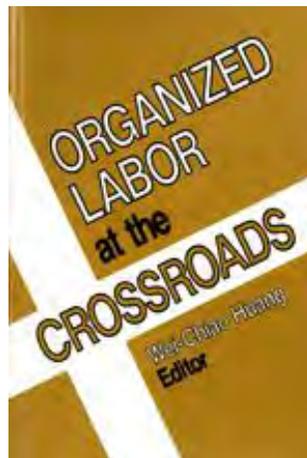


Upjohn Institute Press

Introduction

Wei-Chiao Huang
Western Michigan University



Chapter 1 (pp. 1-12) in:

Organized Labor at the Crossroads

Wei-Chiao Huang, ed.

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1989

DOI: 10.17848/9780880995412.ch1

1

Introduction

Wei-Chiao Huang

Western Michigan University

American labor unions have experienced a precipitous decline in membership and strength and are apparently at a crossroads today. Facing the changing structure of the economy, management's increasing resistance to union organizing and demand for concessions, and the growing penetration of imports into domestic markets, it is urgent for organized labor to reassess its past practices and strategies and to seek new methods and solutions.

Why are unions declining? Is the decline in the labor movement a typical global pattern or is it unique to the U.S.? How are unions responding to the changing world? What position is organized labor taking on the various policy issues? What are some of the innovative ideas and experiments currently undertaken to improve labor-management relations? And are they here to stay or short-lived? Ultimately, what is the future of American labor unions? Some of these questions were addressed by six scholars in their lectures delivered at Western Michigan University during the academic year 1987–1988. Those lectures form the basis of this volume, while this introductory chapter will provide a general flavor and summary of the six papers.

Sharon Smith starts with a case study of collective bargaining between the American Telephone and Telegraph Company (AT&T) and the representing unions, primarily the Communications Workers of America (CWA), from 1984 to 1986. The divestiture of AT&T, effective in 1984, has essentially changed the world in which AT&T and its unions bargained for the past forty years. In chapter 2, Smith gives an interesting account of how AT&T and its unions responded to this new world as manifested in their bargaining processes.

2 Introduction

With divestiture and the consequent loss of government-sanctioned monopoly, the “new” AT&T found itself subjected to intense domestic and foreign competition in the long-distance telephone service and information systems markets. It was not in position to meet such competition because of high labor costs, inflexible job designs, and outmoded work practices inherited from its days as a regulated monopoly. Recognition of this problem led to talks with the CWA early in 1984 in an attempt to communicate to them the need to reduce costs by amending the 1983 contract. These talks were unsuccessful. AT&T came back in 1985 with a serious overture to labor leaders, seeking to terminate the 1983 contract early and to bargain new three-year agreements. The sensitive information AT&T shared with their unions essentially gave the union insider status, while the company’s proposal, including profit sharing and a job bank offer differed drastically from previous bargaining positions. Nevertheless, partly due to internal division in the CWA, this attempt yielded few results except that all parties agreed to move up the contract termination date to May 31, 1986. During the crucial 1986 bargaining, AT&T continued to stress the need to strengthen its competitive position by limiting wage and benefit increases, restructuring the workforce, consolidating contracts, etc. While the unions were strongly committed to keeping the wage increases they had bargained in previous contracts, they also pressed hard on issues of employment security, retraining and pension increases. The negotiations proceeded on schedule until they hit a snag over the size of the wage package, along with some minor issues. A 26-day strike ensued and ended with CWA accepting essentially the same offer made by AT&T before the strike.

Smith points out that the wage difference between the two parties was small, and would not previously have resulted in a strike. AT&T’s new hard-nosed policy on the small wage difference, a significant departure from its predivestiture bargaining conduct, reflects its sense of urgency in response to the new business environment. CWA, while not unaware of the changing environment (evidenced by their insider status) underestimated AT&T’s resolve on the wage issue and fought to maintain the status quo. They ultimately learned the hard way that now “they were working for a different company in a different industry.” Smith’s

paper demonstrates vividly that adjusting a given labor-management relationship to a changing world can be a slow and painful process of learning and compromise for both parties. Hopefully that process can be smoother for other industries “when all parties recognize that even when interests are in conflict, problems can best be solved to the mutual satisfaction of all through a participative and collaborative approach, and when parties share in the responsibility of the decision and the rewards that result.”

