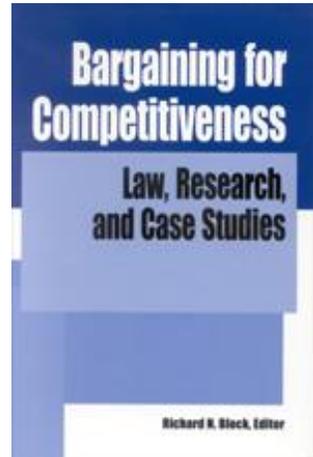

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As discussed in Chapter 1, the collective bargaining system in the United States is embedded in a belief system that gives great weight to individualism in employment, property rights, and employment solely as a creator of economic value. As compared with the industrial democracies of Europe, the employment relationship is viewed as having very little social content. Whereas in Europe, collectivization of employment as a means of equalizing the influence of employer and employee is the norm, in the United States the norm is an employment relationship between the employer and the individual employee that is based on the economic value each derives from the relationship. Collectivization of employment in the United States does occur but it is not the norm. In 2001, only about 9.7 percent of private-sector employees were covered by collective bargaining agreements (U.S. Bureau of Labor Statistics 2002).

Thus, examining Chapter 2, on the legal, institutional, and economic contexts for collective bargaining, employment protection/creation, and competitiveness, it is not surprising that no actor, institution, or subsystem in the United States encourages the collective bargaining system to be used for those—or any—purposes. Public policy toward employment and collective bargaining, which reflects the individualistic, transactional belief system discussed in Chapter 1, is the most important single influence on the nature of collective bargaining in the United States. With no commitment to a collective bargaining system, public policy neither encourages nor discourages collective bargaining as a method of establishing terms and conditions of employment. Rather, public policy is designed to protect the choice of employees as to whether they wish to be represented by a union/labor organization for the purposes of collective bargaining. Employees make these choices individually, in the privacy of the representation election voting booth. These choices are made on the basis of individual bargain-

ing units, which are legally required to be the employer, plant/facility, or subdivision thereof. In other words, even where employees choose to collectivize, the scope of the collectivity is often quite narrow.

Consistent with the property rights orientation of employment, employers have substantial flexibility in addressing competitiveness through employment system. The unit-by-unit unionization system means that there is no necessary relationship regarding unionization in firm facilities. Thus, it is not unusual for employers to have both unionized and non-union facilities, and to have multiple unions representing employees in the unionized facilities. It may be difficult for unions in different facilities to work together, and it is often very difficult for unions to organize facilities not currently organized (Block, Beck, and Kruger 1996). Employers, through their property rights, have competitiveness options that exclude a union, where one exists, and/or incorporate the potential to require unions to internally compete with one another. The collective bargaining system will be so used to encourage competitiveness and job security/protection only if both parties wish it. If only one party resists, it won't happen. Put differently, labor law simply enables collective bargaining to be used for competitiveness and job security; it does not require or even encourage it to be used for that purpose.

As noted, there is no presumption in U.S. public policy that collective bargaining is a "normal" process of establishing terms and conditions of employment. Rather, "normal" is unilateral employer determination. The underlying assumption is that collective bargaining impairs the ability of firms to compete.¹ A large literature has developed to examine this assumption, and this literature was reviewed in Chapter 3. The discussion in that chapter observed that unions and collective bargaining are more frequently associated with higher productivity and lower production costs than they are with lower productivity and higher production costs, but that unions are associated with reduced profits. There is no evidence that collective bargaining is associated with reduced investment, but there is some evidence that collective bargaining is associated with reduced firm survival. There is no evidence that unionization is also associated with a greater rate of worker displacement among union members. There is some evidence that collective bargaining innovations, such as labor-management cooperation, have a positive effect on product quality, but the effect of

collective bargaining innovations on other measures such as productivity, job security, and training was minimal. Finally, focusing on employment, where there were employment gains, unionized gains were lower; where there were employment losses, unionized losses were greater.

This research suggests the powerful orientation in the United States toward property rights and the support of labor markets that are permitted to operate under a transaction assumption with little governmental involvement or employee protection. Under such a system, unionism and collective bargaining must compete with non-union employment systems that are closely aligned with the market assumptions of the United States labor market. Thus, it is not surprising that unions may have some negative employment effects, as firms, using their property rights, are likely to be tempted to invest less in unionized facilities than in non-union facilities.

Overall, it appears that much of the presumed impact of unionism and collective bargaining on firm performance is not borne out by the research. The effects of unionism are far more complex than would be believed based on economic theories. This chapter will return to this theme.

