisons are usually prohibitive because of the number of comparisons required to exhaust all possible combinations  $[n(n-1)]/2$ . Recently, however, methods of computing scale scores using paired comparisons between fewer than all possible comparisons have been developed.<sup>1</sup> This technique was used in this study.

Briefly, the technique scaled each demand so as to minimize the squared difference between the observed "distance" between two demands based on the individual's response and the scaled "distance" between the same two demands. The result was a scale score for each

<sup>1</sup> James A. Clark, "A Method of Scaling with Incomplete Paired Comparison Data," *Educational and Psychological Measurement* 37 (1977), pp. 603-11, and Henry F. Kaiser and Ronald C. Serlin, "Contributions to the Method of Paired Comparisons," *Applied Psychological Measurement* 2 (Summer 1978), pp. 423-32.

demand for each *individual* that was then used to analyze differences between individuals. A measure of internal consistency was then constructed which was a function of the predicted and observed distance between each demand. The responses were also aggregated across individuals to obtain the mean scale score for each demand and the proportion of times each demand was preferred to every other demand by the sample. These proportions were then used to obtain a scale for the sample using Thurstone's Law of Comparative Judgment.<sup>2</sup>

The raw data used to scale preferences for bargaining outcomes were obtained by asking each respondent to make 20 different comparisons between nine (9) different demands. The nine demands were higher wages, better insurance (health), more vacations and holidays, better pension benefits, making jobs more interesting, improved job safety, better handling of employee grievances, giving workers a say in how they do their work, and more job security. The comparisons that were made were carefully distributed across the set of all possible comparisons. Fifty-six percent of the possible comparisons were included on the instrument. When making these comparisons, the subjects were instructed to first choose and circle which item in each of the pair of items was more important to them in future negotiations. They were then asked to determine how much more important the circled item was compared to the item they did not circle using a three-point scale where the anchors were: "*slightly* more important," "*much* more important," and "*very* much more important."

Two satisfaction measures were used in the survey. One set of nine three-point Likert scales measured satisfaction with the union's efforts to obtain each of nine bargaining outcomes listed above. A score of "3" corresponded to satisfied and "1" corresponded to dissatisfaction. This measure of satisfaction with the union's efforts to achieve certain outcomes was preferred over a modified (to reflect satisfaction with union efforts rather than job satisfaction) instrument based on a standardized job satisfaction measure because the dimensions on the standardized measures do not closely correspond to the bargaining demands the respondents were asked to rank. The second satisfaction scale measured job satisfaction using 14 extrinsic items from the MSQ short form.<sup>3</sup>

Two measures of union leadership effectiveness were created and

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<sup>2</sup> For a discussion of the Thurstonean scaling method, see Richard D. Bock and Lyle V. Jones, *The Measurement and Prediction of Judgment and Choice* (San Francisco: Holden-Day, Inc., 1968), and Jum C. Nunnally, *Psychometric Theory* (New York: McGraw-Hill, 1978).

<sup>3</sup> David J. Weiss, Rene V. Dawis, George W. England, and H. Lofquist, *Manual for the Minnesota Satisfaction Questionnaire* (Minneapolis: Industrial Relations Center, University of Minnesota, 1967).

used in this study. One measure consisted of six items that measured perceptions of the effectiveness of the president and business agent of the union. The other scale consisted of five items that measured opinions about the effectiveness of the union stewards. The reliabilities of these two measures (Crombach's alpha) were .88 and .79, respectively.<sup>4</sup>

### Analysis

Two different sets of preferences for bargaining outcomes were constructed from the 20 paired comparisons. First, the technique described by Clark and Kaiser and Serlin was used to scale the responses of each individual.<sup>5</sup> Second, the scale scores for each individual were aggregated across individuals and a scale for the entire sample was constructed using Thurstone's Case V assumptions.

Although the distance (or importance) between each outcome using the first scaling technique can be assumed to be an interval distance for each individual's scale, *interindividual* differences between two demands do not have interval properties because the metric may not be the same for each individual. Therefore, to make interindividual comparisons between satisfaction and preferences, each individual's score for each demand was standardized using the standard deviation of the individual's least squares scale scores for the nine demands. These standardized importance scores were then correlated with satisfaction with the union's efforts to achieve the nine bargaining outcomes. Finally, an intercorrelation matrix between satisfaction with bargaining outcomes (sum of the nine items), satisfaction with the union leadership (2 measures), and job satisfaction was computed.

### Results

The results from the least-squares scaling technique are summarized in the first two columns of Table 1. A high average scale score means the demand was more important to the members than a demand with a lower average scale score. The measure of internal consistency of this scale for each individual ranged from .04 to .985 with a mean of .726. The scale based on Thurstone's Law of Comparative Judgment that was calculated from the same preference data is shown in the third column of Table 1. A chi-square test to determine the extent to which this scale reproduced the portions shown in Table 2 was not significant at the .10 level ( $\chi^2_{28} = 22.08$ ). This indicates the Thurstonian scaling model was consistent with the data. There was almost perfect agreement between the average least squares scales score and the Thurstonian scale ( $r > .95$ ).

<sup>4</sup> The items for these two scales can be obtained from the author.

<sup>5</sup> Clark, and Kaiser and Serlin.

TABLE 1  
Statistics for the Scale Score for each Demand

Demand	Individual Least Squares Scales		Thurstone Scales
	Mean	Standard Deviation	
1. Wage levels	1.255	1.127	.7734
2. Health insurance	.688	1.261	.3979
3. Vacation and holidays	— .304	1.219	— .2132
4. Pensions	.853	1.190	.4948
5. Interesting jobs	— 1.035	1.081	— .6282
6. Job safety	— .309	1.222	— .1726
7. Grievances	— .391	1.120	— .2346
8. Participation	— .685	1.020	— .4197
9. Job security	— .052	1.177	.0022

The results reported in Table 1 provide unambiguous rankings of the members' preferences for collective bargaining demands. As Table 1 shows, wages, health insurance, and pensions were the most important demands. These three demands were ranked above the other six demands by at least 66 percent of the sample.<sup>6</sup> The other interesting finding is that the two job-content demands (more interesting jobs and greater participation) were relatively unimportant for this sample of union members.

This last finding has implications for the quality of work and job design research which shows that workers are more satisfied on jobs with greater autonomy, variety, identity, significance, and feedback (Pierce and Dunham, 1976). While the findings from this study do not contradict these results, they suggest that either job-design issues are of low priority to workers, or union members do not view the union as instrumental in changing job content.

Table 2 shows the correlation between member satisfaction with union efforts to achieve bargaining outcomes and the relative importance of each outcome in future negotiations. The key correlations are the underlined correlations in the diagonal. The negative correlations in the diagonal show that those members that were least satisfied with union efforts to achieve a particular demand felt that the union should make greater efforts to improve the particular working condition. Also note that except for "giving workers a say in how they do the work," the absolute value of the correlations in the diagonal were greater than the correlations in the same row and column. This evidence shows that satisfaction with a particular outcome and the importance of that outcome were more closely related than satisfaction with the outcome and the importance of any other outcome. This result was expected and is positive evidence of the construct validity of the technique used to measure preferences for bargaining outcomes.

Table 3 shows the correlation matrix between job satisfaction, the two measures of union leader effectiveness, and the sum of nine items that measure satisfaction with union efforts to achieve the nine bargaining outcomes. These correlations show satisfaction with the union's efforts to achieve the nine demands were positively correlated with job satisfaction and union leader and steward effectiveness. The positive correlations between satisfaction with efforts to achieve the nine bargaining demands and union leader and steward effectiveness suggest that union members evaluate union leadership performance according

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<sup>6</sup> This result is contained in a matrix showing the percentage of the sample that ranked each demand more important than each of the other demands. A copy of this matrix can be obtained from the author.

TABLE 2  
Correlation Matrix Between Satisfaction with Union Bargaining Efforts  
and Preferred Bargaining Demands

Satisfaction with the Union's Efforts to Achieve:	Preferred Bargaining Demands								
	Wage Levels	Insurance	Vacations & Holidays	Pensions	Interesting Jobs	Safety	Grievances	Participation	Job Security
Wage levels	— .3581**	.0165	— .1459*	.0521	— .0317	.2069**	— .0502	.1119	.1681*
Health insurance	.0239	— .5098**	.1169*	— .0288	.1306*	.0579	— .0738	.1755*	.1575*
Vacations and holidays	— .0916	.1193*	— .3628**	.0646	.0585	.0642	.1304*	.1644*	— .1118
Pensions	— .1502*	— .0065	— .0657	— .3824**	.1523*	.1647*	.0295	.1746*	.1172*
Interesting jobs	— .0116	.0887	— .0248	.0731	— .1663**	.0177	.0033	— .0173	.0075
Safety	.0741	.0790	.1659*	.0838	.0512	— .3878**	— .0715	.0215	.0015
Grievances	— .0729	— .0609	— .0127	.0230	.1518*	.1350	— .3860**	.1525*	.0702
Participation	.0170	.1052	.1432*	.0848	— .0325	— .0250	— .1519*	— .1598**	— .0237
Security	.1404*	.1543*	.0759	.0686	— .0318	.0063	— .0547	— .0048	— .3603**
	— .0797	— .0052	— .0172	.0203	.0534	.0437	— .1302	.1210	— .001

\*\*P < .001 \*P < .05

to the leader's success in negotiations. The modest but statistically significant correlations between job satisfaction and the two measures of union leadership performance implies some congruence between the firm's interest in job satisfaction and union leader success in representing their members.

TABLE 3  
Correlation Matrix Between Union  
and Job Satisfaction Measures

	Leader Effectiveness	Steward Effectiveness	Job Sat. (MSQ)	Bargaining Sat.
Leader sat.	—	.5940*	.2586**	.4121**
Steward sat.		—	.1892*	.3565**
Job sat. (MSQ)			—	.5692**
Bargaining sat.				—

\*\*P < .001; \*P < .05

## Conclusions

The purpose of this study was to evaluate a methodology for determining union member preferences for different bargaining outcomes. While the study has a number of limitations, the results are encouraging for organizational practice. The techniques may be used by unions to determine the priorities of the membership when formulating contract demands. Similarly, a company may also be interested in using the technique to evaluate the relative importance to employees of different job characteristics or benefits. The techniques also hold considerable promise for the study of unions and collective bargaining. For example, the preference scales might be used to derive a measure of intragroup consensus. Such a measure would be useful in a study of the internal operations of different unions where the dependent or independent variable of interest is member agreement on organizational goals.

# Attitudes, Perceptions, and Intentions to Vote in a Union Certification Election: An Empirical Investigation

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Until fairly recently the question of why workers join unions has been of interest primarily to economists who stressed economic variables in their proposed explanations. Since the work of Uphoff and Dunnette (1956), however, behavioral scientists have become increasingly interested in union membership, and these researchers have stressed the role of psychological variables, especially attitudes, in their explanations.<sup>1</sup> Specifically, these studies have found the best predictors of union membership (either actual voting or the intention to vote) to be attitudes about the job, attitudes toward unions, and specific beliefs that unions could be instrumental in obtaining valued outcomes for the workers.

Research on worker attitudes toward the job typically has focused on job satisfaction or dissatisfaction as a key determinant of union voting intentions and behavior. For example, Stampolis (1958) found that prounion workers were less satisfied with pay, plant safety, job security, and the type of work they were doing, and that they typically viewed their immediate supervisors as unfair and ineffective. Subsequent studies have reinforced this notion that *dissatisfaction* with various aspects of the job leads to prounion behavior. For example, Herman (1973) reported dissatisfaction with both economic aspects (wages, hours, security, fringe benefits) and noneconomic aspects (company treatment of employees, company recognition of good work) as a major correlate of prounion voting behavior. Schriesheim (1978, p. 549) distinguished satisfaction with economic aspects from noneconomic aspects of the job and found that both sets of attitudes were significant predictors of actual

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<sup>1</sup> See, for example, Brett (1980), Brief and Rude (1981), DeCotiis and LeLouarn (1981), Getman, Goldberg, and Herman (1970), Hamner and Smith (1978), Kochan (1978 and 1979), and Schriesheim (1978).



vote in a union election, but that, in general, dissatisfaction with economic aspects was the stronger correlate of voting behavior (p. 550). Moreover, this finding is consistent with the historical view that successful unions have traditionally appealed to the "bread and butter" or economic needs of workers for support (Kochan, Lipsky, and Dyer, 1974).

More recently, though, Brett (1980, p. 49), DeCotiis and LeLouarn (1981, p. 116), and Kochan (1979, p. 30) have argued that regardless of the level of dissatisfaction, workers will not vote for a union unless they believe that union representation will be instrumental for the improvement of valued job conditions. For example, DeCotiis and LeLouarn (p. 103) report that more than 75 percent of the votes in a certification election were correctly predicted from knowledge of employee's instrumentality perceptions alone. The implication, then, is that not only must a worker be *dissatisfied* with the job (in particular the economic aspects), but the worker must also *believe* that union representation will tend to improve wages, hours, and working conditions and hence remove the primary sources of dissatisfaction.

Although the view that job dissatisfaction and instrumentality beliefs *interact* to influence union voting behavior is theoretically appealing, a more practical view is that voting behavior is strongly influenced by the poor image of unions among many groups of workers. A poor image, then, may be translated into an unwillingness to be represented under any circumstances by an organization perceived as corrupt, discriminatory, or excessively powerful (Getman et al. 1970, pp. 4-33; Schriesheim 1978, p. 551). Thus, attitudes toward unions may be an important mediator of the decision to vote for a union.

Moreover, labor union image may vary substantially across occupational groups. For example, differences in labor union image between blue- and white-collar workers, *in addition to* differences in job satisfaction or instrumentality beliefs, may explain the historically slow growth of unionization among white-collar workers. Farber and Saks (1980), in a reanalysis of the Getman et al. (1970) data, proposed another reason why union image may differ among blue- and white-collar workers. They found that workers voted as if the effect of unionization on earnings was to raise earnings and lower their dispersion. Blue-collar workers historically have had the most to gain from unionization due to their lower earnings. In addition to blue/white-collar differences, Farber and Saks found that blacks and older workers were more likely to vote union.<sup>2</sup> Although individual differences have been examined in models of choice behavior in other areas of organizational behavior (performance, turnover, job choice), none of the previous studies of union

<sup>2</sup> Farber and Saks (1980, p. 367); see also Blinder (1972).

voting behavior has examined how these variables might moderate the actual decision-making process.

The goal of the present study is to incorporate the key constructs of economic and noneconomic job satisfaction, union instrumentality, labor union image, and individual differences into a model of voting intentions. The model we propose suggests that job dissatisfaction, instrumentality, and labor union image are important determinants of how a worker will vote, but even if a worker is dissatisfied with some aspect of the job, he or she will not vote (or intend to vote) for a union unless a union is perceived as being instrumental in improving the area of dissatisfaction and is not perceived as being overly corrupt, powerful, etc. (i.e., the worker does not have a negative union image). Notice that an important implication of this proposed model is that dissatisfaction plays less of a role as a direct predictor of voting intentions, but instead plays a major role through its joint effect with perceived union instrumentality. Furthermore, the model suggests that individual difference measures such as type of job (white- vs. blue-collar), race, and sex will influence the relative importance of economic and noneconomic issues on voting intentions. Several hypotheses are derived from this model.

1. For all workers, the major predictors of voting intentions will be perceived union instrumentality, the interaction effect of instrumentality with satisfaction, labor union image, and satisfaction alone as a less important predictor.

- 2a. For the model hypothesized in 1 above, instrumentality, instrumentality by satisfaction, and satisfaction with *economic* facets of the job along with labor union image will be the most important predictors for blue-collar workers, blacks, and females.

- 2b. For the model hypothesized in 1 above, instrumentality, instrumentality by satisfaction and satisfaction with *noneconomic* facets of the job along with labor union image will be the most important predictors of voting intentions for white-collar workers, whites, and males.

## Method

### *Sample Selection and Characteristics*

The sample consisted of members of a consumer panel who were surveyed for their views on a number of topics. The sample is a representative cross-section (according to the distribution of the population) of people with median household income greater than \$6000 annually in two southeastern states. The total panel consists of 1200 people, but usable responses were obtained from 740, or 62 percent, of the sample.

The sample for the present study consisted of 497 males and 243 females; 556 of the respondents were white-collar workers; only 65 were black. The vast majority of the women in the sample were white-collar workers (85 percent), as were most of the blacks in the sample (78 percent). All respondents were asked to complete the same survey instrument which is described below.

### *Measures*

The survey instrument contained measures of three dependent and five independent variables:

*Dependent Measures.* Three dimensions of voting intentions were measured, each with a single item. One item asked if the person would be willing to sign an authorization card to allow a certification election, a second asked if the person would vote for a union if given the opportunity, and a third asked if the person would vote to decertify a union if given the chance. Respondents indicated their intentions on five-point scales, with higher scores indicating stronger intentions. The third item was reversed-scored for all analyses so that in all cases higher scores indicated stronger pronunion intentions. Given the cross-sectional nature of the survey sample, it was not possible to assess actual voting behavior. Numerous researchers, however, have found behavioral intentions to be a salient precursor of actual behavior.<sup>3</sup>

*Union Instrumentality.* Respondents were also asked to indicate the extent to which they agreed or disagreed (using five-point scales) that having a labor union on their job would result in the occurrence of 12 economic outcomes: increased wages, increased benefits, protection from being fired, creation of new jobs, being charged excess dues (reverse-scored), employer moving (reverse-scored), increased work stoppages (reverse-scored), fewer promotions (reverse-scored), improved work hours, and improved productivity. Similarly, respondents indicated agreement or disagreement that a labor union on the job would lead to each of the following noneconomic outcomes: improved working conditions, fairness of treatment, employee-management friction (reverse-scored), fewer accidents, more interesting work, easier handling of grievances, improved health environment, and increased number of grievances (reverse-scored).

The 12 economic items were averaged to form a single measure of union instrumentality for economic outcomes (coefficient alpha estimate of internal consistency was .79) and the eight noneconomic items were

<sup>3</sup> See, for example, Fishbein and Ajzen (1975), Locke (1968), and Mobley (1977).

averaged to form a single measure of union instrumentality for noneconomic outcomes (internal consistency was .82).

*Satisfaction.* Satisfaction scales (using seven-point scales) from the Job Diagnostic Survey (Hackman and Oldham 1974) dealing with pay satisfaction and security satisfaction were used to assess satisfaction with economic aspects of the job (internal consistency was .83). Satisfaction with noneconomic aspects of the job used scales dealing with satisfaction with the social environment on the job, with supervision, and with growth opportunities (internal consistency was .81). In addition, two interaction terms—instrumentality for economic by satisfaction with economic aspects, and instrumentality for noneconomic outcomes by satisfaction with noneconomic aspects—were computed as the cross-products of the respective components.

*Labor Union Image.* Union image was measured by four items dealing with general attitudes toward unions. Respondents were asked to indicate the extent to which they agreed or disagreed (using five-point scales) with statements describing unions as corrupt, too strong, not adequately representing women, and unnecessary given current laws. The items were averaged to form a single measure (internal consistency was .68). The entire scale was reverse-scored for all analyses so that higher scores reflected a more positive image of labor unions.

### *Analyses*

Initially, canonical correlation analyses were conducted since the three dependent variables were intercorrelated. Space limitations preclude a detailed discussion of these results, but two significant pairs of canonical variates were extracted that accounted for 54 percent of the shared variance among the dependent and independent sets of variables. Univariate multiple regression results are discussed here to reveal the underlying structure of relationships among the hypothesized independent variables and each of the three dependent variables. In addition, the hypothesized regression model was estimated separately for the following subgroups: white- vs. blue-collar, white vs. black workers, and male vs. female workers.

### **Results**

Table 1 presents the means and standard deviations for all variables across the entire sample as well as the intercorrelations among variables. As can be seen, the sample seems to possess a somewhat negative image of unions (not unexpected given that the sample was drawn from two southeastern right-to-work states). Table 1 also reveals that the instru-

TABLE 1  
Means, Standard Deviations, and Intercorrelations for Dependent and Independent Variables

		Intercorrelations <sup>a</sup>									
	Mean (S.D.)	1	2	3	4	5	6	7	8	9	10
<i>Dependent Variables</i>											
1. Intent to sign card	1.69 ( .81)										
2. Intent to vote union	1.73 ( .77)	61									
3. Intent to decertify <sup>b</sup>	1.58 ( .78)	77	70								
<i>Independent Variables</i>											
4. Economic instrumentality	2.78 ( .74)	61	63	68							
5. Noneconomic instrumentality	2.71 ( .79)	58	57	68	85						
6. Economic satisfaction	5.10 (1.46)	-22	-20	-28	-27	-31					
7. Noneconomic satisfaction	5.49 (1.20)	-19	-17	-23	-22	-26	71				
8. Econ. inst. x sat. <sup>c</sup>	14.17 (3.41)	28	32	28	55	38	63	38			
9. Nonecon. inst. x sat. <sup>c</sup>	14.85 (2.80)	39	41	45	63	73	18	43	64		
10. Union image	3.13 ( .58)	43	52	51	57	51	-16	-17	33	37	

Note: N = 740

<sup>a</sup> Decimal points have been omitted.

<sup>b</sup> This variable was recoded such that higher values indicate less intent to decertify a union.

<sup>c</sup> Interaction terms constructed as the cross products of the economic (or noneconomic) instrumentality and satisfaction components.

mentality, instrumentality by satisfaction interactions, and labor union image variables have the highest correlations with voting intentions.

Table 2 presents the results of the regression equations used to predict each intent measure for the entire sample as well as for each subgroup of interest. In the total-sample regressions, satisfaction exerts only a minor influence for the prediction of intent when considered alone, but the instrumentality by satisfaction interactions seem relatively more important for prediction of intent. In addition, the hypothesized independent variables accounted for at least 40 percent of the total variance in each of the intent measures. These results, then, provide strong support for the first hypothesis.

The remaining regressions seem to provide reasonably strong support for hypotheses 2a and 2b as well. As seen in Table 2, few significant weights are obtained for noneconomic variables in the equations for blue-collar workers, blacks, and females, while most economic variables receive significant weights. Across regressions for blue-collar workers, blacks, and females, the major predictors are instrumentality and instrumentality by satisfaction interactions. The results for white-collar workers, whites, and males indicate that although some economic variables are significant, the noneconomic and instrumentality variables (especially noneconomic instrumentality and instrumentality by satisfaction interactions) are the major predictors, with labor union image receiving a significant weight in each of the subgroup equations.

## Discussion

The results of the study provide initial support for the proposed model of voting intentions. Specifically, significant effects were found for the role of instrumentality by satisfaction interaction terms, labor union image, and differences among subgroups of workers in reactions to economic and noneconomic variables, indicating that, in order for workers to support a union, they must be dissatisfied with valued aspects of the job, believe that a union could lead to improvement of these job aspects, and generally hold a positive view of labor unions. These results, then, have serious implications for both union attempts to organize groups of workers and management attempts to maintain a union-free environment.

The study is noteworthy because the data were drawn from a region where union membership as a percentage of the nonagricultural labor force is among the lowest in the country (U.S. Department of Labor 1972). Thus, the findings suggest that the unionization process may not necessarily be a function of characteristics of southern workers, but rather of worker perceptions of union instrumentality and union image

TABLE 2  
Regression Results<sup>a</sup> for Total Sample and Subgroups

Dependent Variable	X <sub>1</sub> = Economic Instru- mentality	X <sub>2</sub> =Non- economic Instru- mentality	X <sub>3</sub> = Economic Satis- faction	X <sub>4</sub> =Non- economic Satis- faction	X <sub>1</sub> * X <sub>3</sub>	X <sub>2</sub> * X <sub>4</sub>	Labor Union Image	R <sup>2</sup>	N
<i>Intent to sign card</i>	.34**	.22**	— .05	— .03	00	— .56**	.12	.40	740
Total sample	.32	.06	— .83	.54	.27	— 1.10*	.13	.59	134
Blue-collar	.06	.90	— .27*	.45**	.02	— .73**	.15**	.36	566
White-collar	.39**	.31*	— 3.82**	— .14	— 4.16**	00	.07	.47	65
Black	.19	1.58**	— .73**	00	.21**	— 1.34**	.14**	.43	675
White	.23	.56**	— .11	.17	.08	— .33**	.19**	.45	497
Male	.38**	.11	— .93**	— .03	— .99*	— .86	.06	.34	243
Female									
<i>Intent to vote union</i>									
Total sample	.63**	.11**	— .02	— .02	— .29**	00	.25**	.44	740
Blue-collar	1.77**	.29	.06	— .03	— .52*	.30	.34**	.57	134
White-collar	.45**	.08	.04	.02	— .09	00	.29**	.43	566
Black	.02*	.02*	— .08	.09	00	2.90**	.03**	.39	65
White	.29*	.64**	— .11	— .32**	.12	— .56**	.27**	.46	675
Male	.35**	.08	00	— .01	00	00	.34**	.48	497
Female	.69**	.06	.19	.09	— .72	— .11	.20**	.41	213
<i>Intent to Decertify<sup>b</sup></i>									
Total sample	.28**	.32**	— .07**	00	00	— .80**	.19**	.54	740
Blue-collar	.79**	1.86**	— .96**	— .03	— 1.69**	— 1.12**	.17*	.70	134
White-collar	.25	.93**	— .07	.02	.03	— .63**	.17**	.49	566
Black	.47**	— .15	— 5.48**	.11	— 6.21**	00	.22**	.82	65
White	.01	1.66**	— .25	— .73	— .22	— 1.31**	.16**	.55	675
Male	.02	1.14**	.11	.13	00	00	.18**	.47	497
Female	.41**	.11	— .50	00	.45	— .37	.16*	.57	243

<sup>a</sup> Figures in table are unstandardized partial regression coefficients. \*p ≤ .05

<sup>b</sup> This variable was recoded such that higher values indicate less intent to decertify. \*\*p ≤ .01

as well as dissatisfaction with specific aspects of the job. Resistance of southern industry workers to unionization may be due not only to the factors hypothesized in this study, but also to other perceived consequences of a prounion vote that conflict with long-established organizational and community norms. Although these perceptions may change very slowly, our findings imply that southern workers are far from immune to unionization efforts.

The model proposed here should be subjected to further testing. Future studies must examine the relationships among perceived consequences of prounion voting and *actual* voting behavior. They should also examine not only instrumentality perceptions, but also worker perceptions of the value or valence attached to potential outcomes associated with voting behavior in a representation election. Individual differences related to instrumentality and valence perceptions should also be addressed. Finally, the model proposed here could conceivably be expanded to examine the temporal nature of the collective bargaining process. For example, management/worker behavior could be examined after a representation election to understand why workers vote successfully for representation but fail to obtain a collective bargaining agreement, or are successful in obtaining an agreement only to decertify the union subsequently. Finally, future studies should focus on the unique roles that instrumentality perceptions may serve as a trigger mechanism for unionization as well as the potential veto role of labor union image perceptions. Clearly, behavioral research on the unionization process indicates that there is more to prounion voting than merely dissatisfied workers.

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## DISCUSSION

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All four of these contributed papers deal with variations on a common theme: how workers view unions as instruments through which their work-related interests can be furthered. On one hand, the Youngblood/DeNisi/Mobley paper and the Block and Roomkin paper focus on the issue of how these views of unions may affect workers' decisions as to whether, in the first instance, collective bargaining is the preferred vehicle for seeking improvements in wages, hours, and working conditions. The Olson paper and the Gershenfeld and Schmidt paper, on the other hand, deal with the question of what workers expect their unions to accomplish for them once collective bargaining is established.

Since my space is too limited for an extended discussion of each paper, perhaps the most constructive role I can play here is to raise some questions and draw some conclusions about what lessons these studies may hold for unions and their leaders. Although none of the papers can be construed as offering a blueprint for unions committed to organizing new members or better serving the members they already have, each of them in its own way addresses issues to which union leadership needs to be sensitive and responsive.

The Youngblood/DeNisi/Mobley study offers an intellectually appealing model for the analysis of union voting behavior. The authors do not, however, extend their discussion to the point of asking what their findings suggest about the kinds of efforts unions might make in order to improve their chances of winning elections. If voting patterns are substantially determined by job dissatisfaction, perceived instrumentality of unionism, and workers' image of unions, the question arises as to which of these factors may be subject to influence by union policy and practice.

The authors suggest that union image may play a "veto role" in voting decisions. This construction implies that workers who would otherwise be disposed to vote for a union—because they are dissatisfied with their jobs and perceive unions as offering a realistic promise of improved working conditions—nevertheless vote against the union be-

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cause of a negative image they hold about unionism in general. It would be interesting, I think, to see this proposition tested directly, and more particularly to know how many votes would be likely to change if somehow the negative image of unions could be neutralized.

The authors' data, however, suggest that union image correlates fairly strongly with the various instrumentality variables, thus giving rise to the question of whether we are dealing with truly independent sets of perceptions. One wonders, in other words, whether unions are often perceived as being *both* ineffective and, say, corrupt, or whether the perception of instrumentality (or lack of it) is actually *part* of and influenced by a generally negative image of unions held by certain workers. If the latter, then any successful effort by unions to improve their "image" may also serve to alter perceptions of their instrumentality. The point is that neutralizing a negative image might not only remove a "veto effect" but also change perceptions which more directly involve affirmative reasons for voting in a union.

The Block and Roomkin paper raises some provocative questions about the dynamics of union election campaigns. Their basic finding is that margin of victory and participation rates are inversely related, with the relationship stronger in elections that unions win and weaker in elections involving the smallest units. They seek to explain this finding in terms of workers' expectations about the outcome of the election, postulating that workers leaning toward the side they expect to lose refrain from voting where the outcome is seen as not in doubt so as to avoid retaliation from the winner.

It is likely, it seems to me, that the authors read more into their findings than warranted (although in fairness they do stress the need for more understanding about the motivations of nonvoters). A theory based on "handicapping" behavior would be better supported by evidence gleaned from workers themselves than by inferences drawn from aggregate data. While any explanation of the findings of this study is bound to be speculative, the authors' conjectures about risk aversion and its effects on voting behavior are a bit strained for my comfort. In any case, if workers do in fact engage in this kind of handicapping, one wonders why the relationship between participation and margin of victory would not be *strongest* (rather than weakest) in the smallest units, where the ability of the voter to handicap the race is arguably maximal.

Still, the question remains as to why elections tend to be more lopsided when turnout is lower. The authors might consider the proposition that the direction of the relationship is the opposite of the one they posit. In other words, it is not that people "stay home" because elections are lopsided, but rather that elections are lopsided because one

side is unable to inculcate strong enough feelings in its marginal supporters to move them to vote. The authors prefer to explain this possible phenomenon in terms of workers' desires to avoid retaliation for supporting the losing side, but it seems to me that the workers who have behaved in a way to be clearly identified with one side would be those least likely to be deterred from voting.

Whatever the explanation for the authors' findings, the strategic implications for unions are interesting if a bit disturbing. On balance, unions do not seem to benefit from high turnouts, since high turnouts appear more systematically to reduce victory margins when they win than when the employer wins. If high turnouts make union victories closer than employer victories, then union interest in winning the election may not be well served by efforts or policies aimed at maximizing participation.

Both the Olson paper and the Gershenfeld and Schmidt paper deal directly with the determination of worker preferences for various bargaining outcomes. Olson employs a complex scaling technique to develop ordered rankings of priorities among union members. The value of a method to help negotiators establish the relative preferences of their members seems too obvious to require belaboring here. The ability of the technique used here to produce results which are logically consistent is more encouraging.

I do not find it surprising that wages and other "economic" issues elicited the strongest responses in the survey. I also concur with the author that the findings with regard to job quality and participation have important implications for those concerned with QWL issues. Perhaps even more striking, however, are the low to moderate weights accorded to grievance handling and job security. Here, it seems to me, is where the aggregated data probably mask some very important variations across employee groups. One hopes the author will be able to pursue this line of research with different samples cutting across a variety of unionized situations.

Gershenfeld and Schmidt also examine relative preference for bargaining outcomes (along with other union activities). Like Olson, they found economic issues predominant. Unlike Olson, they found grievance handling running a close second. One has to wonder, of course, what the rankings would have been had the authors included job security issues in the list offered to the respondents. Given the historical importance attached to job maintenance as one of the central functions of unions, with "job consciousness" often posited as a major factor in worker decisions to form a labor organization in the first place, the omission of the issue in this study is unfortunate.

This study also points up the importance of looking at bargaining priorities on a disaggregated basis. Although there was substantial consistency across the eight locals on a number of dimensions, there were also a few dramatic variations among locals as well as incongruencies between officers/stewards and members. For example, the finding that all of these groups of respondents in the auto plant gave only moderate weight to improved wages and benefits is not only timely but perhaps suggestive of the direction next year's negotiations in the industry will take. And the fact that workers in the postal union seemed not to understand that the local had little influence over wage rates perhaps points up the local's need to keep members informed, an activity to which the officers and stewards accorded unusually high priority. At least the leadership in that local seemed to know what its problems were!

What does emerge from the last two studies is that unions are viewed by their members most saliently as instruments of economic betterment. That may be an old lesson, but it is one worth being reminded of from time to time.

## XI. ISSUES IN EMPLOYMENT POLICY

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### The Revival of Job Creation Programs in the 1970s: Lessons for the 1980s

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During the 1970s, direct job creation was revived as a prominent instrument of national employment policy. Interest in this policy tack had been virtually dormant since the pioneering efforts of the 1930s. Relative to its chief policy rival—tax cutting, public service employment (PSE) was touted as having the distinct advantages of working more quickly, accomplishing more, being capable of precise participant targeting, and being cheaper in its costs to the federal treasury.<sup>1</sup> Indeed, as the stagflation of the 1970s revealed itself to be more than a passing aberration, PSE was seen as being not only the best policy choice but, rather, as being possibly the only realistic policy alternative that could reduce unemployment without exacerbating latent inflationary pressures.<sup>2</sup>

By late 1981, however, the PSE era had ended. PSE had become the object of political scorn. The Reagan Administration, with the endorsement of Congress, not only eliminated all funding for PSE as of October 1, 1981, but it had also enacted the largest tax reduction program in the nation's history. Thus, PSE enrollments over the decade had started from zero in mid-1971, had peaked at 755,000 participants in April 1978, and had returned to zero by Fall 1981.

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<sup>1</sup> See Charles C. Killingsworth, "Issues in Full Employment Policy: The Role of Public Service Employment," in *Proceedings of the 1977 Spring Meeting, Industrial Relations Research Association*, pp. 489-95; and Michael Wiseman, "Public Employment as Fiscal Policy," *Brookings Papers on Economic Activity* (1:1976), pp. 67-114.

<sup>2</sup> Orley Ashenfelter, "Evaluation of the Macroeconomic Effects of Employment and Training Programs: Problems and Prospects," paper presented at the International Conference on Manpower Program Evaluation Methods, Washington, December 1978. Mimeo pp. 1-24.

Fortunately, the progress of PSE was carefully followed by a number of independent research studies. These studies have, collectively, examined the key facets of the PSE programs. They were based on field work and were conducted over all or part of the lifetime of the various PSE initiatives.

The major research sources consist of two comprehensive national series of studies—the Brookings-Princeton (B-P) studies, the National Research Council (NRC) of the National Academy of Science studies, a specific study of PSE in the rural South—the Cornell-Mississippi (C-M) study, and a study of the long-term effects of PSE on program participants in one specific urban labor market—the Johns Hopkins (JH) study of the Baltimore SMSA.<sup>3</sup> In addition, the findings of the Continuous Longitudinal Manpower Survey (CLMS) on participant impacts for the early PSE years (up to 1976) became available in 1981.<sup>4</sup> Hence, there is now a rich repository of wisdom about the PSE era from which qualitative conclusions—not theoretical speculation—can be drawn.

### A Brief Policy Overview

The revival of public-sector job creation began as a temporary measure with the Emergency Employment Act of 1971 (EEA). It became an established part of the nation's economic policy when the Comprehensive Employment and Training Act of 1973 (CETA) was enacted. Between July 1, 1974 (when CETA became effective) and October 1978 (when CETA was reauthorized but with substantial amendments), the CETA legislation actually specified five more dis-

<sup>3</sup> Richard Nathan, Robert F. Cook, and V. Lane Rawlins, *Public Service Employment: A Field Evaluation* (Washington: Brookings Institution, 1981); William Mirengoff, Lester Rindler, Harry Greenspan, and Scott Seablom, *CETA: Assessment of Public Service Employment Programs* (Washington: National Research Council of the National Academy of Sciences, 1980); William Mirengoff, Lester Rindler, Harry Greenspan, Scott Seablom, and Lois Black, *The New CETA: Effect on Public Service Employment Programs* (Washington: National Research Council of the National Academy of Sciences, 1980); Vernon M. Briggs, Jr., Brian Rungeling, and Lewis H. Smith, *Public Service Employment in the Rural South*, a report to the Employment and Training Administration of the U.S. Department of Labor under contract #21-36-78-37, August 1981; and Laura L. Morlock, David S. Salkever, Faye E. Malitz, and Steven P. Schwartz, *Long Term Follow-Up of Public Service Employment Participants: The Baltimore SMSA Experience During the 1970s*, a report to the National Center for Health Services Research of the U.S. Department of Health and Human Services under contract #HSO3046, March 1981. It should be noted that in several instances these research projects also issued additional interim and related reports that were read but not listed due to brevity restrictions.

<sup>4</sup> U.S. Department of Labor, "Impact on 1977 Earnings of New FY 1976 CETA Enrollees in Selected Program Activities," *Continuous Longitudinal Manpower Survey*, Net Impact Report No. 1 (Washington: U.S. Department of Labor, 1981), a report to the Office of Program Evaluation, Employment and Training Administration, U.S. Department of Labor, prepared by Westat, Inc., under contract #23-24-75-07, June 1981.

tinctly different PSE programs—each with its own eligibility standards and unique operational features. It is not necessary at this juncture to spell out the details of each of these ventures. Suffice to say that between 1971 and 1976, the PSE programs functioned in a countercyclical capacity, from 1976 to 1978 they served both countercyclical and counterstructural roles, and from 1978 to 1981 they were essentially counterstructural programs. By October 1, 1981, funding had been eliminated and the PSE decade was over.

### **The Positive Side**

Of all the issues surrounding PSE policy evolution, none was more nagging than concern over whether PSE could actually create net new jobs. There were fears that federal funds would merely displace local funds that would have otherwise been spent to maintain or increase employment levels. Using various econometric models, a body of circumstantial (i.e., simulation) evidence was accumulated that said that substantial displacement could be expected (some projected a rate as high as 100 percent). Even though other econometricians responded by showing how only slight changes in model specifications of these early studies could considerably reduce the expected displacement effect, it fell upon field research to reconcile these extreme differences in theoretical expectations. These field studies consistently found that during the countercyclical phase, the displacement rates were very low relative to what had been predicted. The B-P study found that the displacement effect varied on the basis of several criteria but that the overall effect was only about 22 percent. For instance, displacement was higher (31 percent) for large cities which were financially distressed but was lower (11 percent) for other large cities which were not so afflicted. The NRC study found an overall displacement rate of about 35 percent while the C-M study placed the rate at between 25 to 30 percent. All of the studies agree that as PSE was converted into a counterstructural program—with specified short-term projects, mandated low wage rates, limited enrollment periods, and increased use of job sites sponsored by nonprofit organizations rather than regular government agencies—the displacement rates declined even further. Thus, substantial net employment gains were achieved by the PSE programs over the decade.

Likewise, the studies document that countercyclical PSE did have the desired fiscal effect. The money was spent quickly by most local program sponsors. Little of the available funds were idle at any time. Most prime sponsors were both willing and able to meet specified program enrollment levels within short time frames. Some, of course, had



to be prodded by the Department of Labor's policy of "use it or lose it." Nevertheless, the results were unequivocal: enrollment and spending targets were usually met.

As for the crucial issue of the usefulness of the value of the produced services, the B-P study noted that during the countercyclical phase of the program that a "bargain" had been struck. The local governments would be willing to employ some persons who might not meet their normal qualifications if the work of PSE workers in general was useful. This "bargain" held at least until FY 1979. During this period, the quality of the services performed by PSE workers was consistently found to be at least equal to that of regular public employees in the same occupations. The tendency of urban prime sponsors was to employ PSE workers to expand existing types of services or to maintain previous levels of public services in localities in fiscal distress. In rural areas, according to the C-M study, the tendency was to add "new" services to rural communities, but the "new" services were typically of a nature that they would be considered common in the urban sector (e.g., emergency services, police dispatchers, teacher aides, etc.). Thus, the countercyclical PSE program often enhanced the quality of rural life. As PSE was converted into a counterstructural program, however, the types of jobs and the characteristics of the participants changed dramatically in urban areas. In rural areas, the jobs changed but the characteristics of the participants did not vary as much.

As a counterstructural program, PSE jobs became more temporary and unskilled in nature. The job sites increasingly shifted to nonprofit private organizations. As a result, the terms of the original "bargain" were broken. Still, the studies show that while these jobs may not have been as politically attractive, they were still socially useful (e.g., weatherization, senior citizen care, conservation, repairs, etc.).

Despite differences in measurement standards, the studies show that PSE participants sustained significant postprogram gains relative to preprogram wages and/or employment status. For instance, the JH study found that real wages were 16 percent higher for PSE participants in their first job after completing PSE enrollment compared to their last pre-PSE job; the C-M study, using the same comparison, found a \$.25 an hour average money wage improvement. The only study that used a control group, the CLMS data, found a \$250 higher average annual postprogram income gain for PSE participants over the control group. Both the C-M and the CLMS data found strongly positive correlations between the length of PSE enrollment and higher hourly wages and incomes in postprogram employment (e.g., in C-M, the hourly wage gain was \$1.48 for those in PSE for over 52 weeks; in CLMS, the

annual income gain was \$650 for 40 weeks or more). As would be expected, the absolute wage and income gains were the greatest for the persons who had the lowest pre-PSE wages and incomes (i.e., the most economically disadvantaged).

The studies that calculated a transition employment rate for persons who found jobs immediately after completing PSE set the rates in the high 30 percent to high 40 percent range. The JH study—the only one to study of the long-term post-PSE employment experiences—found that the postprogram employment rate increased dramatically over time. Specifically, the JH study found a 48 percent immediate transition rate for PSE participants when they left the PSE program but, one month later, the percentage was 59 percent, six months later it was 66 percent, one year later it was 70 percent, and for three to five years later it ranged from 74 to 80 percent. Hence, the JH study concluded that the standard short-term indicators of PSE program impacts “severely understate” both the wage and employment effects of PSE participation. Given the high unemployment rates and the often low income status of the typical pre-PSE participant, the postprogram impacts indicate that the PSE experience was very beneficial to many if not most of its participants.

During the countercyclical phase, PSE funds were used successfully to leverage access for minorities in a number of urban and rural labor markets to higher job classifications in the public sector. In the rural South, PSE jobs were especially useful in gaining initial access to public jobs in areas where these jobs are highly prized and where blacks had been historically excluded. During the pre-FY 1979 period, it was also a notable accomplishment of PSE nationwide that many minority PSE workers were able to transition directly from PSE jobs into permanent public jobs as vacancies occurred. As the program shifted to a counter-structural program, minority participation increased even more, but the ability to transition directly into public sector jobs diminished substantially. Still, it is important to credit PSE with an ability to alter the racial composition of public employment patterns during a period in the nation's history when such changes in economic opportunity were essential.

### **The Negative Side**

The era of the PSE programs was not without its problems. It is important, however, to distinguish between difficulties that were the result of burdens imposed on PSE that would hamper—even cripple—the effectiveness of any type of human resource development program from problems that were inherent in the PSE concept itself.