The telecommunication industry’s adjustments in labor relations to changes in the economic environment is not a unique case. In fact, numerous experiments and innovations in labor-management relations have occurred in so many industries that scholars have begun to ask if those innovations will permanently transform traditional American industrial relations. Valuable insights into this question are given by Thomas Kochan and Joel Cutcher-Gershenfeld in chapter 3. Based on case studies of nine companies and associated unions, they examine four major innovations under way in American industrial relations: employee participation, flexible forms of work organization, participation in new technology decisions, and participation in strategic management decisions. Regarding employee participation, they note that a plateau seems to exist in the growth of the quality of worklife (QWL) initiative, and that a narrowly focused QWL process itself cannot sustain widespread support. Thus the QWL process can best serve as a useful starting point for building mutual trust and learning participative problemsolving methods. Subsequently, it requires commitment of the top level management and union leaders to expand the scope of participation into a wide variety of issues involving work organization, technology and strategic planning.

Regarding work organization reforms, it is found to be easier to introduce flexible work organization concepts in new worksites than to retrofit an existing facility with new systems. To cope with the inherent difficulty of retrofitting existing plants, Kochan and Cutcher-Gershenfeld suggest doing it *incrementally* whenever natural “opportunities” (threat of plant closing, potential of new investments, etc.) arise to stimulate the change. As for setting up flexible work systems in new sites or in completely refurbished unionized plants, they advise that, in light of

4 Introduction

the GM Fiero versus Lake Orion experiences, it should be done by involving workers and union leaders in early stages of the design and planning processes. Turning to the introduction of new technology, the aforementioned principles are equally applicable. In addition, the NUMMI experiment (GM-Toyota joint venture) underscores the need for broadening the concept of technology to encompass many aspects of organization design and human resource management practices. Without integrating technology and human resource considerations, management “faces longer learning periods for making the technology work and greater resistance by employees to the full utilization of the technology.” To integrate technology and industrial relations, in turn, requires “fundamental and lasting changes in the roles of union leaders, workers and managers, and in their relationships.”

The last innovation—union participation in strategic management decisions—stands in sharp contrast to traditional U.S. labor relations, in which management was to manage and labor was to labor and never the twain to meet. Only when both parties are ready to break away from that old mode and accept a broader role for labor can this innovation be initiated and sustained. Such conditions, evidence again suggests, will be met more likely and naturally through “bottom-up” incremental expansions of participation rather than through direct formal board representation by the union. Hence Kochan and Cutcher-Gershenfeld emphasize that while the four union participations being discussed represent discreet starting points for industrial relations innovations, none of them can survive over time independent of others. Instead, when those innovations are introduced at all levels of industrial relations and reinforce and help sustain each other, they can be institutionalized and result in permanent transformation of traditional industrial relations in an organization.

Such transformation, however, cannot easily permeate industries, given the deep-rooted stand against unions taken by the majority of American managers. Kochan and Cutcher-Gershenfeld discuss various strategies and choices facing American management, union, and government leaders for the wider diffusion of these innovations. They end their chapter calling for “comprehensive review and updating of both the specific labor laws—and the array of economic, trade, regulatory, and

employment and training policies” in order that the innovative practices being experimented with in selected settings can be diffused to broader settings.

This task of policy review is partially undertaken by George Johnson in chapter 4, in which he examines organized labor’s political agenda with respect to four groups of policy issues: (1) domestic labor market issues, (2) international trade policy, (3) monetary and fiscal policy, and (4) policy related to women in the labor market. For each issue, he reviews the AFL-CIO’s position, explains the rationale behind it, and evaluates its overall impact in terms of standard economic analysis. It should be noted, however, that organized labor does not function as a single entity, despite the seemingly high degree of political cooperation among unions. Furthermore, the AFL-CIO does not speak for all unions, which have various and sometimes conflicting political priorities.

Particularly noteworthy among Johnson’s discussions is labor’s position on international trade and macroeconomic policies. It is interesting to note that the same AFL-CIO, now so vehemently opposing free trade, used to denounce opponents of lower tariffs in the 1950s as “protectionists.” The radical change in labor’s stand on trade over the past 30 years is understandable given that disproportionately more industries and associated unions have suffered in recent years from the mounting trade deficit than have benefited from trade. Does it follow then, as the AFL-CIO clearly states, that the U.S. should adopt a more protectionist set of policies? Like most economists, Johnson does not think so. Instead, he thinks those restrictive trade policies attack only the symptom, not the root cause of the trade crisis. The cause remains the same: huge government deficits driving up the dollar, resulting in worsening terms of trade. Thus, a more sensible solution, in his view, lies in addressing the *cause* of the trade deficit, while improving trade adjustment assistance programs to alleviate the symptoms. How should the government deficit be reduced? The AFL-CIO prefers raising taxes to cutting federal spending, a rather long-sighted and seemingly reasonable approach. In its own words, “skimping on infrastructure to cut the deficit is a short-run expediency that will constrain growth in the future. The far wiser course is to raise the necessary revenue and develop appropriate spending priorities. . . .”