COLLECTIVE BARGAINING, EMPLOYMENT, AND FIRM PERFORMANCE: PLANT- AND FIRM-LEVEL PERSPECTIVES

Unlike Chapter 1, which examined collective bargaining at a systemic level, and Chapters 2 and 3, which provided an economy-level perspective on collective bargaining, Chapters 5–8 took a micro view by presenting four case studies of the relationship between collective bargaining, job protection/creation, and firm competitiveness. As discussed in the methodology chapter, Chapter 4, the case studies represented a range of products, production processes, and market constraints. The four sites studied were Alcoa–Rockdale, Texas, and United Steelworkers of America Local 4895; General Motors–Lansing, Michigan, and UAW Local 652; Lear–Elsie, Michigan, and UAW Local 1660; and Sparrow Health Care Systems, Lansing, Michigan,

and the Michigan Nurses Association. Three were manufacturing sites, and one was a health care service sector site. This section will summarize common themes across all four case studies by examining market issues common to all the cases and differences in how the market affected each firm. The chapter will then summarize the collective bargaining response and provide a brief conclusion.

Market Factors

The employment relationship in the United States is based on value created for the employer. Value in this context is determined primarily by the product market for the good or service produced by the employee. Thus, it is not surprising that a common theme across all the case studies is the importance of the product market as the driver of the collective bargaining relationship. As there are few societally created legislative buffers to insulate the parties from the effects of the product market, the parties in each relationship were required to adjust to the forces affecting the product market for the goods or services produced by the employer and by the workers. In the Alcoa–USW and GM/Lansing–UAW cases, the market forces were direct globalization and increased competition. For the Lear–UAW case, globalization was a level removed, but the cost and quality pressures that the globalized auto industry placed on Lear’s customers, the auto manufacturers, were the direct cause of pressure on Lear. In the Sparrow–MNA case, the market pressure came from managed care and the pressure from payers to reduce their insurance outlays. This pressure has caused Sparrow to develop a broad-based strategy of diversification from inpatient care.

In the Alcoa case, the main change in the economic environment was the globalization of the market for aluminum. Whereas for much of the twentieth century Alcoa had been the dominant firm in the aluminum market, able to set its prices based on cost, this was no longer the case by the late 1980s. The emergence of the London Metal Exchange in the early 1980s, combined with the increased world supply of aluminum, meant that Alcoa was subject to world demand and supply pressures.

Globalization of the market, albeit for automobiles, also affected GM–Lansing and the UAW. It caused GM to lose market share, with a

subsequent reorganization that placed plants in competition for product allocation.

Globalization has also encouraged the auto companies to outsource (subcontract) more of their parts work in an effort to reduce costs. This outsourcing was both a threat and an opportunity to a supplier like Lear. While it provided Lear with the opportunity to grow the business, as indicated by employment growth in the industry, the small number of potential purchases and the large size of the purchase also placed extreme cost pressures on Lear in order to obtain that business and to make that business profitable. Sparrow and the Michigan Nurses Association have been required to respond to pressures from the major health care payers and changes in the structure of the health care industry.

Firm-Level Variation

Property rights and the absence of aggregating structures permit firms to create their own responses to market pressures. Thus, the increased market pressure on these relationships had different effects, depending on the firm response. For Alcoa–Rockdale and the USW, the major impact was an increased saliency of the plant’s energy cost disadvantage due to its use of coal, forcing the union to reduce labor costs to offset the plant’s energy cost disadvantage. For GM–Lansing and UAW Local 652, these pressures manifested themselves in a reorganization by GM. This reorganization forced the Lansing production facilities into the GM allocation system. Thus, the new goal was to encourage GM to allocate the product to Lansing. For Lear, the market pressure is coming from their customers. The market for seat assemblies, while potentially large, is characterized by a small number of potential buyers, namely, those firms in the auto assembly business. The loss of one contract can have a substantial effect on employment. Management and the union must be constantly attentive to this small, identifiable group of customers.

For Sparrow and the MNA, the market pressures are constant. They emanate from the true payers for most health care in the United States, the insurance companies and the government. This cost pressure is placing increased pressure on the traditional resident care business while causing Sparrow to move into tertiary areas, such as

outpatient clinics and labs. From a business 20 years ago in which demand was determined by physicians and somebody else paid the bills, Sparrow and the MNA find themselves in a cost-conscious world with a few large buyers.

Collective Bargaining

Despite these differences, all the parties have maintained the traditional written collective bargaining agreement. This structured, legalistic, formal agreement of fixed duration, which explicates the terms and conditions of employment and the rights and obligations of both parties and is enforced by a grievance procedure ending in a final and binding arbitration decision, is the basis of the U.S. system of industrial relations. It is the bedrock on which all of these relationships are based.