Looking first at these externally imposed encumbrances, it is unrealistic to think that any program format could be substantially changed as often as it was for PSE and not cause extensive administrative difficulties. Compounding the drastic programmatic shifts was the fact that they occurred during the start-up years of the local prime sponsor system itself. The process of building an institutional capacity to deliver local human resource programs (which include numerous other activities besides PSE) is a fragile process. Frequent and extensive program changes in PSE did much to undermine the ability of local prime sponsors to build a credible foundation during these critical formative years. Vacillations in PSE funding levels as well as delays in making funds available by Congress added to the administrative difficulties. In mid-1977, prime sponsors had to contend with the numerous programmatic changes that occurred in late 1976 when the shift of PSE to a counterstructural PSE focus began. They also had to implement the massive PSE enrollment "build-up" of countercyclical PSE that was the cornerstone of the Carter Administration's economic stimulus program. Simultaneous with all of this, the Youth Employment and Demonstration Project Act (YEDPA) was also enacted in the Spring of 1977. YEDPA was the most complicated and multifaceted human resource program to have been created by Congress up until that time. Simply put, the administrative capacity of the local prime sponsor system was overtaxed by the combined obligations of all of these happenings. A price was paid. Planning, monitoring, and evaluation of PSE program performance were luxuries that could only be perfunctorily performed. Without these functions, it was not long before incidents of waste, fraud, or mismanagement provided plentiful fodder for local politicians and news media to exploit. All of CETA—but PSE in particular—fell victim to a debilitating image from which it has yet to escape. The extensive restrictions imposed on PSE in late 1978 were the congressional capstone to this traumatic episode.

Even though the actual incidents of proven mismanagement of PSE funds were grossly exaggerated, there were a sufficient number of legitimate wrongdoings to undermine the public's perception of what PSE sought to accomplish. Because the local prime sponsors were themselves governmental entities, they could not be oblivious to changes in the political winds. The PSE program was vulnerable to criticism. Without the ability to plan, to monitor, and to evaluate, even the best of administrators cannot avoid errors in judgment or detect actions of malice by some local opportunists. Local criticism served to undermine the morale of many staff workers and contributed to high turnover rates of administrators and staff workers as noted in the studies. Such

losses in expertise hindered program efficiency. If PSE should again become part of the nation's employment strategy, the ability to plan—which includes stability in program design and funding by Congress—as well as to monitor and to evaluate on-going program activities must be feasible in fact and not just be fictional statutory language.

The studies that continued past FY 1979 confirm that, as PSE became counterstructural, the more restrictive targeting came at a cost of diminished short-run job transition. (Unfortunately the JH study of long-term impacts did not include anyone who entered the PSE program after March 1978). The job sites were increasingly shifted to private nonprofit organizations. These community-based organizations (CBOs) typically had limited budgets and were usually unable to absorb PSE workers when their PSE eligibility ended. The types of jobs provided by CBOs were less likely to provide experience that was directly transferable to either the public or the private-for-profit sector. The regular public agencies that provided better job sites were largely precluded from doing so by the mandated low wage rates and the bans on local wage supplementation. With these shifts in program direction, the perceived value of the PSE program declined rapidly to local and state government officials. PSE had become so restrictive in both whom it served and how it operated that it literally choked itself—politically and operationally speaking—to death. Detailed program regulation at the federal level is not the way to run any program in a system that was founded on the principle of decentralization of responsibility.

The CETA Amendments of 1978 also added specific percentage set-asides of PSE funds for training. The assumption was that structurally unemployed persons were in need of job skills and that, while they were PSE workers, some could also have these deficiencies rectified. While the diagnosis may have been plausible, experience shows that the prescription was wrong. The legislation specified that significant percentages of funds be spent for training, not that any particular numbers of persons must be trained. Much of the funds were spent on consultants, teaching materials, and "world-of-work" orientation classes. Skill training opportunities for PSE participants were scant. The logistics of arranging training opportunities—especially in rural areas—were often horrendous. Moreover, because the Amendments also limited the duration of PSE eligibility to participants to 18 months, many employers simply could not see the utility of the training requirement. The PSE workers hired after 1978 were largely employed in jobs that did not require skills. Hence, many pragmatic employers could not see the need to train workers to do something else or to be employed somewhere else. It would appear that it was a mistake to have added such

an amorphous training requirement for PSE workers. In practice, the two functions did not mix. The strong suit of PSE is on-the-job training, not make-shift classroom instructions. Had it not been for the mandatory diversion of substantial funds from job creation to training, more funds could have been used to hire more PSE workers. If training was the problem, there were other CETA titles that could be used to provide such opportunities. As a minimum, the use of some PSE funds for training should have been at the option of the local prime sponsors. The training mandates unnecessarily complicated the administration of an already complex program.

### **Concluding Observations**

During the 1970s, there were a variety of different PSE programs. There was not a monolithic format. As could be anticipated, some phases and some aspects of the various PSE programs were more successful than others. On balance, the research on PSE is strongly favorable. In its countercyclical role, PSE was an effective instrument of fiscal policy for the nation; in its counterstructural role, it was a beneficial human resource development program for its participants. In both capacities it contributed notably to the furtherance of equal employment opportunity objectives in the public sector. As with any new public policy initiative, however, it did not work perfectly. But at least its positive and negative aspects are now known. It remains to be demonstrated whether the chief alternative to PSE—massive tax-cutting—can accomplish as much or more. It can only be hoped that the tax reduction program enacted for the 1980s will be put to the same rigorous performance tests as were the PSE programs of the 1970s.

# Is There Something Wrong with Labor Markets That a Federal Employment and Training System Could Fix?

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Over the past 20 years, with substantial bipartisan support, the federal government has taken an active role in developing, financing, and running programs designed to help youth and adults who were perceived to have poor labor market prospects. This "system" grew up piecemeal alongside other state-run institutions such as the land-grant colleges, the vocational education system, and the employment-security system. Although we tend to forget it, these earlier institutions had all been induced through federal incentives to the states, some dating back to the middle of the last century. These state, local, and private-sector training efforts clearly dwarf federal expenditures for training and related activities.<sup>1</sup>

The nation is now at a crucial point in the development of employment and training policy. The fact that the Comprehensive Employment and Training Act (CETA) could expire at the end of this fiscal year, the fact that the federal budget for domestic programs is being reduced, and the widespread feeling that it is necessary to reassess the federal effort in this area all conspire to make us ask the kinds of basic questions suggested by the title of this paper.

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\* The authors are, respectively, Director and Deputy Director of the National Commission for Employment Policy. Without implicating them as co-authors, our thoughts on these issues have benefited enormously from association over the past years with the outstanding staff of the National Commission for Employment Policy and its insightful and distinguished Chairman during that period, Eli Ginzberg. Our knowledge of delivery systems has especially benefited from conversations with Patricia Hogue of the Commission staff. A more extensive discussion of the issues discussed here can be found in the recently published *Seventh Annual Report of the National Commission for Employment Policy: The Federal Interest in Employment and Training*. Indeed, certain parts of what follows we took directly from the first chapter of that report. The views expressed are those of the authors and do not necessarily represent those of the members of the Commission or its staff.

<sup>1</sup> For a more extensive discussion of the relative size of alternative training sources, see Janet Johnston, "The National Employment and Training 'System,'" in *Seventh Annual Report: Federal Interest in Employment and Training* (Washington: National Commission for Employment Policy, 1981), pp. 61-102.

For the past few years, the staff of the National Commission for Employment Policy has been trying to deal with these basic questions, and we will try to give some of the flavor of this work in our remarks. We will divide the paper into four sections: labor market failures, groups in trouble, some lessons on what works, and precepts for redesign of the delivery system.

### **Labor Market Failures**

Employment and training programs are intended to raise the earnings of those who participate. For individuals whose earnings are usually low, the programs are designed to raise long-term earnings. For those whose earnings are temporarily low, the programs are designed to return their earnings to previous levels as rapidly as possible. The presumption is that the labor market fails to do some beneficial things and that well-designed public interventions might improve labor market performance.

There are three general ways in which employment and training programs can contribute to the overall economy. First, they can offset the failures of the market to produce enough training and other labor market services. Insufficient training may occur in the private sector because firms will be reluctant to train workers who might change jobs, and workers may not be able to finance this training themselves. Such training investments can increase the overall output of the economy. This does not mean that training can solve all of our economic problems, but rather that such investments may be profitable for the society and yet not take place.

Second, these programs may be useful for improving the distribution of income and opportunity in our society. Almost all of the substantial progress against poverty in this country over the past 20 years can be accounted for by improvements in our transfer system.<sup>2</sup> Employment and training programs offer, in principle, an opportunity to help poor and disabled workers attain higher productivity and earnings.

Third, a dynamic, modern economy must constantly be adapting to changes in technology, consumer tastes, prices, and other aspects of the economic environment. Effective and well-designed employment and training programs can help reallocate human resources to the regions, occupations, and industries where they will be most productive. Workers are asked to bear a large portion of the adjustment costs in our economy. They cannot be blamed for resisting change unless they are allowed to benefit from the gains of economic change. Employment

<sup>2</sup> Institute for Research on Poverty, "A Grant Application submitted to the Assistant Secretary for Policy Evaluation of the Department of Health and Human Services" (Madison: University of Wisconsin, February 1981).

and training programs offer the hope of displaced workers becoming productive again.

It is hard to predict which of these goals is likely to be most important in the 1980s. Anti-inflation policy will dictate slack labor markets for several years and that will weigh especially heavily on the poor and minorities.<sup>3</sup> Tax policy will encourage investment in the country, but only slowly.<sup>4</sup> Increased investment should accelerate technological change, but it is hard to know whether that will have more effect on low-skilled or high-skilled workers. New technologies have recently been replacing high-skilled workers as well as low-skilled workers.<sup>5</sup> Computers have allowed the mechanization of many functions that used to require human decision-making. The baby bust that has followed the baby boom means that the potential labor force will be growing in the current decade at about one-half the rate of growth of the potential labor force observed in the seventies (unless immigration is allowed to increase). Eventually this should lead to a more experienced and better paid workforce with less unemployment. Finally, the trebling of energy prices and the doubling of the internationalization of the U.S. economy in the seventies are unlikely to be repeated again in the eighties. These economic prospects need to be remembered as we turn to the question of the major groups in the labor market that might need help.<sup>6</sup>

### Groups in Trouble

There are three groups that should be discussed in identifying who is in trouble in the labor market: youth who are having trouble getting a foothold in the market, adults whose permanent earnings are low, and workers with relatively high earnings who are either permanently or temporarily displaced from their normal employment and earnings patterns. Each of these groups is a prime target for employment and training programs.

There is no general unemployment problem for youth, but rather a concentrated problem among poor and minority youth. We generally expect young people to have higher unemployment rates because they

<sup>3</sup> Edward M. Gramlich, "Short and Long Run Income Losses from Recession," Final Report prepared for the National Commission for Employment Policy (July 1981).

<sup>4</sup> National Commission for Employment Policy, *Sixth Annual Report* (Washington: The Commission, 1980).

<sup>5</sup> Russell W. Rumberger, "The Changing Skill Requirements of Jobs in the U.S. Economy," *Industrial and Labor Relations Review* 34 (July 1981), pp. 578-90.

<sup>6</sup> For more extensive discussion and reference, see National Commission for Employment Policy, *Seventh Annual Report: The Federal Interest in Employment and Training*.



are searching for careers and first jobs and because employers would prefer to hire experienced workers. As a group of youngsters ages, its unemployment rate falls dramatically. There is, however, a serious unemployment problem for black and other minority youth. Furthermore, three-quarters of the unemployment experienced by youth in 1977 was incurred by the 8 percent of the labor force that was unemployed 15 weeks or longer.<sup>7</sup> Such youth are not just job-shopping. They are having trouble finding their way into the labor market, and we know that being without a job for a long period after leaving school is associated with lower earnings later in life. Youth with low earnings prospects also tend to become adults with poor earnings prospects. Although the baby boom generation has almost completely passed into the labor force, that demographic change will not be enough to solve the minority and poor youth unemployment problem. Minority youth will comprise a rising share of the young population over the next few years, and there was a minority youth unemployment problem even in the tight labor market of the late 1960s. In addition, youth who are functionally illiterate will continue to have serious labor market problems.<sup>8</sup>

There is also a hard core of adults with chronic labor market problems. One study prepared by Richard Freeman for the Commission followed a group of workers through the decade of the seventies.<sup>9</sup> While there is a certain degree of movement between low and high earnings, the study found that 5 percent of the male workers in the sample were in the lowest tenth of the earnings distribution 7 out of 10 years. Twenty-one percent of women who headed households were in the lowest tenth of the male earnings distribution every single year of the decade. Thus, a small group of men and a much larger group of women appear to constitute a stable class of extremely low earners. Further, the study found that the best predictor of low earnings in any year is whether or not an individual had low earnings in the previous year. Since most of the reduction in poverty over the past decade was achieved through the transfer system, the question arises whether it might not have been more effective to try to raise the earnings of those at the bottom of the distribution through employment and training programs.

The third group consists of permanently or temporarily dislocated

<sup>7</sup> Robert Lerman, "An Analysis of Youth Employment Problems," in Vice President's Task Force on Youth Employment, *A Review of Youth Employment Problems, Programs and Policies* (January 1980).

<sup>8</sup> Daniel H. Saks and Ralph E. Smith, "Youth With Poor Job Prospects," *Education and Urban Society* 14 (November 1981), pp. 15-32.

<sup>9</sup> Richard B. Freeman, "Troubled Workers in the Labor Market," Appendix A in National Commission for Employment Policy, *Seventh Annual Report: The Federal Interest in Employment and Training*, pp. 103-73.

experienced workers. In another study prepared for the Commission by Marc Bendick, Jr., and Judith R. Devine,<sup>10</sup> it was found that about 400,000 of the prime-age workers who were unemployed more than 8 weeks in 1980 came from declining industries (almost a quarter of these were from the auto industry). This is a small portion of the total U.S. labor force. Further, such workers tend to be better educated and to have both greater assets and greater access to programs, such as Unemployment Insurance, that are designed to help them. The study also found that coming from a declining industry or a declining occupation did not increase the probability of long-duration unemployment. The study did find, however, that the unemployed who were in a declining region tended to have longer spells of unemployment.

### Some Lessons on What Works

To identify a group in need does not necessarily identify a group that would benefit from employment and training programs. Our experiences with federally supported employment and training programs over the past two decades have helped isolate programs that work better for different kinds of groups. The findings from several exceptionally careful evaluations illustrate what good employment and training programs can accomplish. For example, we have learned from the youth entitlement program that offering a disadvantaged youngster a guaranteed job and the opportunity to attend an "alternative" school will not much affect the regular school dropout rate, but will cause a substantial number of dropouts to attend an alternative school.<sup>11</sup> We cannot disentangle the degree to which it was the alternative school or the guaranteed job that got these dropouts back into an educational program. Job Corps is another example of a program that has been allowed to mature to the point where it is a good investment on average for the youth who attend.<sup>12</sup> While Job Corps has a substantial dropout rate, the combination of employability skills training, remedial education, and residential living seems to provide a major payoff to those who stay. Job Corps is a good example of a program that is expensive but worth it.

<sup>10</sup> Marc Bendick, Jr., and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" Appendix B in National Commission for Employment Policy, *Seventh Annual Report: The Federal Interest in Employment and Training*, pp. 175-226.

<sup>11</sup> Manpower Demonstration Research Corporation, *Early Impacts from the Youth Entitlement Demonstration: Participation, Work and Schooling* (New York: MDRC, 1980), p. xxix.

<sup>12</sup> Charles Mallar et al., "Evaluation of the Economic Impact of the Job Corps Program: First Follow-Up Report" (Washington: U.S. Department of Labor, Employment and Training Administration, 1979).

For adult workers with chronic labor market problems, employment and training programs seem to have had the best success with women. For example, a demonstration of a structured program of work experience had its best results for welfare mothers with older children.<sup>13</sup> On-the-job training programs tend to be associated with higher earnings gains for men and women, but there is always the possibility that participants selected for these positions may be the most able.<sup>14</sup> Classroom training appears to be especially effective for women who are entering or reentering the labor market.

For dislocated workers, the problem is identifying those who are permanently displaced and those who are on temporary layoffs. For example, one study found that about 70 percent of the workers who received trade adjustment assistance returned to their previous employer.<sup>15</sup> Economic development policies designed to deal with high regional unemployment tend only to be effective in reducing structural unemployment when they are carefully designed to integrate employment and training services with other aspects of the development schemes.<sup>16</sup> Relocation policies tend to be irrelevant for most dislocated workers. There are some who move before a government program can get to them and there are others who will not move. The experience with trade readjustment assistance was that few workers took advantage of the training offered under that program.

This leaves the Unemployment Insurance system (UI) and the Job Service as the major programs to aid the dislocated worker during the adjustment period. Higher benefits and longer eligibility periods for unemployment insurance can increase the job-search period, but do not necessarily improve the quality of the new job that a recipient receives.<sup>17</sup> It is possible that better designed training and relocation programs would be of value to dislocated workers. There is considerable European experience on this issue and more creative alternatives to extended benefits under UI might be considered.<sup>18</sup>

<sup>13</sup> Stanley H. Masters and Rebecca Maynard, *The Impact of Supported Work on Long-Term Recipients of AFDC Benefits* (New York: Manpower Demonstration Research Corporation, 1981).

<sup>14</sup> Westat, Inc., *Continuous Longitudinal Manpower Survey: Net Impact Report No. 1; Impact on 1977 Earnings of New FY 1976 CETA Enrollees in Selected Program Activities* (Rockville, Md.: Westat, Inc., 1980).

<sup>15</sup> Walter Corson, Walter Nicholson, et al., *Final Report: Survey of Trade Adjustment Assistance Recipients* (Princeton, N.J.: Mathematica Policy Research, 1979).

<sup>16</sup> National Commission for Employment Policy, *Sixth Annual Report*.

<sup>17</sup> Harry Gilman, "Adjustment Assistance to Displaced Workers: Summary of Findings," draft prepared for National Commission for Employment Policy, Conference on Employment and Training Issues, September 10, 1981.

<sup>18</sup> Robert H. Haveman, "European and American Labor Market Policies in the Late-1970's: Lessons for the United States," draft summary of conference proceedings prepared for National Commission for Employment Policy, Conference on European and American Labor Market Policies, November 22-24, 1981.

### **Precepts for Redesign of the Delivery System**

It is one thing to identify labor market failures, groups in trouble, and programs that may have produced earnings gains. It is quite another thing to design a delivery system that will efficiently deliver services with enough flexibility to accommodate the incredible variations in circumstances found in this country. In our view, it is in the design and implementation of delivery systems that our worst failures originate. A decentralized delivery system with serious prospects for success must have: (1) clear, concise, and simple goals with performance standards that reinforce those goals; (2) predictable and stable funding at federal, state, and local levels; and (3) a stable delivery format in which different levels of government and the private sector interact.<sup>19</sup>

CETA has not had a single one of these characteristics throughout its history. Goals have ranged from earnings gains for the disadvantaged to job creation, revenue sharing, riot insurance, and community services. A graph of the funding over time and across titles of the program would be a good model for some new type of amusement park roller coaster. And what started as a basic training program with a small Public Service Employment component and one state and one local planning council in each delivery area has had a youth title and a private-sector title grafted on to it along with numerous councils, set-asides, and prescriptive regulations. Indeed, the index to the regulations reached 57 pages some months ago and the amazing thing is that every one of those regulations must have been somebody's idea of a solution to a problem.

This is not the place for a detailed discussion of the appropriate structure of the delivery system, but it is important to at least mention the dimensions of the decisions that must be made. There seem to be six essential functions that need to be organized to achieve an effective employment and training system: (1) planning and resource allocation; (2) finding and selecting participants; (3) selecting and sequencing services; (4) selecting the service deliverers; (5) operational and financial management; and (6) monitoring and evaluation of the programs. These functions need to be distributed across different levels of government, different geographic and functional units such as labor markets and neighborhoods and different institutions such as firms, community-based organizations, the job service, and the local educational authorities.

Frankly, getting all of these decisions done correctly in each different situation is a formidable problem when one sits in Washington.

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<sup>19</sup> The Commission staff has sponsored a considerable amount of research on delivery system issues that we expect will be available in January 1982.

It is more tractable at the local level, but the local decision-makers then have to be held accountable for the federal goals if federal monies are to be spent on the activity. How do we do that and still keep the system simple enough and the state and local officials interested in the program? Fortunately, that is a question for another paper. One thing seems clear. Unless that question gets answered in a satisfactory way, either we will all be back in five years trying to fix it again or the system will be scuttled.

# Can We Legislate a Reasonable Employment and Training System?

NATHANIEL M. SEMPLE

*Committee for Economic Development*

The title of this paper was not of my choosing, but it raises an interesting contradiction—an oxymoron of sorts. It assumes Congress is able to legislate a reasonable policy. This is not a facetious point. During the ten years I spent on the legislative end of employment and training issues, Congress was never in a position to look at employment and training policy in a way that I feel it needs to be examined, simply because Congress is a product of the political process and has, over time, divided the pieces of the policy among so many competing committee jurisdictions. As a result, the policy is not only fragmented, it falls prey consistently to a political process that simply does not allow policy to stay in place long enough for it to become effective, or even tested.

Take CETA as an example. Since its inception in 1973, Congress has amended, reamended, directed, redirected, stopped, started, increased, and decreased CETA so often that the ink has rarely dried on the legislative books by the time a new bill changing its emphasis was introduced. CETA has been a structural unemployment program, a counter-cyclical jobs program, a public *service* program, a program targeted on the economically disadvantaged, at times defined by poverty level, at others at 70 percent BLS low-income, at others 85 percent, at others 150 percent. It has been a relocation program, an upgrading program, a program to solve the failures of education, a program to reduce paperwork, a vocational education program, and a program to attack, among other things, fraud and abuse. It has been a program to serve the needs of Indians, migrants, older Americans, younger Americans, even middle-aged Americans, juvenile offenders, the handicapped, Vietnam veterans, displaced homemakers, the Spanish-speaking, and blacks. In fact, I know of no group that has not been targeted under the CETA program. In addition, continuing changes in administration resulted in major reorganizations within the Department of Labor. Just as one system of

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DOL administrative arrangements was in place, it was changed. New offices were erected daily, regional administrations played musical chairs, and field representatives—the key link between the feds and CETA personnel—changed with the seasons.

And to complicate matters even further, the Appropriations Committee enacted only one full appropriation on schedule during this entire period. CETA was always on a funding precipice, to the extent that the word “cliff” became part of the everyday employment and training vocabulary.

While CETA was being buffeted around, the rest of the congressional committees that have jurisdiction over some aspect of employment and training policy went their own ways. The Ways and Means Committee drafted the targeted jobs tax credit without mentioning CETA. Public Works drafted a separate public jobs proposal. The Trade Adjustment Assistance Program, Vocational Education, and other training efforts were drafted in isolation.

In my view, the atomization of the policy ingredients created worse problems than all the administrative foul-ups that befall a single program such as CETA. For despite the inconsistency of CETA over the years, local program operators for the most part have risen above the changes and made it consistent. In my view, the jurisdictional territoriality of Congress alone has prevented the formulation of a policy that contains the essential ingredients needed to make employment and training policy an effective part of, if not a catalyst to, reversing the decline in the nation's rate of productivity growth.

Before addressing what, if anything, can be done to rectify this problem, I should spell out what I believe to be a “reasonable” policy. “Reasonable” does not mean the best or the most idealistic. To me it means credible and politically acceptable. Currently, CETA is neither.

First, a credible policy has to go beyond CETA. It needs to involve and be coordinated with education policy at the elementary, secondary, and post-secondary levels; it should include labor policy including issues of collective bargaining and employee seniority; it should relate to trade policy and to the issues of free trade and barriers to trade; it should be consistent with welfare policy. To be credible, it must be integrated into the marketplace, where the millions of employment and training decisions that represent our labor dynamics occur every day. In short, it must be part of an industrial strategy that is geared toward the restoration of American competitiveness.

Second, to be acceptable politically, it cannot discriminate, or at least not *appear* to discriminate. The policy has to be viewed as credible by employers and “clients” alike and, therefore, cannot be used as an

enforcement tool. The policy has to be realistic. It cannot serve the needs of all of the nation's minorities. It cannot provide for improved city services. To hold out this promise gives only false hope. The policy should be narrowly defined, and should attempt to do fewer jobs better rather than a lot of jobs poorly. In short, the policy should have a more limited focus with a broader base of both political and institutional support.

An important prerequisite is to improve the level and rate of exchange of information among employers, employment training officials, and educators at the local level, and there must be incentives that enable the institutions using this information to use it in the appropriate targeted manner.

Today there is a massive amount of information, but little communication. Current federal employment and training policy is chiefly responsible. Currently, each policy element—CETA, vocational education, ESEA, economic development, unemployment insurance, and so forth—contains its own unique method of obtaining and using information. This means that each policy actively encourages the key actors to talk and formulate policy vertically, not horizontally. As a result, the mere process of gathering information contributes to the tradition of isolation that long has affected employment and training and education programs. The extent of this information logjam is reflected in the recent decision by Congress to establish a National Occupational Information Committee to attempt to rationalize this maze of data.

Federal policy should direct its attention to encouraging strongly local institutions to break down the information barriers. I believe one way this can be accomplished is to establish an independent, multi-institutional, nonpolitical source of information—a local BLS designed to serve a labor market area. The policy should actively encourage the channeling of locally derived data into one high-powered and highly visible organization.

I am not sanguine about Congress suddenly overcoming its own traditions of separating policy among many different constituent groups and therefore do not believe a synthesis view will occur any time soon at the national level. The only place where we can begin to relate policy is at the local level. Information is a prerequisite—and it needs to be communicated.

Unfortunately, the current Administration is reducing the information base—without a corollary policy to use more effectively that which is left. A major contribution that Congress could make is to rethink and redesign the institutions that now serve to provide us data—such as the BLS or the agencies of the Departments of Commerce and Education—



in a way that enables these data to be used by local policy-makers as well as those at the national level.

## DISCUSSION

MICHAEL ARNOLD

*AFL-CIO Human Resources Development Institute*

In listening to these very thoughtful presentations, it strikes me that the private-sector-oriented training approach we are looking at for the 1980s is not really much different from what CETA was originally intended to do. We musn't let CETA's unpopular public image keep us from salvaging the training approaches that can help us respond to the skill shortages of the 1980s.

In 1973 when CETA was written, its focus was essentially on private-sector jobs. Just \$250 million was reserved initially for public-service employment. The bulk of CETA funding—coming to over six times that PSE figure in the first year—was to be for prime sponsor's training activities to prepare people for jobs in the private economy. While the CETA system vested decision-making for those programs in state and local governments, it also recognized the importance of coordination with employers, labor unions, and other key segments of the employment and training community through the establishment of CETA planning councils.

No sooner was CETA's ink dry, though, than its private-sector emphasis began to be eclipsed by other concerns. With unemployment on the rise, more money was channeled into PSE for the structurally unemployed, and the Title VI counter-cyclical jobs program was added. To tackle youth unemployment, CETA gained its big Title IV Youth Demonstration Program, as well as the Young Adult Conservation Corps. The enactment of the Private Sector Initiatives Program in 1978 harkened back to CETA's original intentions, but it added still another administrative and planning structure that really paralleled that of the prime sponsor's Title II-B program. CETA had started as an act geared chiefly to meeting employers' workforce needs—as the Manpower Development and Training Act of 1962 had done earlier. But as PSE became CETA's dominant component, PSE was what the public came to view as "CETA." PSE criticisms—whether well-founded or not—have been taken to apply to all CETA programs across the board. As a result, the public has little perception of what CETA has been doing to train and upgrade workers in the private sector.

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I strongly believe public employment and youth programs have been important elements in our national employment and training policy. There should be a place for them in future policy. But I think Vernon Briggs is correct in pointing out that the manner in which these complex responsibilities were heaped on prime sponsors in the 1970s strained state and local governments' capabilities to provide effective administration and oversight—to the detriment of the public perception of CETA. The lesson is that training for unsubsidized jobs should be dealt with as an issue separate from those programs aimed at other kinds of policy objectives.

The remainder of this decade will present difficult problems of skill shortages, worker dislocations, changing technology, and lagging productivity. If the employment and training system can recognize and respond to these problems, it should have no difficulty attracting the cooperation and support it needs from the private sector. This means providing a mechanism for upgrading the skills and productivity of an employer's workforce, or retraining workers who have been displaced from declining industries so their skills will be useful to new employers. Upgrading programs can be used to stimulate entry-level training of the disadvantaged for positions vacated by upgraded workers. These kinds of training programs are also natural companions for economic stimulus activities aimed at revitalizing employment in depressed areas.

Picking up on Dan Saks's remarks about technological changes in the workplace, I think a good example of how upgrading and retraining may be useful policy tools in the 1980s is the issue of industrial robots. Not only is the use of robots likely to threaten the employment of large groups of workers in the coming years and increase their need for retraining assistance, but also the workers who handle the new robot equipment will need training in operating procedures, maintenance, and safety. By responding to these needs, federally funded training programs could help industry minimize the displacement effects of new technology on members of the workforce and prepare workers for productive roles in the changing industrial environment.

As we consider policies and systems, we must also take into consideration the sharp budget cuts projected for federally funded employment and training programs in coming years. I don't think we can assume, as this Administration apparently does, that industry is ready and able to pick up the costs of training CETA-eligible persons on their own. The risks inherent in training the disadvantaged and the costs of retraining workers whose skills are outmoded must be offset by appropriate training stipends or other incentives to industry. If we are to

meet the looming employment problems of the 1980s, national employment policy must be backed by more than just good intentions.

For this session the Presenters were asked to discuss "Issues in Employment Policy." And they have done an excellent job in discussing the many important issues involved in employment and training. However, I think we'd be remiss if we did not remind ourselves that we must focus on the most significant aspect of this debate—the very existence of a national employment policy.

Mr. Semple correctly pointed out the problems in the past, resulting from changing policies. But I submit that those problems are preferable to having no policy at all. In the past year we have seen little evidence on the part of the Administration for establishing a cohesive national employment and training strategy. Reliance upon supply-side economics and the trickle-down theory to solve the problems of the poor and unemployed is by no means an employment policy.

On the surface we have seen efforts by the Department of Labor to gain the input of agencies and organizations in the formulation of its future employment and training plans through the dissemination of some 800 requests for comments on CETA reauthorization. Yet, the actions of the Labor Department in the past year give little credence to this showcase effort. In fact, in a *Washington Post* article today the Assistant Secretary for Employment and Training is quoted as saying in response to a question about the future of CETA, "We have our own ideas and quite frankly we're not going to play our hand until we see how things shape up." The Department's actions, and inactions, are viewed by many as a wholesale attempt to dismantle and decimate employment and training programs with little effort to utilize what has been learned in the past or to build upon CETA's many successes. As a result, the employment and training system today is demoralized and its mission perverted.

This sham was ultimately revealed when the proposed Fiscal Year 1983 budget presented a program so ill-conceived and misdirected even its acronym "BLT" has already come under ridicule. "BLT's" lack of substance is compounded by the paltry financial resources committed to it—sums that are not even sufficient to address the needs of the unemployed and disadvantaged in a single large-sized American city.

Dan Saks referenced the past 20 years of federal employment and training programming. After 20 years of experimentation it seems to me that the time has come for this nation to recognize its responsibilities and to take specific and direct action to address the needs of those outside the labor market. But, obviously, a federal employment and

training program alone cannot be a cure-all. The goal of a full employment economy must simultaneously be pursued.

Bob Guttman of Senator Quayle's staff is here and he is to be commended for his efforts to focus significant thought and congressional action on employment and training legislation. Although we may certainly disagree on specific issues, we are encouraged by the efforts of some Congressmen and Senators to place high priority on employment and training legislation. We must work to ensure that the second session of the 97th Congress accords a similar priority to this issue.

We must work vigorously in the period ahead for a national policy that: (1) maintains strong federal oversight and responsibility for employment and training programs; (2) pursues a national employment strategy that is both an economic and social instrument; (3) is based upon full employment precepts; (4) builds upon the foundation of manpower programs built over the past 20 years; (5) and, importantly, one that is given the resources and support to work and work successfully for those in need.

## XII. CURRENT CONTROVERSIAL ISSUES IN UNEMPLOYMENT INSURANCE

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### Introduction

WILBUR J. COHEN  
*University of Texas at Austin*

We open this panel discussion today with the dismal prospect of experiencing this coming year the highest overall rate of unemployment since 1940. Yet there is no visible sign of any specific national policy or program being proposed to deal more adequately with uncompensated unemployment, unlike the situation in prior postwar periods of increased unemployment. In addition, Congress and the Executive Branch have cut back on administrative funds for both unemployment insurance and the employment service, reducing the ability of unemployed persons to find suitable work, and providing better opportunities for fraud and abuse. And the Omnibus Budget Reconciliation Act of 1981 cut back on unemployment insurance benefits, to help reduce the budget deficit, in an anti-counter-cyclical impact at the very time unemployment is increasing.

Recently Congress and the Executive Branch received the Report of a National Commission on Unemployment Compensation, accompanied by three volumes of research papers. There is no sign on the horizon that either the Congress or the Executive Branch has devoted any serious attention to the major recommendations or issues in the Report, looking instead at marginal issues which usurp the time and attention which might otherwise be given to basic issues.

Unemployment insurance is not only a controversial program. It is also a widely misunderstood program. Recent research showed that some 30 percent of the general public thought it was "welfare" rather than earned "insurance." The proportion drops with persons having had

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experience with unemployment and is higher for persons who have not had such an experience.

Unemployment insurance is a complex program. Moreover, it is unique among all income transfer programs in the unusual mix of federal-state relationships and the role of "experience rating" in the policy formulation process.

Unemployment insurance plays an important role in sustaining a free enterprise, market economy. Yet supply-side economics pays little attention to the program, its impact, or its potential. There is no question but that unemployment insurance could play a more significant role in alleviating the corrosive impact of unemployment in an economic, political, and social sense. Yet it remains outside the mainstream of reform while welfare, Social Security, food stamps, Medicare, and Medicaid receive continuous attention as objects of reform by politicians, economists, the press, and the Reagan Administration.

A number of state unemployment insurance programs are bankrupt by virtue of the fact their income and assets are exceeded by their liabilities. More, unquestionably, will go bankrupt this year. Yet Social Security, which is not bankrupt (though it may have financial problems in the year 2015), received attention from the Executive Branch, from Congress, and the press while a currently bankrupt unemployment insurance program received virtually none.

Unemployment insurance has regularly received loans from federal revenues to keep it afloat. No one has said that such loans convert the insurance system into a welfare program. Yet the same policy for Social Security is deemed unwise and controversial by many in Congress.

Why do these anomalies persist, and why are they accepted? Our discussion today, on the eve of the 50th anniversary of the enactment of the first state law, may throw some light on these questions.

# Fund Solvency—Is Anyone Serious?

JOHN D. CROSIER

*Massachusetts Business Round Table*

For too long, the “fly now, pay later” attitude toward unemployment compensation trust funds has prevailed. Politics and sound financing never were very good companions, and the state unemployment compensation system is a monument to a lack of statesmanship around a system which is so fundamental to the economic well-being of our country.

The work of the National Commission on Unemployment Compensation was, in my judgment, consumed by the issue of fiscal soundness at the request of the Congress. Yet, even after filing an interim report in answer to requests from the Congress to provide advice, that advice was not even seriously considered. Perhaps the advice was unacceptable, but the fact that Congress failed to address seriously the issue of fiscal soundness is disturbing.

## **The Consequences**

The continued deficit financing of our unemployment compensation system is an invitation to financial failure which many believe points to a federalization of the entire experience-rating concept. We know that some advocate this, but the employer community continues to believe strongly that a soundly and equitably financed state experience-rating system is in the best interests of a program that we believe to be most viable in protecting the nation's unemployed.

## **The Elements**

The fact that more than half of the states in the system have found it necessary to borrow substantially in order to pay benefits in recent years seems evidence enough that the system is indeed in trouble. Recent experience indicates that states are showing more concern for the negative financial condition of the system and are addressing the imbalance between contributions and benefits. In the past year a number of states have increased employer taxes and/or decreased benefits. Some

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states have increased qualifying requirements, and even more states have tightened up disqualification provisions.

A number of states are now addressing the need to increase taxes, and in no fewer than eight states have taxes been increased in some fashion.

### **Cost Sharing—The Hidden Culprit**

It is no secret to those who understand the financing system of UI that the easy political answer of sharing costs has, in fact, been the single largest contributor to the undermining of the financial soundness of the unemployment compensation system.

Negative-balance employers who for years have been drawing out substantially more than they contribute, coupled with the practice of noncharging of benefits considered “beyond the control” of the employer, have steadily increased to a point where in many states the portion of total benefits noncharged can amount to 30–40 percent, and in a few instances higher.

### **Why Socialized Costs?**

Up until 1944 the Federal Unemployment Tax Acts provided that a state may not give an employer a reduced tax rate except on the basis of his experience “with respect to unemployment or other factors bearing a direct relation to unemployment risk” (Section 303A, paragraph 1). The federal government interpreted the provision to mean that all benefits paid to former employees must be charged to the employer’s account to insure full experience rating.

However, after 1944 the interpretation was substantially changed, and states were allowed to charge only those benefits which assure “a reasonable measure of the experience of employers with respect to the unemployment risk.” It was reasoned that disqualification for quits and misconducts and the like should not exceed 4–6 weeks and, if it did, it was assumed that a claimant was out of work because of problems with the labor market and not because of the voluntary actions of the claimant. For these reasons, the federal officials believe that any benefits paid following a disqualification period should be charged to employers generally rather than to the employer of record.

### **Unemployment Benefits and the Competitive Position**

As with any significant element of cost, states have carefully watched the maximum tax rates and taxable wage bases of neighboring states in order to avoid placing themselves at a competitive disadvantage in attracting and retaining business development. This can and has con-

tributed to increased socialized costs in the belief that it would protect employers from high rates. We believe, to the contrary, that "hiding costs" through spreading them over the entire base ultimately has a greater negative impact on the unemployment compensation element of the financial climate for business development.

### **What Are Some Alternatives?**

It does not take an actuarial genius to conclude that if you want to make an experience-rating system work, then you make the people who use it the most pay the most, which means that one obvious solution to the problem is to raise maximum contribution rates in those states where they have been kept artificially low or where special rates have been established to protect industries that traditionally have high cyclical turnover.

The obvious problem with this solution is that it generally comes at a time when rates are high, and to raise them higher only exacerbates the individual employer's problem. When times are good, the politics of the issue discourages being statesmanlike in correcting fundamental problems.

Also, it seems clear that the federal government is no place to look for suggestions since they have become the classic example of people ducking responsibility for the financial well-being of the system. One has only to look at the recent experience of the federal government in waiving the repayment provisions in the troublesome times of the mid-1970s to see that no one had the political courage to test the system to see if the repayment provisions were adequate to maintain the fiscal integrity of the states' unemployment compensation trust funds.

It is also clear that there is no broad-based consensus for providing solutions at this point in time. The obvious and, in our judgment, better alternative is a state-by-state review and implementation of modifications to include a combination of rate and base increases which will most effectively meet the states' needs while at the same time increase the financial stability of the program.

Volumes have been filled with specific alternatives for fixing the problem, and we see no value in exhausting the rest of the morning with a review of the more obvious alternatives.

### **Some Obvious First Steps**

It is obvious that the problem must be defined and quantified in each state. Each state has its own special problems and degree of non-charging. There are adequate guidelines established through a variety of studies that could permit states that are interested to propose their

own modifications to improve experience rating and address the non-charging issues.

There is no magic answer, but it is clear that if we are to have a substantial number of charges shared on a more broad-based group of employers, then actuarially sound experience-rating techniques should be employed for that as well as for individual employer rates.

### **The Employer's Responsibility**

No one likes to invite added costs upon oneself or upon other businesses. However, the experience of the last several years indicates that in the continued absence of employer support in some states for a more responsibly financed system, not much is going to happen. Employers have a continuing responsibility to press local legislators to participate in the development of alternatives which are both thoughtful and, to the extent required, gradual in their implementation. Business can legitimately be faulted for not stepping forward to invite new costs. However, it can also be said that the politics of the equation have often led to the easy solution where legislatures take the least politically risky route, which is often translated into the least responsible financial route for solving the state's problems.

I would not presume to stand here and predict just how and when the dialogue between employers and state government leaders will improve and contribute to a solution of the problems. However, the alternative to no dialogue is a continued deterioration of the system which will ultimately, in my judgment, gradually set the stage for a collapse of the state unemployment compensation system.

This business man believes in and encourages an increased dialogue as the preferred alternative. As Henry Ford once noted: "Coming together is a beginning; keeping together is progress; working together is success."

# The Need for an Adequate Unemployment Compensation System\*

ARLEEN GILLIAM  
*AFL-CIO Social Security Department*

For over 40 years, unemployment insurance has ameliorated the impact of joblessness for workers by providing partial replacement of lost wages while they seek suitable employment commensurate with their skills. While the degree to which unemployment insurance benefits should replace the temporary loss of income resulting from unemployment is subject to disagreement, it is clear that the unemployment insurance program is essential to the millions of workers who are unemployed and serves to stabilize the economy by sustaining purchasing power during recessions.

The unemployment compensation system is based on social insurance principles which establish entitlement to benefits without regard to other sources of income or asset holdings. Thus, workers, unemployed through no fault of their own, who meet the qualifying requirements for receipt of unemployment insurance benefits under state statutes have a right to these benefits. Unfortunately, efforts continue to deny benefits to large numbers of jobless workers and to reduce the duration of payments for many others. These attempts, many of which have been successful, erode the inherent social insurance principles of the unemployment insurance program.

## **Adequacy of the Unemployment Compensation System**

The unemployment insurance program operates as a system in which responsibility is shared between the federal government and the states in administering the program. However, determinations of benefit levels, duration of benefits, qualifying requirements, etc., are made by the states. While these are the elements of the program which are crucial to workers, unemployed workers suffer disparate levels of protection as a result of where they happen to work or live. This system has become increasingly less capable of accomplishing its objectives of fairness and

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\* In Ms. Gilliam's absence, her paper was read by Bert Seidman, Director, AFL-CIO Social Security Department.

efficacy. It is inadequately financed and provides benefits that are far too low to meet the needs of millions of unemployed workers for whom unemployment insurance benefits are the only means to forestall a drastic disruption of their living standards. With the persistence of high levels of unemployment and projections that the unemployment rate will continue to increase over the next year, an effective and sound unemployment insurance system is critical to the economy. Yet there have been no significant improvements and, instead, we are faced with disastrous cutbacks that weaken the system even further.

### **Federal Standards in the Unemployment Insurance Program**

To alleviate the inequities of the present federal-state system, organized labor has long advocated federalization of the unemployment insurance program. A federal unemployment compensation program would eliminate the present inequities in the system by mandating uniform benefits and tax rates for all states. Organized labor recognizes that such a change is not imminent so, at the very least, federal minimum benefit standards should be established to assure all eligible workers adequate compensation and equitable protection while they are unemployed.

In 1980, the National Commission on Unemployment Compensation, composed of labor, management, and public representatives chosen by the President and the Congress, also recommended federal minimum benefit standards. Although the recommended standards were at lower levels than those urged by the AFL-CIO, the National Commission found that some federal standards were necessary to reduce the inadequacies in the unemployment compensation system. The opposing argument is that such standards usurp the authority of the states; yet there appears to be little if any argument from the opposing side when such standards are proposed and enacted to cut back protections.

Eligibility and qualifying requirements, weekly benefit amounts, and benefit duration periods are determined in each state using diverse, complex formulas. Such diversity precludes equitable protection for unemployed workers who are entitled to benefits. Federal minimum benefit standards are, therefore, needed to help remedy these inequities and to assure at least a minimum level of protection for all unemployed workers.