Equally noteworthy is the specific method of tax increase favored by labor: leaving the 15 percent rate (up to about \$40,000 income in the current system) intact, but increasing both the higher rate (now 33 percent) on personal income and the profits rate from 34 percent to 38.5 percent. Johnson notes that the typical union member is above the middle of the income distribution and would therefore be adversely affected by the progressive tax hike. Thus it is not entirely self-interest that motivates labor with respect to tax policy. Johnson concludes that while many of the AFL-CIO's positions are motivated by the self-interest of blocks of their member unions, political altruism cannot be ruled out in some of their positions, and that there is a growing preference by labor for government intervention in the economy at the micro level.

No innovative idea to cope with an economy's macroeconomic and labor problems has attracted so much attention and controversy recently as the idea of profit sharing (or more broadly, gain-sharing arrangements). In chapter 5, Martin Weitzman, the leading theorist and proponent of profit sharing, gives a very complete nontechnical argument about the overall advantage of tying some part of workers' pay to the performance of the firm. Weitzman points out that the central economic dilemma of our time is how to simultaneously reconcile reasonably full employment with reasonable price stability. In his view, the prevailing wage system of paying labor cannot help solve that dilemma and in fact is responsible for it, because the rigid money wage system throws the entire burden of economic adjustment onto employment and the price level. By contrast, a profit-sharing system (PSS), because of its built-in flexibility puts in place exactly the right incentives to resist unemployment and inflation, viz., the profit-sharing component of a worker's wage acts like an automatic shock-absorbing cushion that helps maintain full employment even when the economy is unbalanced by some shock to the system. Thus, the major case for widespread adoption of PSS is its ability to help improve macroeconomic performance, especially in a short-run disequilibrium situation. Furthermore, it can also reduce the noninflationary rate of unemployment (NAIRU). Weitzman enumerates several NAIRU theories and emphasizes that in no case would a PSS cause a higher natural rate of unemployment, and in most of the more reasonable scenarios it promises to generate lower long-

run unemployment than the current wage system. He further suggests that a PSS not only possesses favorable macroeconomic properties but that it may also improve microeconomic performance in that the motivational effects of such a system may increase productivity, and that a share system might provide better employment stabilization to the firm.

Having extolled the virtues of PSS, Weitzman responds to the objections commonly raised against profit sharing. Most of the objections are dismissed as involving a fallacy of composition. The most noteworthy example of fallacious reasoning is that profit sharing exposes workers to unnecessary risk. Weitzman argues that this is true only for the individual tenured worker (the insider) and is false for the aggregate of all would-be workers, and that it is better for the risk to be shared by everyone than a portion of them (the outsiders). However, he does admit that the following question is legitimate: if profit sharing is so desirable, why doesn't it spread spontaneously? Weitzman responds with the externality or market-failure explanation: contract forms are chosen by employed workers and firms involved, with no consideration of their aggregate effect; hence, few individuals or firms would find it beneficial to switch to a profit-sharing contract since the most obvious benefits do not accrue to the inside parties. This market-failure argument underscores the inherent difficulty of implementing Weitzman's idea in an economy in that it requires societywide reform and government intervention such as tax incentives for profit-sharing income. Thus, while his theoretical arguments are well taken, there are still legitimate questions regarding the *workability* of his model. But that is, of course, beyond the scope of his paper.

In the next chapter, Richard Freeman takes us beyond the U.S. scene to review the changing patterns of unionism in developed Western countries, and to speculate about changes in union status in Communist economies. His major point is that the deunionization experience in the U.S. is not a "necessary" feature of advanced postindustrialized capitalism. This is evidenced by the diverging trends of unionization among developed OECD economies, with union density falling sharply in countries like the U.S. and Japan, while reaching unprecedented peaks in others like Denmark and Sweden. What causes this divergence? Freeman claims that "the divergence results in large part from the degree

to which country differences in the legal and institutional features of industrial relations give employers the incentive and opportunity to oppose unionization of their workers, not to 'inexorable' economic changes." He refutes several nonconflictual explanations showing that they are inconsistent with cross-country comparisons and detailed within-country evidence. A case in point is the often given reasoning that shifts in the composition of employment toward traditionally nonunion jobs and types of workers lead to union decline in the U.S., which contradicts the fact that other countries such as Canada have experienced similar compositional changes but with thriving unionism. He then articulates his thesis that the major cause of private sector union demise in the U.S. is aggressive management opposition to union organizing, and that the rising management offensive is not only due to the growing cost of union presence to firms and to management's antiunion reflex, but is particularly due to the accommodating legal structure that allows virulent campaigns against union organizing drives and imposes lenient penalties for illegal union-busting activities. By contrast, it is no coincidence that in those economies where unions are strong, either the labor laws restrict management's ability to influence organizing, or management opposition is significantly muted, for example, by centralized wage negotiations as found in neo-corporate systems. His thesis is further substantiated by a pooled cross-country time series regression analysis which firmly establishes the statistical significance of the impact of legal and institutional factors on union density.