At the same time, recognizing the importance of market forces to value-based employment, the parties in these relationships have established joint, extracontractual structures to permit flexibility, with the purpose of maintaining or improving the competitiveness of the facility as the source of maximizing employment. The partnership teams at Alcoa–Rockdale, the “star system” at GM–Lansing, the joint steering teams and planning teams at Lear–Elsie, and the Mutual Gains Committee at Sparrow all represent extracontractual joint activities that were deemed by the parties to be consistent with the collective agreement. It is important to point out, however, that involvement in these joint activities normally represented a willingness by management to cede its rights under the formal collective agreement to make decisions on such matters as how the product or service was produced. It also meant that the union was, for all practical purposes, giving up its right to grieve management decisions, since the decisions made by these extracontractual structures were, in fact, joint decisions rather than management decisions.

Case Study Conclusions

The four case studies presented provide concrete examples of how collective bargaining in the United States can be a vehicle for creating firm competitiveness and employment protection and creation. Despite the variation in the sources of market pressure on these relationships,

the parties in all four relationships have developed joint methods of operating. While each structure is specific to the parties' relationship, a common characteristic is a willingness of the firm and the union to put aside their contractual rights and engage in a joint, extracontractual process for competitiveness purposes. Competitiveness, in this context, means success in the product market. Value-based employment requires such success.

Of the four sites, only GM–Lansing and the UAW operate in an environment of some administered job security, through the JOBS program in the GM–UAW national agreement that covers the members of Local 652 and the Lansing site. The JOBS program, however, is designed to prevent layoffs or job reductions associated with increasing productive efficiency, so as to create incentives for GM and the UAW to work jointly to increase competitiveness. It is not a job guarantee in that it does not operate in the event of a volume decline due to market-related conditions. Thus, overall, it is accurate to say that job security in the United States is market-based rather than administered. Consistent with the principle of value-based employment, these four cases have accepted that principle and work within in it.

Given the importance of property rights in the United States, one would expect substantial variation in the structures of these systems, and that is what is seen. The GM–Lansing system is the most formal, with multiple functions reporting to a union joint activities coordinator. Given the size and geographic scope of the GM–Lansing system, this would be expected. Lear and UAW Local 1660 organized its structure, the joint steering team, by function. Sparrow and the Michigan Nurses Association organized the Mutual Gains Committee by the patient care system. Alcoa–Rockdale and the Steelworkers created a structure that was organized by department within a single facility producing aluminum.

These case studies support the conclusions from the review of the literature. Collective bargaining, broadly defined to include not only the formal collective agreement but also joint extracontractual structures, can be a vehicle for both competitiveness and employment protection in the United States. The collective bargaining system in the United States works within the constraints of property-rights-based, value-based employment. Collective bargaining has been successful in promoting these twin goals where the bargaining system has respected

the unique characteristics of the production process and the parties to each collective bargaining relationship.

CONCLUSION

Taken together, the overview sections and the case studies reinforce several important themes. First, due to a large extent to the influence of employer property rights, there is wide variation in industrial relations in the United States. This has been documented elsewhere (Block, Beck, and Kruger 1996), and it was reinforced by the case studies here, with the range of options they implemented.

The second important theme is the importance of market-based job security in the United States. The principle of value-based employment means job security comes not from administrative rules in collective bargaining agreements, but from the market success of the firm.

The third important theme is the essential decentralization of collective bargaining in the United States. This is the result of property rights, unit-by-unit bargaining, and local union autonomy.

Fourth, business unionism, as discussed by Perlman ([1928], 1966) has reasserted itself in the United States. There is a narrow local union focus on job security of its members, the incumbents. Given the importance of the job to the worker, it can be argued that principles of union democracy and local union autonomy require a focus on incumbents.

Fifth, and related to the third point above, even in a labor market as strong as that of the United States in the late 1990s, job security is paramount. This demonstrates the importance of the seniority system incorporated in the vast majority of collective bargaining agreements and the continuing existence of a union wage premium, at least for the workers at these sites.

POLICY IMPLICATIONS

The five themes discussed above can be collapsed into two major points that could inform a policy debate regarding the role of collective

bargaining in encouraging firm competitiveness and employment protection creation. The first major point is derived from the discussion in Chapter 2 of the institutional framework under which collective bargaining addresses issues of competitiveness and job protection/creation. The second major point is derived from the research on collective bargaining and competitiveness discussed in Chapter 3, and the case studies in Chapters 5–8.