In advocating the establishment of federal minimum benefit standards, organized labor has been very specific about which standards are essential to strengthen the unemployment insurance program and to assure its fairness and efficacy. These standards which will help correct the glaring deficiencies in the program are as follows:

- Coverage of all wage and salary workers on a permanent basis.
- A minimum benefit standard of two-thirds of the worker's wage up to a maximum of three-fourths of the statewide average weekly wage.
- A permanent supplemental unemployment insurance program, funded by general revenues, with a maximum benefit duration of not less than 65 weeks. These extended benefits should be coordinated with a comprehensive program of job counseling, training, retraining, upgrading of skills, rehabilitation service if needed, relocation assistance, and job replacement.
- Maximum qualifying requirements no greater than 20 weeks of work or its equivalent.
- Benefit duration based on the principle of 26 weeks of benefits for 20 weeks of work, or its equivalent. Jobless workers with less labor force attachment should be eligible for benefits and their duration period determined in relation to the principle outlined above.
- Elimination of the waiting week by requiring it to be compensated retroactively after a few weeks of unemployment.
- Disqualifications in all cases limited to a fixed period not to exceed six weeks or the average period of joblessness in the state, whichever is less.
- No reduction or cancellation of a worker's benefit rights or base-period wages.

By requiring that these standards be a part of the state unemployment insurance programs, all unemployed workers will be protected by a system that embodies reasonable qualifying requirements, adequate replacement of lost income during unemployment, and sufficient duration without forcing workers to sacrifice skills and experience until suitable employment is found.

While organized labor continues its efforts toward achievement of this goal for the benefit of all workers, we are also confronted with unprecedented attacks on the present system which is already far from adequate. As a result of congressional action over the past two years, harsh provisions that have forced states to slash existing unemployment insurance protections have been enacted. These restrictions violate the social insurance principles inherent in the unemployment compensation system and result in undue hardship, particularly for the long-term unemployed. Rather than federal standards for an improved system, we have federal standards that withdraw protections.

### Extended Benefits

During recessionary periods with accompanying high rates of unemployment, labor market conditions are such that the period of job search for unemployed workers is much longer than in prosperous times. In addition, jobless workers who are receiving unemployment compensation benefits exhaust these benefits while they seek suitable employment. Thus, the regular benefit program with a maximum duration of 26 weeks in most states does not provide adequate protection for workers during periods of recession-induced unemployment.

In recognition of the necessity for additional weeks of benefits for unemployed workers during economic recession, the Congress has been compelled to enact legislation establishing supplemental benefit programs. In 1958 and 1961, Congress enacted one-year programs that provided supplemental benefits of one-half the regular duration up to a maximum of 13 weeks. As the establishment of these temporary programs lagged behind the apparent need for them, a permanent extended benefit program providing up to 13 weeks of additional benefits was enacted in 1970. This program was designed to automatically trigger on during recessions based on national and state trigger requirements. In response to continued high levels and increased duration of unemployment, temporary programs providing up to an additional 13 weeks of extended benefits were enacted in 1971 and 1974, bringing the maximum entitlement to 52 weeks. Subsequent temporary legislation increased the maximum duration to 65 weeks through December 1975.

With this historical background, it is difficult to understand how at a time when predictions of worsening recession and increasingly high levels of unemployment are becoming reality, the emphasis by the 96th and 97th Congress and the Reagan Administration would be on cutting back rather than enhancing the program established to protect the long-term unemployed.

The protections of the extended benefit program were drastically eroded as a result of provisions in the Omnibus Reconciliation Act of 1980. Long-term jobless workers receiving extended benefits can now be compelled to take minimum-wage jobs regardless of skills, experience, and previous wage levels. Not only does this requirement work a severe hardship on workers and their families, but also wastes the workers' skills and abilities.

To further erode the program's protections, workers who "voluntarily" leave their jobs or are fired for "misconduct" will be denied extended benefits. Prior to this change in federal law, states penalized workers in such situations for a specific number of weeks or the duration of their

unemployment. Now, all states must impose the most severe penalty. Even if a period of disqualification is appropriate, it should not be for the duration of the unemployment. After a period of time, continued joblessness results not from the workers' actions but rather from an unfavorable job market. At that point, the workers' unemployment becomes involuntary.

Finally, states must require a one-week waiting period in their regular benefit program, with no provision for retroactive payments, in order to receive the 50 percent federal share of the cost of the extended benefits. This is nothing more than a disguised benefit cut. Workers who meet the eligibility requirements for benefits are entitled to receive them for their regular benefit period.

Prior to the actions of the 97th Congress, extended benefits were paid to workers all over the country when the trigger insured unemployment rate of 4.5 percent nationally was reached. When a state's insured unemployment rate was 4 percent and 20 percent over the state level for the preceding two years, unemployed workers were entitled to additional benefits for half the duration of their regular benefits up to a maximum of 13 weeks. The 20 percent requirement could be waived if the insured rate was at least 5 percent.

Under the provisions of the Omnibus Reconciliation Act of 1981, the national trigger has been eliminated and the state triggers have been increased by 1 percent. In addition, extended benefit recipients have been removed from the calculation of the insured unemployment rate. These changes have a far-reaching impact on the long-term unemployed. Ignoring recipients of extended benefits in the trigger calculation results in states' triggering "on" EB periods later and "off" earlier. Without the national trigger, millions of unemployed workers will be denied extended benefits unless their state is experiencing catastrophic unemployment levels. When the insured unemployment rate is 5 percent, the total unemployment rate is in the range of 8 to 9.5 percent. The availability of extended benefits for workers throughout the country has been an effective counter-cyclical mechanism in restricting the impact of a national recession. In addition, unemployed workers in economically depressed areas within a state with generally favorable economic conditions have been protected by the national component of the extended benefit program.

With the optional state trigger now set at 6 percent, total unemployment in a state will be near or greater than 10 percent before extended benefits will be available. This means economic disaster for millions of jobless workers who are unemployed as a result of economic downturns over which they have no control and for which they should bear no



responsibility. Penalizing these workers for their unemployment under these conditions violates the basic tenets of the unemployment compensation program.

The Omnibus Reconciliation Act of 1981 also imposes the requirement on all states that extended benefits be paid only to those with at least 20 weeks of qualifying employment. Prior to enactment of this legislation, all workers who qualified for regular benefits but could not find work before they exhausted these benefits, were entitled to extended benefits for half the duration of their regular benefits when the state or national extended benefit program had triggered "on." This new provision will have a serious impact on women and minorities who experience the most difficulty in obtaining decent secure jobs. These groups have an acute need for extended benefits protection.

### **Conclusion**

The Extended Benefit Program has provided income protection for the long-term unemployed as well as a means to forestall worsening recession. Now the program has been severely diminished at a time when it is needed most. Rather than improving the system, punitive requirements have been imposed in the unemployment compensation system. Harsh provisions have been proposed in the form of negative federal standards, some of which have been enacted, to even cut back protections of the regular benefit program. Unemployment compensation benefits are now subject to a pension offset and taxation, thus interjecting a means test into the system.

Fortunately, the proposal by the Reagan Administration to impose the same suitable work requirement in the extended benefit program on the regular benefit program was not enacted though the threat that it will be imposed persists.

Policy-makers are overlooking the social insurance principles which are the foundation of the unemployment compensation system. The system needs improvement and this can be accomplished by enacting the minimum federal standards we advocate, not negative standards that in effect punish workers for their own joblessness.

# Comments from the State Administrator's Point of View\*

PAT JOINER

*Texas Employment Commission*

The State Administrator is in a different position from those who work for the Department of Labor (DOL). It has been said that we have a federal-state partnership. When one of the parties has the power to say what is done, how it is to be done, and in what volume it is to be done, and limits the other party to the amount of money he feels will accomplish these tasks, there does not seem to be a partnership. It should be realized that State Administrators are limited in the service their agencies can provide by what is received. Discretion is extremely limited. In fact, it is rare that State Administrators are consulted at all unless their agency's performance should be less than that expected. Today's system almost seems to destroy the incentive to cut costs and render better services. Under the current budget system of base and contingency funding, should any cost savings occur in the Unemployment Insurance (UI) program, they are immediately recaptured.

*Webster's New Collegiate Dictionary* defines the word "contingent" as: 1: likely but not certain to happen: possible; 2a: happening by chance or unforeseen causes; b: intended for use in circumstances not completely foreseen; c: unpredictable; 3: dependent on or conditioned by something else; 4: not logically necessary; 5: not necessitated.

"Contingency" is defined as: 1: the quality or state of being contingent; 2: a contingent event or condition as a: an event (as an emergency) that is of possible but uncertain occurrence.

It would be nice to say that State Employment Security Administrations (SESAs) are funded on a contingency basis, as would seem apparent from the dictionary definitions stated above. In my opinion, this is not the case. The terminology used does not fit the prevailing conditions. States are sometimes forced to operate local offices with one-third to one-half base staff, and two-thirds to one-half contingency staff. At other times, yearly budgets provide 90 percent base staff and 10 percent contingency staff. Why does this condition exist, and what

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\* In Mr. Joiner's absence, his paper was read by Carl Brewster, also of the Texas Employment Commission.

problems does it cause for the States? Why it exists should more properly be answered by our federal partners. It would seem that there is either a breakdown of communications between the DOL, the Office of Management and Budget (OMB), and the Congress, or there is a mistrust of the projected workloads being reported for funding. Where or why a breakdown occurs in this area is a matter for them to solve and is not within a state's administration to control. Their failure at this level does have its impact which, I regret to say, is negative with adverse effects on proper and efficient administration.

Funding of contingency positions occurs when workloads are experienced above base and an added position can be fully justified by the Cost Model time factors, or, rather, budgeted time factors. What we are funded by is what the budget says our time factors should be, regardless of what it takes to do a proper job. When workloads justify an additional position above staff, we hire a temporary worker. This takes time. We must use the State Merit System to obtain a list of eligibles from which to hire. Once hired, training must be provided before that person can be expected to perform the job adequately. A new employee requires close supervision, taking the time of trained personnel. A drop in the workload would necessitate dismissal of this now fully trained new employee. At each point, proper service to the public is diminished.

We are paid on the basis of the lesser of what we earn and what we use as far as time charges are concerned. If we earn the position but do not have the person on the payroll charging time, we lose. If we have the person on the payroll and do not have the workload to fully justify the position, we also lose because we cannot get paid without production. Under this arrangement, the federal government wins every time. When the staff is not on board, they get production that they do not pay for. When the staff is on board and the production is not there to support them, they do not pay. It is like having a two-headed coin where "Heads I win—tails you lose." Either way, the state is left holding the bag.

Texas, being as large a state as it is, has unique problems. With a land area of 262,134 square miles, it is as large as 244 Rhode Islands. Our offices are distributed throughout the state with approximately one office per 100,000 population. Texas is experiencing such an increase in population that three new offices would have to be established each year to stay even.

Now to the problem I am trying to describe: One area of the state may suddenly have an increase in claims activities. At the same time another section may experience a decline in its workload so that the

state as a whole is not earning any contingency positions. The location of the increase may be 800 miles from where the decline is taking place. You cannot transfer staff that far. Yet, you have a workload that must be dealt with without the ability to adjust properly. We adjust as well as we can under the circumstances, but the public suffers to some extent when this situation exists.

With any type of budgeting system, I realize that a lack of resources will cause problems because it will always be difficult to distribute the frustration equally. I would wish, however, that we could be fully funded for the minutes per units (MPUs) our Cost Model develops. I would also wish that the quarterly recapture could be eliminated. In addition, I would like for states to have their own reserve fund for emergencies so that resources could be applied timely and properly. Under the present system it seems that one would need the wisdom of Solomon to operate—that is, to have staff at the proper place at the proper time to provide the proper service to the public.

Another area of the funding process that should be addressed is the Cost Model. The DOL requires states to conduct studies, pays for Cost Model staff in each state, sets study methodology and defines the parameters, monitors the studies while they are being conducted, and audits the study results. After all this they are unwilling to completely support the MPUs derived from these studies. Texas recently conducted a three-month study of Tax operations. The cost of this study, exclusive of Cost Model staff time and the extra time required of study participants, ran to \$90,538. The Employment and Training Administration's (ETA) Cost Model budget for FY 1981 was \$8 million.

The Cost Model system was set into place as a result of pressure from the OMB and the Secretary of Labor to obtain detailed information on UI staffing requirements which would be used in preparation and justification of the national UI budget. This need came about when previously exempt trust funds, including the Federal Unemployment Tax Act (FUTA), became part of the President's budget submission to Congress.

Prior to Cost Model, the UI budget request was based on an experience budgeting system which took note of cost differences among states, but could not explain them. Cost Model resulted from the need to document and analyze these differences, thereby avoiding arbitrary "productivity assessments" in the budgeting process.

Each year, however, the DOL has been making autocratic reductions in the MPUs required by the states to fund their UI operations, the basic assumption being that low MPUs are "good" and high MPUs are "bad." No consideration seems to be given to documented variations in

procedures and laws in the states, and this lack of consideration has tended to nullify the validity of the Cost Model as a budgeting tool.

While the basic UI functions of processing benefit claims for eligible claimants and collecting employer taxes are similar among SESAs, operating procedures and their costs *do* vary significantly. The reduction process appears to be an attempt by the ETA to dictate the system it wants. However, in the so-called federal-state partnership, the federal role in the UI program is to insure "proper and efficient" administration of the program in the SESAs. On the other hand, the states have the responsibility of operating and administering the program in accordance with their individual state laws and provisions.

From the states' viewpoint, the Cost Model system would be a great asset if it were properly applied. However, the trouble seems to be that the DOL, OMB, and Congress do not, or will not, support the system on the basis of what is needed for proper and efficient administration. The system is funded from a top-down approach which requires adjustments to MPUs being made to stay within resources allocated nationwide. With this situation, recognition of the Cost Model is limited to competing falsehoods.

Another source of frustration is the multiplicity of programs. State agencies that administer unemployment insurance have traditionally been called upon to provide the delivery system for additional programs dealing with workers who have been determined by legislation to require additional benefits and/or services. These programs can be divided into three categories: (1) those that duplicate UI; (2) those that supplement UI; and (3) those that complement UI.

Programs like Servicemen's Readjustment Allowances, Unemployment Compensation for Veterans, the Temporary Extended Unemployment Compensation Acts of 1958 and 1961, and Supplemental Unemployment Assistance have, in effect, evolved into part of the UI system, making the system more complex with the inherent additional costs and operational complications. Programs that supplement UI, such as the Disaster Relief Act, the Trade Act prior to the 1981 amendments, and Redwoods, have special purposes beyond the scope of UI. They expand coverage or provide higher and/or extended benefits. The Employment Service, the Comprehensive Employment and Training Act, and portions of the Trade Act complement UI.

Our problem as Administrators is to meet the objectives of a program within the resources allocated. When resources are not sufficient, we must decide what objectives will or will not be met. State agencies administer several programs and, inevitably, short resources in one program may reduce performance in another.

Two of the most serious problems with these special programs are the frequency of occurrence of program conditions and the volume of workload. When the occurrence of a program condition is difficult to predict, it becomes difficult to plan and allocate resources to insure that program objectives are promptly met. The potential and actual workloads realized sometimes vary so drastically that we cannot respond with the proper resources. The Disaster Relief Act and Trade Act are particularly difficult to deal with in this respect. The parameters of entitlement for these programs cause additional costs to both the administering agency and third parties since the data needed to determine entitlement are not usually available from the sources the agency has on hand, and new systems must be developed to obtain the data.

As Administrators, we must constantly determine how to utilize funds, equipment, and personnel to meet the objectives of our programs, the requirements of our federal masters, the demands of competing interest groups, and the needs of our state. Should we invest staff time to develop an automated system when available funds will not cover the costs? If we utilize more staff than we earn, our funds will be recovered. If we reduce operations staff to allow automation, performance will decline and workloads may backlog. If we absorb the costs into other programs, those programs will suffer.

The UI system can administer any payment system it is assigned given adequate resources. However, we would prefer to administer programs that are effective and achieve what is intended with as little effort and cost as possible. To that end, we offer the following suggestions:

1. Regardless of form or purpose, any special federal programs relating to replacement of wage loss for unemployment should not serve as a concurrent supplement to UI.
2. Insofar as is consistent with the objective of the program, the data and formulas used to determine UI entitlement in the state where the program is in effect should be used to determine entitlement in the special program.
3. The costs of special programs, including benefits and administration, should not be borne by the UI system.
4. Fund allocation methods should be developed to provide adequate capital investment and operating funds given the special operational and workload characteristics of the program.

It is not for the State Administrator at this stage to determine the national policy, but rather a question for the political arena and legislative branch of government. The Administrator is the person left to carry out the mandate once it has been determined. When determined,

it then becomes our role to implement. Implementation, of course, can take many forms, but essentially it is managing the resources available in such a way as to accomplish the mandate.

## DISCUSSION

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As I see the unemployment insurance (UI) system today, I identify four major concerns. Each of the papers we have heard has touched on one or more of them. They are: (1) the financing problem, (2) the system's response to long-term unemployment, (3) the administration of the "work test," or what I prefer to call the pursuit of the reemployment objective, and (4) the federal-state balance of responsibility in the system.

Pat Joiner presented the point of view of a state administrator. He put his finger on the problem of the federal-state balance, or lack of it, with respect to allocations of UI administrative funds. The federal power in this case is totally one-sided. The inadequacies of administrative finances also seriously weaken the employment service in its role of assisting the job search of UI claimants and applying a meaningful work test to them. As one possible answer, there may be merit in the idea of sharing responsibility for UI administrative financing by reverting to each of the states something like half the portion raised from employers in the state by that segment of the federal unemployment tax allotted to funding UI administrative costs. The reverted funds could be used only for administration, but freed of federal specification of exactly how they should be spent.

Arleen Gilliam dwelt on eligibility and benefit issues in UI. In this case, she points out that the states hold most of the power. They determine the provisions without much or any federal restraint, leading to inadequacies and inequities. She calls for federal minimum benefit standards to balance the partnership and thereby achieve more equity and adequacy. I also favor some move in this direction to eliminate extremes in state provisions. As Ms. Gilliam well knows, however, enlarging the federal power this way does not guarantee the results she seeks. Congress has shown recently how federal standards can be a two-edged sword. Federal eligibility restrictions adopted lately have made for a less generous program. She has noted these tendencies especially with regard to the extended benefits provided for recession periods.

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Shifting policies over the last ten years concerning the UI response to long-term unemployment show that we have not satisfactorily resolved that problem.

John Crosier dealt with the financing problem, perhaps, currently, the most urgent of all. At present, 17 states have insolvent UI funds and others are on the brink. The total indebtedness now stands at over \$6 billion with more borrowing in store.

In my view, the problem is partly a matter again of unbalanced federal-state responsibility. When the program began, the principle adopted was that the individual states would be wholly responsible for financing their own benefit costs. Further, through experience rating, employers were to be largely individually responsible for benefit costs which they generated themselves. The idea was to treat these costs as costs of doing business, as extensions of wage costs. The pooling or shared-risk principle of insurance was assigned a minor role.

At the outset, UI was confined to compensating short-term unemployment—up to about 13 to 15 weeks at most. As states increased benefit duration up to 26 weeks, the nonpooling principle continued to dominate. When extended benefits were added to pay UI up to 39 weeks during recessions, pooling received more play. The federal government pays half the cost of these benefits from the uniform federal unemployment tax; the states may pool or experience-rate their share of the costs. The reasoning here was that longer-term unemployment has a strong national look in terms of its cause (broad cyclical downturns) and a broader capacity needed for dealing with it.

Individual state UI programs get into financial difficulties mainly for two reasons: (1) holding to tax structures that generate inadequate revenues to finance potential UI costs over a period of years, and (2) the very uneven impact of recession benefit costs among the states. The latter results in heavy cost burdens for the more severely affected states that are difficult to anticipate. Given the broader national or regional character of recession unemployment, it does not seem fair to assign these burdens completely to individual employers. The principal remedy advanced from time to time is some form of national pooling of part of this excess burden through a cost-equalization or reinsurance plan among the states. A strong flurry of interest in the late 1970s in such an approach has subsided. States which have enjoyed relatively mild recession impact so far tend to oppose the idea.

Another approach is to enlarge on the national pooling of long-term benefit costs. For example, the federal share of extended benefit costs might be increased from half to 75 percent or even 100 percent. In addition, some federal sharing of medium-term benefit costs could be

introduced during national recessions. It is the cost of longer-term benefits that rises most in recessions, and in virtually all states. More national pooling of such costs would apply for all states and help to even recession cost burdens among them. As an individual's unemployment moves beyond three months' duration, the responsibility of an individual employer for associated UI costs becomes increasingly remote. The problem has its roots in broader labor market conditions that operate more and more beyond the control of that employer and beyond the confines of the state. Under these circumstances, complete adherence to experience rating and state financing of such costs appear to have less justification.

I am not especially enamored by the triggered extended-benefit program for recession periods. Long-term unemployment can and does occur at all times for structural reasons. The UI system does not respond satisfactorily to these problems. I would prefer to see UI available for up to 39 weeks at all times, backed by more solid eligibility requirements for long-term benefits and forceful job-search assistance and vocational adjustment services for affected workers. For unemployment lasting longer than 39 weeks, I favor income support through a program of unemployment assistance based on an income test.<sup>1</sup>

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<sup>1</sup> For a full account of my ideas for reform of the employment security and welfare programs, see "Job and Income Security for Unemployed Workers: Some New Directions" (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1981).

## XIII. GRIEVANCE ADMINISTRATION PROCESS

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### A Model for Research and Analysis of the Grievance Process\*

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As a mechanism for resolving disputes that arise in the employment setting, the grievance procedure has been widely adopted and often lauded. Virtually all written labor agreements in the private sector contain a grievance procedure.<sup>1</sup> By and large, the same holds true for the public and nonprofit sectors.

How important is the grievance procedure within the broader framework of the labor-management relationship? Some years ago McKersie and Shropshire stated, "it is the day-to-day administration of a contract that determines how well the objectives of the contract are realized. And it is the day-to-day administration that most influences the development of a constructive relationship between the contracting parties."<sup>2</sup> In the day-to-day management of labor relations the majority of time and effort is spent on grievance handling, and a recent study found that more than nine working hours, on average, were devoted to the formal

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\* The authors express appreciation to Thomas Pearce, a doctoral student at the University of Washington, for his contributions to the preparation of this paper.

<sup>1</sup> Grievance procedures are present in all but about 1 percent of major private-sector collective bargaining agreements, i.e., those agreements which cover bargaining units of 1,000 or more workers. See U.S. Bureau of Labor Statistics, *Characteristics of Major Collective Bargaining Agreements*, 1980, Bull. No. 2051 (Washington: U.S. Government Printing Office, 1981).

<sup>2</sup> R. B. McKersie and W. W. Shropshire, "Avoiding Written Grievances: A Successful Program," *Journal of Business* 35 (April 1962), p. 135.

meetings required to process a typical grievance.<sup>3</sup> This did not include the investigation and preparation of each side's case, which is especially time consuming, even in those cases that do not reach arbitration.

Given the importance of the grievance process to labor-management relations, one would expect to find a large amount of research on the subject. Unfortunately, this is not the case. Several authors have decried the lack of systematic research in this important area. For example, Thomson claims that "no theory of the grievance process has evolved."<sup>4</sup> Further, some of the best known works in the field are two decades old or more, and the data on which they are based are even older.<sup>5</sup>

In the remainder of this paper, we (1) provide a brief review of the research literature on the grievance process in unionized firms, and (2) present and discuss a model of the grievance process that might serve as a framework for systematic research on the topic.

## Research to Date

Most of the research on the grievance procedure has been disjointed in the sense that there has been a lack of an overall framework or direction across the various studies. Moreover, in many of the studies, the findings are not linked to those of earlier research even when similar variables have been examined. Nevertheless, it is possible to assign most of the studies to five major groups, which reflect certain underlying themes. These include (1) demographic differences between grievants and nongrievants; (2) effects of management and union leadership patterns on grievance incidence rates; (3) organizational characteristics and grievance activity; (4) personality traits and grievance behavior; and (5) comparison and contrast of grievance activity within and between sectors and industries.<sup>6</sup>

### 1. Role of Demographics

A number of studies have identified demographic variables that differentiate employees who are likely to grieve from nongrievants.<sup>7</sup> Stud-

<sup>3</sup> D. R. Dalton and W. D. Todor, "Win, Lose, Draw: The Grievance Process in Practice," *Personnel Administration* 26 (March 1981), pp. 25-29.

<sup>4</sup> A. W. J. Thomson, *The Grievance Procedure in the Private Sector* (Ithaca: New York State School of Industrial and Labor Relations, 1974), p. 2.

<sup>5</sup> J. W. Kuhn, *Bargaining in Grievance Settlement* (New York: Columbia University Press, 1961), and S. Slichter, J. J. Healy, and E. R. Livernash, *The Impact of Collective Bargaining on Management* (Washington: Brookings Institution, 1960).

<sup>6</sup> The first four categories are based on those of D. R. Dalton and W. D. Todor, "Manifest Needs of Stewards: Propensity to File a Grievance," *Journal of Applied Psychology* 64 (December 1979), pp. 654-59.

<sup>7</sup> See, for example, P. Ash, H. A. Solkin, and R. W. Pranis, "Comparison of Grievants in a Heavy Machine Company," *Personnel Psychology* 20 (Summer 1967), pp. 111-19, and P. M. Muchinsky and M. A. Massarani, "Work Environment Effects on Public Sector Grievances," *Personnel Psychology* 33 (Summer 1980), pp. 403-14.

ies have varied from those that examine a small number of possible factors (e.g., age, sex, work experience, location) that contribute to grievance filing to those that consider as many as 40 contributing factors. Few generalizations can be drawn from these studies, however. The results are often contradictory, the methodology is often weak, and the findings often lack cross-validation. Obviously, such a state of affairs is not a firm basis upon which to erect theoretical models and explanatory frameworks of the grievance process.

## 2. *Leadership Patterns and Grievance Rates*

These studies focus on the relationship between grievance filing and leadership characteristics of the grievant's supervisor or shop steward.<sup>8</sup> Studies by Fleishman and his colleagues have generally shown strong linkages between autocratic supervision and high grievance rates, but the finding has been contradicted by Walker and Robinson's results. A study by Glassman and Belasco focused on characteristics of union leaders and found grievance activity to be related to certain of those characteristics. However, it is doubtful that leadership style alone explains differences in grievance rates, and most studies have not done an adequate job of measuring or controlling for other contributing factors.

## 3. *Organizational Characteristics and Grievance Activity*

This area of research on the grievance procedure has involved examination of the behavior of work groups that are differentiated by task and technology.<sup>9</sup> Some years ago, Sayles developed a typology of individual work groups and suggested that such groups would vary in their grievance activity and use of offensive and defensive grievance strategies. Studies in a few firms provide some support for these notions, but they have not verified the strength of differences across the four groupings identified by Sayles, i.e., apathetic, erratic, strategic, and conservative.

## 4. *Personality Traits and Grievance Behavior*

A few researchers have examined the personality traits of grievants

<sup>8</sup> See, for example, E. A. Fleishman and E. F. Harris, "Patterns of Leadership Behavior Related to Employee Grievances and Turnover," *Personnel Psychology* 15 (Spring 1962), pp. 43-56; R. L. Walker and J. W. Robinson, "The First Level Supervisor's Role in the Grievance Procedure," *Arbitration Journal* 32 (December 1977), pp. 279-92; and A. M. Glassman and J. A. Belasco, "The Chapter Chairman and School Grievances," *Industrial Relations* 14 (May 1975), pp. 233-41.

<sup>9</sup> See, for example, L. R. Sayles, *Behavior of Industrial Work Groups* (New York: McGraw-Hill, 1958); W. W. Ronan, "Work Group Attributes and Grievance Activity," *Journal of Applied Psychology* 47 (February 1963), pp. 38-41; and N. E. Nelson, "Grievance Rates and Technology," *Academy of Management Journal* 22 (December 1979), pp. 810-15.

and nongrievants as well as of managers and union officials as they bear upon grievance activity.<sup>10</sup> For example, such traits as hypersensitivity, aggressiveness, and criticism or fault-finding are claimed to be more characteristic of grievants than nongrievants. Needs for dominance and affiliation as they relate to grievance activity have also been studied. No consensus seems to have emerged concerning the role of personality in grievance behavior, however, and there are at present few researchers actively working in this area.

### 5. *Variation in Grievance Activity by Sector and Industry*

Several studies can be grouped in this category, including those by Kuhn (of the rubber-tire and electrical-equipment industries) and Peach and Livernash (of the steel industry).<sup>11</sup> However, the generalizability of these studies to other industries is questionable, and there also is disagreement about the adaptability of the private-sector grievance process to the public sector. Begin argues for such adaptability, while Lewin and Horton contend that because most public-sector union members have access to both a contractual grievance procedure and a civil service appeal system, a different situation prevails in government than in industry.<sup>12</sup> Further, the role of industrial relations managers as conflict-resolvers has generally not been directly examined in these studies (although it has been examined in samples of Canadian firms).

In concluding this brief summary of the research literature, we note that some important gaps have been identified and that these need to be filled before it is possible to draw any firm or broad conclusions about the grievance process itself. First, there is an apparent need for a conceptual framework to identify the key factors affecting grievance activity and to derive hypotheses concerning relationships among independent, intervening, and dependent variables in the grievance process. Where there is theoretical support for a specific relationship, this needs to be clearly identified. This would help us to gain a better appreciation of the multivariate nature of the grievance procedure.

Second, we need to redirect our energies toward measuring *grievance effectiveness* as an outcome of the grievance process. The vast majority of research on this subject has used the grievance rate as the

<sup>10</sup> R. Stagner, "Personality Variables in the Union-Management Relations," *Journal of Applied Psychology* 46 (October 1962), pp. 350-57.

<sup>11</sup> See Kuhn; D. A. Peach and E. R. Livernash, *Grievance Initiation and Resolution: A Study in Basic Steel* (Boston: Harvard Business School, 1974); and T. F. Gideon and R. B. Peterson, "A Comparison of Alternative Grievance Procedures," *Employee Relations Law Journal* 5 (Autumn 1979), pp. 222-33.

<sup>12</sup> J. P. Begin, "The Private Grievance Model in the Public Sector," *Industrial Relations* 10 (February 1971), pp. 21-35, and D. Lewin and R. Horton, "The Impact of Collective Bargaining on the Merit System in Government," *Arbitration Journal* 20 (September 1975), pp. 199-211.

dependent variable. Numerous writers have commented on the limitations of this variable as a valid measure of effectiveness. In particular, the filing of grievances may be a pressure tactic in negotiations; the union may be so weak that employees rarely consider filing grievances; low grievance activity may be associated with high rates of absenteeism and turnover; grievance activity may represent a calculated political strategy of the union leadership to support its continuation in office; and grievances may emanate from a small number of employees in a few departments, plants, or offices of a large firm. Clearly, the number of grievances, by itself, is a limited and even a poor index of the effectiveness of the grievance procedure.

What constitutes a satisfactory measure of effectiveness? This is an empirical question that needs to be answered by going into the field and questioning the parties. What may be judged an effective grievance process by management may be viewed quite differently by union leaders and members. The expectations and definitions of an effective grievance process may vary among unions and within the membership of a single union. Even the grievance process itself can vary according to complexity, formality, and provisions for skipping intermediate steps of the process for certain types of grievances. Further, there can also be variation in the ability of the union to strike if the parties do not resolve a grievance at the final step.

Finally, it should be recognized that numerous factors may affect grievance effectiveness in a *given* labor-management relationship. In this regard, future studies might well include longitudinal designs to capture the effects of time, changes in union and management leadership, and changes in the characteristics of the labor-management relationship on grievance effectiveness. Cross-sectional studies could examine grievance handling and effectiveness in small and large bargaining units, different unions and associations, and in newer firms and sectors of the economy. Most of the earlier studies were cross-sectional, limited to a given plant or firm and its relationship with one union, and focused only on parts of the private sector. In addition, with some exceptions, the research designs in these studies treated only small numbers of variables and were limited to the examination of correlations with a single dependent variable. Rarely were moderator variables used in these studies to test for interaction effects, and rarely were tests performed to determine how much variance in the dependent variable was explained by the independent variables.

Having identified some of the major limitations of previous research on the grievance procedure, we now propose a model of the grievance process that may help to guide future research on this subject.

## Modeling the Grievance Process

Figure 1 represents a schematic diagram of the key variables that interact to influence the outcomes of grievance processing.<sup>13</sup> Moving from left to right across Figure 1, we note that the first element or set of factors in the model is (1) *Environmental Forces*. This includes economic, political, legal, and technological forces. For example, one might hypothesize that rapid technological change serves to increase the number of grievances relating to work assignments and that these grievances might be especially severe and difficult to resolve because both union and management officials have very limited ability to predict and plan for technological change.

The next sets of variables represent (2) *Characteristics of the Management and the Union Organization*, respectively. These would include, but not be limited to, the degree of centralization of the labor relations function, the extent of internal management and union conflict, the nature and characteristics of first line supervision, and the ratio of union stewards to members.<sup>14</sup>

Next we turn to (3) *Management and Union Grievance Policies*, respectively. Examples of such policies include the formality and consistency with which management policies are applied, the union's use of militant pressure tactics during grievance processing, and union and management policies to file and challenge, respectively, certain types of grievances. For instance, some unions are far more interested than are other unions in testing management rights through the grievance procedure. Hence, the first group of unions is more likely than the second to encourage members to file grievances and to reject lower level grievance settlements.

The final set of input variables is (4) *Characteristics of the Labor-Management Relationship*. Borrowing from the work of Walton and McKersie and others, such variables as trust, respect, legitimacy, and cooperative orientation are likely to aid in resolving grievances, while the absence of these characteristics or the presence of opposite ones will frustrate grievance resolution and, more generally, grievance-process effectiveness.

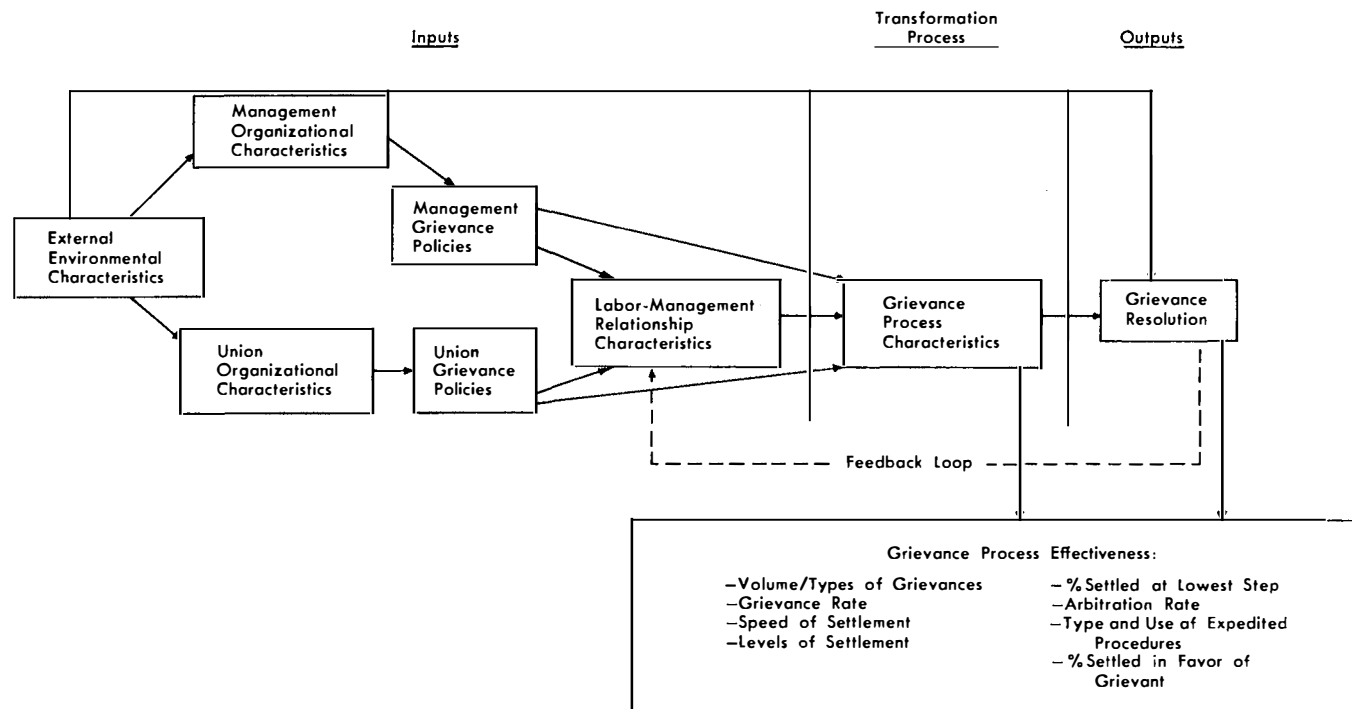
In this model, the (5) *Characteristics of the Grievance Process* rep-

<sup>13</sup> This model is partially based on existing models of the collective bargaining process. See T. A. Kochan, *Collective Bargaining and Industrial Relations* (Homewood, Ill.: Richard D. Irwin, 1980); D. Lewin, P. Feuille, and T. Kochan, eds., *Public Sector Labor Relations: Analysis of Readings*, 2nd ed. (Glen Ridge, N.J.: Horton and Daughters, 1981); and R. B. Peterson and L. N. Tracy, *Models of the Bargaining Process: With Special Reference to Collective Bargaining* (Seattle: Graduate School of Business Administration, University of Washington, 1977).

<sup>14</sup> The union organization variable can include such characteristics of the union's membership as size, occupational composition, age, sex, race, and work experience.



**Figure 1**  
**A Systems Model of the Grievance Process and Grievance Effectiveness**



resent an intervening set of variables or a transformation process. This category encompasses such factors as the age of the grievance process, the functions which the process is designed to serve, the formality and structure of the process, including provisions for expedited procedures, and the volume and types of grievances filed.

The output variable in this model is (6) *Grievance Resolution*. Here, the central interest is in identifying what happens to the grievance. Operational measures can include the frequency with which management's or the union's position is upheld (or compromise solutions are reached), the reinstatement of workers to their jobs or other "original positions," and the awarding of back pay and other monetary benefits. Additional measures could include the grievance rate, speed of settlement (measured by time), and level of settlement, including the percentage of grievances settled at the lowest formal step of the procedure. Some of these measures were employed in a recent study of grievance procedure effectiveness in Canadian local governments.<sup>15</sup> Additional measures of grievance resolution could, of course, be added to this list. While rarely covered in the grievance literature, management and union officials could be expected to engage in attitudinal structuring, distributive bargaining, integrative bargaining, and intraorganizational bargaining during the course of grievance resolution. These behaviors may be particularly evident during the steps immediately prior to grievance arbitration.

We recognize that union members' satisfaction with the grievance process and grievance resolution do not appear in this model. These are not minor matters, since the long-run viability of a given union (and the union movement itself) is based, in part, on whether union members view the union as performing effectively in representing the members' interest in contract administration. Similarly, management's satisfaction with the grievance process and grievance resolution is absent from the model. While satisfaction of both unionists and managers with the grievance process conceivably could be added to the model, data concerning such variables (1) are not easily obtained, (2) present substantial problems of index construction, and (3) provide attitudinal rather than behavioral measures. In our judgment, behavioral measures are more germane than attitudinal measures to assessing grievance process effectiveness.

Grievance resolution will be influenced not only by the characteristics of the grievance process, but by the independent variables (environmental, organizational, and policy) that also influence the process

<sup>15</sup> J. C. Anderson, "The Grievance Process in Canadian Municipal Labor Relations," paper presented at the 39th Annual Meeting of the Academy of Management, Atlanta, August 1979.

itself. That is to say, some of the independent variables will affect grievance resolution directly, while others will have indirect effects that work through the grievance process. Further, grievance process effectiveness can be expected to have a feedback effect on the negotiations process, and more broadly, on the larger labor-management relationship between the parties. In particular, effective grievance handling should help to bring about an atmosphere that encourages more integrative bargaining between union and management than would otherwise exist. It should also reduce hostility and increase the amount of trust between managers and union officials.

### More on Outcomes

While grievance resolution is the dependent variable in the model of Figure 1, it is possible to conceive of other or "second-stage" outcomes that are influenced by the effectiveness with which grievances are resolved. For example, Brown and Medoff, Freeman and Medoff, Freeman, and Clark, among others, have recently shown that, controlling for other factors, productivity (measured by output per work hour) is higher, quit rates are lower, and job tenure is longer in unionized than nonunion manufacturing firms.<sup>16</sup> These authors conclude that unionism brings about such results by providing organized workers with "voice" in the employment relationship, but they neither directly analyzed voice nor collected data about the mechanisms by which voice is transmitted to the employer.

From an industrial relations perspective, the grievance procedure could be expected to be the principal vehicle through which workers exercise "voice" in the employment relationship. Formal collective bargaining is also such a vehicle, of course, but it is a periodic labor-management interaction, whereas the grievance procedure is in effect during the life of a contract and can be invoked by the worker directly at any time. Indeed, the procedure could actually operate on a continuous basis, with worker voice exercised daily through the procedure—although this might not characterize an effective grievance process. The larger point is that the grievance process and grievance resolution (or effectiveness) could both be regarded as intervening variables, with a more effective process leading to higher productivity, lower quit rates, and longer job tenure, among other outcomes. By refining and testing

<sup>16</sup> C. Brown and J. L. Medoff, "Trade Unions in the Production Process," *Journal of Political Economy* 86 (June 1978), pp. 355-78; R. B. Freeman and J. Medoff, "The Two Faces of Unionism," *The Public Interest* 57 (Fall 1979), pp. 63-79; R. B. Freeman, "The Exit-Voice Tradeoff in the Labor Market: Unionism, Job Tenure, Quits, and Separations," *Quarterly Journal of Economics* 94 (June 1980), pp. 643-73; and Kim B. Clark, "The Impact of Unionization on Productivity: A Case Study," *Industrial and Labor Relations Review* 33 (July 1980), pp. 451-69.

this and other models of the grievance process, it may be possible not only to obtain a better understanding of the exit-voice phenomenon in the labor market, but to forge a close link between institutional-industrial relations and analytical-labor economics type analyses of modern unionism and collective bargaining.

### **Conclusion**

The model of Figure 1 encompasses most, if not all, of the independent variables included in previous research on the grievance procedure. However, it relies more on objective, behavioral measures and less on subjective, attitudinal measures than most of the earlier work. The principal focus of the model is on grievance resolution rather than on the incidence of grievances or the differences between grievants and non-grievants. We believe that grievance resolution constitutes a key outcome in assessing the effectiveness of the grievance procedure, but that such resolution also may be linked to other behavioral outcomes of unionism and collective bargaining.

Our next step is to operationalize and test this model in the field. A recent grant from the National Science Foundation will permit us to collect questionnaire, interview, observational, and archival data from samples of workers and union management officials in portions of the private, nonprofit, and public sectors.<sup>17</sup>

<sup>17</sup> See D. Lewin and R. B. Peterson, "The Grievance Process in Private and Public Sector Labor Relations: A Theoretical and Empirical Analysis," research proposal submitted to the National Science Foundation (Columbia University Graduate School of Business, July 1980), processed.

# The Steward, the Supervisor, and the Grievance Process\*

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Several sets of variables have been identified as being potentially useful in explaining grievance process effectiveness, including characteristics of the environment,<sup>1</sup> of the union-management relationship,<sup>2</sup> and of the grievance procedures themselves.<sup>3</sup> Variables associated with supervisors and union stewards have also been consistently mentioned in the literature on the grievance process, yet there has been little empirical research on the extent to which these two groups are prepared for their grievance-processing roles. Moreover, our knowledge of the degree to which stewards and supervisors competently perform important agreement administration functions is largely based upon anecdotal descriptions. This paper focuses on the training and behavior of stewards and supervisors vis-à-vis the grievance process for the foregoing and following reasons: (1) in number, they make up the bulk of those involved in filing and processing grievances, and (2) grievance volume is heaviest at the first step in any procedure, so stewards and supervisors probably handle more grievances than do others involved with the process at higher levels.