This in no way frees American unions from the blame for their own trouble, however, given the substantial unexplained residuals left in the regression results. For one thing, compared to unions in other countries, American unions are often slow to realize the problems besetting them and consequently respond to them too late. This may be due to the low turnover and aging union leadership, and, Freeman suggests, may also be due to the decentralized structure of American labor in that "such a structure concentrates union efforts on local or sectoral rather than national issues, guaranteeing slow reaction to problems that affect unionism in its entirety." Finally, Freeman moves on to assess the future of unions in the Communist world in the era of "glasnost" and "perestroika." He speculates that because only autonomous unions

can provide the needed counterforce to old-line managers and party functionaries who stand in the way of reform, and because only free unionism offers the greatest promise to spark work effort that is necessary for Communist economies to advance, growing independent union activity will go hand in hand with the reform.

The final chapter by Orley Ashenfelter deals with another aspect of labor relations, i.e., dispute resolution. His paper focuses on arbitration as a dispute resolution system, specifically the "interest arbitration" system for settling wage disputes, operating in the U.S. public sector. Ashenfelter begins by describing how interest arbitration arose to become a feature of public sector wage determination against the background wherein labor in the public sector is permitted to unionize and to bargain but not to strike. He then describes two common forms of interest arbitration in use in the U.S.: conventional arbitration, in which the arbitrator is selected to review cases presented by both sides and to fashion any awards deemed suitable; and final-offer arbitration, where the arbitrator must select one or the other party's offer without compromise. One interesting twist of the second form is tri-offer arbitration used in Iowa, where a third offer determined by a neutral fact-finder is also put on the table. The common view on these systems is that conventional arbitration tends to produce a "chilling" effect on bargaining because the disputing parties, presuming that the arbitrator will simply split the difference, may present extreme demands in order to gain from the compromise; whereas in final-offer arbitration, such a standoff won't occur because the parties dare not go to extremes for fear that the arbitrator might select a more reasonable offer made by the other party. This view is seriously questioned by Ashenfelter as it involves conflicting assumptions about arbitrators' behavior: they are assumed to split the difference in conventional arbitration but not in final-offer arbitration. Actually, if they also try to split the difference in the latter, which amounts to flipping a fair coin to choose a final offer, the chilling effect will resurge since the expected gain from presenting the more extreme demand is greater!

Instead, Ashenfelter hypothesizes that the arbitrators behave consistently, regardless of the type of system under which they are asked to operate. Specifically, the arbitrator would use some unspecified exter-

nal criteria to arrive independently at some notion of a “reasonable” award in a given factual situation. Under conventional arbitration, he would fashion an award taking into account both the positions of the parties and his own notion of a reasonable award; under final-offer arbitration, he would choose whichever final offer was closer to his own preferred award. Ashenfelter further hypothesizes that the arbitrators’ independently-formed, preferred awards can vary from place to place and from arbitrator to arbitrator, rendering their final decisions truly unpredictable by the parties and outside observers. Are these hypotheses consistent with observed behavior? He proceeds to review quantitative studies of arbitrator selection and decisionmaking in simulation experiments and in practice in Iowa and New Jersey. The statistical evidence in these studies displays a remarkable stability in the operating characteristics of the arbitration systems and strongly supports his hypotheses. Thus, it appears that arbitral reference to external criteria and arbitral uncertainty are the two central aspects of U.S. arbitration systems. This also implies that neither system exhibits chilling effects because the uncertainty associated with an arbitral award would motivate the parties to negotiate their own settlement in order to avoid the gamble an arbitrator’s decision entails. Although a great deal can be learned from Ashenfelter’s paper, some questions remain unanswered. For instance, if arbitrators’ decisions are uncertain, and if the parties are risk averse, why does arbitration exist? Also, precisely why may arbitrator decisions be characterized in this way? Ashenfelter’s conjecture that the answers may be related to the cooperative nature of the arbitrator selection process awaits exploration in further research.

In closing, organized labor is said to be at a crossroads. Perhaps it would be more appropriate to say that the entire labor-management relationship is at a crossroads. Before driving through the intersection, we must look both ways very carefully, because at stake are not only the future of labor unions, and the way that labor and management will interact with each other, but also the international competitiveness and vitality of the U.S. economy. It is hoped that this volume will provide some insights into the problems, the choices, and the future path facing American industrial relations. Although the diversity of the six papers allows no simple conclusions, one observation is in order. It seems to

be a common view held by the authors, at least by Kochan, Johnson, Freeman and Ashenfelter, that there is a need to study extensively the propriety and efficacy of current labor laws and also of labor-related public policies. Such an endeavor, however, will be the topic of a future symposium. After all, as Freeman elegantly states, “there is no rest in the practice or study of industrial relations.”