In regard to the institutional framework, public policy views collective bargaining in an employee choice framework, indifferent as to whether there is a strong collective bargaining system. Policy also has little to say about collective bargaining, competitiveness, and employment protection/creation. This follows quite logically from the transaction view of employment. Employment in the United States is a voluntary economic transaction between two individuals with minimal social content. The terms and conditions of employment should be subject to only a minimum of government regulation.

The literature review in Chapter 3 and the case studies in Chapters 5–8 provide a basis for rethinking this view. The literature review in Chapter 3 has shown that research has demonstrated that collective bargaining and firm competitiveness are compatible. Thus, employees can fully participate in their work lives through independent representation, and have industrial democracy, while at the same time encouraging competitiveness in the firms in which they work. The case studies in Chapters 5–8 provided examples of how this compatibility is manifested at the firm or plant level.

Therefore, it may be time for policymakers to rethink the current indifference to collective bargaining as a vehicle for competitiveness, and employment protection/creation, and develop policies that would encourage it. Such policy changes would likely have the advantage of reducing the social costs of unemployment and the disruption associated with the many changes firms must undergo to remain competitive. Employees often have the largest stake in a firm's competitiveness, especially those at the lowest education levels who are the least mobile.

What are possible policy changes? First, the National Labor Relations Act should be amended to make all firm decisions that affect employment, even those that involve a change in the basic nature of the business, subject to collective bargaining. One never knows what suggestions employees will have unless they are given a chance, through

their union, to make them. There is no obligation on either side to agree, but what is lost by forcing the parties to bargain about these matters? In addition, making all such decisions negotiable will bring certainty to the law, and will reduce the incentive to litigate over whether a matter should be the subject of negotiations.

Second, the National Labor Relations Board (NLRB) should consider a broader conceptualization of the notion of bargaining unit accretion to permit collective bargaining to be a more viable option than it currently is in questions of intrafirm allocation of resources. For firms with a large number of unionized facilities, the law should decrease the barriers to including in one of those bargaining units a non-union facility that produces a product similar to a proximate and similar unionized facility. Currently, the NLRB permits accretion of a new or acquired facility to an existing bargaining unit based on a consideration of such factors as 1) the degree of interchange of employees among facilities; 2) geographical proximity; 3) integration of operations, machinery, and product lines; 4) centralization of administrative and labor relations control; 5) similarity of working conditions, skills, and job duties; and 6) the number of employees (Harden and Higgins 2001). By giving greater weight to criteria such as product similarity and job duties, and less weight to criteria such as employee interchange and common labor relations control, and by considering proximity less as a criterion for accretion per se and more as a criterion for identifying the host unit, collective bargaining as a vehicle for encouraging firm competitiveness and job security can be strengthened.

Third, Congress should create a permanent labor–management committee to advise it on issues of firm competitiveness and employment protection/creation. Such a committee would not replace the current partisan advocacy through such organizations as the Chamber of Commerce, National Association of Manufacturers, Labor Policy Association, and the AFL-CIO. It would, however, add a new voice to the mix. It would also be a vehicle for labor and management, at a high level, to find common ground. Such a committee would be a mere shadow of the social partnership notion prevalent in Europe, but it would establish the principle of the importance of creating and aggregating labor–management organizations.

These proposals are modest attempts to increase the status of collective bargaining as a tool for encouraging firm competitiveness and

job protection/creation. The proposal on expanding the subject matter of bargaining does not change the substantive obligations encompassed in the duty to bargain. The proposal on non-union facilities, while novel, is nothing more than a modification of an established NLRB principle, unit accretion. The proposal on a labor–management committee places no requirement on the committee; rather, it establishes the principle that one should exist. These proposals could be implemented with minimal disruption to the current collective bargaining system in the United States.

Equally important, based on the work shown here, there is no inconsistency between collective bargaining and firm health. Enhancing employee rights in the context of collective bargaining, and supporting collective bargaining, can be obtained at little if any cost to firm competitiveness. In other words, the price of industrial democracy may be much lower than is generally believed.

FINAL OBSERVATIONS

Overall, the work in this book demonstrates that collective bargaining, job protection/creation, and firm competitiveness are compatible in the United States. Employees can enjoy the rights and protections inherent in collective bargaining, and shareholders and other firm stakeholders can prosper. This research has shown that the established view that these are incompatible is at best an oversimplification based on extremely lean economic theories that do not take into account the complexity and flexibility of “real world” employment. At worst, this is a view based on values, ideology, and unstated assumptions. Policymakers concerned about collective bargaining, firm competitiveness, and job protection/creation should understand this as they consider policies in these areas.

Note

1. An example of this assumption can be found in Schiller (2002).

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