## Literature Review

Several ways in which stewards and supervisors can enhance grievance process effectiveness are identified in the literature. Presumably, they can do so by cooperating with each other, treating employees in a dignified manner, and developing a working knowledge of labor-

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<sup>1</sup> David Peach and E. Robert Livernash, *Grievance Initiation and Resolution* (Cambridge, Mass.: Harvard University Press, 1974), pp. 91-107.

<sup>2</sup> A. W. J. Thomson, *The Grievance Procedure in the Private Sector* (Ithaca, New York State School of Industrial and Labor Relations, 1974).

<sup>3</sup> Sumner Slichter, J. Healy, and E. R. Livernash, *The Impact of Collective Bargaining on Management* (Washington: Brookings Institution, 1960), pp. 723-25; A. W. J. Thomson and V. V. Murray, *Grievance Procedures* (Westmead, England: Saxon House, 1976), p. 129.

agreement provisions.<sup>4</sup> It has also been suggested that they should attempt to settle grievances rapidly and at low procedural levels.<sup>5</sup>

### *The Supervisor*

The first-line supervisor is ostensibly the focal point of contract administration on the management side. Employers may use high-level industrial relations officials or outside attorneys to negotiate the language of labor agreements, but it is the first-line supervisor who must, in the course of daily interface with employees and their associations, operationalize the terms of those agreements. Most labor agreements designate the supervisor as the first step in the grievance procedure, but supervisory authority to answer grievances at that level may be shared with the organization's labor relations staff. This group, out of concern for consistency of agreement interpretation across the entire bargaining unit, may even unilaterally formulate the "supervisor's response" for signature. Also, a supervisor may be hesitant for reasons of institutional self-preservation to make a grievance resolution decision alone and may shift the burden to a higher level.<sup>6</sup> It is clear that such parries do little to expedite grievance settlement at low procedural levels.

Supervisor labor-relations quality also appears important to effective grievance processing. Pettefer discovered in a study of a large California-based aerospace firm that first-line supervisors were responsible for the initiation of approximately 50 percent of all grievances, with the cause sometimes being plain lack of knowledge regarding contractual requirements.<sup>7</sup> And Anderson, in a study of 95 Canadian municipal unions, found a significant relationship between supervisor labor-relations quality and early grievance resolution.<sup>8</sup>

### *The Steward*

Unions are the controlling authority with respect to grievance and arbitration rates and, to some extent, to speed of settlement as well. They monitor the filing of grievances, authorize the invocation of arbitration, and negotiate the terms of prearbitration settlements. Stewards

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<sup>4</sup> Maurice Trotta, *Handling Grievances: A Guide for Management and Labor* (Washington: Bureau of National Affairs, 1976), pp. 48-49, 64.

<sup>5</sup> John C. Anderson, "The Grievance Process in Canadian Municipal Labor Relations," paper presented at the 39th Annual Meeting of the Academy of Management, Atlanta, 1979; Steven Briggs, "The Grievance Procedure and Organizational Health," *Personnel Journal* 60 (June 1981), pp. 471-74.

<sup>6</sup> Thomson, p. 23.

<sup>7</sup> James Pettefer, "Effective Grievance Administration," *California Management Review* 13 (Winter 1970), pp. 12-18.

<sup>8</sup> Anderson, p. 34.

themselves have been described as very important actors in the grievance process, and on average devote more than half their union-related activity to processing grievances.<sup>9</sup>

Steward training and experience have often been cited as important contributors to the processing of grievances, and many unions conduct steward-training sessions regularly or send their stewards to various outside seminars on agreement administration.<sup>10</sup> It has been suggested that high levels of steward training and experience are conducive to low grievance and arbitration rates for at least two reasons: first, the seasoned, trained steward has developed the expertise to sort out mere "gripes" from contractually-based grievances, and second, he or she has probably learned how to tactfully explain to the employee with a "gripe" that pursuit of a remedy through the formal grievance machinery would be futile.<sup>11</sup>

### Methodology

To identify and evaluate supervisor and steward grievance-processing qualifications and activities, two pilot questionnaires were constructed—one directed toward management officials ultimately responsible for grievance processing and the other toward their union/association counterparts. After testing with a small practitioner sample, the "management" questionnaire was mailed to the management official ultimately responsible for grievance processing in each of 204 municipal bargaining units across 119 California cities. The "union" questionnaire was mailed to the comparable union official in each unit. A matched set of two responses from the same bargaining unit was required for an observation to be considered complete. Eventually, 236 usable questionnaires (two from each of 118 units) were received, for an overall response rate of approximately 58 percent. There were 44 cities included in the sample, collectively employing over 45,000 people represented by 117 different unions/associations, about 80 percent of which operate exclusively in the public sector.<sup>12</sup> Five types of units (police, fire, white-collar, blue-collar, and professional) were represented and used as control variables.

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<sup>9</sup> Al Nash, *The Union Steward: Duties, Rights, and Status* (Ithaca: New York State School of Industrial and Labor Relations, 1977), pp. 6, 11.

<sup>10</sup> Leonard Sayles and George Strauss, *The Local Union* (New York: Harcourt, Brace, and World, 1967), pp. 19–20.

<sup>11</sup> Terence Connors, *The Story of a Steward* (Urbana, Ill.: Connors Publishing, 1980), p. 8.

<sup>12</sup> For a more complete description of the sample, see Steven Briggs, "The Municipal Grievance Process in California," doctoral dissertation, UCLA, 1981.

## Results

### *Stewards*

Stewards in the sample receive little labor relations training from their respective organizations, in spite of their relatively low experience level (mean = 3 years). Only one in four of the steward groups, for example, met more often than once per quarter to discuss various labor relations topics. Most of the unions/associations surveyed (69 percent) provide no formal labor-relations training for new stewards, and over half of them (53 percent) offer no such training at any time during steward tenure. Rather, the dominant form of labor-relations training received by stewards in the sample is "on-the-job" type. About a third (30 percent) of the steward groups receive educational reimbursement from their unions for taking labor-relations courses. On balance, sample unions also operating in the private sector do a slightly better job of steward training than do those exclusively involved in the public sector, but other studies suggest that steward training may be inadequate even in the more experienced private sector as well.<sup>13</sup>

The vast majority (70 percent) of employee organizations in the sample rely exclusively on stewards to screen grievances, with the remainder using either a grievance screening committee (19 percent) or business representatives (11 percent), thereby illuminating the need for stewards to interpret accurately the language of the labor agreements. As Table 1 suggests, there is ample room for improvement by stewards in several areas, but particularly in that of substantive labor relations knowledge. Even by union assessment, over half of the stewards in the sample do not effectively evaluate grievances or have a complete understanding of labor-agreement terms, including those in their own grievance procedures, and the management assessments are still more critical. Steward performance in relationships with other people (e.g., treating employees respectfully) was evaluated more favorably by both parties.

Finally, the study suggests that stewards may not make full use of the grievance-related authority granted them. About three-fourths (76 percent) of the union respondents reported that their stewards have a substantial amount of formal authority to settle grievances; only a little more than half (56 percent) of them, however, indicated that their stewards use their grievance-settlement authority to the fullest.

### *Supervisors*

First-line supervisors were designated as the first step in the griev-

<sup>13</sup> Abraham Nash and May Nash, *Labor Unions and Labor Education* (University Park, Pa.: University Labor Education Association, 1970), pp. 15-19.



ance procedure of every unit studied ( $n = 118$ ), and employers in the sample generally provide more labor-relations training for supervisors than that available to their union counterparts. For example, new supervisors in nearly half (45 percent) of the sample units receive labor-relations training upon being promoted, and such training is conducted regularly throughout supervisory tenure in even more cases (60 percent). Supervisors in three-fourths of the units receive educational reimbursement for taking labor-relations courses. Still, the data suggest that supervisor labor-relations training is far from well-developed. To illustrate, one management respondent indicated that he instructs supervisors to routinely deny all grievances at the first step because, in his opinion, they do not understand the meaning of the collective bargaining agreement.

Table 2 summarizes the extent to which respondents thought supervisors in the sample exhibited certain traits and behaviors usually associated with effective grievance processing. Like stewards, supervisors appear least capable in areas of labor-agreement interpretation and application. Even using management assessments, which may be somewhat optimistic, well less than half (39 percent) of the supervisors in units surveyed fully understand the terms of the agreements they administer. Supervisor grievance-processing behavior toward employees and stewards was not evaluated as critically by respondents from either side.

The study also revealed that sample supervisors have very little authority to settle grievances on their own. Given the weakness of supervisor labor-agreement knowledge highlighted in Table 2, however, some restrictions on supervisor grievance settlement authority may be appropriate.

## Discussion

Although this study was based on the California municipal sector and is not wholly generalizable to other grievance-processing arenas, it has interesting implications for both public- and private-sector labor-relations practitioners. First, unions and employers should examine the extent to which grievances are resolved at the shop level. The rate of first-step settlements will obviously vary across organizations, but the parties could use their judgment to determine whether they are satisfied with the respective rates for particular bargaining units.

Assuming the parties to a grievance procedure were interested in increasing first-step settlements, they might consider the joint training of supervisors and stewards in labor-agreement interpretation and appli-

TABLE 1  
Selected Steward Traits and Activities

Trait/Activity	Union Assessment (n = 118)				Management Assessment (n = 118)			
	#	<i>poor-fair</i> (%)	#	<i>good-excellent</i> (%)	#	<i>poor-fair</i> (%)	#	<i>good-excellent</i> (%)
Evaluates grievances objectively	60	(51)	58	(49)	75	(64)	43	(36)
Administers agreement fairly	32	(27)	86	(73)	57	(48)	61	(52)
Treats employees respectfully	22	(18)	96	(82)	36	(30)	82	(70)
Treats supervisors respectfully	29	(25)	89	(75)	43	(36)	75	(64)
Communicates with supervisors	39	(33)	80	(67)	60	(51)	58	(49)
Understands agreement terms	61	(52)	57	(48)	78	(66)	40	(34)
Understands grievance procedure	69	(58)	49	(42)	76	(65)	42	(35)

TABLE 2  
Selected Supervisor Traits and Activities

Trait/Activity	Union Assessment (n = 118)				Management Assessment (n = 118)			
	#	<i>poor-fair</i> (%)	#	<i>good-excellent</i> (%)	#	<i>poor-fair</i> (%)	#	<i>good-excellent</i> (%)
Evaluates grievances objectively	86	(73)	32	(27)	71	(60)	47	(40)
Administers agreement fairly	70	(59)	48	(41)	55	(47)	63	(53)
Treats employees respectfully	56	(47)	62	(53)	38	(32)	80	(68)
Treats stewards respectfully	55	(47)	63	(53)	42	(36)	76	(64)
Communicates with stewards	69	(58)	49	(42)	62	(53)	56	(47)
Understands agreement terms	88	(74)	30	(26)	72	(61)	46	(39)
Understands grievance procedure	64	(54)	54	(46)	56	(47)	62	(53)

cation.<sup>14</sup> Not only would such training enhance their substantive knowledge of the agreements they administer, it would also offer the companion benefit of socializing them to their respective needs and interests. Moreover, it might help develop cooperative attitudinal relationships between particular steward/supervisor dyads, perhaps enhancing the extent to which they make full use of their grievance-settlement authority. Questions relating to the source and cost of such training deserve further attention.

Admittedly, there are some employers who would be reluctant to grant their shop-level representatives full grievance-settlement authority, no matter how well they understood labor-agreement terms. At the very least, it might be helpful for supervisors in such organizations to draft first-step grievance responses for subsequent review by the labor-relations staff. They would benefit as well from receiving summaries of relevant arbitration awards. In these ways, supervisors might become familiar with the meaning of agreement terms and might use such knowledge to prevent future grievances from being filed.

Finally, the figures reported in Tables 1 and 2 call into question the influence of the parties' respective perceptions of the grievance process. The tables suggest that unions generally think stewards do a better job of grievance-process administration than do supervisors, and that employers believe the converse. To the extent that such disparate perceptions exist in particular employment contexts, the parties may be unable to evaluate rationally their own shop-level grievance-processing performance. Furthermore, it seems advisable, from these results, that future research on the grievance process should include matched data sets from both parties.

Labor-management relations are becoming increasingly complex and legalistic, with one possible side-effect being a gradual erosion of shop-level grievance-processing authority. And a consequence of removing agreement-administration authority from supervisors and stewards is a reduction of expeditious, low-level grievance resolution. Practitioners wishing to encourage such settlements and prevent noncontractual complaints from cluttering the grievance procedure should consider providing supervisors and stewards with systematic labor-relations training—especially with regard to the application and interpretation of labor-agreement language.

<sup>14</sup> See Briggs, 1981 (note 12) for results of correlation and regression analyses of steward and supervisor training with dimensions of effective grievance processing. In general, the relationships were positive.

# The Relationship Between Industrial Relations Climate and Grievance Initiation and Resolution

JEFFREY GANDZ AND J. DAVID WHITEHEAD  
*University of Western Ontario*

Industrial relations managers and union officers are quick to point out the difficulties involved in assuming that grievance rates or patterns of grievance resolution are reliable indicators of union-management relationships. For example, while an organization with a low grievance rate may indeed have excellent relationships, it may also be one in which management has a pattern of conceding to union pressures prior to filing of a formal grievance. Alternatively, management may have been so unyielding in the past that the union no longer seeks redress through the grievance procedure but exerts pressure through other non-procedural manifestations of conflict. Grievances may be: communications between the parties; challenges by one party to the authority, rights, or actions of the other; strategic or tactical maneuvers in the ongoing collective bargaining process; or even politically motivated actions stimulated by the self-serving objectives of some party or faction within the union or management.<sup>1</sup>

The etiology and resolution of grievances are worth studying for two reasons, one practical and one theoretical. Firstly, grievance data are not that difficult to collect if appropriate data definitions and collection procedures are designed and implemented. If it can be demonstrated that grievance rates and resolution patterns are related to union-management relations in organizations, then such measures provide unobtrusive, ongoing indices of such relationships that may provide indicators of problem areas or outcome measures of the success of change efforts.

The second reason is to shed some light on one rather murky area of labor relations theory. Walton and McKersie suggest that the relationships that exist between unions and management in organizations can be characterized on a continuum from conflict through contain-

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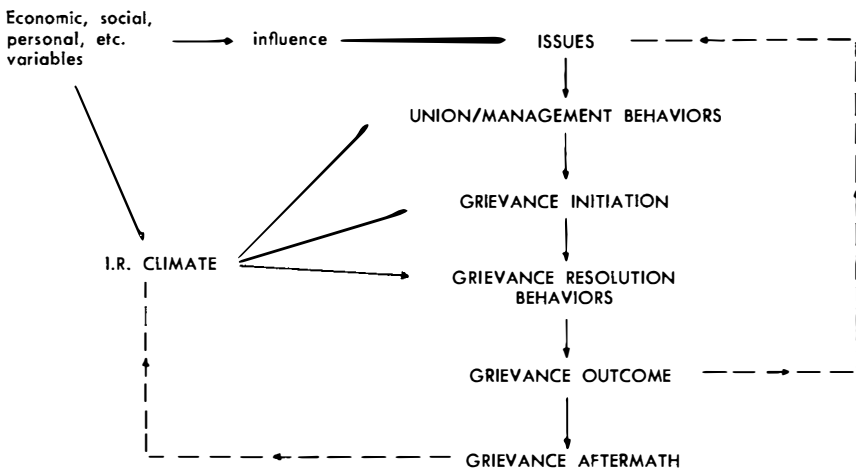
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<sup>1</sup> Jeffrey Gandz, "Grievances and Their Resolution," in *Union-Management Relations in Canada*, eds. J. Anderson and M. Gunderson (Don Mills, Ont.: Addison-Wesley (Canada), 1982).

ment—aggression, accommodation, cooperation, to collusion.<sup>2</sup> This labor relations climate is a reflection of the extent to which union-management relations involve trust, acknowledgement of the other's legitimacy, cooperative as opposed to competitive orientations, and interpersonal liking.

During the life of a collective agreement many issues of contention between union and management arise and are disposed of through distributive, integrative, and mixed bargaining. The labor relations climate may influence both the generation of grievances and their disposition. For example, a poor climate characterized by distrust may lead to a grievance being filed as a challenge to management. Even though the issue might have the potential for resolution to both parties' satisfaction, the climate may be so poor as to inhibit the information exchange or problem-solving behavior necessary to resolve the issue. The resulting tradeoff or compromise, which will likely fall short of truly resolving the issue, may lead to another grievance and a further souring of the relationship, particularly if it resulted from the use of distributive bargaining tactics.<sup>3</sup> What could well occur is a vicious cycle in which issues are resolved in such a way as to create further issues as the schematic in Figure 1 shows. This schematic illustrates the

FIGURE 1



<sup>2</sup> R. E. Walton and R. B. McKersie, *A Behavioral Theory of Labor Negotiations* (New York: McGraw-Hill, 1965).

<sup>3</sup> While not explicitly proposed by Walton and McKersie, this chain of events is implicit in the process nature of their model.

multiple points at which climate influences the conflict-resolution process and is affected by the aftermath of conflict resolution or regulation.

Establishing causal relationships in such complex process models is bound to be frustrating and will eventually call for multivariate, longitudinal, experimental, and quasi-experimental studies. The purpose of this article is to present the results of one fairly simple field study in the hope that the results may encourage others to develop studies in this area, and to forewarn them, hopefully without deterring them, of some of the difficulties they may encounter with field studies of grievances and their resolution.

In this study, the hypothesis is tested that there would be an association between high grievance rates and conflict rather than cooperative union-management relationships at the bargaining unit level. In addition, the study explores the relationship between the union-management relations at the bargaining unit level and the outcome of grievances at both oral and written stages of the grievance procedures.

## **Method**

The data reported in this paper are drawn from one sample of 118 bargaining units surveyed in 1976–1977 and a subset of 18 of these units from which additional data were gathered in 1979–1980.<sup>4</sup> The initial sample was designed to capture several bargaining units in each of 20 major industries as diverse as petrochemicals, food retailing, and mining. The bargaining units varied in size from 3 to 14,500 employees, with a mean of 869. Ninety-eight were industrial, hourly-paid bargaining units, 17 were technical/professional/white-collar units, and the remainder were mixed. In the subset of 18 bargaining units, all were of one company and all consisted of hourly-paid, blue-collar employees; they ranged in size from 5 to 2,696 employees with a mean of 404 employees in 1976 and 375 employees in 1978.

## **Grievance Rates and Resolution Patterns**

In the main sample there was a good deal of variation in the number of steps in the grievance procedure and in the duration of the collective agreement among the different bargaining units. Sometimes oral steps preceded written grievances, sometimes the first acknowledgement of a grievance was when it was filed in writing. There were problems with the time duration of contracts. If, for example, the grievance procedure was being used tactically by the union, there might be a flood of griev-

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<sup>4</sup> Details of the main study are in Jeffrey Gandz, "Employee Grievances: Incidence and Patterns of Resolution," Ph.D. thesis, York University, Toronto, 1978.

ances toward the end of the negotiating period, and a single year taken from a three-year agreement period would not be representative of the whole. To cope with these problems, average grievance rates were computed over the life of the collective agreement, focusing on written grievances only, and were expressed as grievances per 1000 employees per year. These grievance rates were computed from corporate records, not from self-reports of industrial relations or other managers. Sometimes these records were readily available, while at other times they required coding from individual grievance files. Different organizations classified grievances differently, and the only generalizable classifications that could be arrived at were those of "disciplinary" and "non-disciplinary" grievances. Furthermore, it was not possible to distinguish between grievances allowed in full and those allowed in part.

In the case of the subset of the main sample, data were available for both oral and written grievances for the 1976 contract year. In 1978, only written grievances were recorded. Grievance resolution was recorded as the proportion of filed grievances that were rejected, allowed completely, or allowed in part. If the grievance rate was zero, the units were omitted from the subsequent analysis of resolution patterns.

### **Industrial Relations Climate**

In mid-1977, a questionnaire was mailed to the executive responsible for industrial relations in each of the 118 bargaining units in the main sample and to all line managers and supervisors in the subset sample. The questionnaire was completed anonymously and returned directly to the researcher. The response rate varied by organizational unit from 32 to 100 percent (mean 82.2 percent) among the line managers, and it was 100 percent for the industrial relations managers. Since response was anonymous, there was no way of ascertaining bias in the non-responders among the subset sample, and a "by-plant" differential in the response rate may have introduced some bias into the data.

In the questionnaire, a union-management relations scale consisting of nine items ( $\alpha = .90$ ) tapped the dimensions of the union-management relationship described by Walton and McKersie's competitive-cooperative orientation, trust, legitimacy, and interpersonal liking.<sup>5</sup> Respondents were asked to assess the extent to which these dimensions characterized day-to-day relationships between union and management officials at the local level. Sample items from this scale are:

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<sup>5</sup> The items in this scale and its psychometric properties are in Jeffrey Gandz, "Grievance Initiation and Resolution: A Test of the Behavioral Theory," *Industrial Relations-Relations Industrielles* 34, No. 4 (1979).

	Always (1)	Often (2)	Sometimes (3)	Never (4)
3.1 Both parties showed respect for the goals and objectives of the other	_____	_____	_____	_____
3.6 Both sides believed that the tactics used by the other were legitimate	_____	_____	_____	_____

A high score on the scale indicated conflict rather than cooperative relations. For the subset example, the mean of the line managers' scale scores was considered representative of the units.

## Results

The white-collar/professional/technical bargaining units were, in general, small and had very low or no grievance incidence and were, consequently, excluded from the subsequent analysis.

In the remaining 98 blue-collar bargaining units there were significant ( $p < .01$ ) rank-order correlations between the scale and both disciplinary ( $\rho = .28$ ) and nondisciplinary ( $\rho = .30$ ) grievance rates, suggesting that grievance rates did tend to be higher when relationships were poorer.

In the subset sample ( $n = 18$ ), both line and industrial relations managers' scale scores were correlated with written grievance rates for two time periods, the first being the contract year before the questionnaire administration (1976) and the second being the two contract years following the questionnaire administration (1978, 1979).

As we see first in the line managers column in Table 1, the correlations between high grievance rates and line managers' perceptions of union-management relations are in the hypothesized direction and are significant in all instances except disciplinary grievances at the oral stages in 1976 and 1979. With respect to the correlations between grievance rates and the industrial relations managers' perceptions of union-management relations, the coefficients are significant in the hypothesized direction except for 1978.

The analysis of the correlations between union-management relations and the resolution of grievances is far more problematic, with a number of questions raised by the signs of the coefficients. For example, a high rejection rate for both disciplinary and nondisciplinary grievances at the oral stage in 1976 is associated with cooperative rather than conflict relationships. Also, accepting grievances in part is asso-



TABLE 1  
Mean Grievance Rates and  
Spearman Rank-Order Correlations Between  
Grievance Rates and Union-Management  
Relations Scale Scores  
( $9 \leq n \leq 18$ )

	Mean Grievance Rates	Scores on Union-Management Relations Scale	
		Line Mgrs.	I.R. Mgrs.
Oral 1976			
Disciplinary	101.6	.21	.37 <sup>a</sup>
Nondisciplinary	480.1	.50 <sup>b</sup>	.41 <sup>b</sup>
Total	581.7	.30	.45 <sup>b</sup>
Written 1976			
Disciplinary	29.6	.36 <sup>a</sup>	.43 <sup>b</sup>
Nondisciplinary	157.2	.54 <sup>b</sup>	.39 <sup>a</sup>
Total	186.8	.56 <sup>b</sup>	.45 <sup>b</sup>
Written 1978			
Disciplinary	10.2	.68 <sup>c</sup>	.16
Nondisciplinary	95.2	.55 <sup>b</sup>	.19
Total	105.4	.61 <sup>c</sup>	.23
Written 1979			
Disciplinary	11.9	.27	.46 <sup>b</sup>
Nondisciplinary	69.3	.59 <sup>b</sup>	.33 <sup>a</sup>
Total	81.2	.59 <sup>b</sup>	.26

Note: <sup>a</sup> =  $p < .1$  <sup>b</sup> =  $p < .05$ . <sup>c</sup> =  $p < .01$ .

ciated with conflict rather than cooperative union-management relations whenever the correlation coefficient reaches significance.

There are a number of plausible, rival hypotheses with which these data could be explained. While a high rejection rate might be supposed to signify poor, nonaccommodative relationships, it is possible that in good relationships there are very few legitimate grievances since legitimate concerns get ironed out at the pre-grievance stage. Consequently, those grievances which are filed are either truly lacking in merit or involve major policy issues in points of interpretation in dispute between union and management and are, therefore, likely to be rejected at the first level.

It is also possible that the disposition of a grievance might influence the subsequent attitudes of managers toward the union. It might be that the allowance of a grievance, in whole or in part, could produce a negative or hostile attitude toward the union if a manager was overruled on the issue.

## Discussion

The data presented in this paper in general support the hypoth-

TABLE 2  
Spearman Rank-Order Correlations Between  
Scores on the Union-Management Relations Scale  
and Grievance Disposition  
( $9 \leq n \leq 18$ )

Grievance Disposition	Line Managers		I.R. Managers	
	Disciplinary	Non-disciplinary	Disciplinary	Non-disciplinary
Oral 1976				
Rejected	-.08	-.46 <sup>a</sup>	-.42 <sup>a</sup>	-.37 <sup>a</sup>
Accepted	.27	-.28	-.38 <sup>a</sup>	-.09
Accepted in part	-.12	.62 <sup>c</sup>	.43 <sup>a</sup>	.18
Conceded <sup>d</sup>	.17	.46 <sup>a</sup>	.35	.37 <sup>a</sup>
Written 1976				
Rejected	.11	.13	-.22	-.06
Accepted	-.04	-.17	.06	.13
Accepted in part	-.18	.37 <sup>a</sup>	.67 <sup>c</sup>	.01
Conceded <sup>d</sup>	-.11	-.13	.23	.06
Written 1978				
Rejected	.43 <sup>a</sup>	.08	.21	-.29
Accepted	-.35	.14	-.10	.45 <sup>a</sup>
Accepted in part	-.31	-.17	-.22	.07
Conceded <sup>d</sup>	-.43	-.08	-.21	.29

Note: <sup>a</sup> =  $p < .1$ . <sup>b</sup> =  $p < .05$ . <sup>c</sup> =  $p < .01$ .

<sup>d</sup> Conceded is the total of accepted and accepted in part.

esized association between grievance rates and industrial relations climates. The collection of grievance data should be a routine union and management activity, and variance from established norms should trigger managerial analysis and, where indicated, action. Furthermore, the data support the use of grievance rates as proxy measures of such relationships, without implying causal relationships.

It is clear, however, that the interpretation of the patterns of grievance resolution requires considerable more thought and research. A logical extension of this research would be the development and testing of a model which explained the outcomes of the grievance procedure in terms of the relative power of the parties, the personalities involved, the politics of the situation, and many other variables which clinical and case studies have identified but which have not, to date, been incorporated into a comprehensive theoretical framework. One would expect that the climate of union-management relations, as defined in this paper, would have a place in this framework, but whether as a cause, a moderator, or an outcome remains to be determined.

On the basis of the experience gained in conducting this study, apart from the problem of getting access to companies, there are other major problems that people investigating grievances and their disposition in field settings must struggle with.

1. There are problems in defining the appropriate unit of analysis. If it is the bargaining unit, how does one handle multiple plants within the unit? If it is the plant, how does one handle multiple bargaining units within the plant? How does one deal with situations in which early stages of the grievance procedure are managed at the local plant level, while later stages involve some remote corporate management? Be careful of the definition of the unit of analysis to ensure that apples are not being compared with pears.

2. The definition of a grievance varies from one site to the next. Some define grievances narrowly, as alleged violations of the collective agreement. Others open up the grievance system to all complaints. Care should be taken in establishing definitions and in ensuring uniformity in data collection.

3. Many grievance procedures have formal "oral" stages; others have informal "pregrievance" steps. Many have unofficial "final" steps prior to arbitration. Sometimes records of these are kept; sometimes they are not. The reliability of data collection should be monitored very carefully to ensure comparability of data.

4. The state of record-keeping varies from the complete to the non-existent. Often no aggregated data are kept, and the costly and time-consuming examination of individual dockets or files must be resorted to. Beware of biasing samples on the basis of easily available data.

5. Definitions of methods of grievance resolution vary from one site to the next. For example, one organization may define a grievance as "allowed" if any concession takes place, whereas another may define it as rejected unless it was allowed in full. Again, be careful with definitions to ensure comparability of data.

6. In longitudinal field studies, virtually all of the possible threats to validity are only too apparent. Examination of the process by outsiders can alter people's behavior, particularly if they sense that either praise or censure will be linked to the outcome of the examination. Conditions which might affect grievance rates and the mix of issues might change. Employment levels and mix may change. Both managerial and nonmanagerial personnel may experience turnover at a significant rate during the period of the study. While these problems may not be fully overcome in future research, they should be clearly recognized and attempted solutions sought.

7. The calendar year may be an inappropriate time period over which to measure grievance activity since such activity may be unevenly distributed over the life of a contract running two, three, or more years. However, the longer the time period studied, the greater the problems outlined above. Thus there are dangers inherent in com-

paring organizations in which data are gathered over different time periods. Attempts should be made whenever possible to standardize time periods, taking into account the life of contracts.

Despite these very real difficulties, it is hoped that other researchers will be attracted to this field. Our experience is that grievance resolution is of major concern to industrial relations practitioners and that, apart from whatever contribution such research makes to theory-building, they have been supportive of research in this area.

## DISCUSSION

P. H. BRESLIN

*Bethlehem Steel Corporation*

### **The Peterson-Lewin Paper**

This overview of prior research into the grievance procedure and plans for future research is a commendable effort which has obviously been very carefully thought through. I would suggest, as is indicated in my commentary on the paper by Gandz and Whitehead, that the authors here give consideration to other variables in their future research. In addition, I would offer the observation that, in my experience, grievance resolutions are frequently very much influenced by the subject nature of the grievance itself, i.e., its relative significance in terms of liability and/or interpretive effect.

As a final thought, I would repeat the observation that grievance-procedure research will perhaps prove valuable only to the parties involved in the immediate situation examined rather than to a broader community. Discussion of the many variables affecting grievance handling seems to suggest that investigation, in order to be useful, will necessarily be very narrow in its scope.

### **The Briggs Paper**

I found this paper to be a thoughtful and useful examination of the subject. Our experience indicates that one of the reasons for ineffective handling of grievances in the early steps of the procedure is that supervisors frequently, by default, permit their grievance-resolution authority to float up to higher organizational levels. The reason is that it is much easier for the first-line supervisor to avoid the grievance-handling responsibility and, thus, leave undisturbed his working relationship with those he supervises.

Another observation on point here, I believe, is that the respective parties' approach to grievance processing is very much conditioned by their views of the labor agreement itself. Members of supervision are typically conditioned and restricted by management to regard the labor agreement as being a fixed bargain when negotiated; the supervisor measures a grievance's merit or lack of merit in terms of what the labor

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agreement provides. On the other hand, a steward typically views the labor agreement as a fluid document subject to expansion through interpretation. He therefore often views the grievance procedure as a means of continuing the labor agreement negotiations.

Our experience indicates that Briggs makes two extremely valid observations when he recommends the joint training of supervisors and stewards and when he points out the strictures placed on supervision in the lower steps of the grievance procedure with respect to procedural disposition. In respect of the former, certain of our coal-mining operations have undertaken joint training sessions to acquaint supervisors and stewards with the labor agreement and the grievance procedure; those efforts have had a very beneficial effect on the parties' working relationship and the effectiveness of grievance handling. In respect of the latter, the steel industry in 1971 revised its grievance procedure to make nonprecedental any grievance disposition in either the first or second step. The result, in most operating locations, was to produce a substantially higher number of grievance settlements in the earlier steps of the procedure.

### **The Gandz-Whitehead Paper**

This paper poses an interesting hypothesis, i.e., that the processing of grievances is inversely related to the relationship between the parties responsible for the processing in the grievance procedure. In other words, it is proposed that the better the management-union relationship, the fewer the grievances processed and, conversely, the poorer the union-management relationship, the higher the number of grievances processed.

I do not dispute the conclusion reached by Gandz and Whitehead. I would suggest, however, that there are at least five other factors which influence the grievance workload in one direction or the other and which operate independently of and transcend the parties' bargaining relationship. This list is not all-inclusive; there probably are other elements in individual situations which affect the grievance workload, but I feel these five items are fairly general and have a substantial impact on the grievance workload.

#### *1. Internal Union Pressures*

Gandz and Whitehead allude to "politically motivated actions," without further expansion, as having an impact on the grievance procedure. To me, internal union politics can play as important a role in determining activity in the grievance procedure as does the relationship between the parties. For instance, some years ago a local union at one

of our plants, which constituted only 4 percent of Bethlehem's total group of represented employees, was responsible for 54 percent of the grievances appealed to arbitration. This was a fact even though the union staff representative at the arbitration level had an excellent working relationship with his management counterpart. The problem was that the chairman of the grievance committee was very aggressive and insisted on taking to arbitration virtually all of the grievances appealed, including those which obviously did not have merit. Rather than risk the internal animosity of the chairman of the grievance committee, the international union staff representative processed each grievance to arbitration as directed.

This example of internal union pressure is not an isolated instance. The staff representatives are, in at least one sense of the word, servants of the local union and, therefore, can be subject to doing the local union's bidding. The fact that a local union may force the reassignment of an international union representative is well known to all concerned and, therefore, to avoid repercussions, most international union staff representatives will accede to the local union's request to arbitrate a case rather than to risk criticism. This internal union pressure results in a clogged arbitration docket irrespective of the relationship of the company and the union representatives.

## *2. Local Union Elections*

While I agree with Gandz and Whitehead that there is a cyclical increase in the grievance load coincident with contract negotiations, there is, in our experience, another cyclical factor which has a significant impact on the grievance workload—the triennial elections of local union officers. We always experience a substantial increase in the number of grievances processed in the few months preceding local union elections when the various candidates are sparring with each other and are processing grievances as favors to individual employees.

For instance, in the several months preceding local union elections in 1976, there was an increase of 61.3 percent in grievances pending arbitration. Similarly, in the Spring of 1979, there was a 54.2 percent increase, over several months, in the number of cases pending arbitration.

## *3. The Threat of Legal Action by Employees*

Another independent factor affecting the grievance procedure workload is a concern by union officials that if they do not fully process an individual's grievance to arbitration, the employee will seek recourse either in a civil suit or before the NLRB or EEOC. Over the years,

there has been a steady increase in the number of instances in which an employee whose grievance was withdrawn by the union sought recourse outside the grievance procedure against the union representative who withdrew the grievance. For instance, in 1980 there were 45 charges filed with the NLRB by employees against labor organizations and union officials representing Bethlehem steelworkers. While this figure may not appear significant, the spectre of NLRB or other legal action, I believe, strongly impels many union representatives to process a grievance rather than face the possibility of outside action.

#### *4. The Cost Factor as an Influence on the Grievance Procedure Workload*

Another influence which must be considered, quite aside from the relationship of the bargaining parties, is the cost of arbitration. In 1979 the average cost to each party for a case decided in the Bethlehem system was \$510 in Umpires' fees and expenses plus \$280 for the transcript—or \$790 for each of the parties for every decision received. The cost figure does not include the considerable overhead in maintaining an office for the Impartial Umpire and the secretarial force necessary for the operation of the office. Cost is a particularly significant factor for a number of our local unions because of the substantial layoffs that have occurred over recent years. Local union representatives are more cost-conscious and less willing to process grievances which are patently without merit. As an indication of the union's cost-consciousness, earlier this year, at the union's request, the parties discontinued the practice of having a transcript made in each arbitration case. Now transcripts are made only in sensitive cases, such as incentive grievances and discharge cases.

Over the past few years we have seen an increasing willingness on the part of the local unions to settle cases before arbitration, and we feel the cost of arbitration is one of the significant factors resulting in this trend. It is clearly a factor working to restrict the number of grievances actually arbitrated, without regard to the parties' working relationship or lack of one.

#### *5. Workforce Characteristics*

A number of studies have been done on the relationship between the grievance-filing rate and various characteristics of the workforce. A recent specific plant experience in our company leads me to believe that the nature of the workforce is a very important variable in determining grievance activity. In the instance referred to, selection procedures were revised so that a great deal more emphasis was placed



on prior industrial experience, a good work-attendance record, exposure to shift work, and several positive attitude indicators determined by interview. The groups of employees hired two years before the revision were compared with those hired following it in terms of several factors, one of which was the grievance-filing rate. The group hired under the more rigid procedure had an average filing rate of only .04 grievance per employee as compared with .22 for the group hired during the earlier period, a ratio of more than five to one.

### *Conclusion*

In summation, I would suggest that, given the variables mentioned above, plus the problems noted by Gandz and Whitehead, research into the grievance procedure is a difficult and complex undertaking. All of the factors mentioned above indicate a conclusion that, to be useful, research in the grievance procedure area must be especially thorough and perhaps narrowly defined in terms of objectives and scope.

## DISCUSSION

DEE W. GILLIAM

*United Steelworkers of America*

On page 2 of his paper, Professor Briggs discusses the role of the stewards and the supervisors. In many labor agreements, particularly in the steel industry and other major industries, the steward has been eliminated from the handling of grievances. We use grievance committeemen and assistant grievance committeemen. Usually the contracts negotiated by the Steelworkers provide no less than three nor more than 10 grievance committeemen and assistant grievance committeemen for a specified number of employees. A point is also made that perhaps first-step answers by the supervisor are shared by the Industrial Relations Department (IRD) or even written by the labor relations staff "out of concern for consistency of agreement interpretation across the entire bargaining unit." I believe this is true. However, I think that this is wrong if the IRD is involved in all grievance answers. There are some grievances, however, where I can understand why the company directs the IRD to assist in developing the answers. There are some cases in which the union wants our staff representatives to be involved due to the possible impact of the grievance settlement on the future interpretation of the agreement.

On a later page Professor Briggs states:

Admittedly, there are some employers who would be reluctant to grant their shop level representatives full grievance settlement authority, no matter how well they understood labor agreement terms. At the very least, it might be helpful for supervisors in such organizations to draft first-step grievance responses for subsequent review by the employer's labor relations staff.

It has been my experience that any time you get the IRD involved in Step I on a regular basis, you will not settle as many grievances as you would if they are excluded. This is the reason why we have revised many of our agreements to provide for an oral Step I and Step II and also to provide that such settlements are not binding on either party in future cases.

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This language is an attempt to stimulate settlements early in the grievance procedure. Quite a number of contracts contain language which spells out the authority of the participants in the various steps of the grievance procedure. An example of such language is: "The foreman shall have the authority to settle the complaint. The assistant grievance committeeman shall have the authority to settle, withdraw, or appeal the complaint."

I think that this type of contract language is very helpful in resolving grievances.

The research and the utilization of the grievance procedure are discussed in the paper by Peterson and Lewin. They state that the majority of time and effort spent in day-to-day management of labor relations is spent on grievance handling. The grievance procedure today is used more extensively than it was eight or ten years ago. We have many plants where grievance handling requires full-time work by part or all of the grievance committee. There is no doubt that this function consumes the most time of the local union representatives.

The comments on the lack of research on the functioning of the grievance procedure are valid, I believe, to a certain degree. However, I caution that it should not be assumed that in most situations the union and/or the company do not know what has occurred in each step of the grievance procedure. Many unions, for example, receive periodic reports from the companies containing grievance statistics on a plant-by-plant basis.

Professors Peterson and Lewin state, "In particular, effective grievance handling should help to bring about an atmosphere that encourages more integrative bargaining between union and management than would otherwise exist. It should also reduce hostility and increase the amount of trust between managers and union officials." My experience indicates that where you find a good relationship between the parties, you will find the most efficient grievance procedure; the locations with bad relationships will probably have poorly functioning grievance procedures.

My question is, which comes first? Does the good relationship between the parties increase the efficiency of the procedure, or does the efficient procedure create the good relationship?

The Gandz and Whitehead paper, "Relationship Between Industrial Relations Climate and Grievance Initiation and Resolution," points out the difficulties involved in assuming that grievance rates or patterns of grievance resolution are reliable indications of union-management relationships. There are many other factors which also contribute to the grievance-filing rate. One item that seems to influence grievance filing

rates is local union elections; others are the economic climate and changes in management.

During contract negotiations, which usually extend for a month or more, invariably not much is accomplished until the last two or three days of negotiations. The time constraints, in many cases, produce contract language which is not as clear as it might be, and in some cases the parties cannot agree on language submitted by either party. However, they are sometimes able to compromise and agree to language which each side believes reflects its view and then they believe that they have prevailed in their position. This may later result in grievances which are eventually processed to arbitration.

Another assumption I have is that the grievance procedure has become a therapeutic process in some cases. Sometimes the union or management has a problem with an employee and cannot convince him that he does not have a grievance. Whether the employee is a union member or a management representative, sometimes the matter is resolved only in arbitration by a neutral.

## XIV. CONTRIBUTED PAPERS: TRADE UNIONISM

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### A Time Series Analysis of Union/Nonunion Relative Wage Effects in the Public Sector

WILLIAM J. MOORE  
*Miami University*

JOHN RAISIAN  
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Researchers have been attempting to measure the relative wage impact of unionism in the public sector for over a decade. After surveying these research efforts, Lewin expressed the feelings of many others when he concluded, "the 'average' wage effect of unionism in government, . . . is roughly on the order of five percent, a much smaller impact than is popularly supposed and smaller than the average union wage impact in private industry."<sup>1</sup>

While this result should be comforting to those such as Wellington and Winter and Daniel Orr who have raised doubts with respect to the propriety of transferring the process of collective bargaining to the public sector,<sup>2</sup> we present new time-series evidence in this paper which could alter existing views on the issue.

In this paper we make use of a longitudinal micro data base to present some standardized results for a group of public employees for an extended period of time. That is, we calculate the union wage premium using the same model specification for each year for the period 1967 through 1977. From this analysis, we can examine the year-to-

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<sup>1</sup> David Lewin, "Public Sector Labor Relations," *Labor History* (Winter 1977), p. 138.

<sup>2</sup> H. Wellington and R. Winter, *The Unions and the Cities* (Washington: Brookings Institution, 1971), and Daniel Orr, "Public Employee Compensation Levels," in *Public Employee Unions*, ed. A. Lawrence Chickering (San Francisco: Institute for Contemporary Studies, 1977), pp. 131-44.

year fluctuations in the union wage premium to see whether there is danger in interpreting single cross-section estimates of the union premium as stable indicators. Next, we pool the cross-section data to obtain an estimate of the overall effects of public unions for the entire period. This approach should provide us with more reliable estimates of the effects of public unions on various groups of public employees during this period. Finally, we estimate regressions for separate samples of union and nonunion public employees in order to analyze the growth rate of real wages for these types of employees. Throughout our analysis we shall present similar estimates for the economy as a whole from this same data base for comparative purposes.<sup>3</sup>

### The Model

To estimate the union wage premium for any given year, we use the following human capital earnings model—one that is widely used in the literature today:<sup>4</sup>

$$(1) \quad \ln W_i = \gamma_0 + \gamma_1 HC_i + \gamma_2 PC_i + \gamma_3 LOC_i + \gamma_4 UN_i + u_i$$

where  $\ln W_i$  is the natural logarithm of the  $i$ th individual's hourly wage,  $HC$  is a vector of human capital variables possessed by the individual,  $PC$  is a vector of personal characteristics,  $LOC$  is a vector of locational variables associated with the individual,  $UN$  is a dummy variable having the value of one if the individual belongs to a union and zero if not, and  $u$  is a random disturbance term. Under this specification, the estimated value of  $\gamma_4$  provides an indication of the effect of unionism on relative wages. In particular, the proportionate wage advantage due to union membership,  $\gamma$ , other things equal, is  $\gamma = \exp(\gamma_4) - 1$ . If we are interested in the union wage premium for particular subgroups of workers, we can interact the union dummy variable with other relevant dummy variables to obtain such estimates.

To obtain the overall union wage premium for workers over the period 1967 through 1977, we can modify our basic model as follows:

$$(2) \quad \ln (W/P)_{it} = \gamma_0 + \gamma_1 HC_{it} + \gamma_2 PC_{it} + \gamma_3 LOC_{it} + \gamma_4 UN_{it} + v_{it}$$

where  $P$  represents the national CPI and  $t$  refers to the year that the

<sup>3</sup> For an expanded discussion of these results, see William J. Moore and John Raisian, "A Time Series Analysis of the Growth and Determinants of Union/Nonunion Relative Wage Effects, 1967-1977," U.S. Department of Labor, BLS *Working Papers*, No. 115, April 1981.

<sup>4</sup> For a general discussion of this type of model and an excellent review of the existing literature on union wage effects, see C. J. Parsley, "Labor Union Effects on Wage Gains: A Survey of Recent Literature," *Journal of Economic Literature* 18 (March 1980), pp. 1-31.

observation was taken. The other variables are the same as defined above.

Next we added a trend variable ( $T$ ) to the model and estimated the model for separate samples of union and nonunion public employees in order to ascertain the extent of differential wage growth between these groups. By examining the coefficient estimated for the trend variable in the union and nonunion equations, we obtain some idea concerning the relative growth in real wages for these two groups over the period.

### The Data and Model Variables

To empirically estimate the union relative wage effects, the Income Dynamics Panel is utilized; it represents a sample of more than 5,000 individual households per year over an 11-year period (1967–1977).<sup>5</sup> This data source is ideal since it contains rather detailed information on individuals as well as job-related characteristics. Our sample is limited to male heads of households between the ages of 18 and 65 who are not self-employed and who reported positive labor income and positive annual hours worked for the year. Finally, education and medical employees are excluded from the sample of public employees.

In all the regressions we used the following variables to control for the effect of human capital on wages: Education, Education squared, Current Work Experience, Current Work Experience squared, Age, Age squared, and interaction variables between Age, Age<sup>2</sup>, and Education. As a control for personal characteristics, we included a dummy variable for Race, having the value of one if the individual is nonwhite and zero if white. Under the locational characteristics vector we included a regional dummy variable for the South and several dummy variables indicating the distance from the respondent's residence to the nearest SMSA, and a white-collar occupation dummy variable.

The dependent variable in our regressions is defined in terms of natural logarithms. Therefore, the coefficient estimates of the continuous variables can be transformed to represent the percentage effects of changes in the explanatory variables on the wage rates. In the pooled time-series regressions, we deflated the wage rates by the annual Consumer Price Index (CPI) to measure the dependent variable in real terms, and we included a simple trend variable which goes from 1 to 11 for 1967–1977 to capture the annual growth in wages over the period.

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<sup>5</sup> The Income Dynamics Panel data were collected and processed by the Survey Research Center, University of Michigan. Since part of the sample was purposefully taken from low-income households, some caution should be used in generalizing our empirical results to the entire economy.

## Empirical Results

### *Cross-Section Annual Estimates*

Table 1 presents the annual union wage premium for public employees calculated from OLS regressions using equation (1).<sup>6</sup> For comparative purposes, we also include the union wage premiums for the whole economy calculated by Moore and Raisian [1981] using an almost identical model specification.

TABLE 1  
Annual Cross-Section Estimates of the Union Wage Premium  
for the Public Sector and the Economy as a Whole, 1967-1977

Year (1)	Percentage Union Wage Premium		Ratio (4)
	Public Sector (2)	Economy as a Whole (3)	
1967	18.34*	24.40*	.752
1968	10.81	23.62*	.458
1969	6.11	19.81*	.308
1970	11.92*	21.40*	.557
1971	4.76	25.43*	.187
1972	- 0.12	20.34*	.000
1973	17.41*	23.96*	.727
1974	15.40*	22.99*	.670
1975	18.32*	25.62*	.714
1976	16.51*	28.51*	.579
1977	12.63*	25.74*	.491

\*Coefficient is significant at the .05 level.

Examination of Table 1 suggests that the public-sector wage premium *may* have increased during the period 1967 to 1977 both in absolute terms and relative to the union wage premium in the private sector. Only two of the six public-sector union coefficients were significant for the period 1967 to 1972, whereas all five coefficients in the most recent period were highly significant. Moreover, the average value of the union wage premium for the period 1967 to 1972 was only 8.64 percent compared to 15.87 percent for the last five-year period observed. The interpretation that the public-sector union wage premium has increased in recent years should be treated cautiously. Conventional F-tests revealed that the parameter estimates on the union variables are not statistically different for each year. Also, the sample size virtually doubled in the latter period, perhaps accounting for the increased statistical significance of the individual year estimates.

Finally, although the public-sector union premium is substantially

<sup>6</sup> To conserve space, the complete regressions are not reported, but may be obtained from the authors upon request. The nonreported coefficients have the anticipated signs and significance, and the overall explanatory power of the various equations is quite comparable to the existing literature.



smaller than the wage premium in the private sector, the trend in the ratio of these two premiums (shown in Column 4 of Table 1) *suggests* that public unions have been catching up in recent years. Again, this interpretation should be treated cautiously since our time-series analysis, presented below, indicated no significant difference in the real wage growth rate between union members in the public and private sectors.

One other important point is worth noting in these cross-section results. That is, substantial variation exists in the year-to-year estimates of the union wage premium in both the public and private sectors in the United States. This finding substantiates Moore and Raisian's argument that one should be extremely cautious in drawing conclusions concerning union wage effects from cross-section studies made at a point in time.<sup>7</sup> In an effort to lessen this problem, we pooled the cross-section data to obtain an overall union wage premium for the period 1967 through 1977 using equation (2) discussed above.

### *Time-Series Estimates*

Table 2 presents the estimated overall public-sector union wage premium for all public employees and for some important subgroups of public employees.<sup>8</sup> For comparative purposes we include the union wage premiums for the whole economy calculated by Moore and Raisian [1981] using an almost identical model specification to ours.

TABLE 2  
Pooled Estimates of Union/Nonunion Relative  
Wage Effects in the Public Sector, 1967-1977

Union Group (1)	<i>Percentage Union Wage Premium</i>	
	Public Sector (2)	Total Economy (3)
All union members	12.82	23.83
White union members	10.15	20.09
Nonwhite union members	16.63	30.93
Non-South union members	8.70	20.44
South union members	20.97	30.94
Blue-collar union members	22.96	30.92
White-collar union members	5.79	4.17

Based on the estimates of the overall wage effect of unions reported in Table 2, we reach the following conclusion with respect to the influence of public unions in recent years. First, public unions have had a very substantial positive influence on the wages of their members relative to the wages of nonunion public employees, *ceteris paribus*.

<sup>7</sup> William J. Moore and John Raisian, "Cyclical Sensitivity of Union/Nonunion Relative Wage Effects," *Journal of Labor Research* 1 (Spring 1980), pp. 115-32.

<sup>8</sup> The complete regressions may be obtained from the authors upon request.

The average public-sector union wage premium for all public employees over the period was 12.82 percent. While this figure is substantially below the figure for private-sector unions, 23.83 percent, it is considerably higher than the level reported in most other studies of the public sector, as noted above.<sup>9</sup> This is probably due to the fact that our data extends to more recent years than those of most of these other studies and the public-sector union wage premium has been rising over time, as indicated in our Table 1 results.

Second, we find that the public-sector union wage premium differs significantly among the various types of workers, but that the pattern of deviation is almost identical to that for the economy as a whole. In general, the overall wage premium is significantly larger for the following groups of public employees: nonwhite workers (16.63 percent); southern workers (20.97 percent); and blue-collar employees (22.96 percent). Since Column 3 indicates that this same pattern is present in the total economy union wage premiums, it would appear that some basic force is in operation under union wage determination in both the public and private sectors. Moore and Raisian [1981] attribute the relatively large union wage premiums for nonwhite, southern, blue-collar, and less-educated workers to the attempt by unions to pursue a more-or-less standard wage for their members for reasons of equity and administrative convenience.

#### *Union/Nonunion Wage Growth in the Public and Private Sectors*

In order to ascertain the extent of differential wage growth between union and nonunion public employees over the period, we reestimated equation (2) with a simple trend variable added for separate samples of union and nonunion employees. The complete regressions are not reported; rather, Table 3 presents the trend coefficients from the two equations. We find that the real hourly wage of union employees in the public sector rose by 2.044 percent annually, compared to only 1.543 percent for nonunion employees. However, as shown in Column 4, the difference in these two growth rates is not statistically significant at the .05 level. In this regard it is interesting to note that for the economy as a whole wages in the union sector have been rising at a statistically significant higher rate than in the nonunion sector, as shown in the lower half of Table 3.

Finally, reading down Table 3, we find that the annual growth rate for union workers is higher in the public sector (2.044 percent) than

<sup>9</sup> Part of the explanation for this is that we omitted educational and medical employees from our sample of public employees. Since it is well established that union wage premiums for public school teachers are relatively small (0 to 5 percent), their omission from our sample is reflected in the larger union premium.

TABLE 3  
Estimated Trend Coefficients on Wage Growth  
in the Public Sector and for the Economy as a Whole, 1967-1977.

Equation (1)	Union Employees (2)	Nonunion Employees (3)	Difference and Significance* (4)
Public-Sector Trend Coefficients and <i>t</i> -statistics	.02044 (4.89)	.01543 (3.85)	.00501 (not significant)
Economy-Wide Trend Coefficients <sup>(b)</sup> and <i>t</i> -statistics	.01884 (14.752)	.01118 (9.675)	.00186 (significant)

\*Significance based on conventional F-tests using .05 level of significance.

for the economy as a whole (1.884 percent). However, this difference is not statistically significant by conventional standards. In this same regard, we find that the growth rate in wages for nonunion employees is higher in the public sector (1.543 percent) than for the economy as a whole (1.118 percent). This finding clearly suggests that forces other than the increase in union membership have been partially responsible for the relative gain in public-sector wage rates over the period.

## Conclusions

The empirical results presented in this paper indicate that the relative wage effects of unions in the public sector may have risen in recent years. For the period 1973 through 1977 we calculated the public-sector average union wage premium to be 15.87 percent. This figure represents a threefold increase over earlier cross-section estimates. For the entire 1967 through 1977 period, we calculated an overall public-sector union wage premium of 12.82 percent. While these figures are still substantially below those of private-sector union wage premiums, it appears likely that the differential is narrowing. In this last regard, we showed that union and nonunion employees in the public sector experienced faster rates of growth in wages than their private-sector counterparts over the period. Finally, when one recalls that fringe benefits are generally greater in the public than in the private sector and that it is possible that the threat effects of public unions exceed those of unions in the private sector, the upward trend in the economic influence of unions in the public sector is a phenomenon which should be watched closely in the future.

# Union-Nonunion Wage Changes and Voting Trends in Union Representation Elections\*

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This paper presents the results of an empirical study of the determinants of worker preferences for unionization as these preferences are expressed through voting in National Labor Relations Board (NLRB) certification elections. A regression analysis of quarterly time-series data is conducted in order to focus specifically on the relationship between changes in union-nonunion relative wages and voting trends and, secondarily, to examine the general macroeconomic environmental factors which affect the decision to vote for unionization in certification elections.

There are two main reasons for carrying out this research. First, although interest in the determinants of trade union growth has led to a number of time-series studies, these have focused almost exclusively on the determinants of overall union membership growth.<sup>1</sup> This paper concentrates on one aspect of membership growth—new union organizing—and on the factors affecting the likelihood that a nonunion worker would choose union representation if given the opportunity to do so in an election.

The second reason for this study is to attempt to gain some insight into the macroeconomic factors associated with the by now familiar evidence that in recent years the trade union movement in the United States has declined relative to the overall workforce. Part of this de-

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<sup>1</sup> See, for example, Neil Shefflin, Leo Troy, and C. Timothy Koeller, "Structural Stability in Models of American Trade Union Growth," *Quarterly Journal of Economics* 96 (February 1981), pp. 77–88. For two time-series studies of election outcomes, see Myron Roomkin and Hervey A. Juris, "Unions in the Traditional Sectors: The Mid-Life Passage of the Labor Movement," *Proceedings of the Thirty-First Annual Meeting*, (Madison, Wis.: Industrial Relations Research Association, 1979), pp. 212–22; and Arvil V. Adams and Joseph Krislov, "New Union Organizing: A Test of the Ashenfelter-Pencavel Model of Trade Union Growth," *Quarterly Journal of Economics* 88 (May 1974), pp. 304–11.

cline, of course, is due to the structural shifts in the economy reducing the relative size of the heavily unionized goods-producing sector. Yet, some part of the relative decline in union membership is due to reduced effectiveness of union attempts to organize new units.<sup>2</sup> The percentage of workers voting for unions in NLRB elections and the percentage of such elections won by unions has declined significantly since the mid 1960s. Thus, by examining the determinants of the percent voting for unions over time, an attempt is made to shed additional light on this issue.

### The Model

The general hypothesis upon which this study is based is expressed by Ashenfelter and Pencavel: ". . . an employee's decision to join a union will depend upon his subjective assessment of the expected benefits to be obtained from union membership as against his subjective assessment of the expected costs of membership."<sup>3</sup> The problem is to identify specific variables which, by their role in the macroeconomic environment, are likely to affect workers' assessments of the benefits and costs of unionization. In doing so, the results of previous time-series empirical studies, previous cross-section empirical studies, and previous nonempirical analytical work on the determinants of union growth and worker preferences for unionization will be drawn upon.

Kochan demonstrates the importance of bread-and-butter issues in formulating worker expectations about the desirability of union representation.<sup>4</sup> It seems clear that increases in the relative wage advantage of union members should increase nonunion workers' estimates of the potential gain to unionization, other things being equal. The first two independent variables in the model attempt to measure the change in the average union-nonunion wage differential. These variables are the average percentage change in wages in union manufacturing establishments over the preceding year ( $\% \Delta UW$ ) and the average percentage change in wages in nonunion manufacturing establishments over the preceding year ( $\% \Delta NUW$ ). These data are available from the Wage Developments in Manufacturing surveys conducted by the Bureau of Labor Statistics<sup>5</sup> and are the only aggregate data available on the union-nonunion wage differential for an extended period of time. Con-

<sup>2</sup> Marcus H. Sandver and Herbert G. Heneman III, "Union Growth Through the Election Process," *Industrial Relations* 20 (Winter 1981), pp. 109-16.

<sup>3</sup> Orley Ashenfelter and John H. Pencavel, "American Trade Union Growth: 1900-1960," *Quarterly Journal of Economics* 83 (August 1969), pp. 434-48.

<sup>4</sup> Thomas Kochan, "How American Workers View Labor Unions," *Monthly Labor Review* 102 (April 1979), pp. 23-31.

<sup>5</sup> As reported in *Current Wage Developments*.

trolling for  $\% \Delta NUW$ , an increase in the  $\% \Delta UW$  would increase the union-nonunion wage advantage and thus should induce a greater percentage of workers to vote for representation.  $\% \Delta NUW$  should have a negative effect on the percentage of workers voting for unions, controlling for the effect of  $\% \Delta UW$ .

Another independent variable is the unemployment rate of males, age 25-54 ( $UM$ ). Elsheikh and Bain find an inverse relationship between the change in unemployment rates and the rate of growth of union membership, and Roomkin and Juris find a negative relationship between the unemployment rate and the percentage of representation elections won by unions.<sup>6</sup> As Farber and Saks point out, a worker's expected utility resulting from changing a nonunion job into a union job is positively related to the probability of retaining that job after it is unionized.<sup>7</sup> Since unions can be viewed as increasing the risk of unemployment by raising average wages, it can be argued that workers lower their estimate of the probability of retaining the unionized job and thus their expected benefits from unionization during periods of high unemployment.

Also included in the model is a variable measuring the average size of the election unit ( $AVSIZ$ ), which is calculated as the number of employees eligible to vote in NLRB elections in a period divided by the number of elections held in that period. This variable is included in the regression analysis since several authors hypothesize a positive relationship between establishment size and the propensity of workers to unionize.<sup>8</sup> It has been argued that unions will make stronger efforts to organize larger units because of the larger potential payoff in added members and dues. Workers in larger, more impersonally directed establishments may find the nonwage union benefits, such as grievance procedures and seniority rules, more attractive than workers in smaller establishments with closer interpersonal relationships between workers and employers. Establishment size may be correlated with product market power or ability to pay, thus increasing the potential bargaining power of unions. Employers in smaller establishments may be better

<sup>6</sup> Farouk Elsheikh and George Sayers Bain, "American Trade Union Growth: An Alternative Model," *Industrial Relations* 17 (February 1978), pp. 75-79; and Roomkin and Juris.

<sup>7</sup> Henry S. Farber and Daniel H. Saks, "Why Workers Want Unions: The Role of Relative Wages and Job Characteristics," *Journal of Political Economy* 88 (April 1980), pp. 349-69.

<sup>8</sup> George Sayers Bain and Farouk Elsheikh, "An Inter-Industry Analysis of Unionization in Britain," *British Journal of Industrial Relations* XVIII, (July 1979), pp. 137-57; John T. Addison and W. S. Siebert, *The Market for Labor: An Analytical Treatment*, (Santa Monica: Goodyear, 1979), p. 255; and Albert A. Blum, "Why Unions Grow," *Labor History* 9 (Winter 1968), pp. 39-72.

able to communicate their views to the workers during the pre-election campaign period. Finally, there may be economies of scale in union administration that leads to workers in small units being less likely to realize the full benefits of unionization.

The percentage of estimated working time lost due to work stoppages in the previous quarter ( $STRK_{-1}$ ) is entered into the model. This variable hasn't been included in previous studies of union membership growth, but it appears that the probability of losing work due to strikes is an important element in worker estimates of the costs of union representation. Evidence for this can be seen in the heavy emphasis placed by employers on the possibility of strikes in their antiunion pre-election campaigns.<sup>9</sup> Thus if workers do place great weight on strike losses as a potential cost of unions, and if recent experience with work time lost to strikes influences worker estimates of the probability of and costs associated with strikes,  $STRK_{-1}$  could be expected to have a negative effect on the percentage voting for unions. However, this effect would be reduced or reversed if workers are more attracted to militant unions.

Finally, three employment growth rate variables are included in the analysis. The growth rate of employment of males in the mining, manufacturing, and construction industries ( $\% \Delta EMG$ ) is expected to have a positive effect on the percentage voting for unions since this variable captures growth in traditionally unionized groups. The percentage change in employment in states with "right-to-work" laws ( $\% \Delta ERTW$ ) may be expected to have a negative effect on voting for unions since this variable captures changes in economic activity in states where political and social attitudes would not be categorized as pronunion. Finally, the percentage change in employment of married women ( $\% \Delta EMW$ ) could also be expected to have a negative effect on voting for unions. If married women have weaker attachments to the workforce than other groups, the potential lifetime payoff to unionization would be reduced for these workers.<sup>10</sup>

## Empirical Results

The results of the hypotheses discussed above can be summarized by the following linear equation;

<sup>9</sup> See William E. Fulmer, *Problems in Labor Relations; Text and Cases*, (Homewood, Ill.: Richard D. Irwin, 1980), pp. 145-227.

<sup>10</sup> For more evidence on these points see: Barry T. Hirsch, "The Determinants of Unionization: A Analysis of Interarea Differences," *Industrial and Labor Relations Review* 33 (January 1980), pp. 147-61; and William J. Moore and Robert J. Newman, "On the Prospects for American Trade Union Growth: A Cross-Section Analysis," *Review of Economics and Statistics* 57 (November 1975), pp. 435-45.

$$\begin{aligned} \%FOR_t = & b_0 + b_1\% \Delta UW_t + b_2\% \Delta NUW_t + b_3UM_t + b_4AVSIZ_t \\ & + b_5STRK_{t-1} + b_6\% \Delta EMG_t + b_7\% \Delta ERTW_t \\ & + b_8\% \Delta EMW_t + V_t \end{aligned}$$

where  $b_1, b_4, b_6 > 0$  and  $b_2, b_3, b_5, b_7, b_8 < 0$ .

Table 1 presents the estimated coefficients of the model using data for 40 quarterly observations from 1970:I to 1979:IV. Data for the dependent variable and *AVSIZ* are from quarterly election reports provided by the NLRB and refer only to certification elections. Data for the union and nonunion wage-change variables are available on a quarterly basis only for the time period beginning with the fourth quarter of 1969 and this limits the time series of data available for this study.<sup>11</sup>

As is clearly evident, the independent variables in the regressions explain better than 70 percent of the variation in the percentage of workers voting for unionization in this period. The Durbin-Watson statistic indicates the possibility of positive serial correlation in the first regression, so the model is reestimated using the Cochrane-Orcutt method. The *t*-statistics in parentheses indicate that the coefficients of all variables except a few of the employment-change variables are significantly different from zero at the .05 level. Experimentation with different sets of lag structures on the independent variables failed to significantly change the results reported in Table 1. It should be noted that both wage change variables do incorporate lagged data since these items measure wage changes over the year preceding the current quarter.

The hypothesis that voting preferences are responsive to changes in the monetary returns to union membership is supported by the regression results in Table 1.  $\% \Delta UW$  has a statistically significant positive effect on the percent choosing unions while  $\% \Delta NUW$  has a statistically significant negative effect. The coefficients indicate the change in nonunion wages has a larger marginal effect on voting than does the change in union wages, perhaps reflecting the existence of costs to membership that are not controlled for in the model.

Evaluating the elasticity of the dependent variable with respect to  $\% \Delta UW$  and  $\% \Delta NUW$  at the means indicates that a 10 percent increase in the mean value of  $\% \Delta UW$  would raise the mean value of the percent voting for unions by 4.3% in regression A. Similarly, a 10 percent increase in the mean value of  $\% \Delta NUW$  would lower the percent voting for unions by 5.6 percent.

<sup>11</sup> Data on the wage variables are from various issues of *Current Wage Developments*; the data on the employment variables are from various issues of *Employment and Earnings*; and the data for the remaining variables are from various issues of *Business Conditions Digest*.



TABLE 1  
Determinants of the Percentage of Workers Voting  
For Unions in NLRB Elections, 1970:I to 1979:IV

Variables	A	B*	C*
CONSTANT	.46281 (4.35)	.49026 (8.69)	.47972 (9.04)
% <i>UW</i>	.027701 (4.35)	.026108 (3.68)	.02617 (3.86)
% <i>NUW</i>	-.04876 (6.92)	-.04650 (5.46)	-.04632 (5.79)
<i>UM</i>	-.01745 (2.67)	-.01732 (2.38)	-.01659 (2.42)
<i>AVSIZ</i>	.00313 (5.87)	.00268 (3.95)	.002716 (4.09)
<i>STRK</i> <sub>-1</sub>	-.08914 (1.81)	-.09686 (1.94)	-.08384 (1.78)
% <i>EMG</i>	.04384 (0.13)	0.06672 (0.19)	
% <i>ERTW</i>	-.1994 (0.58)	-.20608 (0.70)	
% <i>EMW</i>	-1.0171 (1.86)	-.7940 (1.53)	-.88394 (1.95)
<i>R</i> <sup>2</sup>	.7712	.7102	.7033
D-W	1.709	1.949	1.98
Rho		.230047 (1.98)	.186979 (1.18)

Note: *t*-statistics are in parentheses.

\*The data have been adjusted according to the Cochrane-Orcutt iterative technique to reduce serial correlation in the residuals.

The results for the other variables generally support the hypotheses with regard to the direction of influence on the dependent variables. The unemployment rate has a negative effect on the likelihood of workers voting for unions. *AVSIZ* has a statistically significant positive coefficient in every regression in Table 1, indicating that the larger the average size for the election unit, *ceteris paribus*, the greater the probability that a worker would vote for union representation. The strike effect variable is consistently negative although the *t*-statistics are rather low. Among the employment-change variables, only the growth rate of employment of women approaches statistical significance. A comparison of the regression indicates that dropping % $\Delta$ *ERTW* and % $\Delta$ *EMG* does little to affect the explanatory power of the model or the estimated coefficients of the other variables except that of % $\Delta$ *EMW*.

Because of the ad hoc nature of the specification of the models estimated in Table 1, tests for specification error developed by Ramsey were applied to the regressions.<sup>12</sup> These tests essentially involve examining the significance of regressing the residual of a regression on the squared, cubed, etc., values of the predicted dependant variable. In the case of the regressions in Table 1, no evidence of serious misspecification was discovered.

## Summary

In an attempt to provide additional empirical information on changes in union membership over time, this paper developed a model of worker preferences for union representation as expressed by the percentage of nonunion workers voting in favor of unionization in NLRB representation elections. The model was estimated using ordinary least squares regression techniques for 40 quarterly observations from 1970:I to 1979:IV. In general, the model fit the data fairly closely and the hypotheses about the effects of the independent variables on the percent of workers voting for unions were supported by the results.

Unlike most previous time-series studies of the determinants of union membership or union voting behavior, this paper attempted to examine the effect of changes in the union-nonunion wage differential on the likelihood that nonunion workers would vote for union representation. As hypothesized an increase in the money payoff to unionization, as measured by the differences in wage growth rates in union and non-union manufacturing establishments, resulted in an increase in the percentage of workers voting for representation.

Between 1970:IV and 1979:IV, the actual percentage voting for unions dropped from 52 to 47.7 percent, while the percentage predicted by regression A fell from 52 to 45.4 percent over the same period. According to the determinants of voting patterns described in this equation, the drop is attributed to (1) a faster rate of increase in nonunion wages than in union wages, (2) an increase in the adult male unemployment rate, (3) a decrease in the average unit size, and (4) an increase in the rate of growth of married female employment in the later period. These factors leading to a reduced percentage for unionization outweighed the positive effect on the dependent variable of a slightly lower strike rate.

<sup>12</sup> J. B. Ramsey, "Test for Specification Errors in Classical Linear Least Squares Regression Analysis," *Journal of the Royal Statistical Society, Series B*, 31 (1969), pp. 350-71.

# The AFL-CIO's Political Record, 1974-1980\*

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In the 1980 national elections, the Republicans scored many electoral gains. These results were a clear disappointment to the AFL-CIO, which, although nominally nonpartisan, identifies mostly with Democrats.<sup>1</sup> Evidence of this dissatisfaction can be found in AFL-CIO President Lane Kirkland's suggestion that the federation reevaluate its political tactics.<sup>2</sup>

This paper broadly examines the AFL-CIO's political record since 1974, using endorsement and congressional rating data. The 1974 through 1980 period is studied for two reasons. First, the 1974 amendments to the Federal Election Campaign Act may have substantially affected the AFL-CIO's political clout.<sup>3</sup> Second, both the federation and others interpreted the 1974 and 1976 elections as the beginning of a favorable political era for organized labor.<sup>4</sup> We assess the extent to which the federation's optimism was realized by examining the AFL-CIO's post-1974 electoral and legislative successes. The results generally suggest that the AFL-CIO's political record during this period was more modest than what it thought was possible. Further, we identify several research questions that should be addressed in future studies of labor's political efforts.<sup>5</sup>

## Labor's Political Activities

Since the 1930s, the American labor movement has tended to focus

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\* We are indebted to Milton Derber and Peter Feuille for their generous comments on an earlier version of this paper.

<sup>1</sup> J. David Greenstone, *Labor in American Politics* (Chicago: University of Chicago Press, 1977).

<sup>2</sup> Lane Kirkland, "Labor and Politics After 1980," *American Federationist* 88 (January 1981), pp. 18-20.

<sup>3</sup> Edwin M. Epstein, "Labor and Federal Elections: The New Legal Framework," *Industrial Relations* 15 (October 1976), pp. 257-74.

<sup>4</sup> Rex Hardesty, "The '76 Elections: A Watershed Victory," *American Federationist* 83 (December 1976), pp. 1-7. See also Harry Holloway, "Interest Groups in the Postpartisan Era: The Political Machine of AFL-CIO," *Political Science Quarterly* 94 (Spring 1979), pp. 117-34.

<sup>5</sup> Throughout this paper we use the words AFL-CIO, organized labor, and labor interchangeably except where explicitly noted otherwise.

on its role as a bargaining agent and engage in political action primarily to supplement and protect what it gains through negotiations.<sup>6</sup> Hence it has essentially concentrated its political activity on campaign support and lobbying roles. This concentration does not imply a narrow or meager labor political effort, for existing labor organizations play a substantial role in elections and legislative contests.<sup>7</sup> In fact, labor as a whole contributed \$13 million to various congressional candidates in the 1980 elections.<sup>8</sup>

The AFL-CIO's electoral functions are carried out by the federation-sponsored Committee on Political Education (COPE). The functions performed range from political endorsements to campaign contributions. As one measure of the scope of its activity, the AFL-CIO COPE gave nearly \$1 million to federal candidates in 1978.<sup>9</sup> The legislative functions are performed by the AFL-CIO's legislative department. Its purpose is to translate electoral support into favorable congressional action. Obviously, if its efforts fail, COPE's activities lack meaning.

Since 1974, the AFL-CIO has faced numerous political opportunities and challenges. Below we evaluate its performance using COPE endorsements and ratings. The data presented must be carefully interpreted, however, for the record conveyed may be more nominal than real.

### *Election Record*

Despite some of the unfavorable publicity labor gets from its role in politics, COPE openly endorses hundreds of congressional candidates each year and actively campaigns for many of them. A comparison between the number of COPE endorsements in congressional races and the number of successful endorsed candidates provides one measure of the dividends these efforts pay. The comparison reveals that in 1974 COPE endorsed 421 House and Senate candidates, 70 percent of whom won (see Table 1). It also shows that 71, 66, and 60 percent of the endorsed candidates were elected in 1976, 1978, and 1980, respectively.

While these data suggest a very high success rate, they may be somewhat misleading. For whatever reasons, COPE does not make endorsements in many congressional races. Thus, how to score the outcome in

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<sup>6</sup> Derek C. Bok and John T. Dunlop, *Labor and the American Community* (New York: Simon and Schuster, 1970).

<sup>7</sup> See Gary C. Jacobson, *Money in Congressional Elections* (New Haven, Conn.: Yale University Press, 1980).

<sup>8</sup> Federal Election Commission, "FEC Releases New PAC Spring Figures for '80 Elections," press release, March 29, 1981.

<sup>9</sup> Rhodes Cook, "Political Action Committee Spending Soared in 1978," *Congressional Quarterly Weekly Report* 37 (June 2, 1979), pp. 1043-46.

TABLE 1  
Percentage of Electoral Successes for the AFL-CIO, 1974-1980

	Year			
	1974	1976	1978	1980
Number of endorsed candidates <sup>a</sup>	421 (17) <sup>b</sup>	394 (11)	374 (14)	393 (15) <sup>c</sup>
Percent wins for endorsed group <sup>d</sup>	69.8%	71.3%	66.3%	59.8%
Number of total races <sup>a</sup>	470	468	470	469
Percent wins for total races group <sup>e</sup>	62.5%	60.0%	52.7%	50.1%

Source: COPE Research Department. "Candidates . . . General Election," (November, 1974, 1976, 1978, 1980), mimeos; hereafter cited as COPE Research Department Data.

<sup>a</sup> Includes House and Senate.

<sup>b</sup> The number in parentheses is the number of Republicans endorsed by COPE in each particular election year.

<sup>c</sup> This group includes Senatorial candidate Jacob Javits from New York who ran on the Liberal Party ticket but was an incumbent Republican Senator at the time.

<sup>d</sup> Percentage based on the number of endorsed candidates who won within the COPE endorsed group.

<sup>e</sup> Percentage based on the number of endorsed candidates who won within all Congressional elections.

these races is an ambiguous question. It seems, however, that if the candidates could be expected to exhibit a pro-labor legislative record they would be endorsed by COPE. Therefore, it may be better to examine COPE's election record in terms of the number of successful endorsed candidates compared to the total number of congressional races. This comparison indicates a continual drop in success, particularly from 1976 to 1978.

Table 2 shows variations in electoral success across Census regions. The data reveal several patterns which should be of concern to COPE. For the endorsed candidates group, they indicate large and consistent drops in the success rates in the West and Northeast between 1974 and 1980. They also reveal substantial, although uneven, declines in the South and North Central regions. For the total races group the data suggest even more consistent and steep declines.<sup>10</sup> Three regions show large and steady decreases, with the decline being by far the steepest in the West.

In short, these aggregate and regional data reveal two basic things. First, COPE's nominal success has declined in total and in each regional division between 1974 and 1980. Second, the decline for both the total races and endorsed groups has been greatest in the West, and the total races rate has been consistently lower in the South.

<sup>10</sup> Total races group refers to the total number of congressional races, including those races in which endorsements were not made.

TABLE 2  
Success of Congressional<sup>a</sup> Candidates Endorsed  
by Labor by Census Region, 1974-1980

Census Region		Year			
		1974	1976	1978	1980
Northeast	1.)	77.1%	76.2%	74.8%	70.4%
	2.)	74.3	74.1	70.6	63.3
South	1.)	73.8	77.4	69.9	64.6
	2.)	52.8	50.7	38.9	44.4
North Central	1.)	60.2	64.6	58.1	50.8
	2.)	59.2	56.6	52.7	46.9
West	1.)	70.6	67.1	63.4	54.0
	2.)	69.8	62.4	54.2	47.7

*Key:* 1.) = the percent of candidates endorsed by COPE that win election to Congress in elections where at least one candidate is endorsed (Endorsed Group).

2.) = the percent of candidates endorsed by COPE that win election to Congress in all elections (Total Races Group).

*Source:* COPE Research Department Data.

<sup>a</sup> Data are for U.S. House and Senate elections.

### *Legislative Record*

The electoral activities of organized labor would lack substance if they were not translated into legislative achievements. Thus, an assessment of the AFL-CIO's political record requires a discussion of congressional voting behavior. Yearly COPE voting ratings provide one measure of such behavior. Table 3 reports the number of issues used by COPE to compute ratings, the number of key and other legislative victories and defeats experienced by the AFL-CIO, and the average percent of "right" votes cast on all and key issues between 1974 and 1980. (The issues were not broken down by COPE into key and other categories between 1974 and 1976.)

It is important to emphasize that the data in Table 3 must be cautiously interpreted. Because COPE selects issues to compute ratings, there is always the possibility of selection bias. Also, some of the recorded defeats on issues do not necessarily reflect weak labor support. For example, while AFL-CIO-supported efforts to override many of President Ford's vetoes and to invoke cloture in the 1978 Senate debates on labor law reform failed, they often enjoyed the support of a majority. Further, the ratings are based solely on floor votes, and thus ignore the important legislative work done in committee.

With these caveats in mind, several interesting observations can be made from the data. With the election of Jimmy Carter in 1976 and the high level of (at least nominal) COPE electoral success in that year,

TABLE 3  
COPE Congressional Voting Ratings, 1974-1980

Year	Total Issues Rated		"Key" Labor Issues (Wins-Losses)	Other Issues (Wins-Losses)	Percent "Right" Votes on all Issues Rated	Percent "Right" Votes on "Key" Labor Issues
	Issues	(Wins-Losses)				
1974 H	11	7 - 4	—	—	52.2%	—
S	11	9 - 2	—	—	55.8	—
1975 H	23	17 - 6	—	—	59.8	—
S	22	14 - 8	—	—	56.8	—
1976 H	23	17 - 6	—	—	57.5	—
S	20	11 - 9	—	—	58.5	—
1977 H	23	20 - 3	8 - 2	12 - 1	57.5	57.1%
S	20	15 - 5	5 - 0	10 - 5	56.3	56.0
1978 H	20	11 - 9	5 - 5	6 - 4	51.0	50.4
S	19	9 - 10	3 - 7	6 - 3	53.8	52.8
1979 H	20	12 - 8	5 - 3	7 - 5	53.1	54.8
S	19	14 - 5	5 - 2	9 - 3	53.2	54.4
1980 H	19	12 - 7	5 - 2	7 - 5	50.0	55.5
S	19	12 - 7	9 - 4	3 - 3	52.6	53.9

Key: H = U.S. House of Representatives; S = U.S. Senate

Source: "A Report on Congress," *AFL-CIO News*, 19 (September 7, 1974); 21 (January 24, 1976); 21 (September 4, 1976); 22 (November 26, 1977); 23 (September 9, 1978); 24 (November 10, 1979); 25 (August 30, 1980). Hereafter cited as *AFL-CIO News*(1974-1980).

the 1977 congressional session was the most favorable on issues won and lost. Similarly, given the electoral successes of 1974, the 1975 and 1976 sessions showed higher average ratings on all issues than the 1974 session. However, the large decline in support in 1978 was somewhat unexpected. It may be that the resistance to labor law reform was symptomatic of a more general erosion of labor backing.

Table 4 presents data comparing the percentage of electoral successes for the total races group with the average percent of right votes on all COPE issues. It reveals an interesting pattern. Note that in the first congressional sessions (1975, 1977, 1979) the percentage of right votes is fairly consistent with the percentage of electoral successes in the preceding elections (1974, 1976, 1978), particularly in the House. Also note that the voting percentages in the second sessions (1976, 1978, 1980) are quite similar to the percentages of electoral successes recorded in those years (for the total races group). For example, the percentage of right votes in the House in 1980 was 50 percent and the 1980 percentage of electoral successes for the total races group was the same. This suggests that the percentage of electoral success for the total races group may be a better measure of legislative support than the percentages for the endorsed group.

TABLE 4  
Percentage of Electoral Successes Compared with Average  
Percent of "Right" Votes on All COPE Issues

Election Year	Electoral Success (in percent)	Congressional Session Year	Average Percent "Right" Votes In House	Average Percent "Right" Votes In Senate
1974	62.5% <sup>a</sup> (69.8%) <sup>b</sup>	1975	59.8%	56.8%
		1976	57.5	58.5
1976	60.0 (71.3)	1977	57.5	56.3
		1978	51.0	53.8
1978	52.7 (66.3)	1979	53.1	53.2
		1980	50.0	52.6
1980	50.1 (59.8)			

Sources: COPE Research Department Data, and *AFL-CIO News* (1974-1980).

<sup>a</sup> Percentage of electoral successes is based on total races group.

<sup>b</sup> Percentage of electoral success in parentheses is based on the endorsed candidates group.

Finally, Table 5 presents rating variations by Census regions. It breaks down the average percentage of right votes on key issues between 1977 and 1980. It reveals, as do the election data, substantial differences. The Northeast consistently provides the highest levels of



support, as might be expected from the election data. Also, the South provides the lowest support with the North Central and West providing intermediate levels. It is interesting to note further that although the levels of support are generally higher, the regional variations in the House and Senate on key labor law reform votes remain stable. This suggests that such variations can be found in labor relations as well as broader socioeconomic issues.

TABLE 5  
Percentage of "Right" Votes on Key Issues from the Perspective of  
COPE in the U.S. House and Senate by Year and  
Census Region (Senate Data in Parentheses)

Census Region	1977-1978 Key Issues	LLR*	1979 Key Issues	1980 Key Issues
Northeast	72.6% (87.3)	90.0% <sup>a</sup> (100.0) <sup>b</sup>	81.4% (82.1)	73.8% (74.6)
South	37.8 (30.9)	34.1 (25.8)	35.3 (42.1)	41.6 (45.4)
North Central	52.3 (63.1)	62.9 (70.8)	56.1 (61.0)	54.4 (57.8)
West	58.0 (50.7)	68.5 (62.5)	52.9 (44.5)	55.5 (46.2)

Source: *AFL-CIO News* (1977-1980).

\* Labor Law Reform Act.

<sup>a</sup> The House percentages in this column are based upon the October 6, 1977, vote on the final passage of the Labor Law Reform Act. The House approved the bill by a 257-153 vote.

<sup>b</sup> The Senate percentages in this column are based upon the final attempt to obtain cloture on debate of the Labor Law Reform bill. The measure failed on June 16, 1978 by a 58-39 vote (60 votes are needed for cloture).

## Discussion

The AFL-CIO did not attain the increasing legislative success it hoped for after the 1974 elections. In fact, labor has experienced a decline in both its electoral and legislative success since then. While it is not clear whether this trend will continue, particular factors associated with the decline allow us to speculate about the AFL-CIO's immediate political prospects. The data also suggest several areas where research is necessary.

Two fundamental political trends are associated with the AFL-CIO's record and may be important contributing factors. The most striking is the tremendous growth in political action committee (PAC) contributions to congressional candidates since the passage of the 1974 federal election law amendments.<sup>11</sup> Labor PACs have experienced significant

<sup>11</sup> An appendix table reporting these data is available from the authors upon request. See fns. 7 and 8 for the data sources.

decreases in their relative numbers and contributions. The decline in COPE electoral success roughly corresponds with the increase in non-labor PAC activity.

Second, COPE's record can be tied to the diminishing strength of the Democratic party. Table 1 indicates the depth of the Democratic-COPE connection, showing that in the past four elections COPE has endorsed only a handful of Republicans. Thus, to the extent the Democrats are defeated, concomitant declines in AFL-CIO electoral and legislative success may be expected. The setbacks Democrats incurred in 1978 and 1980 are reflected in COPE's electoral success and legislative ratings.

Two other developments will also affect organized labor's immediate political prospects. A potentially major force is the Republican-conservative Democrat connection in Congress. Although this alliance has existed for decades and was strong enough in the 1978 Senate to defeat labor law reform, it may be stronger today. It was prominently manifested in a series of 1981 House votes on the budget reconciliation bill that cut many programs supported by the AFL-CIO. If this alliance remains stable across economic and social issues, the AFL-CIO can expect its legislative record to decrease further.

Another development is redistricting. Seventeen congressional seats will shift through redistricting from the Northeast and North Central regions to the South and West. Thus, regions whose representatives have generally exhibited the weakest legislative support for the AFL-CIO (at least for the 1977-1980 period) will gain representation while those whose representatives have been more supportive will lose seats.

This analysis suggests that a fair assessment of the AFL-CIO's political effectiveness cannot be made without an understanding of its dependency on such surrounding factors as party alignments and the role of nonlabor PACs. More broadly, it suggests that parallels may exist between what causes shifts in those factors and in the federation's political capabilities. If this is the case, it may be that the AFL-CIO is operating effectively in a less than favorable political climate. At the same time, the fact that organized labor was unable to obtain the progressive labor relations changes it sought when the political climate was presumed highly favorable casts doubt on contentions that labor has unparalleled political power. In fact, labor's immediate political prospects appear bleak.

These developments suggest that labor needs to retool its political machinery. Future research should examine any changes that are made. Finally, the extent to which the federation's electoral success depends upon interest group coalitions and the operation of the COPE endorse-

ment process should be carefully studied before further prognostications about labor's political future are made. Clearly, the new conservatism of the 1980s poses a severe challenge to labor's political resiliency.

# Changes in the Labor Relations Climate: The Evidence from NLRB Caseload

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The past 30 years have been marked by a steady increase in the number of unfair labor practice cases (ULPs) processed by the National Labor Relations Board (NLRB). This raises questions concerning possible changes in the distribution of this increase over the 1950–1978 time period. An assessment of what, if any, changes have occurred can provide indicators of changes in the labor relations climate over time. The assessment of changes in the distribution of ULPs can be broken down into five specific categories: (1) changes in regional distribution, (2) changes in the type of employer, (3) changes in the size of an employer, (4) changes in the type of ULPs, and (5) changes in election behavior relative to ULPs.

## Changes in the Regional Distribution of ULPs

The NLRB provides information on the total number of ULPs for the ten Census regions in the United States.<sup>1</sup> It categorizes changes in CA (8(a)(1), 8(a)(3), 8(a)(5)) violations for each region. Table 1 indicates the percentage of CA violations filed by region for selected years from 1950 to 1978. The results show that CA violations declined since 1950 in four regions: the Middle Atlantic (MA), Outlying (O), New England (NE), and West South Central (WSC); and that the shares increased in six regions: East North Central (ENC), Pacific (P), South Atlantic (SA), Mountain (M), West North Central (WNC), and East South Central (ESC). The most dramatic changes occurred in the ENC (Ohio, Indiana, Illinois, Michigan, Wisconsin) where the share

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<sup>1</sup>The definitions of each region are: NE—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut; MA—New York, New Jersey, Pennsylvania; ENC—Ohio, Indiana, Illinois, Michigan, Wisconsin; WNC—Iowa, Minnesota, Missouri, North Dakota, South Dakota, Nebraska, Kansas; SA—Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida; ESC—Kentucky, Tennessee, Alabama, Mississippi; WSC—Arkansas, Louisiana, Oklahoma, Texas; M—Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada; P—Washington, Oregon, California, Alaska, Hawaii, Guam; O—Puerto Rico, Virgin Islands.

increased by 4 percent, and in the MA (New York, New Jersey, Pennsylvania) where the share declined by 6 percent. The decline in the MA seems to reflect the lack of substantial employment growth, but the notable increase in the ENC share, where the same growth pattern is observed, dictates some other explanation. All the changes for the other regions were less than 2 percent, making it impossible to assess whether any consistent trends have developed.

TABLE 1  
CA Violations by Region  
(in percents)

	NE	MA	ENC	WNC	SA	ESC	WSC	M	P	O
1950	6.37	23.09	20.99	7.13	10.66	5.05	6.55	3.01	14.95	2.14
1955	5.45	21.82	18.04	8.87	10.70	6.32	6.00	3.14	17.72	1.90
1960	4.71	22.29	22.76	5.45	14.38	5.14	6.37	3.67	12.52	2.68
1965	4.07	20.62	21.45	6.22	12.10	6.12	7.73	4.64	15.23	1.78
1970	3.34	15.46	24.38	8.33	11.88	6.73	7.67	4.94	15.94	1.30
1975	4.60	15.79	25.80	6.42	9.98	5.73	7.28	5.45	17.45	.55
1978	5.34	16.85	24.63	7.65	11.96	5.48	5.80	4.87	16.81	.56

Source: *Annual Report of the NLRB* (Washington: U.S. Government Printing Office, 1950-1978).

### Changes in ULPs by Type of Employer

An examination of CA violations by type of employer reflects the demographic shift of employment from the manufacturing (Man.) to the service (Ser.) sector. In addition, it reflects increased NLRB jurisdiction in the service sector with the addition of health-care institutions, private higher education institutions, and the U.S. Postal Service (P.S.). The service sector's share of CA ULPs increased from 4.1 percent in 1950 to 17.7 percent (including P.S.) in 1978, while the manufacturing sector's share declined from 61.7 to 45.8 percent (see Table 2). Transportation (Trans.), finance (Fin.), retail trade (R.T.), con-

TABLE 2  
CA Violations by Sector  
(in percents)

	Ser.	Trans.	Fin.	R.T.	W.T.	Const.	Min.	Man.	P.S.
1950	4.1	10.7	.1	9.1	6.4	5.2	1.0	61.7	—
1955	1.8	12.7	.3	5.5	5.2	9.5	1.7	63.1	—
1960	7.0	12.1	.7	9.8	5.1	11.3	1.2	51.9	—
1965	6.5	12.3	.9	11.3	6.6	6.7	1.1	54.5	—
1970	7.9	12.3	1.0	10.4	5.1	8.9	1.1	53.1	—
1975	14.5	13.0	1.0	10.9	4.5	7.2	1.3	43.8	3.3
1978	14.3	12.1	1.5	10.1	5.0	6.1	1.6	45.8	3.4

Source: Same as Table 1.

struction (Const.), and mining (Min.) increased slightly (less than 2 percent), while wholesale trade (W.T.) declined 1.4 percent.<sup>2</sup>

### **Changes in ULPs by the Size of the Employer**

Data on ULPs by the size of the employer are available back to 1966. The data show little variation over the entire time period, with an average of 65 percent of all CA ULPs being filed against employers with less than 100 employees, 12 percent in the 100-499 employee range, 5 percent in the 500-999 employee range, and 9 percent against employers of 1000 or more employees. The data vary by less than 2 percent in any one category over the entire time period. These results reveal that over the recent time period for which data are available, the size of the employer is not an important factor in the distribution of ULPs.

### **Changes in the Type of ULPs**

One measure of the mix of ULPs is the ratio of CB (union) to CA (management) ULPs. Table 3 indicates that the mix of ULPs has changed over time, with the number of CB violations rising faster than the number of CA violations, but with the ratio remaining stable from 1966 to 1978. The relative stability of the CB/CA mix in recent years means that unions and managements have shared equally in the growth of ULPs, indicating an increased use of litigation by both sides.

### **Changes in Elections and ULPs**

Election petitions by unions (RC) could be related to the incidence of ULPs if substantial numbers of violations arise from elections. The data in Table 3, for the period 1964-1978, show that the number of RC elections remained almost constant while the number of ULPs almost tripled. This fact negates any simplistic relationship between elections and ULPs. The data concerning election activity by type of industry follow the pattern set by CA violations. Specifically, there is a decline in the number of RC elections in the manufacturing sector (22 percent), with a corresponding increase in the service sector (20 percent). The other sectors remained almost constant (see Table 5). The most startling statistic is in Table 4, which shows election patterns by region remaining stable for the entire 1950-1978 time period; only one category, SA (2.9 percent), showed any variation over 2 percent. This pattern runs contrary to demographic shifts in both population and employment.

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<sup>2</sup> The definitions of labor sectors correspond to BLS Standard Industrial Classifications.

TABLE 3  
Ratios of CB/CA Violations and RC to ULPs (Total)

	RC	ULP	RC/ULP	CB	CA	CB/CA
1950	8205	4187	1.959	996	4472	.2227
1951	9460	4164	2.271	858	4164	.2060
1952	9571	4306	2.222	846	4306	.1964
1953	8241	4409	1.869	810	4409	.1837
1954	7028	4373	1.607	1257	4373	.2874
1955	6160	4362	1.412	1382	4362	.3108
1956	7121	3522	2.021	1171	3522	.3324
1957	6774	3655	1.853	1271	3655	.3477
1958	6284	6068	1.035	2473	6068	.4016
1959	7959	8266	.962	3129	8266	.3785
1960	8795	7723	1.138	2505	7732	.3243
1961	9177	8136	1.127	2526	8136	.3099
1962	9704	9231	1.051	2399	9231	.2598
1963	9562	9550	1.001	2753	9550	.2282
1964	10081	10699	.9363	2811	10695	.2628
1965	10255	10931	.9381	2703	10931	.2472
1966	10820	10902	.9924	2869	10902	.2631
1967	11193	11259	.9941	3403	11259	.3023
1968	10449	11892	.8786	3557	11892	.2291
1969	10308	12022	.8574	3973	12022	.3304
1970	10332	13601	.7596	4631	13601	.3404
1971	10904	15467	.7049	5351	15467	.3459
1972	11666	17736	.6577	5985	17736	.3374
1973	11897	17361	.6852	6052	17361	.3485
1974	11891	17978	.6614	6471	17978	.3599
1975	11037	20311	.5434	7575	20311	.3725
1976	11846	23496	.5041	8097	23495	.3446
1977	11578	26105	.4435	8956	26105	.3430
1978	10338	27056	.3820	9469	27056	.3499

Source: Same as table 1.

TABLE 4  
RC Elections by Region  
(in percents)

	NE	MA	ENC	WNC	SA	ESC	WSC	M	P	O
1950	7.11	21.54	24.74	9.78	6.45	4.09	5.22	3.90	15.78	1.39
1955	7.72	20.37	22.15	9.15	10.21	5.05	7.07	3.84	13.18	1.21
1960	5.00	21.52	21.90	7.67	11.49	4.49	6.41	4.53	14.74	2.21
1965	5.70	18.77	22.37	9.16	12.61	5.09	6.59	3.98	13.68	2.01
1970	5.00	15.74	21.09	8.66	12.82	5.58	6.48	4.94	16.86	2.78
1975	5.05	20.08	20.72	7.43	8.98	4.91	6.27	5.54	18.91	2.09
1978	6.11	20.30	22.10	7.85	9.39	5.17	5.18	4.85	17.19	1.33

Source: Same as Table 1.

## Implications of the Data

The examination of the changes in ULPs and RC elections with respect to regions, type of employer, size of employer, mix of ULPs, and elections all yield different patterns over time. Relating these patterns to changes in the labor relations climate depends on the specific hypothesis being tested. For example, one testable hypothesis is whether

TABLE 5  
RC Elections by Type of Employer  
(in percents)

	Ser.	Trans.	Fin.	R.T.	W.T.	Const.	Min.	Man.	P.S.
1950	2.90	9.06	.40	11.41	10.32	1.68	.91	63.22	—
1955	2.41	9.13	.40	7.82	7.80	2.15	1.18	68.87	—
1960	6.35	10.23	.70	15.34	11.74	3.32	1.14	57.61	—
1965	6.72	9.76	1.07	12.27	10.04	3.50	1.01	54.98	—
1970	11.06	12.74	1.03	14.08	7.11	3.46	.96	49.52	—
1975	23.04	12.41	2.02	13.40	6.82	3.09	1.31	37.48	.30
1978	18.05	11.60	1.91	12.12	9.64	3.01	1.19	41.94	.00

Source: Same as Table 1.

the increase in ULPs is due to the migration of employment to a more hostile environment in the South and West. The regional data concerning the distribution of ULPs refutes this hypothesis. The share of ULPs by region for CA violations shows no significant increases in the South or West. In fact, the reverse is indicated, with the traditionally pro-union ENC region showing the largest increase in the share of ULPs.

Possible answers to the phenomenon of rising ULPs in the ENC states can be found through further analysis of ULPs by type of employment. This analysis indicates a substantial increase in the service sector's share of ULPs in the ENC region, where increased activity in new employment sectors may account for the increase in its share of ULPs.

Other questions that can be addressed are whether there is any variation in the incidence of ULPs on the part of employers or unions over time and, if so, whether any increases can be attributed to employers or to unions. The facts show that the mix of CA and CB ULPs has remained constant over the past ten years; therefore, it can be said that the increase in ULPs has not come about through an increased incidence of lawlessness on the part of either side. The increase in ULPs must be balanced against the increase in the NLRB's jurisdiction in terms of number of employees, along with possible and existing bargaining units. Unfortunately, reliable data are nearly impossible to obtain, making it difficult to find any evidence on the question of whether there is an increased tendency to violate the National Labor Relations Act.

### Summary and Conclusions

In summary, if one were to assess changes in the labor relations climate based on the data summarized in this paper, one would conclude that the increased incidence of ULPs is not due to the movement of employment to the South and West. Second, the increase in ULPs



is not due to increased lawlessness on the part of either employers or unions since the mix of CA and CB violations has remained constant in recent years. Third, there is evidence to indicate that the increase in ULPs may be related in part to the NLRB's increased jurisdiction in the service sector. Finally, it is not possible to determine whether the increase in ULPs reflects an overall trend toward lawlessness without adequate measures of the number of employees and the scope of bargaining units under NLRB jurisdiction.

## DISCUSSION

WALLACE HENDRICKS

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Both the Moore and Raisian and the Hyclak papers deal with union-nonunion wage differentials—the former with measurement of these differentials over time and the latter with the impact of these differentials on voting behavior. Since this topic has received a great deal of previous attention, I would like to focus on the major additions which they make to pre-existing literature.

The Moore and Raisian paper is the fourth in a series of papers which address the union-nonunion differential.<sup>1</sup> All four papers use the same data set and cover approximately the same time period.<sup>2</sup> Although their models differ slightly, the same basic “technology” is used in each paper. I am therefore going to discuss their current results in the context of all four papers.

The authors’ basic approach is to run two types of regressions. First, cross-sectional regressions are run for each year for which data are available. The results from these regressions are quite comparable to those obtained by other researchers who use large data sets and who do not attempt to control for either individual specific effects or effects of industry structure. The economy-wide point estimates of the union-nonunion differential are approximately 20 to 29 percent in the private sector. Researchers who attempt to control for these industry and individual effects generally find union impacts in the 10 to 15 percent range. Indeed, the authors find a sizable reduction in the differential in the one paper in which they attempt to control for individual effects.<sup>3</sup> I would therefore guess that the point estimates of the public-sector differential in this paper imply differentials of 6–8 percent if individual or industry effects were controlled. This estimate is consistent with the within-industry estimates in the public sector made by other research-

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<sup>1</sup> The three other papers are William J. Moore and John Raisian, “Cyclical Sensitivity of Union/Nonunion Relative Wage Effects,” *Journal of Labor Research* 1 (Spring 1980), pp. 115–32; “A Time Series Analysis of the Growth and Determinants of Union/Nonunion Relative Wage Effects, 1967–77,” BLS Working Paper No. 115, April 1981; and “Unionism and Wage Rates in the Public and Private Sectors: A Comparative Time-Series Analysis,” unpublished paper, October 1981.

<sup>2</sup> The first paper covers 1967 to 1974; the remainder cover the period 1967–1977.

<sup>3</sup> Moore and Raisian, “Unionism and Wage Rates. . . .”

ers. When yearly results are compared they show a fluctuation which is somewhat consistent with a rising trend in the union-nonunion differential.

The authors then run time-series regressions by pooling the data across the years. These regressions are used primarily to determine if there has been any differential wage growth in the union and nonunion sectors. They find evidence of an increasing differential in the private sector, although they attribute this increase to cyclical phenomena in their first paper. Results for the public sector are a little more muddled. Their previous paper on the public sector compared "government service" and "educational service" to the private sector. While the differential increased in the government-service sector, this increase was not significant. Lower wage growth was found for union members in the educational-service sector. Results also differed for blue-collar and white-collar workers. The current paper results are not directly comparable to the previous paper because they exclude medical-service and educational-service workers. One suspects that this exclusion should increase any estimate of a rising trend in the differential, and that is what the authors find. While the point estimates of the trend coefficients are not significantly different in the union and nonunion sectors, this difference is considerably larger than the difference in the private sector. The authors use this result for the basis of their tentative conclusion that public-sector unions may have done better over this time period than their private-sector counterparts.

The heterogeneous set of results for the public sector combined with the insignificance of many of the results make any conclusions extremely tentative. My personal conclusion is that the authors have shown that the wage impacts of public-sector unions are so diverse that any generalization is hard to make. The results not only depend on the time period chosen, but also on the subsector chosen. Thus, I believe that more research is necessary before any conclusions about the rising strength of public-sector unions can be made.

The Hyclak paper is interesting not only because it provides us with information about the choice of union membership, but also because it provides information which is useful in evaluating union impacts. It is within this context which I would like to discuss his paper.

There are two basic types of investigation of the union choice problem. The first uses macrodata on the percent unionized or the percent voting for a union. These macro data may be used in a time-series framework when the unit of observation is the nation as a whole, or in a cross-sectional framework when the units of observation are industries, countries, or states. The second type uses micro data on union

membership or on voting for the union. Here the unit of observation is the individual worker and the data are typically cross-sectional. The macro investigations largely precede the micro studies because the individual data were simply not available when this research was accomplished.

My own priors are that the micro investigations of union choice are a step forward in our analysis of this question and are likely to provide much more information than further macro work. In this sense, I view this paper as a step backward in our analysis. However, given some of the results which the author obtains, this step backward may be necessary.

The author models the percent voting for unions as a function of the percentage change in the union wage over the past year, the percentage change in the nonunion wage over the past year, the number of strikes in the previous quarter and other variables. This model contrasts sharply with micro models on two counts. First, the union wage is allowed to have a different impact on choice than the nonunion wage. Micro models generally constrain the choice to be a function of the *difference* between the union and nonunion wage. Therefore, a dollar change in the union wage should have an equal and opposite effect of a dollar change in the nonunion wage. Second, the choice mechanism in this paper is very short run. Workers react to changes within the last year or the last quarter rather than to some long-run calculation of the benefits of joining a union.

I do not believe that these two differences may simply be ignored as questions about the lag structure of the model. If the author's model is correct (and I have a tendency to believe it is), workers have only limited information on which to base their union choices. This information is more likely to include information on *wage changes* than on wage levels. Therefore, our union-choice models may be missing the boat when they are based solely on cross-sectional data with imputed union-nonunion differentials.

The empirical results are somewhat in accord with our a priori beliefs, but there are some substantial questions. In particular, the author attributes part of the decline in the percentage voting for unions to a larger increase in nonunion than union wages. Yet most other authors (see Moore and Raisian) have found an *increasing* union-nonunion differential over a similar time period. Although these other differentials are ceteris paribus results, I do not believe that changes in worker characteristics can explain this substantial difference. However, a decreasing union-nonunion differential is not necessary to generate a fall in the pro-union vote. The point estimates indicate that a one-percent increase

in the nonunion wage leads to a fall in the pro-union vote which is twice as large as the increase in the pro-union vote generated by a one-percent increase in the union wage. This is an incredible result which suggests that unions must double the nonunion wage increase if they hope to receive half the votes cast! I don't really believe this result, but it certainly should open up some new lines of inquiry. In particular, one would like to know if pro-union votes are largely generated by either (1) extremely high union wage gains or (2) extremely low non-union wage gains, and do not occur in other instances.

## DISCUSSION

**BRUCE E. KAUFMAN**

*Georgia State University*

Masters and Delaney have examined the political record of the AFL-CIO between 1974 and 1980. They do this in terms of two broad areas; the success of the AFL-CIO in getting their endorsed candidates elected, and second, the success of the AFL-CIO in getting legislation passed in the Congress.

With respect to electoral success, they find the trend that we all would have suspected—a decline through the decade in the success of AFL-CIO endorsed candidates, from 62 percent in 1974 to 50 percent in 1980.

A 50-percent batting average still isn't bad; it's clear, nevertheless, that labor has suffered a decline in its ability to get its candidates elected. I suspect, however, that the figures in Table 1 still understate the actual decline in labor's influence in the 1980 elections. While the figures there show accurately the decline in the success rate of AFL-CIO endorsed candidates, they don't show that this decline was centered in some of labor's most influential and powerful allies—particularly the group of Democratic Senators (e.g. McGovern, Church, Bayh) that went down to defeat in 1980. These men were, in turn, replaced by people much further, in most cases, to the right.

The data in Table 2 concerning the regional variation in election success for AFL-CIO endorsed candidates do point out, I think, one source of weakness for labor's future political power. As shown there the AFL-CIO's election success rate in the West and South is significantly lower than in the Northeast. Unfortunately for organized labor, upcoming reapportionment as well as the demographic shifts in population to the South and West will only exacerbate this problem.

The data on electoral success clearly point out labor's declining political success over the latter 1970s. The data presented by Masters and Delaney on the AFL-CIO's success in Congressional voting are not quite so clear, however. Table 3 shows the number of "right" votes cast on particular pieces of legislation as a percent of all votes cast. While the percent of right votes cast in 1980 was lower than for any

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other year in the table (50–52 percent), the decline was less steep from earlier years and far more irregular. In terms of “key” votes I don’t think the data suggest much of a trend at all.

My reaction to Table 3 is that while the numbers are interesting and do tell us something, Masters and Delaney could have done more to probe beneath the surface and point out qualitative changes the numbers don’t reveal. For example, it seems to me that the nature or type of legislation being voted on makes a difference as well as the number of votes being cast for and against. On this score there has, I think, been a noticeable shift. In earlier years much of the legislation being considered was “pro-labor”, e.g., labor law reform, situs picketing, occupational safety and health, etc. While labor didn’t always win, at least the legislation was aimed in the “right” direction. In 1980 the story is quite a bit different—the legislation being considered is now an attack on much of labor’s objectives. An equal 50 percent voting success record can mean two quite different things depending on the legislation being considered.

Finally, I wonder if the data in Master’s and Delaney’s paper don’t call for a bit more questioning concerning *why* labor’s political fortunes are on the wane. Is it because the AFL-CIO’s political tactics or methods are simply outdated compared to their opponents (e.g., less use of surveys or slick media advertising), or is it a more fundamental problem of labor’s political agenda (as formulated by the AFL-CIO leadership) being out of step with both the American electorate in general and with union members in particular? Masters and Delaney have documented some of the symptoms, we still need to know more about the causes.

In his paper, Professor Karper has analyzed various trends in Unfair Labor Practice (ULP) charges brought before the NLRB over the last several decades. These trends include changes in the distribution of ULPs by region, industry, firm size, and type of ULP among others. The purpose of this analysis was to provide us evidence as to any changes in the climate of labor relations and, I presume, in the direction of that change. The question is, then, what have we learned?

Probably the single most important statistic in this regard concerns the explosive growth in the total number of ULPs brought before the NLRB. While Karper hints at this in his paper, he never really tells us what is happening here. The facts are that between 1970 and 1979 the number of ULP charges nearly doubled, from 21,000 to over 41,000. This was at the same time, it should be noted, as union membership in the private sector was at best holding its own.

Well, what is going on here? What is behind this explosive growth

in ULP charges? In this regard I think Karper has been able to show what are some of the factors that *haven't* been responsible for the boom in ULPs; his paper does not, however, tell us much about why ULP charges have grown nor, I might add, what implications this phenomenon has for the labor relations climate.

As Karper suggests, one reason the number of ULP charges might have increased is because of the relative shift in union membership to the states of the South. Assuming southern employers to be more hostile to union activity, this regional shift in union membership might well cause an increase in total ULP charges. The data presented by Karper suggest, however, that this factor is of negligible importance in explaining why ULP charges have doubled in ten years.

A second factor examined by Karper concerns whether the growth in ULP charges is due to an increased incidence of "lawlessness" on the part of either unions or management. To determine this Karper looks at the proportion of total ULP charges between 1950 and 1978 that were brought against employers and unions, respectively. Between 1966 and 1978 the ratio of CB to CA violations remained about the same, leading Karper to conclude that this doubling in ULP charges was not due to a relative shift in lawlessness on the part of either unions or employers.

I think here, however, that Karper is on thin ice. It may well be that the proportion of ULP charges brought against unions and employers has remained stable, but what about the absolute number? Here we find that between 1970 and 1979 charges against unions rose from 7,300 to 12,000, charges against employers rose from 13,600 to 29,000. It seems to me that at every bargaining table you've got two sides, between 1970 and 1979 the number of ULP charges rose about 5,000 against the union side and 15,000 (3 times as much) against the management side. Doesn't this sort of statistic suggest a slightly different interpretation about changes in the labor relations climate than we get from Karper's paper?

There are also a number of other factors that Karper might have looked at but did not. For example, what about time delays in adjudicating the ULP charges by the NLRB? It's well known that the caseload facing the NLRB has grown to monstrous proportions. Has this in turn caused increased delays between when an ULP is filed and when it is reviewed by the NLRB and decided upon? Another factor that Karper might have examined is the percentage of ULP charges that are decided by the NLRB to have "merit," as well as the trends in back-pay awards and number of workers reinstated.

Suffice it to say, then, that I think Karper has focused on a subject



that does have importance and is of interest. I do think, however, (to coin a phrase) it still needs further research.

## XV. UNION ORGANIZATION RESEARCH

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### Labor-Management Consultants in Union Organizing Campaigns: Do They Make a Difference?

JOHN LAWLER

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The increased visibility in recent years of management consultants hired to counter union organizing campaigns has generated controversy and concern. Yet, despite the apparently important role consultants now play in labor-management relations and union demands that consultants be more closely regulated, there is a virtual absence of objective studies assessing the impact of consultants on the effectiveness of union organizing drives.<sup>1</sup>

An ideal study of the impact of labor consultants would probably address three critical questions: (1) Do consultants affect the number of representation elections? (2) Do they decrease the probability of election unit members voting in favor of bargaining? (3) Do they make a substantive difference in the distribution of union wins and losses? The first question, while of great significance, is not considered here because of the difficulty of identifying and collecting data on unorganized units in which representation elections have never occurred. Given published reports on National Labor Relations Board (NLRB) elections, answering the second and third questions is a more tractable process and is the focus of this paper.<sup>2</sup>

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<sup>1</sup> See, for example, Woodruff Imberman, "The Hocus Pocus of Union Avoidance," *Journal of Labor Research* (Fall 1980), 275-83, and Jules Bernstein, "Union Busting: From Benign Neglect to Malignant Growth," in *Proceedings of the NYU 33rd Annual National Conference on Labor*, ed. Richard Adelman (New York: Bender, 1981), pp. 21-119.

<sup>2</sup> This study was supported by faculty research grants received from the Graduate School and the School of Management, University of Minnesota. Suggestions made by Hoyt Wheeler and the research assistance of Greg Jacobus, David Swedberg, and Dorrene Brown are gratefully acknowledged.

A sample of 155 NLRB elections, all of which took place in retail grocery outlets in several midwestern states between 1974 and 1978, was analyzed in terms of the effects of consulting activity, along with a number of control variables, on the voting behavior of election unit members. Grocery stores were used as units of observation because information obtained from the Department of Labor indicated a considerable presence of consultants in elections taking place in the retail food sector.<sup>3</sup> Grocery stores were also chosen because they tend to be relatively homogenous in terms of organizational structure and systems of administration, thus helping to control for unobserved influences on voting behavior. The sample of elections studied consisted of 130 certification and 25 decertification elections, with each election involving only one contending union (either the Retail Clerks or the Butchers).<sup>4</sup>

### Model Specification

Given that the methods used by consultants often involve manipulation and covert persuasion, and given that there is strong evidence to suggest that such methods are important in the control of behavior in organizations, it is hypothesized that the presence of a consultant in an NLRB election will decrease the probability of an election unit member voting in favor of bargaining.<sup>5</sup> However, since the tendency of an employer to retain a consultant could depend on the probable outcome of the election, the possibility of simultaneous causation exists. Following Heckman, a nonrecursive, two-equation system is proposed:<sup>6</sup>

$$(1) \quad L = a_0 + X_1 + a_1C + a_2PROP + u$$

$$(2) \quad PROP = b_0 + X_2 + b_1PRCB + v$$

where  $L$  = log of pro-bargaining voting odds ratio;  $C$  = dummy variable indicating involvement of consultant in election ( $C = 1$  if consultant used,  $C = 0$  otherwise);  $PROP$  = propensity of employer to resist unionization (an unobserved variable);  $PRCB$  = probability of election unit member voting in favor of bargaining;  $X_1, X_2$  = composites of observed exogenous influences; and  $u, v$  = disturbance terms.

<sup>3</sup> John Lawler, "Labor Consultants in the Upper Midwest: A Profile," Working Paper 80-11, Industrial Relations Center, University of Minnesota (December 1980).

<sup>4</sup> All of the elections in the sample occurred prior to the merger of the Retail Clerks and the Butchers' union.

<sup>5</sup> See, for example, G. Salancik and J. Pfeffer, "A Social Information Processing Approach to Job Attitudes and Task Design," *Administrative Science Quarterly* 23 (June 1978), pp. 224-53, and M. Gordon and A. Nurick, "Psychological Approaches to the Study of Unions and Union-Management Relations," *Psychological Bulletin* 90 (No. 2, 1981), pp. 293-306.

<sup>6</sup> J. Heckman, "Dummy Endogenous Variables in a Simultaneous Equation System," *Econometrica* 46 (July 1978), pp. 931-59.

The dependent variable in Eq. (1) is the logarithm of the odds of an election unit member voting in favor of bargaining, which is the standard logit transformation of a probability.<sup>7</sup> Given the principal hypothesis, the coefficient of the consultant dummy variable (*C*) is expected to be negative in sign. *L* is also assumed to be a function of *PROP*, though the direction of the effect is unclear. The exogenous control variables in Eq. (1) are: the county-wide annual rates of change in employment (*EMPCH*) and real earnings for grocery store employees (*REALPAYCH*), the average annual level of real earnings for grocery store employees in the county (*REALPAY*), the type of election (*TYPE*), the union involved (*UNION*), the number of eligible voters in the election unit (*ELIGIBLE*), and the AFL-CIO COPE rating for the congressman representing the district in which the store is located (*COPE*).<sup>8</sup> *COPE* is intended to serve as a measure of community sentiments regarding unionism. Unfortunately, it was not possible to obtain unit-specific measures of variables such as wage changes, the current wage level, and employee turnover. While such measures would undoubtedly add to the richness of the analysis and improve the reliability of the parameter estimates, it is reasonable to assume that employment conditions within particular outlets depend to a large extent on external conditions (especially in such a relatively competitive industry).

While the dependent variable in Eq. (2) is unobserved, maximum likelihood estimates can be computed by assuming that a consultant is used in an election if and only if *PROP* exceeds some threshold level (e.g.,  $C = 1$  iff  $PROP > 0$ ). *PROP* is hypothesized to be an increasing function of *PRCB*, on the assumption that the net benefits of using a consultant relative to not using a consultant increase with the probability of a union winning the election. It is also hypothesized that *PROP* is a decreasing function of recent changes in real retail sales in the county (*SALESCH*) and the local congressman's COPE rating, an increasing function of the number of eligible voters (*ELIGIBLE*) and a

<sup>7</sup> Since *PRCB* is restricted in range, OLS is an inappropriate method of estimation. The dependent variable is therefore defined as the log of the odds ratio  $L = \ln[(PRCB)/(1-PRCB)]$ , where *PRCB* is measured operationally as the proportion of votes cast in favor of bargaining. The log of the odds ratio is related to the probability of a pro-bargaining vote by the logistic function:  $PRCB = e^L / (1 + e^L)$ , where *e* is the natural base.

<sup>8</sup> Data sources include *County Business Patterns* and NLRB monthly election reports. *EMPCH*, *REALPAY*, and *REALPAYCH* were all averaged over the three years preceding the election. The control variables chosen are similar to those used in other studies of voting behavior (e.g., M. Sandver, "Regional Differentials in Outcomes in N.L.R.B. Certification Elections," *Academy of Management Proceedings* (August 9-13, 1980), pp. 283-87, and H. Farber and D. Saks, "Why Workers Want Unions: The Role of Relative Wages and Job Characteristics," *Journal of Political Economy* 88 (April 1980), pp. 349-67.

decreasing function of the degree of product market concentration in the county (*CONC*).<sup>9</sup>

Information obtained from the Department of Labor was used to determine if a consultant had been used in a given election. All LM-20 and LM-21 forms filed by consultants operating in the Upper Midwest between 1972 and 1978 were collected and cross-checked against the list of elections occurring in grocery stores during that period. The reports indicated consultants had been used in 28 elections. Unfortunately, it is generally believed that these reports, filed under a provision of the Landrum-Griffin Act, seriously understate the true volume of consulting activity (because many consultants refuse to file these reports), so that the estimates of the impact of consultants based on these data is likely to be biased. However, given reasonable assumptions, the direction of the bias can be inferred. For those cases in which a consultant reportedly participated, we can assume that  $C$  is measured without error. Thus,  $E(L|C=1)$  is an unbiased estimate. However, since an unknown proportion of the  $C=0$  cases are misclassified, it follows that  $E(L|C=0)$  is biased. If the principal hypothesis is true (that consultants tend to depress the value of  $L$ ), then the observed value of  $E(L|C=0)$  will be less than its true value, and the coefficient of  $C$  in Eq. (1) [which is the difference between  $E(L|C=0)$  and  $E(L|C=1)$ ] will be biased toward zero. Consequently, that coefficient represents an estimate of the *minimum* impact of consultants on voting behavior and inferences drawn from the results of this study will tend to err in the direction of rejecting the principal hypothesis.

## Findings

Estimation of the model proceeds in much the same way as two-stage least squares, except that estimators for Eq. (1) are computed using weighted least squares, while those for Eq. (2) are computed using a maximum-likelihood technique. Instruments are first constructed for the endogenous variables from the reduced-form equations. The instrumental variables are then used to estimate structural parameters.<sup>10</sup>

The results of the analysis support the hypothesis that the presence of a consultant in a representation election reduces the likelihood of an election unit member voting in favor of bargaining. The coefficient of the consultant dummy variable (Eq. (1)) is significantly less than 0;

<sup>9</sup> County retail sales data were obtained from the *Survey of Buying Power*. *CONC* is defined as the proportion of retail grocery stores in the county with ten or more employees.

<sup>10</sup> For a complete discussion of the method, see Heckman, pp. 93I–59. This approach is also described in W. Wessels, "Economic Effects of Right to Work Laws," *Journal of Labor Research* 2 (Spring 1981), pp. 55–76.

given the direction of the bias in this coefficient, this finding serves as a strong test of this hypothesis. In addition, the propensity of employers to resist unionization appears to *increase* the likelihood of election unit members voting in favor of bargaining, suggesting that employer hostility may have the direct effect of enhancing worker resolve and solidarity. The only unusual finding is the positive coefficient associated with the pay-change variable. It may be that general increases in the level of pay for grocery store employees first occur in the unionized sector, so that workers discern a relative improvement in pay associated with unionization. Alternatively, the pay-change variable may be capturing some cyclical effects which are positively associated with pro-union voting.

As for Eq. (2), the probability of employees voting in favor of bargaining does not appear to increase employer resistance to unionization (nor, correspondingly, the probability that a consultant will be retained). However, the size of the election unit, recent changes in retail sales, and the degree of product market concentration all affect employer resistance as hypothesized.

TABLE 1  
Parameter Estimates for Equations 1 and 2  
(N = 155)

Predictors	Equation 1 Log of Pro-Bargaining Voting Odds Ratio (L)	Equation 2 Employer Propensity to Resist Unionization (PROP)
$C^a$	-3.15 (1.56)**	
PROP	.64 (.27)**	
PRCB <sup>b</sup>		.32 (2.25)
<i>Exogenous Variables:</i>		
COPE	.21 (.19)	-.65 (.64)
ELIGIBLE (1000's)	-4.22 (1.15)***	14.42 (8.05)*
EMPCH	-2.03 (1.00)**	
REALPAY (1000's)	.10 (.11)	
REALPAYCH	1.05 (.26)***	
TYPE <sup>c</sup>	.68 (.18)***	
UNION <sup>d</sup>	.23 (.15)	
SALESCH		-3.95 (2.08)*
GONC		-5.48 (2.51)**

\*, \*\*, \*\*\* = significant at .10, .05, .01 levels, respectively.

<sup>a</sup> Dummy variable (1 if consultant reported, 0 otherwise).

<sup>b</sup>  $PRCB = e^L / (1 + e^L)$ .

<sup>c</sup> Dummy variable (1 if certification election, 0 if decertification).

<sup>d</sup> Dummy variable (1 if Butchers (MCBW), 0 if Retail Clerk (RCIA)).

The estimated impact of consulting activity on voting behavior may be used to simulate the distribution of election outcomes under two extreme conditions: (a) the absence of consultants from all elections,

TABLE 2  
Simulated Elections Outcomes

Condition	Election Type	Number of Elections	Proportion Won by Union	Eligible Voters	Unit Members Added/Retained (%)	
Observed Distribution	Certification	130	62%	3091	1491	(48%)
	Decertification	25	28%	480	109	(23%)
	Total	155	57%	3571	1600	(45%)
Assume <i>No Consultants</i>	Certification	130	71%	3091	2305	(75%)
	Decertification	25	44%	480	227	(48%)
	Total	155	66%	3571	2532	(71%)
Assume <i>Consultants in All Elections</i>	Certification	130	23%	3091	247	( 8%)
	Decertification	25	4%	480	33	( 6%)
	Total	155	20%	3571	280	( 8%)

and (b) the presence of consultants in all elections. This is accomplished by adjusting the log of the observed odds ratio of a unit by an amount equivalent to the consultant coefficient in Eq. (1), then determining the proportion of election unit members who would have voted for bargaining under the new condition by means of the logistic transformation. Elections are then reclassified as union wins or losses depending upon whether the recomputed probability is greater or less than .50.

The results of the simulation (Table 2) indicated that the impact of consultants on election outcomes is substantive. If consultants had not been used in any of the elections in the sample, then the union victory rate in all elections would have increased by ten percentage points and the jump would have been especially pronounced for decertification elections. The simulated election results assuming the presence of consultants in all elections are also obviously sobering from the perspective of the trade unionist. However, given the possibility of substantial nonreporting of consultant involvement, the second simulation probably overstates potential union losses in such a situation (just as the first simulation probably understates the potential benefits to unions that would result in the complete absence of consultant involvement).

## Conclusions

This study constitutes a preliminary investigation of the impact of labor consultants on the outcomes of certification and decertification elections. While the limited scope of the study makes generalizations to other contexts difficult, the findings suggest that activities of consultants substantially reduce the probability of election unit members voting in favor of bargaining and that this shift causes unions to lose a substantial number of elections that they would probably have won in the absence of consultants. Unfortunately, these findings are necessarily qualified by limitations in the data, especially the Labor Department reports used to determine the development of consultants in the elections studied. Future research should focus on eliminating measurement error in the consultant activity variable, expanding the scope of the analysis to other industries and regions, and examining impact of consultants on the effectiveness of initial organizing drives (i.e., the first question posed in the introduction).



# Organizing Low-Income Women in New Ways: Who, Where, and Why\*

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Almost two-thirds of all women employed full-time work in white-collar occupations. Relatively few of these women belong to unions. About 13 percent of the women working in white-collar occupations are union members, leaving most white-collar women unrepresented.<sup>1</sup> During the last few years, however, a number of new organizations have formed outside the traditional labor movement to address working women's problems.

This paper has two purposes. The first is to provide a general description of these new organizations of working women. This description includes their goals, tactics, organizational structure, and relationship with the labor movement. Second, the paper provides more detailed information about the women who joined one of these organizations. This information includes why they joined their organization, as well as what they expect from that organization and the role they play in it.

There are a number of efforts being made within the labor movement to increase the numbers of women belonging to unions. These efforts are not discussed here. The focus of this paper is specifically new organizations of working women external to the American labor movement.

## General Background

Between 15 and 20 major organizations of working women formed in urban areas during the last decade. About 12 of them are linked nationally; the others are local and autonomous. All are still relatively small given the size of their potential constituencies. Few have more than a thousand members. Those members work for a number of em-

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<sup>1</sup>Linda H. Legrande, "Women in Labor Organizations: Their Ranks Are Increasing," *Monthly Labor Review* 101 (August 1978), p. 9.

ployers in a given area, and any one firm may employ only a few members.<sup>2</sup>

These organizations have a number of commonalities. First, they are all organizations for working women. Most of the members and virtually all of the officers are female. Most of them began in the mid-1970s and are outgrowths of the feminist movement. Many of the founders were active feminists who became convinced of the importance to women of collective action aimed at employment-related problems.

Second, these organizations do not consider themselves to be unions. In fact, although they share some of organized labor's goals, they operate, with few exceptions, independent of the labor movement. Additionally, their tactics are quite different than those of most unions. The relationship between working women's organizations and the labor movement will be discussed more fully in a later section.

### **Goals**

The general overarching goal of these organizations is improving employment conditions faced by working women, particularly low-income white-collar women. This overall goal has two related dimensions. The first dimension involves economic or "bread and butter" issues. The problems in this dimension include low wages, employment discrimination, and lack of promotional opportunities. The second dimension involves the right to be treated with dignity and to have one's work be seen as meaningful and serious. This dimension includes problems such as sexual harassment and arbitrary and demeaning treatment by supervisors.

A related goal is building a firm organizational base. This involves continuing organizing efforts designed to introduce working women to the idea of working together to solve shared problems.

### **Tactics**

These organizations generally focus on resolving immediate problems as a way of achieving their goals. The tactics used vary enormously and are tailored to the specific problem being addressed. These tactics can be classified into four general categories: Information Gathering, Conciliation, Direct Action, and Education.

#### *Information Gathering*

Information gathering is both an important first step in becoming

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<sup>2</sup>Information in the following section comes primarily from interviews with officers and directors of Working Women, Women Employed, and Interfaith Women's Alliance for Working Women conducted by the authors during 1980 and 1981.

established and also an important ongoing activity for these organizations. Initially, surveys conducted among selected populations of working women help identify particular employment problems and problem employers. This information serves as a basis for program planning and as a way of letting people know of the organization's existence. Employment problems are handled on a case-by-case basis. Examples of the issues handled are failure of a firm to live up to an affirmative action plan, specific incidents of sexual harassment, low wages, and employer failure to post promotional opportunities.

Before programs are implemented, much more detailed information is gathered about the specific problem being addressed. Having good background information is considered extremely important when dealing either with government agencies or employers. Inaccurate or incomplete information lessens the credibility of spokespersons and can significantly undermine efforts to change employment policies.

### *Conciliation*

Once information about a specific problem has been gathered, the involved employer or governmental agency is approached in an effort to resolve the identified problem. In some instances the identified problem can be resolved through discussion sessions. In other instances the employer or concerned agency is unwilling to meet with representatives of the organization, or, if willing to meet with them, unwilling to make any concessions. If efforts at conciliation through discussion are unsuccessful, then direct action can be used.

### *Direct Action*

Because not enough members work for any one employer to make effective use of strikes and strike threats, other forms of direct action are used. There are many forms of direct action, but most of them are designed to bring the involved employer unfavorable publicity. Examples of such activities include public awards, such as a Christmas "Scrooge of the Year" award and a "Pettiest Office Procedure" award. These have the combined impact of making the organization visible, while at the same time putting pressure on the involved employer. Other forms of direct action include presentation of signed petitions, picketing, and even sit-ins.

Another form of direct action involves using government agencies to pressure employers to live up to their legal obligations. This is most frequently used when the issue is affirmative action, equal employment opportunity, or age discrimination. Banks have been a major focus due to the large numbers of low-income women employed in banking.

Efforts have been made to have the U.S. Department of Labor's Office of Federal Contract Compliance Programs monitor affirmative action programs in the banking industry, and a number of administrative complaints have resulted. These tactics have had a reasonable amount of success. A number of banks have made back-pay settlements, four banks in Baltimore raised wages of low-level bank employees, several banks and insurance companies have agreed to job-posting programs, and at least one bank has instituted a major training program for clerical employees.<sup>3</sup>

### *Education*

Education and outreach are extremely important activities for working women's organizations. They are accomplished through programs, seminars, and publications. They serve two major functions. First, they are a way to get visibility and to reach potential members. Getting people involved in educational programs is also an important way of increasing member commitment. It is also a service that encourages people to maintain their membership, perhaps even after a specific employer-based problem has been resolved.

The second major function performed by these educational activities is to help women understand and develop ways of handling problems facing them at work. As such they serve both personal enrichment and job counseling needs. Examples of typical subjects include skills assessment, conflict management in an office setting, equal employment opportunity law, retirement planning, assertiveness training, and career planning. Additionally, some educational programs are more general and aim at developing an understanding of common problems and solutions.

### **Organizational Structure**

One of these organizations, Working Women, is national in scope. It has three national offices and 12 affiliates in major cities. Locals get support, both informational and financial, from the national offices, but most of their decision-making is autonomous. Additionally, there are several organizations, such as Women Employed (WE) in Chicago and The Interfaith Women's Alliance for Job Equity (WAJE) in Philadelphia which do not have national affiliates. There is communication and information sharing among all these organizations.

Typically local offices are staffed by a director and a small staff. They administer programs on a day-to-day basis, but major decisions

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<sup>3</sup> Working Women, *Report from Working Women*, April 1980.

are made at executive board meetings. Dues are kept low to encourage membership and they supply only partial funding for operational costs.

### Problems

The two major problems faced by these organizations are closely intertwined: building both a strong membership and a firm financial base. These problems are not unusual for new organizations, but a particular problem they face is keeping members committed to broad goals when the operational focus is on solving narrow problems that affect only a few members at a time.

Another problem they face is the historical difficulty in organizing white-collar workers. Many reasons can be given for this including the masculine image of the labor movement and the unwillingness of women to confront their employers. One reason that is often stressed, however, is the reluctance to join expressed by many office workers due to fear of employer reprisal.<sup>4</sup>

Office automation and its impact on the number and type of future jobs is a future problem for these organizations. Currently they function by reacting to existing problems. Affecting employer decisions with respect to office automation will be extremely difficult, particularly without ongoing employer relationships.

### Relationship with the Labor Movement

One question to ask about these organizations is how their relationship with the labor movement will evolve. Currently they do not perform the functions performed by unions. They do not press for certified bargaining rights, they negotiate with employers only over limited issues, and they do not sign collective bargaining contracts. Additionally, they have relatively little contact with the labor movement.

A major reason for their independence from the labor movement is the belief that the organizing model used by organized labor is ineffective in organizing women in clerical occupations. There are several explanations for the labor movement's inability to effectively organize these workers. One explanation is that the labor movement has not been willing to expend the resources or develop the tactics necessary to organize successfully in these areas. A second explanation is that women clericals and service workers have not been ready to join unions.<sup>5</sup>

Both explanations are consistent with the emergence of working

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<sup>4</sup> Roberta Lynch, "Women in the Workforce," *The Progressive* (October 1979), p. 29.

<sup>5</sup> Lynch, p. 29.

women's organizations. They do provide a new model for organizing clerical women. Some observers have described this model as "pre-organizing," or creating the conditions that make union organizing viable.

In theory the potential exists for innovative and cooperative arrangements between working women's organizations and the labor movement. There are mutual interests. Many unions are interested in organizing in new areas, and working women's organizations do not provide as broad employment protections as do collective bargaining contracts. In fact, members of one Working Women affiliate, Nine to Five in Boston, formed a local union, which joined the Service Employees International Union (SEIU) as Local 925.

This indicates that innovative arrangements can be developed. However, the essence of innovation is doing things differently than before, and that type of organizational change is often difficult to achieve because of institutional barriers facing it. As evidence of these institutional barriers, Local 925 approached ten other unions before SEIU agreed to work with it.<sup>6</sup>

One of the factors important in the future relationship of working women's organization and the labor movement are the members themselves. The following section describes demographically the members of one working women's organization, WAJE. It also discusses their reasons for joining WAJE, how they perceive it spends its time, and how satisfied they are with it.

### Survey of WAJE Members

An anonymous mailed questionnaire focusing on participation was sent to 302 members of Philadelphia's Interfaith Women's Alliance for Job Equity. A total of 129 members returned the questionnaire, yielding a response rate of 43 percent. Of the respondents, 93 percent are female, and 74 percent are white. A majority are 25 to 39 years old with the concentration in the 25 to 29 age group. Most members are Protestant, and Baptist is the single largest denomination.

Seventy percent of the respondents work in white-collar occupations. No one salary level reflects an overwhelming response. The greatest frequency of responses for gross weekly salary is in the \$200 to \$299 category. Twenty-three percent receive \$300 to \$399 weekly gross salary.

WAJE respondents' job tenure ranges from a few months to over

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<sup>6</sup> Nancy Seifer and Barbara Wertheimer, "New Approaches to Collective Power," in *Women Organizing: An Anthology*, eds. Bernice Cummings and Victoria Schuck (1979), p. 180.

ten years. Working for less than one year is the most frequently noted category with 21 percent of the respondents checking it. A majority of the employed respondents do not have a regular grievance procedure at their place of employment.

### *Motivation to Join*

WAJE members were asked to rank the reasons why they joined WAJE. To change the employment situation for women (73 percent) and to educate themselves (73 percent) were the most frequent responses. The third most frequent response was job-related problems (50 percent). Although job problems and change the employment situation for women were most frequently given as the number one reason for joining, more members noted change the employment situation for women as their second and third reasons, giving it the highest overall response rate.

These responses suggest that although specific job problems were the major reasons for about one-fourth of members joining WAJE, other motivations were also important. The concern for improving the employment situation for women is particularly interesting. It suggests that members join working women's organizations for somewhat different reasons than people join unions given the labor movement's focus on wages and job problems. It is consistent with the notion that working women's organization not only have a different organizing model than the labor movement but appeal to members for different reasons.

About two-thirds of the respondents (67 percent) reported they were satisfied with their current job. However, many reported facing problems at work. The most commonly cited problem was lack of opportunity for advancement, a problem shared by 47 percent of the respondents. Low wages were noted by 31 percent and 28 percent gave frustrating situations as a job problem.

The concern over promotional opportunities was also evident when members responded to a question asking them their career goals. Changing careers was cited as frequently as increased wages as an objective (34 percent). Additionally, 31 percent sought increased status as an objective, and 21 percent wanted more responsibility. Only 7 percent responded that their goal was to leave the labor force.

Changing careers, increased status, and more responsibility are closely related objectives, and all are related to increasing wages. However, they also indicate a different type of job objective than increased wages alone suggests. They indicate that personal growth and self actualization are very real career objectives for the respondents. These are goals consistent with joining WAJE to improve the employment

situation for women and to educate themselves. They are also issues that are not emphasized by the labor movement.

### *Participation*

Participation at WAJE meetings and activities was reviewed. About 70 percent of the respondents note their attendance to be 25 percent or less of the time. A majority (54 percent) would like to attend more while 44 percent are satisfied with their participation.

For those who would like to participate more in committee meetings, seminars, public actions, and fund-raising events, the impediment to participation noted with the most frequency is no time. Of the respondents, 57 percent indicate they have no time to participate more. Other impediments in order of frequency are distance, no interest, home pressures, and no opportunity.

To analyze participation, a regression was completed with participation and the demographic factors of age, marital status, residence, number of children, and education. Although the entire model was significant ( $s = .044$ ), it accounts for only 12 percent of the variation in participation. Marital status proved to be the most influential factor, with nonmarried persons participating more than married persons. Participation decreases as persons reside further from WAJE headquarters. Education has a negative coefficient indicating that as education increases participation decreases. Age, education, and number of children together account for less than 2 percent of the variation.

### *Role of WAJE*

The respondents reiterate their reasons for joining WAJE when they describe the role of WAJE. They chose from the following list items describing how they perceive WAJE's functions: improve pay, solve members' problems, organize educational activities, conduct demonstrations, organize social activities, improve WAJE, combat sexual harassment, obtain publicity, conduct fund-raising events, improve safety and health at work, keep members informed, and organize nonmembers. When asked how WAJE should spend its time, 57 percent of the respondents felt WAJE should help solve members' problems, 47 percent felt WAJE should combat sexual harassment, and 47 percent thought WAJE should organize educational activities. These expected objectives are similar to the reasons noted for joining WAJE.

The respondents were also asked to indicate how they perceive WAJE's use of time with the same items. The same three items appeared in a different frequency. Fifty-eight percent believed WAJE spends time combating sexual harassment, 53 percent note helping solve



members problems, and 33 percent feel WAJE spends its time organizing educational activities. Regarding their own perceptions, the responding members want WAJE to attend to solving members' problems somewhat more than to combating sexual harassment.

A majority of respondents believe that what WAJE does and what WAJE should do are about the same thing. A correlation of the perceived "should do" and "does do" responses produces significant results in all items except organize new members.

### **Summary**

This paper provides a description of the working women's organizations currently organizing clerical workers. It discusses their functions and structure and points out differences between these organizations and unions. It also presents findings of a survey of the members of one of these organizations. The results of this survey also point out differences between the role these organizations play and the role many unions play in our society. However, although they currently have somewhat different focus, it is not clear what the future relationship will be between working women's organizations and the American labor movement.

## DISCUSSION

CHARLES McDONALD  
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John Lawler's paper, indicating that labor-management consultants make a difference in an NLRB representation election, is a sophisticated mathematical proof of something that union organizers are only too well aware of—that a significant percentage of people in units contested in NLRB elections can be swung by the tactics of an effective labor consultant.

There are, however, several factors in reviewing Lawler's paper that have to be considered before using it as definitive proof for the concept that consultants make a difference.

1. The average size of a collective bargaining unit in the Lawler study was about 25 employees. The average size in NLRB elections is at least double that.

2. In his study, Lawler used only consultants who actually filed reports with the Labor Department as engaging in consultant activity. In fact, in most National Labor Relations Board elections today consultants do not file reports even though they are engaged in otherwise reportable activity. Moreover, the attorneys functioning as antiunion propagandists in election campaigns have taken the view that they are merely providing advice and therefore are not required to file a report with the Labor Department. Thus, using only those consultants who do file reports with the Labor Department does not produce a representative sample of election situations. Instead there is a built-in bias with such a sampling because labor consultants who comply with the law and do file reports are unusual and are not likely to be the ones who engage in or promote illegal, coercive tactics during organizing campaigns.

3. All the reports in the Lawler study concern the retail industry in the Middle West. Again, this is not an area or an industrial sector that is notable for consultant activity on a massive scale.

Two of these factors would tend to result in an understatement of the impact of a labor consultant; thus, using only the "clean" consultants who file reports and confining the study to the retail sector.

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This would preclude consideration of major campaigns waged by the mammoth union-busting law firms and consultants.

In conclusion, I think that Lawler's paper covers a subject that needs to be explored, and he is off to a good start. However, the data base he uses is not one which will provide the organizational picture in today's environment. An expansion which includes different industries, larger units, and major law firms acting as consultants would improve the reliability of his study.

Karen Koziara's paper accurately reports the current trend in the development of working women's organizations, pointing out the rapid growth of such organizations and the increased interest among women's rights activists and among women who are potential members of such organizations.

In describing the goals of the organization, she puts her finger on what many in the labor movement feel may be a drawback in the women's organizations: namely, the fact that these organizations are formed on a geographical basis without any particular intense organizational activity in a specific company and that they rely on public pressure to force companies to make basic policy changes in their personnel practices.

It is, of course, a predominant view in the labor movement that organization must occur in a very substantial part of any particular company's workforce in order to gain economic leverage with that company and force it to make changes. Public embarrassment will not suffice. Whatever changes the company will make through the process of embarrassment will often be cosmetic and will last only as long as the pressure continues. Of necessity this cannot be continuous and sustained when the organization does not exist permanently within the company. In the minds of most union leaders, the only way to make lasting and permanent changes that affect women and, for that matter, all other employees would be through securing a long-term collective bargaining relationship.

One other problem which may very well prove to be an obstacle to the growth of working women's organizations is that, while consciousness is high on women's issues in the workplace among professional and even managerial women, when clerical working women and service and manufacturing working women are considered, participation in militant women's organizations tends to decline sharply. There seems to be an unwillingness—at least at the current time—for women in these sectors of the economy to view their working problems as based on sex. It remains to be seen whether an effective public exposure program such as the various women's organizations have embarked upon will

succeed in raising consciousness to a level which will make a dent in the attitudes of women in these other occupational categories.

For the mutual benefit of the labor movement and working women's organizations, it seems desirable that the latter group begin to focus more on the benefits of collective bargaining as the best means for achieving the goals of working women.

## XVI. HUMAN RESOURCE IMPLICATIONS OF THE BUDGET CUTS

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### Fiscal Year 1982 Budget Reductions: Reconciliation and the Effects on Human Capital

LETITIA CHAMBERS  
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In the past year, many social programs built up over the past several decades have been reduced in size or eliminated entirely. These programs, generally passed by the Congress with broad bipartisan approval, have received support from past administrations, both Democratic and Republican. The major changes made this year were passed with little or no debate and with members of the House of Representatives and the Senate having no knowledge in many cases of the specific actions they were taking.

While it is clear that the new administration views its election as a mandate for dismantling federal governmental activity aimed at providing access to the economic mainstream, the Congress, through its usual deliberative process, has not acted as a check on executive branch action to produce the balanced legislation expected from the Constitutional separation of powers. The recent changes were made outside the normal legislative process by utilizing the Congressional Budget Act to bypass usual committee action.

When Congress passed the Congressional Budget and Impoundment Control Act of 1974, the major purpose was to restore to the Congress a primary role in setting overall federal budget policies. The congressional budget process prior to passage of the act lacked any central coordination and monitoring, with the budget determined through the unrelated actions of the separate authorizing and appropriations committees. The

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lack of an institutional framework in the Congress to consider spending and revenue policies in relation to each other, and in relation to the economy as a whole, had led over the years to greater executive branch control over the federal budget, since the President's budget request each year provided the only comprehensive budget consideration. General congressional dissatisfaction with this process, coupled with conflicts with the Nixon Administration over executive branch authority to impound funds appropriated by the Congress, led to passage of the new budget act.

The Congressional Budget Act established a mechanism for the Congress to adopt for each fiscal year a ceiling on overall spending and a floor or minimum on the level of revenue to be raised through taxation. The act provided for a first budget resolution to set spending and revenue targets, to be passed in the spring of each year. Appropriations acts would then be considered over the summer, and in the fall a second budget resolution would be passed establishing a binding spending ceiling and revenue floor.

The Congressional Budget Act in Section 310(c) also established, as part of the second resolution, a process to reconsider spending decisions. This reconciliation procedure established a mechanism to reopen legislation previously enacted to reduce spending levels. Reconciliation was not utilized in the first years of implementation of the budget act. The first attempted use in 1976 was defeated on the Senate floor. In the second resolution for fiscal year 1980, the Senate passed reconciliation instructions which the House rejected in conference. The first successful use of reconciliation occurred in 1980 when the First Concurrent Budget Resolution for fiscal year 1981 was passed with reconciliation instructions.

The use of reconciliation on the first resolution was controversial since the budget act specifically provided for its use only on the second resolution. A general provision of the act, Section 301(b)(2), which allowed "any other procedure which is considered appropriate" as part of the first resolution, was interpreted to include reconciliation. The Democratic congressional leadership and the Carter Administration used this procedure over the opposition of many who objected to the precedent which would be set. Because the specific spending reductions included in the reconciliation instructions were not particularly onerous for the most part and generally were changes already under consideration by committees, members of both houses went along with reconciliation on the first resolution in an effort to reduce the size of the deficit, despite concern for the precedent being set. The first reconciliation bill was enacted in December 1980 and included several billion

dollars in revenue increases as well as reductions in spending of approximately \$5 billion.

Reconciliation essentially "short cuts" the legislative process. Amending legislation generally requires lengthy hearings and careful deliberation by the committee of jurisdiction. Reconciliation provides a short-term deadline requiring that the committee consider specific amendments to the law and take action within the specified time period, which may not allow time for careful consideration of the effects of the changes. Thus speed in changing the law is both the advantage and the great disadvantage of the reconciliation process.

The election of 1980 brought to power a President committed to major changes in government. Many who were both supporters and detractors of the new administration welcomed the expected opportunity for informed debate on the role of the federal government, since Democrats and Republicans alike had been moving toward reorganization and reform of existing legislation to make government more effective and efficient. However, expected debate and careful deliberation did not occur.

Acting at the suggestion of the Senate Republican leadership, now the majority party in the Senate, the administration elected to bypass the normal legislative process and utilize the reconciliation procedure to make major changes in federal law. The reconciliation bill enacted the preceding year, although far less, extensive, provided a precedent.

The Republican Senate approved reconciliation instructions which directed massive changes in existing law with spending cuts concentrated in social programs. The Democratic-controlled House Budget Committee reported a lean budget resolution which made substantial though smaller reductions in the budget. The House committee resolution, which did not cut social program expenditures as deeply as the Senate resolution, was defeated on the House floor by a coalition of Republicans and Southern Democrats, who substituted the "Gramm-Latta" budget with reconciliation instructions similar to the Senate version.

The reconciliation process, which gave committees approximately one month to make major changes in substantive law, was completed in July and included spending reductions in fiscal year 1982 of \$35 billion in budget authority and cumulative reconciliation savings by 1984 of \$130 billion in budget authority. (Coincidentally, the increase in defense spending contained in the first resolution for 1982 was \$35 billion over the level contained in the first resolution for 1981. This striking example of "guns versus butter" may disappear if defense increases are pared back and social programs are reduced further due to the size of

the deficit.) Close to \$30 billion of the reductions for fiscal year 1982 were in the two budget functions which fund most social programs: Function 500—Education, Training, Employment, and Social Services, and Function 600—Income Security.

TABLE 1  
Reconciliation Savings  
(\$ Billions)

	FY 1982		FY 1983		FY 1984	
	BA	0	BA	0	BA	0
Function 500	- 9.4	- 6.4	-11.2	- 9.6	-14.0	-12.3
Cumulative savings					-34.6	-28.3
Function 600	-19.4	-10.6	-21.7	-12.2	-23.0	-13.6
Cumulative savings					-64.1	-36.4
500+600 cumulative savings					-98.7	-63.7

Note: BA = Budget Authority. 0 = Outlays.

The reconciliation procedure used in establishing the fiscal year 1982 budget significantly modified the congressional budget process and the roles in that process of budget, authorizing, and appropriations committees. The FY1982 First Budget Resolution, in addition to setting overall spending and revenue levels as in the past, usurped the prerogatives of both the authorizing and appropriations committees. The reconciliation instructions directed authorizing committees to make substantive changes in law and to reduce authorization levels (which generally exceed spending levels) from the amounts previously set by committees as an appropriate ceiling based on need for the program. This left the Appropriations Committee with very little flexibility (power) to set spending levels. For programs modified in the Omnibus Reconciliation Act (PL97-35), the Appropriations Committee could either rubber-stamp reconciliation levels or further reduce funding.

The reconciliation procedure, as employed in the Senate to determine the fiscal year 1982 budget, promoted the Senate Budget Committee to a position of superiority to authorizing and appropriations committees. As the Budget Committee lacks depth concerning specific programs, it based its reconciliation instructions, for the most part, on the President's budget. Thus the reconciliation process restored the President's budget to the primacy it enjoyed prior to passage of the Congressional Budget Act.

The appropriations bills for fiscal year 1982, delayed due to the reconciliation process, were in various stages of consideration in September (many had passed either one or both Houses), when President Reagan announced that he would seek \$10.4 billion in additional cuts in social programs in fiscal year 1982. This change in policy so late in



the process led the leadership of both houses to roll all the appropriations (through reference to each appropriations bill) into one large continuing appropriation. This continuing appropriations bill, which made approximately \$2 billion in additional cuts, was vetoed by President Reagan. A subsequent continuing appropriations bill was passed and signed into law. This bill made approximately \$4 billion in additional cuts by taking a 4 percent across-the-board cut in most discretionary social programs. Thus the "second round" of cuts were concentrated in the same areas which had already been reduced substantially.

Total social program reductions for fiscal year 1982 exceeded \$40 billion. Over \$14 billion (35 percent) of the reductions were in discretionary human services programs which make up only 5 percent of the budget. A majority of the population served by programs being cut are poor, and youths make up a substantial proportion of those losing services. The largest of these cuts were concentrated in programs which provide federal investment in human capital.

It is ironic that an Administration committed to fostering investment in capital should ignore the human capital needs for an educated workforce. Labor shortages in high-skill industries are growing at the same time that excess labor supply exists, with large numbers of low-skill workers or workers with obsolete or unusable skills seeking employment. Administration policies are expected to exacerbate this problem with reductions in education, training, and employment assistance in fiscal year 1982 exceeding \$9¼ billion. Student aid programs, which provide access to higher education for students from families with limited incomes, account for \$1½ billion of this reduction. Changes in eligibility in the Guaranteed Student Loan program will reduce program participants from 3.8 billion to approximately 2.9 million borrowers in fiscal year 1982. Reductions in the Pell Grant program (formerly the Basic Educational Opportunity Grant program) will result in more than 200,000 fewer lower-income students receiving grants in fiscal year 1982.

Of the 900,000 fewer students able to borrow under the GSL program and the 200,000 fewer students receiving Pell Grants, a substantial number may be unable to continue in school at all, and others are expected to be unable to attend higher-cost institutions. It is difficult to project the actual effects on enrollment of the fiscal year 1982 reductions.

While cuts for fiscal year 1982 are severe, OMB proposed reductions for fiscal year 1983 could result in more than an additional one million students being denied Pell Grants. The effects of such a massive reduction would certainly be far-reaching, affecting not only the individ-

uals involved but also the viability of educational institutions and the number of individuals available to fill the growing demand for a highly educated workforce.

Elementary and secondary education programs are targeted to serve students with special needs and on general school improvement. Reductions of approximately \$900 million in fiscal year 1982 were most heavily concentrated on programs which foster curriculum improvement and the impact aid program which provides general aid for federally impacted school districts. These cuts in school programs, occurring at a time when state and local governments have received funding cutbacks in other areas, will be difficult to replace with state and local resources.

Employment and training programs have borne the brunt of budget reductions with more than \$4½ billion cut from Comprehensive Employment and Training Act (CETA) programs. Elimination of CETA public service employment will reduce CETA participants by around 525,000 workers in fiscal year 1982. Cuts in the training and youth programs will reduce participants from a current policy estimate of 2.4 million to around 1.8 million. Total reduction in participants in CETA training and jobs of 1.1 million is similar to the reduction in participants in student aid programs. Thus over 2 million persons, primarily young people who would have received educational assistance or assistance in entering the labor market, will be left to their own devices. Reduction in the Trade Adjustment Assistance Act, which was designed to compensate and assist workers who lose their jobs because of import competition, will eliminate assistance to approximately 160,000 adult workers.

Employment and training reductions of close to \$7½ billion result in a limited federal role in educating the nation's labor force. As these programs primarily serve individuals from low-income families, the problems associated with labor force entry of low-income, low-skilled workers can be expected to become more acute. The reduction of \$9¼ billion in the federal investment in human capital can be expected to have far-reaching effects on the preparation of workers for the labor market. Increasing numbers of youths from low-income families and others seeking to enter the labor market will be denied access to higher education and to other types of training through cuts in CETA and education programs.

In addition to the individuals affected, the cuts in human capital and other social programs will place a burden on state and local governments. Most social programs are administered by states and funding has been a joint federal and state effort. Reduction in the federal share of these costs will not reduce the need for services, and states and localities will be under pressure to continue them.

TABLE 2  
Human Capital  
(\$ Billions)

	Estimated Reductions
Elementary/secondary education	—\$ .896
Student aid	— 1.436
Employment and training	— 7.409
Estimated reductions in selected human capital programs	—\$9.741

While a few states may be able to increase expenditures on social programs to offset the cuts, most will not be able to do so. These cuts have come at a time when large additional expenditures are needed on infrastructure: water and sewer, streets, highways and bridges, and mass transit. In addition to the difficulties encountered due to the budget cuts by states and localities, Reaganomics has also affected their ability to finance capital improvements. High interest rates have affected their ability to borrow, and competition in the tax-exempt market due to the new tax law has reduced their ability to raise funds by marketing municipal bonds.

The current recession also poses difficulty for state and local governments. Revenues are decreasing at a time when demand for services due to unemployment is rising. Present economic policies have the potential to seriously undermine the economic viability of state and local government. Thus, it is unlikely that human services cuts in the federal budget will be made up from state and local resources.

It is also highly unlikely that any of the cuts will be restored in the federal budget. The current and projected size of the deficit will create strong pressures to reduce the deficit and attempts to further reduce spending on human services and other social programs can be expected.

# Human Resources Implications of the Budget Cuts

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The Administration's budget proposals to date reflect a coherent approach to social welfare policy. By discussing the important and highly interrelated areas of employment and training policy and income security policy, I will attempt to indicate how this approach is likely to affect human resources programs in the future. While my observations necessarily draw upon my experience as a member of the Administration, the views expressed are my own.

## **Employment and Training Policy**

Administration proposals are based on lessons learned over the last 50 years about the actual success—or the lack thereof—of federal interventions in labor markets.

### *A Short Revisionist History*

Early federal labor market interventions, under the Wagner-Peyser Act and the unemployment insurance system established by the Social Security Act, were justified as mechanisms to increase the *efficiency* of labor markets, rather than as attempts to influence the outcomes of decisions made within those markets. These efforts reflect general agreement that enhancing the quality of labor market information and providing a mechanism to cushion shocks associated with the stochastic frictions of normal business cycles are valuable public goods in which a federal role is appropriate, if not necessary.

In 1961, however, federal efforts began to reflect explicit judgments that, left to its own devices, the labor market would inevitably fail to overcome certain socially undesirable barriers. Geographic pockets of poverty, such as Appalachia in mid-century, were little improved by labor market information. Inner-city blacks, whose persistent unemployment increasingly was viewed as a structural rather than personal problem, were seen as needing far more than unemployment insurance to lead constructive lives. At the same time, quantum leaps in industrial

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technology were seen to threaten permanent dislocation of millions of industrial operatives. In short, the perception was growing that the unfettered market for labor was inherently defective.

### *Fine-Tuning the Labor Market*

Thus began, to strain a metaphor, a two-decade-long effort to mastermind the way in which labor pegs and occupational holes fit together.

Many of the first efforts can be characterized as attempts to mass-produce well-carved pegs. The Area Redevelopment Act, the Manpower Development and Training Act, the Job Corps, and the Neighborhood Youth Corps were among efforts initiated in the 1960s to fit those habitually outside the mainstream labor force into some niche in the occupational hierarchy.

As in so many other industries, however, the business of milling pegs faced a bottleneck in the supply of trained craftsmen. The nation's vocational education apparatus was simply incapable of absorbing the new load. To compound the problem, the disadvantaged chosen for treatment often needed far more than simple skills instruction. Their basic education was almost uniformly low, and their work-related habits and personal problems often threatened successful adjustment to the middle-class work environment. Hence, major expansions of remedial education, counseling, and ancillary resources were needed to help bridge these gaps.

### *Working the Holes*

Just as these bottlenecks were beginning to be overcome in the late sixties, the economic dynamism of the decade fell away to the growing stagflation of the seventies. In that environment, rather than attempting to mill an ever-rising supply of pegs to fit a sharply declining set of holes, the federal government embarked on the task of directly creating the needed holes. From the Emergency Employment Act to Titles II and VI of the Comprehensive Employment and Training Act (CETA), the federal government expended better than \$25 billion in the past decade to create millions of service years of public-sector employment.

### *Experience of the Seventies*

By the end of the decade, unemployment stood at near-record levels; inflation soared, to near 20 percent at points; and interest rates hit historic peaks. Inheriting this appalling set of circumstances, the Administration clearly was compelled to rethink two decades of efforts to mitigate the problem of structural unemployment.

*The Macroeconomic Analysis of Employment and Training Programs*

For years, the ability of the federal government to intervene successfully in labor markets has been analyzed to death at the micro level. There have been skillful practitioners of the art of improving the employment prospects of the disadvantaged, and the federal government has diligently urged their model approaches on the nation as a whole. Yet the skills of these dedicated experts are rarely portable, and hence their results often impossible to replicate by other practitioners in variant settings. This problem is easily masked in individual evaluation data. It stands out a mile, however, in even the most cursory view of national aggregate data.

The empirical evidence is straightforward. Since 1962, the federal government has expended over \$80 billion (nominal dollars) on federal employment and training efforts designed to assist the long-term structurally unemployed, especially minorities. In that time, the number of long-term unemployed (27 weeks + ) has risen by 95 percent, five times faster than the growth of the population. The number of black unemployed has increased by 106 percent, two-and-one-half times the growth of the black population.

Clearly large-scale implementation of employment and training treatment strategies has not stemmed the tide of rising long-term unemployment in a deteriorating economy. While a case can be made that these numbers would be even worse in the absence of past efforts, such an argument completely misses the point. Eighty billion dollars is a large sum of public money to expend converting a tragedy into a simple disaster. Given history, one must conclude that carving of pegs and holes is a second-order consideration in the face of significant exogenous shifts in the supply and demand conditions in the market.

The macroeconomic evidence suggests strongly that an expanding private economy is a necessary—and in most cases, sufficient—condition for reducing long-term unemployment. In the last 34 years, long-term *unemployment* and total labor force *employment* have moved in opposite directions in all but eight years (1950, 1955, 1957, 1971–1972, 1974, 1976, and 1980). Even in those years when employment *and* long-term unemployment were both rising, the rate of positive change in long-term unemployment was decelerating and, with the exception of 1971, turned negative the following year.

*The Reagan Approach: Favoring That Which Works Over That Which Doesn't*

Grand-scale problems require grand-scale solutions. Employment and training programs can never achieve results on the needed grand

scale. Indeed, efforts to make them grander in scale simply diminish their effectiveness.

Recent statistical work at the Office of Management and Budget underlines this fact. Using the March 1979 CPS (1978 data), we found the number of long-term unemployed (27 weeks or more) in poor families (annual income below the OMB poverty level) to total 191,000 in 1978. This target pool contrasts with the eligibility case for CETA during the same period, estimated by Mathematica, Inc., at 70 million persons before the 1978 amendments to eligibility rules and at least 32 million thereafter.

During 1978, roughly three million CETA slots were funded. The mismatch of eligibility, funding levels, and the target population is profound. Even if every member of the 191,000 target population were enrolled in 1978—a highly unlikely outcome—the funding overmatch to the target population would have been an astounding 15.7 to 1: approximately \$6 billion in one year alone would have been expended on those outside the target population.

In a time when the level of public expenditures threatens budgetary conditions that dampen economic growth, poorly targeted spending programs are a clearly inferior means of reducing long-term unemployment. The Reagan program of sharp reductions in personal and business income taxation, restrained monetary policy, and general expenditure reductions will be a powerful tool for reducing long-term unemployment. The Administration will not abandon all efforts to provide skills training and supportive services to the chronically unemployed. However, resources for these efforts will be constrained to amounts needed to meet the needs of those least able to obtain and maintain employment without substantial assistance—amounts several orders of magnitude smaller than those generally perceived, as indicated by the analysis above.

### **Income Security Policy**

The Administration's income security proposals to date stem from a perception of "welfare reform" that differs markedly from the way that concept has been approached in the sixties and seventies.

#### *The Impossibility of "Welfare Reform"*

Every welfare reform proposal over the last 15 years, from the Nixon era "Family Assistance Plan" to Carter's "Program for Better Jobs and Income," has sought to reduce benefit "tax" rates: the rates at which welfare benefits are reduced as other income increases. High tax rates, it is argued, provide a major impediment to work effort.

There are two possible approaches to reducing tax rates:

- Lower income guarantees. This approach suffers the serious objection that those who are unable to work probably will be unable to subsist at guarantee levels low enough to materially effect tax rates.
- Lower benefit reduction rates. This approach leads to the costly and politically untenable outcome of making large proportions of the population eligible for welfare.

Over the years, all approaches designed to mitigate work disincentives by lowering the tax rate have run afoul of the tradeoff between benefit reduction rates and income guarantees and, thus, have failed of enactment.

### *The Outcome: Selective Income Supplementation*

The net effect of the analytical stalemate over welfare reform has been an ersatz system of selective income supplementation. Due to benefit reduction rates less than 100 percent, those who move from welfare to work almost uniformly receive greater income in the form of cash and in-kind transfers than their working counterparts who have never been on welfare.

For example, a nonworking welfare family of four with nationally typical benefits would have received AFDC, Medicaid, and school-lunch benefits equivalent to \$7,548 annually (1980 dollars) in 1970. That same family in 1980 would be modestly better off, receiving benefits (including Food Stamps) valued at \$8,124. In contrast, a family that never received welfare but started the decade with income equal to the welfare family's 1970 benefits could well be worse off. If their 1970 after-tax income had equaled an identical \$7,548 and risen with national average wage increases, their 1980 after-tax income would be \$7,224, a 5 percent decline in real terms. Their income would be 11 percent below that of a comparable family that depended solely on welfare.

Should the welfare family, in 1980, have decided to avail itself of the income supplementation effects of benefit reduction rates, the disparity would become even more pronounced. For work side-by-side at exactly equal wages with the head of the nonwelfare family, the combined effect of work disregards and the earned income tax credit would give the welfare family an after-tax net of \$11,706—an amount 53 percent higher than that for the family with precisely equal wage income.

Such disparities are not isolated examples. In fact, two-thirds of wage-earning families with incomes below 150 percent of the poverty level receive no AFDC, Food Stamps, or Medicaid benefits at all. Only a third of low-income families receive these supplemental benefits.



### *The Nature of the Reagan Reforms*

The benefit reduction proposals put forward by the Administration are a targeted attack on selective income supplementation for the minority of "working poor" who receive welfare. From the standpoint of the *internal* logic of past welfare reform debates, of course, such changes raise the specter of vastly increased work disincentives.

The Administration's response to this internally designed problem is to bind the system with an *external* constraint—so-called workfare or Community Work Experience programs. Once implemented, these programs will have the effect of reversing the prevailing set of incentives in the system. Instead of tax rates ranging from 67–100 percent on work effort, workfare sanctions place a 100 percent tax rate on non-work. When the only choices are work in exchange for cash welfare benefits or work in the private sector, "internal" work disincentives due to high benefit reduction rates became moot.

In effect, the Community Work Experience Program is an absolutely targeted form of employment program. It will enroll only those with no other viable alternative, and it will remain attractive only so long as viable alternatives fail to materialize. As long as cash assistance payment standards do not exceed prevailing community wage rates for entry-level employment, workfare will become, by definition, a true last resort for families otherwise unable to support themselves.

### **The Safety Net Defined**

This kind of program redesign is the often-missed key to understanding the Administration's continued insistence that the "social safety net" remains in place. The safety net is not a list of federal social welfare programs or a standardized package of goods and services. Rather, the safety net is just that—a set of mechanisms provided by society to ensure that those who, through no fault of their own, are temporarily or permanently unable to provide for their own support are nevertheless able, for the duration of the real period of inability to support themselves, to meet basic human needs.

Administration efforts to revamp the landscape of federal human resources programs, far from sundering the basic life-support system, will return these programs to their original intent as emergency safeguards. For those unable to support themselves, stable economic growth will be the engine of social improvement. To the extent that budget reductions in the short term contribute toward that necessary and sufficient condition of prosperity for all working Americans, they will enhance the effect of federal policy in the development of our nation's human resources.

# Budget Watching as a Spectator Sport

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Unlike political rhetoric, the federal budget is traditionally assumed to be a reliable indicator of the true state of policy thinking in the executive branch. Despite attempts to confound budget-watchers by frequent changes in budgets since taking office, the Reagan Administration's budget imprint is clearly emerging.

Analysts watching the remaking of the 1981 Carter budget were quick to catch the broad outlines of Administration policy in noting the early moves to curtail federal government expenditures in favor of state and local government, to shift the composition of the budget from social programs to defense, and to rely more heavily on the private sector to meet social responsibilities. As these initial moves have been further extended in the various versions of the 1982 Reagan budget and are widely rumored to be continuing into the 1983 budget, a conventional wisdom is emerging about the dismal prospect for social programs.

CETA is often cited as a typical example of how the Reagan budget has impacted upon social programs. Budget cuts, the elimination of the PSE program, the reduction of youth-oriented employment and training programs, and the anticipated shrinking of Employment and Training Administration staff levels have all contributed to this view, as has the overall reduction in the CETA budget of about 40 percent from the FY 1981 Carter budget. Indeed, the "dismal prospects" thesis with respect to CETA and the viability of a national labor market policy is so firmly established that there seems to be little more to add to the debate.

The obsession with budget cuts, however, has tended to distract observers from a set of questions dealing with the underlying program strategy of the labor market budget: To what extent is that strategy a radical departure from those of earlier administrations, and is the new strategy viable under sharply reduced funding levels?

Addressing these questions requires placing the Reagan labor market budget in historical perspective. In this paper, recent Reagan labor market budgets are compared with those in the Carter Administration

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to determine the extent to which the policy strategies of the two administrations differ. The Reagan priorities are then contrasted with those of the present Congress. The paper concludes with an examination of the viability of a national labor market policy on a reduced scale.

### **The Administration's Goals for Labor Market Policy**

While there is no existing manifesto to which one can point to ascertain the Administration's priorities for employment and training policy, several guiding principles seem to be emerging:

1. The labor market planning system will necessarily be scaled down and redesigned to perform efficiently at lower funding levels.
2. State and local governments, rather than the federal government, should determine policy planning and delivery to the maximum extent possible. Given the present responsibilities of states with respect to welfare, vocational education, and labor market information programs, state-level coordination is to be the linchpin of a comprehensive labor market policy.
3. Increased private-sector involvement in both planning and service delivery is desirable.
4. Programs should be targeted sharply on those most in need while at the same time maintaining the capacity to deal with structural change and the dislocation of experienced workers.
5. Federally subsidized employment should not be an instrument of labor market policy for adults, although it may be for youth and those on welfare.

These features figure prominently in the initial budgets prepared for 1981 and 1982 by the Administration (see Table 1). They are also reflected in public statements by the Department of Labor and in planning documents prepared by both ETA and ASPER for the 1983 budget.<sup>1</sup>

### **Carter vs. Reagan Budgets**

In the late 1970s and early 1980s the actual and projected Carter budgets for CETA ranged between \$8 billion and \$10 billion. The principal growth areas in CETA under the Carter Administration were in youth programs, principally those providing employment or work experience, and in public service jobs. For FY 1982, the proposed Carter budget would have been almost \$10 billion, including a new \$875 million youth program representing a substantial shift in CETA resources to the youth labor market.

The Reagan Administration reworked the FY 1981 budget to reduce

<sup>1</sup> See Malcolm Lovell, remarks prepared for presentation to The Conference Board, New York, November 4, 1981 (mimeo).

outlays by \$673 million, accomplished mainly by cutting \$634 million in public service employment and \$39 million in national programs for special target groups. The March version of the FY 1982 budget dramatically accelerated the cuts in public service employment by \$2.3 billion, thereby effectively ending the major jobs program of the Carter Administration. National programs for special programs and groups were cut by almost half and youth programs lost \$769 million. This FY 1982 budget also dropped Carter's new youth initiative as well as a pilot program for displaced workers.<sup>2</sup> Overall, the program budget fell by an additional \$3.1 billion to \$5.3 billion.

Despite these budget reductions, some programs actually received increases. General employment and training funds under CETA Title II were increased by \$116 million and \$110 million more went to the Job Corps. Funds for the private-sector training initiative were also increased slightly as were funds for jobs for older workers.

This process of major reductions in public service employment and youth programs coupled with shifts in other budget items gave the first FY 1982 Reagan budget a reputation for being a radical departure from the Carter Administration programs. This view of radical change is especially plausible if comparisons are made with Carter's 1981 budget. If, however, the FY 1982 budget is compared with trends in the Carter Administration's budgets between 1978 and 1982, a rather different picture emerges (see Table 1).

The cornerstones of the Carter labor market budgets were youth programs and public service employment. In the Carter budgets for the 1980s, the balance between these programs was changing. Public service employment was being deemphasized and youth programs were being expanded through Carter's new youth program initiative. Public service employment and the new youth program initiative are the major budget items distinguishing the Carter labor market budgets of the 1980s from the first Reagan budgets. If public service employment is removed from the Carter budgets, the funding levels for 1981 are nearly identical with those of Reagan. A similar exercise for 1982 would leave the first Reagan and Carter budgets separated by \$1.08 billion of which \$875 million is accounted for by Carter's new youth program. Apart from the new youth initiative, both administrations put identical resources into other youth programs in both 1981 and 1982 with the exception of the Job Corps, for which the FY 1982 Carter budget was slightly higher.

Both Carter and Reagan also proposed identical budgets for private-

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<sup>2</sup> J. A. Peckman et al., *Setting National Priorities, The 1982 Budget* (Washington: Brookings Institution, 1981), pp. 60-64.

TABLE 1  
Comparisons of Carter and Reagan Budget Outlays  
For Selected Labor Market Programs  
FY 1979, FY 1981, FY 1982 (\$000s)

	FY 1979 (Carter)		FY 1981 (Carter)		FY 1981 (Reagan)		FY 1982 (Carter)		FY 1982 (Reagan-March)	
Title II ABC	\$1,802,000	36%	\$2,000,000	33%	\$2,000,000	34%	\$2,011,150	32%	\$2,127,283	42%
Title III national programs	544,000	11	539,495	9	500,269	8	564,179	9	275,173	5
Private-sector training	10,000	.2	282,674	5	282,674	5	313,994	6	313,994	6
Jobs Corps	380,000	8	593,648	10	593,648	10	718,447	12	703,447	14
Youth Initiative	—	—	—	—	—	—	875,000	14	—	—
Youth Employment and Training	1,669,000	33	1,942,177	32	1,942,177	33	1,063,322	17	1,063,332	21
WIN	385,000	8	365,000	6	365,000	6	384,982	6	364,803	7
Older Amer.	208,000	4	265,200	4	265,200	4	277,100	4	277,100	5
Total	\$4,998,000	100	\$5,988,144	100	\$5,948,968	100	\$6,208,174	100	\$5,124,000	100
Public Service Employment	\$5,041,000		\$3,101,296		\$2,613,214		\$3,771,786		\$ 311,288	
Titles IID and IV	\$10,039,000		\$9,089,490		\$8,562,182		\$9,979,960		\$5,435,288	

Source: OMB budget summaries (mimeo)

sector training programs in both 1981 and 1982. Private-sector programs were emphasized by both administrations and were experiencing modest growth in resources. Under both administrations, however, this program represented only a small fraction of labor market budget resources.

What emerges from these comparisons is a radical cut in funding levels. This cut, however, masks an extremely conservative approach to the labor market policy mix. The major cuts were levied on public service employment which was already moving to a lower plateau under Carter. New programs contemplated by Carter were not adopted by Reagan, but all the other established programs except for those operated nationally under Title III were maintained at Carter budget levels or increased. Apart from the budget cuts, the main thrust of the first FY 1982 budget was to accelerate and deepen trends already apparent in the Carter budgets, to preserve the underlying policy mix, and to avoid new program initiatives. Other than public service employment, the main programmatic victim was the national program component of CETA which allowed special national needs to be served and which provided funds for research, experimentation, and evaluation.

### **Congress and the FY 1982 Budget**

During the legislative debates surrounding the March FY 1982 Reagan budget, Congress increased the labor market budget by about \$300 million above Reagan's request. At the same time, however, Congress made a number of adjustments in the policy mix, the largest being an increase of about \$83 million in funding for youth programs. Before the differences between Congress's and the Administration's budget could be reconciled, however, the Administration determined that another \$300 million reduction needed to be made in the CETA budget, raising the difference between the Administration's and the Congress's budget to about \$600 million.<sup>3</sup>

In adjusting the program mix for these new cuts, the Administration departed from many of the directions it had taken in its earlier FY 1982 budget. Disproportionate cuts were levied on general funds for prime sponsors under Title II, Job Corps, private-sector training programs, and WIN training. Public service employment was relatively unscathed. Youth employment funds were increased substantially as were those for national programs. In effect, further cuts were levied in those areas where Congress had either accepted the earlier Reagan budget levels or had initiated its own cuts. Budgets were increased in those areas where Congress had indicated a desire for increases (see Table 2).

<sup>3</sup> See Letitia Chambers, "Fiscal Year 1982 Budget Reductions: The Effects on Human Services," pp. 393-99 in this volume.

These changes suggest an abrupt reversal, at least at the margin, in the Administration's budget priorities following congressional budget action. In short, the Administration appeared to care more about a program which would meet overall budget targets and be acceptable to Congress than to place its own stamp on labor market policy.

TABLE 2  
Comparison of Reagan "Mid-Term," Congressional Reconciliation,  
and Reagan "September" Budgets, FY 1982  
(\$000s)

	Reagan Midterm 1982	Congressional Reconciliation Conference 1982	Reagan "September" 1982
Institutional Training	\$2,119,583	\$2,023,258	\$1,889,423
Title II ABC			
Title III National	266,173	271,105	334,403
Jobs Corps	703,447	602,591	534,053
Private sector	313,994	294,372	289,353
WIN	364,803	364,803	328,224
Older workers	277,100	277,100	270,450
III) PSE	219,181	219,181	219,181
VI PSE	55,430	55,430	55,430
Youth employment	1,037,622	1,526,084	1,139,255
Totals	\$5,357,333	\$5,633,924	\$5,059,772

Source: OMB budget summaries (mimeo)

### Can Labor Market Policy Survive?

Cutting the CETA budget by about half from the peak of the Carter Administration has diverted about \$5 billion dollars of federal resources away from the disadvantaged members of the labor force. The bulk of the cuts, however, have affected publicly subsidized jobs rather than labor market services. Therefore, the capability of the program to effect labor market change has not been altered as substantially as would be suggested by the overall budget levels for 1981 and 1982.

The Administration's budget request for FY 1983 is reported to be reduced further to \$2.4 billion. There is thus a real prospect of a labor market policy operating at about half the level of FY 1982 and only one-quarter of that which would have been requested by Carter. Now that PSE is gone, these additional cuts must necessarily result in substantial reductions in labor market services and in a contraction of the CETA planning network.

Can a human resources policy stripped of public service employment function and operate viably as a national labor market policy funded at around \$2.5 billion? Despite the obvious decline in total resources, such a program represents a level of commitment to labor mar-

ket services roughly comparable in real terms to that found under MDTA and CETA in the years between 1969 and 1974. In FY 1969, for example, prior to any major public employment program, the human resource budget averaged about \$1 billion.<sup>4</sup> In 1981 terms this is equivalent of a budget of about \$2.7 billion. In 1974, spending on labor market programs had reached \$1.8 billion, equivalent to \$3.2 billion in 1981 dollars (see Table 3).

TABLE 3  
Federal Obligations for Selected Labor Market Programs  
FY 1969, FY 1970, and FY 1974  
(\$000s)

	FY 1969		FY 1970		FY 1974	
MDTA institutional and CEP	\$ 327,725	30%	\$ 474,632	33%	\$ 454,385	25%
Private-sector OJT	219,932	20	198,369	14	154,592	9
Operation Mainstream	41,000	4	51,043	4	114,664	6
Neighborhood Youth Corps	320,696	30	356,589	25	661,712	36
Jobs Corps	53,000	5	169,782	12	149,551	8
WIN	100,817	9	78,780	6	250,127	14
Other	19,560	2	89,366	6	28,334	2
Total	\$1,082,730	100	\$1,418,552	100	\$1,814,365	100
Total in 1981 \$	\$2.71B		\$3.3B		\$3.2B	

Source: Manpower Report of the President (1970, 1971, 1975).

In 1969-1970, the economy was in a considerably stronger condition, although just entering a recession. The total labor force in the country was about three-fourths its current size in 1969 and unemployment was considerably lower throughout the 1969-1974 period. Although no set of comparisons is perfect, these years provide a useful reference point for understanding what can be accomplished with fewer resources.

The rhetoric of the time revealed little indication, either under the centralized administrative arrangements of MDTA or the decentralized arrangements under the early CETA program, that resources were insufficient to run something described at the time as a national labor market program. Nor do program evaluations suggest that the modest benefits provided by labor market services were substantially improved when the program operated at higher budget levels.<sup>5</sup> While the level and coverage of labor market service will fall under Reagan, and smaller prime sponsors may not be continued, there is no indication that the system as a whole will fail for want of a critical mass.

<sup>4</sup> See *Manpower Report of the President*, 1970, Ch. 3; *Manpower of the President*, 1971, Ch. 2; *Manpower Report of the President*, 1972, Ch. 3.

<sup>5</sup> See, for example, C. Perry et al., *The Impact of Government Manpower Programs* (Philadelphia: University of Pennsylvania Press, 1975).



It also seems likely that the mix of services will continue much as they are at present. An examination of the composition of employment and training budgets under both MDTA and CETA during the late 1960s and early 1970s gives a strong impression of stability in the mix of services under sharply differing economic conditions and administrative arrangements.<sup>6</sup> The main trends in program mix that stand out from the late 1960s and early 1970s are not of the effect of resource limitations, but of the increasing reliance upon public jobs as a tool of policy for both adults and youth. There is a parallel decline in reliance upon the private sector as a source of jobs and training as the economy deteriorated after 1969.

If public service employment has become a discredited policy tool in the 1980s, the lessons of the 1970s would also argue for skepticism in turning to the private sector as a meaningful source of jobs and training as long as unemployment remains high. Unemployment and increased competition for jobs is likely to undermine the success of using labor market services as a "safety net" for the disadvantaged unless new ways are found to couple training with jobs. In short, it is more likely to be the state of the economy than the level of budget resources that will undermine labor market policy in the near future.

### **Prospects for Labor Market Policy in the 1980s**

The Administration is now preparing various options for redesigning the labor market policy system in FY 1983. One is to phase out the current prime-sponsor network and replace it with a mixed system of grants to states and to skill training centers in the local areas.<sup>7</sup> The training is to be tied to private-sector skill needs and is to be targeted on disadvantaged youth and welfare recipients. Tax credits and direct wage subsidies will be used to supplement training activities.

A second option targets on the same group of workers, but proposes to concentrate training resources at the state level where they can be combined with state-administered income-transfer programs, vocational training, and labor market information services.<sup>8</sup> Increased private-sector involvement in comprehensive planning for these services is also contemplated.

These programs share a determination to assist young workers and

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<sup>6</sup> For an excellent historical summary of labor market policy, see National Commission on Employment Policy, *Sixth Annual Report* (Washington: The Commission, December 1980), pp. 49-140.

<sup>7</sup> Employment and Training Administration, "A Proposal for Reform of the Employment and Training System" (mimeo), n.d.

<sup>8</sup> U.S. Department of Labor, Memorandum from Secretary Donovan to Martin Anderson on CETA Reauthorization, November 8, 1981 (mimeo).

to reduce welfare dependency. Both turn to state governments and to the private sector for planning and delivery.

This orientation is not new. It strongly resembles the labor market agenda of a decade ago under the early Nixon Administration.<sup>9</sup> Like Nixon's proposal for a comprehensive manpower act, these proposals will have to pass muster in a Congress that has already shown some independence on labor market policy questions. Moreover, for the immediate future, it appears that the search for budget reductions will continue and that labor market policy will remain a likely target for further cuts. Despite the Administration's interest in replacing the current CETA system with a redesigned program, it does not seem likely that it will place any higher priority on the adoption of its own plan than it did on achieving its preferred program in FY 1982. As long as achieving overall budget objectives dominates the Administration's legislative goals, congressional priorities are likely to play a large role in shaping the specifics of the new legislation. What, then, will this mean?

It is too early to tell how the House will come out on employment and training legislation, except that it is more likely to try to protect traditional Democratic interests in cities and other large local government units as well as certain target groups such as disadvantaged youth, minorities, and displaced workers. The situation in the Senate is somewhat more clear. The Republican chairman of the Senate Employment and Productivity Subcommittee has already issued a report on employment and training policy which gives a substantial role to the states under a consolidated training program with some funds earmarked for youth.<sup>10</sup> States are to design the planning and delivery areas and to designate prime sponsors. The private sector is to be granted a much larger role in planning and program oversight. From commentary on this proposal from the Democratic minority, it appears that "pass-throughs" to larger cities and counties will be a key element if bipartisan consensus is to be achieved. Both houses of Congress are likely to want to be more generous with the total labor market budget than is the Administration.

On balance, if the Administration is to hold the line on the FY 1983 budget level at the announced level of \$2.4 billion, it is likely to have to yield to congressional pressures to limit the authority of governors over labor market policy. It also appears likely, from the FY 1982

<sup>9</sup> See *Manpower Report of the President, 1970*, Ch. 3, for a description of the comprehensive manpower legislation proposed by President Nixon.

<sup>10</sup> *Congressional Record*—Senate, "A New Approach to Employment Training," statement by Senator Quayle, pp. S14073–74. See also statements by Senators Kennedy and Hatch at S14075–76, November 24, 1981.

budget experience, that the Congress will continue to demand a federal role in labor market policy to ensure that certain categorical programs will be preserved. This will make program consolidations and block grants to states more difficult, particularly if they are to be combined with welfare and vocational education funds. Although the goal of increased private-sector involvement is likely to survive the legislative debates, experience with earlier attempts in this direction suggests that such a goal is easier to legislate than to accomplish.

Despite the major shifts in budgetary resources and the likely prospects of labor market legislation, the underlying mix of labor market services is likely to remain relatively stable during the 1980s. This stability, which has characterized the mix of labor market services for more than a decade, is in itself cause for concern.

One virtue of labor market policy under earlier administrations was a determination to preserve a conscious federal presence in the areas of national needs, research, experimentation, and evaluation. These functions are central to the search for improved solutions to labor market problems and to the ability of labor market policy to identify and respond to changing economic circumstances.

Funds for these activities have been substantially cut by FY 1982 and their status in FY 1983 is uncertain. Moreover, none of the major proposals for reform contemplates a leadership role for the federal government in policy and program development or evaluation. The curtailment of this federal role coupled with a sharp reduction in resources for the labor market system as a whole is a formula likely to inhibit innovation, experimentation, and basic research at the very time when fresh ideas are demanded.

# Human Resource Implications of Reaganomics

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The Reagan Administration's human resource policies cannot be viewed in isolation from general macroeconomic considerations. For this reason, we should seek answers to two paramount questions: (1) What is this administration's economic game plan, and how does it affect human resource programs? (2) Even if these policies produce the desired results, was it necessary to concentrate so much of the hardship on the lower parts of the economic spectrum?

The Reagan Administration has enunciated several definite notions concerning human resource policies. Underlying its approach to helping persons who experience difficulties in the labor market are three assumptions:

1. Given the right incentives, the supply side of the economy will show a burst of activity, and most labor market problems will be taken care of by self-correcting market forces.
2. The private sector can employ and train the vast bulk of the people currently served by human resource institutions.
3. Most public employment and training programs have failed.

Given this view of the world, ideology appears to be the driving force behind the Reagan Administration's human resource policies. In particular, the Administration's human resource policies are dominated by macroeconomic considerations, especially those of budgetary stringency.

If the economy responds in the way predicted by Administration officials, and tax revenues increase despite reduced tax rates, there will be some funds to implement Reagan Administration human resource strategies. However, if the "riverboat gamble" does not pay off and growth remains sluggish while the deficit reaches unprecedented peacetime proportions, then human resource programs will be slashed even further. Though the Administration appears to have very definite views

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as to what the proper role of government should be in the human resource arena, specific action in this area remains primarily a reaction to macroeconomic forces.

### **Rational Expectations?**

The first tenet of Reaganomics is what some economists call "rational expectations." We were told by Administration experts that the mere change in climate generated by Reaganomics would induce people to make dramatic shifts in their economic behavior. Corporations would boost their investment plans since the new Administration pushed for lower tax rates and cuts in government spending. And since the growth of the money supply would be brought into line, the financial community would reduce its inflationary expectations and interest rates would fall. Meanwhile, individuals would, with rational expectations, boost their savings. This flow of funds would be channeled into new productive investments to expand and modernize America's industrial base.

As even Administration officials have admitted in their more candid moments, economic reality has proven to be far more intractable than they believed. It is true that the combined budget and tax cuts have only been in effect for a short time. However, if rational expectations were going to take hold, some signs of them should have been seen by now. Indeed, it appears that people with money did act rationally but not in the way the Administration had hoped. Instead of rushing out to invest their cash in high-technology, or even low-technology, industries, they took their cash to the operator of the friendly neighborhood money market fund which produced reasonably safe and high returns. The investment outlook for American business has not become rosier: on the contrary, with the current recession some major projects have been delayed or discarded. Meanwhile, the financial community remains deeply troubled by Reaganomics, and comments from Administration officials that massive budget deficits don't matter are not going to make Wall Street rest any easier.

The faith that people would vastly alter their economic behavior with the mere hope that Reaganomics would change the business climate has not so far produced the desired results. We are currently in a deep recession, but it is wrong to lay all of the blame at the Administration's doorstep. President Reagan is only one of a number of actors who contributed to this slump. The others who have played leading roles are former President Carter, Federal Reserve Chairman Volcker, and the sheiks of Araby.

Truly realistic expectations lead to a different set of conclusions than

anticipated by Reaganomic advocates: First, the current recession will knock down government revenues and make it harder to cut public spending. Second, any boost the economy may receive from Reaganomics will, at best, be months, and even years, off. Third, even if some of the stimulative Reagan fiscal policies start to move the economy forward, we will face serious structural problems due to the poor design of the Administration's tax and spending policies. Thus concerns for the easing of serious macroeconomic strains will be the primary force behind the decisions affecting human resource policies.

### Assume the Best

But suppose all this is wrong, and instead in the coming months we see a veritable resurgence of economic activity. Inflation continues to fall, and the private sector vastly increases its investment and production plans. Wealthy individuals stop placing their savings in unproductive speculative ventures and start to invest in companies that will be able to introduce new technology which will boost American productivity. Meanwhile, all this activity filters down to labor markets as unemployment takes a plunge and private employers seek to hire and train workers from all walks of life. In other words, let us take the most optimistic scenario. The question still arises: Is the harsh treatment of those on the lower rungs of the economic ladder necessary?

While analysts may disagree on the details, it is clear that Reaganomics favors the rich. The most recent estimate of the skewed impact of the Reagan plan was made by A. Gary Shilling and Co., a well-known economic consulting firm. As summarized by Kenneth Bacon in the *Wall Street Journal*, the net impact for fiscal 1982 stacks up as follows:

	\$11,500– or less	\$11,500– 22,900	\$22,900– 47,800	\$47,800 and up
(Billions)				
Budget cuts	–\$9.1	–\$15.5	–\$10.1	–\$2.8
Tax cuts	\$1.1	\$4.7	\$10.7	\$12.0
Net effects	–\$8.0	–\$10.8	\$0.6	\$9.2

In fiscal 1982 alone the top 5 percent of income recipients stand to be the major winners, coming out more than \$9 billion ahead as a result of the budget and tax cuts, while some 3 of 10 families at the lower ends of the income spectrum stand to be the major losers. Clearly, the changes—at least the direct effects—work for the benefit of those who have and to the detriment of those who have not. However, while the direct effect may vastly favor the rich, the supply side ideology predicts

that there will be other indirect and longer-term results. The first wave will benefit the upper segment of the income distribution, but these gains will be used by the wealthy to stimulate the economy and produce a second wave which would benefit those on the lower end of the scale. In the end all income groups will be gainers, and no one would lose, or so they say.

Even if the Administration's economic plan works, there is still the question of equity. Why should lower income Americans be the group that in effect must finance this program? The individuals who are least able to afford it are asked to shoulder almost the entire burden. Not only that, but this same group will not feel the direct benefits. Only after the results have washed through the system may some of the benefits be indirectly experienced by this group. In effect, this segment of society is being told: Pay now and you may fly later, if any seats remain and after all the others get their goodies first.

### **Program Results**

While we do not have any evidence to prove that the riverboat gamble is going to steer us in the right direction, there is a significant body of evidence indicating that some of the basic assumptions made by the Administration are not correct. For example, a growing body of cost-benefit and other statistical analysis shows that most of our employment and training programs have been productive investments to society. Under many different and highly conservative assumptions, the social benefits from these programs vastly exceed their costs.

Also, the private sector does have an important role to play in the human resource field, but evidence that the private sector can replace public employment and training programs is lacking and must be taken on faith. The record of private-sector efforts, in fact, indicates just the opposite even when very healthy incentives are granted to private employers.

At the same time, labor markets continue to show that high unemployment can persist for years, particularly among selected groups in the population. Some active government policies are required to help millions of individuals who have failed in—or were failed by—labor markets and educational institutions.

Granted that there is much to criticize in the present human resource system, it is particularly troublesome that the Administration position is based on questionable data. Indeed, some of the positions expressed by Administration officials are not necessarily factual. Space limitations will permit only two illustrations.

Administration officials refer to the doubling of long-term unemploy-

ment, as well as black unemployment, during the 20 years in which we have had an active federal manpower policy. Obviously, there were other reasons for this increase besides those related to programmatic aspects of human resource policy. However, the real question is: What would these rates have been without any programs? It is reasonable to assume that they would have been higher by a statistically significant level.

Reaganomics supporters estimate that the eligible universe for CETA services prior to 1978 was 70 million persons, and is now at the 32 million level. At best these universe-of-need estimates are guesses, and they are reminiscent of the most ardent Great Society arguments for expanding manpower programs. By overstating the potential client population, they argued that the war on poverty represented only token efforts. Current budget cutters have put these arguments on their head. The logic is intriguing. Since CETA couldn't even serve 10 percent of the total potential eligible applicants, it is inequitable, we are told. From this it is a short jump to saying that if we can't help every person in need, we should help none or almost none.

We have heard an Administration official suggest that programs to help the unemployed be limited to those who are long-term unemployed (i.e., 27 weeks or more). The irony is, I thought, that Republicans have always been for more training and less income support. Should an unemployed person wait for 27 weeks until the worker becomes eligible for training? I would like to be charitable and assume that Administration compassion goes out to the hard-to-employ, but I couldn't find any budgetary proposals for training the long-term unemployed to back this presumed concern on the part of the Administration officials.

The same logic—if you can't help them all, then don't help any—seems to enter the Administration's thinking concerning income security. Neither the Nixon nor Carter Administration succeeded in selling negative income tax schemes, by whatever rhetoric they used. But the solution of completely rejecting work incentives is not the only option. This is a key irony of Reaganomics. We hear a good deal about the need for work incentives, and yet a good number of the work incentives for destitute families and working poor households are being cut. If the work ethic is to be encouraged—and I believe it should be—then we should be willing to pay for work incentives. If millions of Americans are to escape poverty and destitution, some form of work and welfare will have to go together; and if we force them to choose one or the other, the chances are that the welfare alternative will be the end result in a grow-



ing number of cases. It would be a sad irony if Reaganomics produced more welfare cases as well as a massive budget deficit.

### **Ideology Needs No Proof**

As I suggested earlier, the driving forces behind Reaganomics are not just economic policy considerations, but a deep conviction about the righteousness of its causes. There is nothing wrong with holding strongly to convictions, but the evidence is growing that in the process, the Administration is only too ready to give up on data collection which would help test its economic policies. This disturbing phenomenon is best illustrated by the Administration's cavalier treatment of labor force data.

Statistics are no substitute for judgment, but it is still a fact that successful gamblers cannot afford to ignore odds. This Administration which is engaged in an enormous gamble with the nation's economy falls short of even collecting the data that would show what the odds for the success of its policies are, even when the costs of collecting the information are negligible.

Four examples will do. The Administration has told us that volunteers will take up many of the tasks that have been performed by public institutions. Recognizing the significant functions of volunteers, the recent National Commission on Employment and Unemployment Statistics suggested ways to improve our information concerning them. It would cost about \$150,000 to add a supplement to the CPS questionnaire triannually to help BLS in this effort. But the Secretary of Labor rejected this proposal. How can we take such calls for volunteers seriously when the Administration also takes these types of actions?

Similarly, the Administration has properly placed great emphasis on the need to improve the nation's productivity. The monthly establishment survey conducted jointly by the Bureau of Labor Statistics and state employment agencies is the basis for estimating productivity trends. This crucial data base is deteriorating and its reliability is eroding. The Administration again has rejected any recommendations to shore up this statistical time series, throwing into doubt the ability to judge the success of Reaganomics in this area.

A basic tenet of Administration policies is to transfer essential government programs to states and local governments when private sector or volunteers would not or could not take over the responsibility. Even if the fondest dreams of Administration officials materialize, the federal government will still disburse billions of dollars to state and local governments on the basis of labor force and income data. This would call for better and more reliable state and local information. The Administra-

tion stopped, however, any efforts already begun by BLS to improve the quality of these data.

Finally, as noted, the Administration places great stock in workfare as an alternative to the current AFDC system, which offers incentives to encourage welfare dependents to improve their lot or even get off welfare. To test the success of the Administration's approach, some have proposed measurements that would link employment, earnings, and income. The data can be derived from Current Population Survey data at a miniscule cost involving some computer time and the part-time work of an analyst. The Administration has apparently stopped ongoing BLS work in this area.

The evidence is becoming increasingly persuasive that ideology is serving as a substitute for facts. It is therefore proper to recognize that Reaganomics is based on a view of the world that protects the interests of the rich. If this is done, so the ideology goes, then the rest of the picture will fall into place. Society will flourish as the rich take actions which benefit the rest of the population. However, the justification that hurting the poor is for their own good in the long run remains unconvincing. Let us hope that the Administration wins its riverboat gamble and all of society does benefit. Prudence would dictate, however, that we should follow the Boy Scout motto: Hope for the best; prepare for the worst.

## XVII. IRRA ANNUAL REPORT

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### IRRA EXECUTIVE BOARD SPRING MEETING April 30, 1981, Huntington

The Board met in the Holiday Inn at 6:30 p.m., Thursday, April 30, 1981. In attendance were President Rudolph A. Oswald, Past President Jack Barbash, Secretary-Treasurer David R. Zimmerman, Newsletter Editors Michael Borus and Kezia Sproat, and Board Members Gladys Gershenfeld, Gladys Gruenberg, Hervey A. Juris, and Mark E. Thompson. Also attending were James Balser and Richard Humphries, West Virginia Chapter, Donal O'Brien, representing the Milwaukee Chapter, Elizabeth Gulesserian, IRRA Office, and Mrs. Jack Barbash.

Secretary Treasurer Zimmerman reported on the Association's membership and finances. The Board approved a resolution to increase the dues other than regular membership dues in order to bring them in line with recent increases in the regular membership dues. The Secretary-Treasurer was urged to continue to look into ways of acquiring more interest on the money in various IRRA bank accounts, including the possibility of a NOW account.

President Rudy Oswald announced the members of the Nominating Committee for this year.

Editor Barbara Dennis's report indicated that the *33rd Annual Proceedings* had been distributed in March, and that the *Proceedings* of the 1981 Spring Meeting would again be published by the *Labor Law Journal* in August, with distribution to members in September. Jack Barbash reported on the 1983 volume devoted to the Work Ethic. He asked for suggestions for names of authors and possible topics and announced plans to convene a committee to begin work on editorial functions. Several members provided suggestions on possible additional topics for the volume.

President Oswald gave a report on the upcoming Annual Meeting in Washington, D.C. December 28 through 30. He announced that Lane Kirkland would be the distinguished speaker at the meeting and pro-

vided general information on the sessions, workshops, and contributed papers. Board member Mark Thompson suggested a session on teaching of industrial relations be included at each meeting. It was recommended by the Board that such a session be a frequent or regular part of future meetings. Barbash noted that a continuous discussion of the state of the field would be useful. This was referred to the 1982 Program Committee and also to the Washington D.C. Chapter as a possible 1981 workshop topic.

The Board then turned to the issue of multiple submission of session papers. It was suggested that a possible standard paragraph of instruction be sent out by the Chairman at the beginning of program preparation stating that articles were to be prepared for publication in the IRRA Proceedings. It was agreed that in some cases papers and workshops could be published elsewhere. More discussion and a possible motion on this topic were tabled until the December agenda.

A discussion about the possible need for liability insurance for the Association was tabled until the next meeting.

The application of the Mid-Michigan (Lansing) for affiliation with the National Association was presented and approved.

Newsletter co-editors Borus and Sproat gave a report on the status of the Newsletter. The Board agreed informally to include calls for papers of other associations in the Newsletter, but no formal motion was made on this topic. Sproat also suggested a forum for sharing ideas on teaching industrial relations be included in the Newsletter.

A discussion was then held regarding the potential competition from regional meetings, such as the 1981 West Coast meeting co-sponsored by IRRA chapters and the FMCS. After some discussion of the general issues surrounding Spring Meetings, the Board decided to discuss the regional meetings further at its December meeting in Washington. At that time possible alternatives to the current Spring Meetings structure will be discussed.

The meeting was adjourned at 10:45 p.m.

# IRRA EXECUTIVE BOARD ANNUAL MEETING

## December 27, 1981, Washington

The meeting was called to order by President Rudy Oswald at 8:00 p.m. In attendance were President Oswald, Past President Jack Barbash, President-Elect Milton Derber, 1982 President-Elect Jack Stieber, Secretary-Treasurer David Zimmerman, Editor Barbara Dennis, Newsletter Co-Editors Michael Borus and Kezia Sproat, IRRA Co-Counsel George Cohen, and Board members Gladys Gershenfeld, Gladys Gruenberg, Robert Helsby, James Jordan, Hervey Juris, Thomas Kochan, Edward Krinsky, Ray MacDonald, Richard Prosten, and Mark Thompson. Also present were incoming Executive Board members Wilbur Daniels, Karen Koziara, Dan Mitchell, and Michael Moskow. Also in attendance were James Crawford, Chairman of the Nominating Committee; Martin Ellenberg, Local Arrangements Chairman for the 1982 Annual Meeting in New York; Randy Hale, Local Arrangements Chairman for the Washington Meetings; and Elizabeth Gulesserian, IRRA Executive Assistant.

Secretary-Treasurer Zimmerman gave the membership and financial reports. He noted that the financial situation of the Association had improved slightly from previous years, although the excess of receipts over disbursements of \$17,464 for 1981 was still quite low. A similar excess is projected for 1982 and he noted a higher surplus is needed in order to adequately protect against expected increases in postage and publication costs, as well as financing remaining life memberships. After some discussion the Board authorized the Secretary-Treasurer to increase 1983 regular membership dues by an amount approximately equal to the cost of living increase, but not to exceed \$3.00. Secretary-Treasurer Zimmerman also stated that the membership had remained stable from the previous year, with a small decrease in membership that he attributed to a more vigorous policy of enforcing dues payments. The unofficial membership of the Association for the 1980-1981 year stands at 4,619, with 3,541 regular members. Several Board members raised questions about the number of local chapter members who are not members of the National Association and asked whether anything further could be done to increase the number of local chapter members joining the National Association. It was noted that membership has

been down in the local chapters as well. The Board decided to concentrate promotion efforts for the coming year on recruiting among local chapters for national members. Subsequent conversation led to a suggestion to provide for joint dues collection between the National Association and local chapters. Secretary-Treasurer Zimmerman was instructed to provide a report on the feasibility of this approach to the Board at its Spring meeting in Milwaukee.

The Board approved a resolution to provide honorariums of \$3,600 for 1981 to the Secretary-Treasurer and the Editor of the National Association.

Zimmerman also gave the results of the most recent annual election. The new President-Elect of the Association will be Jack Stieber, and the new Board members will be Wilbur Daniels, Karen Koziara, Solomon Levine, Dan Mitchell, and Michael Moskow.

The Executive Board approved the request for affiliation with the National Association of the Syracuse chapter contingent upon that chapter bringing its bylaws into conformance with those of the National Association. At issue was one of the Syracuse chapter bylaws dealing with the election of officers, which the Board felt was too restrictive. It was noted that restrictions on the selection of officers can be done informally but cannot be included in the bylaws of the local chapter. The Secretary-Treasurer was instructed to inform the Syracuse chapter of the Board's decision. (Subsequent to the meeting the Board members were polled and also approved the request for affiliation of the West Michigan Chapter.)

Editor Barbara Dennis gave the editor's report for the Association. First, Tom Kochan provided a status report and summary of the 1982 volume on industrial relations research in the 1970s. He noted that they were somewhat behind in the publication schedule but that the volume would meet its scheduled 1982 publication. Jack Barbash then discussed the 1983 volume, which will be devoted to the work ethic. Barbash noted that the editorial committee had met recently and he summarized the status of the volume at this point. The Board members had several suggestions on how chapters might be combined or otherwise revised. With respect to the 1985 research volume, Editor Dennis provided a list of topics that had been discussed at the Board's previous meeting in Denver. After substantial discussion about those topics and others suggested by Board members, President Oswald appointed a committee consisting of Hervey Juris (Chairman), Wilbur Daniels and Mark Thompson, to work with President-Elect Derber and provide the Executive Board with a recommendation for one or possibly two subjects for

the 1985 volume for deliberation by the Board at its Spring meeting in Milwaukee.

Newsletter Co-Editors Mike Borus and Kezia Sproat provided a report to the Executive Board on the newsletter during 1981. They noted that if the Newsletter was to continue to be published by Ohio State, they wished to be granted further latitude over the content of the Newsletter and that the Ohio State University affiliation of the Newsletter editors be listed on the Association's letterhead. President Oswald complimented the editors and expressed the Association's desire to have the Newsletter continue to be published at Ohio State University. The Board agreed that the Newsletter would no longer be reviewed by staff in Madison and that the editors would continue to discuss generally the content of the Newsletter with the President or another Association officer. The Board unanimously approved a resolution that the Newsletter editors and their affiliation be added to the Association's letterhead. Other requests by the editors dealing with advertisements and other organization meeting announcements were deferred for discussion at the Board's Spring meeting in Milwaukee.

Board member Ray MacDonald gave a brief report on the general arrangements that had been made for the 1982 Spring meeting in Milwaukee and noted that Steve Briggs would report in more detail on the program for that meeting when the Board reconvened the following day.

The Board then turned to a discussion of the possibility of either replacing or supplementing the IRRA Spring meeting with a series of regional meetings. President-Elect Derber gave a report of the Ad-Hoc Committee on Regional Meetings, consisting of Gladys Gruenberg, Bob Garnier, David Zimmerman, and Derber (Chair). Chairman Derber noted that the committee generally supported the idea of regional Spring meetings in place of the national Spring meeting, at least on an experimental basis, but that the committee had not had sufficient time to reach a consensus on the details of such a proposal. Questions remain on such issues as the number of regions, the extent and nature of control and coordination between the local chapters and the National Association, and the important issue of what implications regional meetings would have on the publication of Spring meeting proceedings in the *Labor Law Journal*. Editor Dennis stressed the importance of the *Labor Law Journal* publication issue, noting that it would be virtually impossible to coordinate the review and selection of some papers from each regional meeting for publication in the proceedings. Because of the complexities of these and other issues relating to the implementation of the regional meeting proposal, the Board decided to defer a

decision on such implementation to a future meeting. In the meantime, the Secretary-Treasurer and President-Elect were asked to discuss the regional meeting proposal at the upcoming local chapter luncheon and membership meeting, and further to seek the views of local chapter officers through the mailing of a questionnaire and the general IRRA membership through the solicitation of suggestions in the Newsletter. A report on these efforts will be made to the Board at its Spring meeting in Milwaukee.

The Board received five invitations from local IRRA chapters to host the 1983 Spring meeting: Detroit Chapter, Hawaii Chapter (Honolulu), Northeast Ohio Chapter (Cleveland), Northwest Chapter (Seattle), and Western New York Chapter (Buffalo). Board members Stieber and Barbash suggested that if the Hawaii chapter were selected, the Spring meeting could be scheduled to link up with the IIRA 6th World Congress in Tokyo, which is scheduled for Spring 1983. Other Board members expressed concern about costs of attending the Spring meeting if it were held in Hawaii. After extensive discussion the Board on a vote of 7 to 4 approved the Hawaii chapter as the host of the 1983 Spring meeting. It was decided that the Spring meeting for that year would be held on a Thursday and Friday in late March.

Jack Barbash then gave a report on the IIRA 6th World Congress in Kyoto, Japan, in the Spring of 1983. He noted with concern the lack of involvement of the IRRA in the planning of the Congress and the Board discussed the possibility of sending a letter to the IIRA noting these concerns, although no formal action was taken by the Board in this regard.

The Board then discussed an issue brought to its attention by member Hervey Juris concerning publication rules for contributors at the annual meeting sessions. Juris had expressed concern about the failure of contributors to publish their papers subsequently in the IRRA Proceedings, which made it very difficult for discussants in the publication of their discussions in the Proceedings. Editor Dennis proposed, and the Board unanimously approved, the following statement that will be provided to all session contributors:

NOTE: The IRRA does *not* ask that you release the copyright on your paper to the Association. We ask only that we have the opportunity to publish the full Proceedings of our meetings, including the papers and discussions of all those who appeared on the program. If you choose to submit a more detailed, revised, or refocused version of your paper for publication elsewhere *at some subsequent time*, that is your right



and your privilege. We would appreciate your citing your IRRR paper in any subsequent publication, if appropriate.

Incoming Board member Dan Mitchell then made the following proposal concerning the continuation of statistical services by the Bureau of Labor Statistics and other government agencies:

The provision and availability of information and data on work stoppages, the contents of collective bargaining contracts and wage and benefit settlements is vital to an understanding of the employment relationship in the U.S. This type of information provides practitioners with a basis for intelligent and peaceful resolution of labor-management disputes and for the establishment of sound personnel policies. The Executive Board of the Industrial Relations Research Association goes on record in urging the continuation of such statistical services by the U.S. Bureau of Labor Statistics and other government agencies.

After extensive discussion of the merits of the proposed statements and the past practice of the Board with respect to formal statements by the Association, a straw vote was taken with respect to whether to approve the motion and issue the statement on behalf of the Association. The Board voted 11 to 3 to approve the motion. However, Past-President Barbash stated that, given the fact that the management members of the Board did not support the motion, he was in favor of dropping the statement. President Oswald agreed, and no further action on the motion was taken by the Board. Incoming member Moskow suggested establishing a subcommittee to pursue the entire matter of the collection of statistics relevant to industrial relations. After a brief discussion, it was decided to discuss the matter further at a future meeting. The meeting was then recessed at 12:35 a.m. by President Oswald, with instructions to the Board to reconvene at 10:00 a.m., Tuesday, December 29.

The reconvened Board meeting was called to order by President Oswald at 10:10 a.m. on December 29. Steve Briggs, one of the local arrangements chairmen for the 1982 Spring meeting in Milwaukee, gave a report on the program for that meeting. He noted that parallel tracks would be followed throughout the meeting, with one set of sessions dealing with private-sector collective bargaining and another set dealing with bargaining in the public sector. Two contributed paper sessions would also be included, one each on bargaining in the private and public sectors.

Chairman Jim Crawford then presented the slate of candidates of the Nominating Committee for President, President-Elect, and the four

Executive Board positions to be filled next year. The Board unanimously accepted the Nominating Committee's candidates for President and President-Elect and thanked Chairman Crawford for the Committee's work.

President-Elect and Program Committee Chair Milton Derber then outlined the plans formulated by the Program Committee for the 1982 Annual meeting to be held in December in New York City. He noted that they were planning three contributed paper sessions and one dissertation roundtable, with the remaining sessions to be invited sessions or workshops. The general topics for these invited paper sessions or workshops were presented to the Board. Several suggestions for minor revisions in the sessions were made and the Board approved the plans for the sessions. The meeting was adjourned by President Oswald at 11:35 a.m.

## IRRA AUDIT REPORT

We have examined the statement of cash and investments of the Industrial Relations Research Association as of June 30, 1981 and 1980 and the related statement of cash receipts and disbursements 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.

As described in Note 1, the Association's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the cash and investments of the Industrial Relations Research Association as of June 30, 1981 and 1980 and the cash transactions for the years then ended, on the basis of accounting described in Note 1, applied on a consistent basis.

SMITH & GESTELAND, Certified Public Accountants

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION  
Madison, Wisconsin

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
For the Years Ended June 30, 1981 and 1980

	1981			1980
	Unrestricted	Restricted	Total	Total
Cash and investments—July 1	\$ 33,578.12	\$ 1,119.00	\$ 34,697.12	\$ 37,835.40
Cash Receipts				
Membership dues	\$ 94,610.55	\$	\$ 94,610.55	\$ 74,300.94
Subscriptions	14,734.74		14,734.74	11,288.50
Chapter dues	4,267.89		4,267.89	3,046.25
Sales	14,447.85		14,447.85	12,479.46
Mailing list	4,924.95		4,924.95	3,796.14
Conferences and meetings	7,332.96		7,332.96	9,117.64
Royalties	1,579.71		1,579.71	1,233.25
Interest income	4,455.18		4,455.18	1,950.86
Newsletter ads	1,174.50		1,174.50	
Miscellaneous				58.00
Grant income				20,186.00
Total cash receipts	\$147,528.33	\$	\$147,528.33	\$137,457.04
Cash Disbursements				
Salaries and payroll taxes	\$ 33,455.90	\$	\$ 33,455.90	\$ 34,860.26
Retirement plan	4,070.04		4,070.04	3,824.08
Honorariums	6,100.00		6,100.00	5,500.00
Postage	2,371.80		2,371.80	6,671.68
Services and supplies	12,924.39		12,924.39	6,807.15
Publications and printing	62,921.96		62,921.96	70,958.01
Conferences and meetings	6,163.91		6,163.91	9,957.91
Telephone and telegraph	629.40		629.40	724.67
Audit	900.00		900.00	775.00
Foreign exchange and service charges	258.98		258.98	
Miscellaneous	239.51		239.51	404.97
Nonrelated business income tax	28.41		28.41	111.59
Unexpended funds returned		1,119.00	1,119.00	
Total cash disbursements	\$130,064.30	\$ 1,119.00	\$131,183.30	\$140,595.32
Excess (deficit) of receipts over disbursements	\$ 17,464.03	\$ (1,119.00)	\$ 16,345.03	\$ (3,138.28)
Cash and investments—June 30	\$ 51,042.15*	\$	\$ 51,042.15*	\$ 34,697.12

\*Secretary-Treasurer's Note: Below is an analysis of estimated receipts and disbursements for the final 6 months of 1981 calendar year operations. This analysis illustrates how 1981 member dues are to be utilized in fulfilling IRRA's obligations to its members for the remainder of 1981. In addition, an estimated reserve for funding Life Members has been included.

Total Cash and Investments July 1, 1981		\$51,000
Estimated Cash Receipts July 1 to December 31, 1981	\$78,000	
Less 1982 Dues Paid in Advance	[55,000]	23,000
		74,000
Estimated Cash Disbursements July 1 to December 31, 1981		
Publication Costs	34,000	
Wages and Others	32,000	
	64,000	

Less Expenses Paid Related to 1982	[12,800]	51,200
Less Estimated Reserve for Funding Life Members		22,800
Estimated Cash and Investments at December 31, 1981 Related to 1981 Calendar Year Operations		12,000
		<u>\$10,800</u>

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION  
Madison, Wisconsin

STATEMENT OF CASH AND INVESTMENTS  
June 30

	1981	1980
<b>CASH AND INVESTMENTS</b>		
Checking account—Randall State Bank	\$ 6,042.15	\$11,989.19
Certificate of Deposit—182 day—Randall State Bank		15,880.11
Savings account—Randall State Bank		6,827.82
Certificate of Deposit—180 day—Randall State Bank	25,000.00	
Certificate of Deposit—180 day—Randall State Bank	20,000.00	
<b>Total Cash and Investments</b>	<u>\$51,042.15</u>	<u>\$34,697.12</u>
<b>Restricted Cash and Investments</b>	\$	\$ 1,119.00
<b>Unrestricted Cash and Investments</b>	51,042.15	33,578.12
<b>Total Cash and Investments</b>	<u>\$51,042.15</u>	<u>\$34,697.12</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS  
June 30, 1981 and 1980

**NOTE 1—ACCOUNTING POLICIES**

Financial statements are prepared on the basis of cash receipts and disbursements. Revenue is recognized when received and expenses are recognized when paid.

**NOTE 2—LINE OF BUSINESS**

The Association is a nonprofit association. Its purpose is to provide publications and services to its members in the professional field of industrial relations.

**NOTE 3—RETIREMENT PLAN**

The Association has a retirement annuity contract covering the executive assistant. The amount of funding in 1981 and 1980 was \$4,070, and \$3,824 respectively. These amounts are treated as additional compensation to the executive assistant.

**NOTE 4—TAX EXEMPT ORGANIZATION**

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.

**NOTE 5—RESTRICTED GRANT FUNDS**

Three grants were received during 1980, all of which included restrictions on the use of grant funds. A \$5,000 grant from the Ford Foundation and a \$10,000 grant received from the U. S. Department of Labor were restricted to use in defraying publication costs of the book, "Collective Bargaining: Contemporary American Experience".

A grant from the National Science Foundation for \$5,186 was restricted to use for travel expenses of association members to an annual conference. The \$1,119 restricted cash balance at June 30, 1980 represented unexpended funds from this grant, which were returned in the year ended June 30, 1981.

**NOTE 6—COMMITMENTS**

On June 30, 1980 \$28,129 was due to Pantagraph Printing for publication of the proceedings of the 32nd annual meeting. This expenditure was not reflected in the financial statements for the year then ended, but is reflected in 1981 expenditures. This volume is one of the publications members are entitled to in exchange for payment of their membership dues.

## ALPHABETIC LIST OF AUTHORS

Arnold, Michael .....	278	Kaufman, Bruce E.....	370
Bain, Trevor .....	33	Kim, Sookon .....	193
Black, Matthew .....	41	Kirkland, Lane .....	9
Blaustein, Saul J.....	300	Koziara, Karen S.....	381
Block, Richard N.....	64, 220	Lawler, John .....	374
Bognanno, Mario F.....	193	Levitan, Sar A.....	416
Bredhoff, Elliot .....	102	Lewin, David .....	303
Breslin, P. H.....	329	Lindauer, David L.....	202
Briggs, Steven .....	313	McDonald, Charles .....	390
Briggs, Vernon M., Jr.....	258	Masters, Maick F.....	351
Brown, Clair Vickery.....	100	Mellow, Wesley .....	16
Burdetsky, Ben .....	159	Miller, Richard U.....	207
Cabelly, Alan .....	62	Mobley, William H.....	244
Carr, Timothy J.....	41	Moore, William J.....	337
Chambers, Letitia .....	393	Moran, Donald W.....	400
Cohen, Wilbur J.....	282	Newman, Winn .....	166
Corbett, Laurence P.....	152	North, David S.....	174
Crosier, John B.....	284	Olson, Craig A.....	236
DeFreitas, Gregory .....	58	Orr, James .....	218
Delaney, John Thomas.....	351	Osterman, Paul .....	98
DeNisi, Angelo S.....	244	Oswald, Rudolph A.....	1
Doeringer, Peter B.....	406	Owens, Stephen D.....	60
Douglas, William A.....	215	Peterson, Richard B.....	303
Driscoll, James W.....	161	Pierson, David A.....	186
Foster, Howard G.....	254	Raisian, John .....	337
Fottler, Myron D.....	33	Ray, Phillip E.....	145
Gandz, Jeffrey .....	320	Redwood, Anthony L.....	52
Gershenfeld, Walter J.....	227	Roderick, Roger D.....	48
Gilliam, Arleen .....	288	Roomkin, Myron .....	220
Gilliam, Dee W.....	334	Sabot, Richard W.....	202
Gilroy, Curtis L.....	78	Saks, Daniel H.....	266
Gray, David A.....	26	Salisbury, Dallas L.....	130
Gruenberg, Gladys W.....	137	Saltzman, Gregory M.....	56
Gutchess, Jocelyn .....	121	Schmidt, Stuart M.....	227
Hendricks, Wallace .....	366	Sellekaerts, Brigitte .....	70
Hildebrand, George H.....	67	Semple, Nathaniel M.....	274
Hoyman, Michele M.....	179	Sinicropi, Anthony V.....	28
Hughes, Paula Ann.....	26	Smith, Lewis H.....	89
Hyclak, Thomas .....	344	Smith, Ralph E.....	266
Insley, Patrice J.....	381	Stallworth, Lamont E.....	179
Joiner, Pat .....	294	Whitehead, J. David.....	320
Juris, Hervey A.....	141	Youngblood, Stuart A.....	244
Karper, Mark D.....	360	Zaidi, Mahmood A.....	207
Kassalow, Gerald M.....	190		

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