Title
Industrial Relations

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Publication Date
1987-02-24

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Working Paper 8733

INDUSTRIAL RELATIONS

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February 24, 1987

Key words: Implicit contracts, efficiency wages, collective bargaining, worker ideologies.

JEL Classification: 821, 831, 832, 833

INDUSTRIAL RELATIONS

Two great historical developments accounted for the emergence of industrial relations as a focus of social and economic tension in the 19th century: the Industrial Revolution and the extension of political democracy and public education. The factory system resulted in the assembly of large groups of workers in large-scale establishments where they were often subjected to machine-paced and authoritarian discipline and to increased economic insecurity, but the extension of political democracy and public education heightened the expectations of citizens as members of the dependent labour force. For Marx, writing in the 19th century, the relationship between labour and management under capitalism was inherently one of exploitation. But to observers in the 20th century, this relationship came to be characterized by the power of wage earners to resist downward pressure on money wages during slumps, which became a central point in the continuing debates over cause and cure of cyclical unemployment.

On the other hand, competitive market analysis has generally maintained that there is nothing necessarily one-sided (in either direction) or economically inefficient in relationships between firms and workers. Equilibrium divergences between marginal productivities and wages are acknowledged to exist, but they might be reconciled with competitive equilibrium if interpreted as evidence of mutually profitable investments in human capital rather than as Marxist exploitation (if positive), or of union monopoly power over wages and work practices (if negative). Such specialized functions of personnel (or human resources) management as employee recruitment, testing and selection, job classification and evaluation, training, and wage determination might thus be classified with the firm's other investment activities.

Another major role of the firm's personnel policy has been to provide incentives to the individual employees by policy-making and administration in such functional areas as employee discipline and morale, promotional sequences, performance standards, and incentive pay systems. Indeed, management policy governing average levels of pay in the short term can also affect employee morale and unit labour costs; and this aspect of industrial relations has formed the basis of some postwar attempts to explain cyclical wage rigidity and unemployment in the postwar period. A strong version of implicit contract theory holds that a policy of wage rigidity during downswings reduces the risk of temporary reductions in income, to which workers are allegedly more averse than capitalists. Efficiency-wage theories argue that savings from downward wage flexibility would be offset by losses from the induced reductions in employee efficiency. But the former theory fails to explain why management should choose to insure its employees against the lesser risk of a decline in the rate of pay while, in so doing, it increases the greater risk of unemployment. And the latter theory largely ignores recourse to the negative incentives provided by exemplary discipline as an alternative to the positive incentive provided by maintaining wage levels during downswings in demand.

Concerted behavior

Such models become more plausible if the usual assumption of atomistic behavior is relaxed sufficiently to take into account the potential for concerted behavior by wage earners that is afforded by what Hicks (1932) referred to as the "social" nature of work in modern establishments.

Students of industrial relations and of organizational behaviour have long reported on the propensity of small groups of non-union employees to form and to develop informal restraints on conduct governing work and pay, which often work at cross purposes with formal regulations posted by management. Such activity has tended to reflect interdependence of workers' individual preference systems, shared notions of equitable standards of earnings and effort, and often adherence to a "lump of labour" view of demand elasticity. Hence threatened or actual deterioration of established terms or conditions of employment has often been regarded as breach of implicit contract by unorganized groups of workers, among whom it has tended to arouse common feelings of inequity and to elicit a collective response. The latter has frequently been reflected in a slowdown in productivity which, because of its collective nature, is resistant, although not impervious, to managerial attempts to impose exemplary discipline on individual offenders. Concerted behavior would therefore tend to raise the disciplinary cost of a desired reduction in pay; it would include the cost of multiple replacement investments in specific human capital that would be necessitated by wholesale dismissals. Such disciplinary costs, however, vary inversely with unemployment as well as with the strength of concerted employee resistance. Therefore, higher levels of unemployment would be required to hold the disciplinary cost to levels at which desired reductions in pay would be profitable.

Unions and collective bargaining

Unions, which were described as "permanent associations" by Marx (1848) and as "continuous associations" by the Webbs (1894), have generally been in a better position than informal and often ad hoc workplace groups to resist employer efforts to reduce pay during downswings in business activity. As more broadly based organizations, national or regional unions have frequently revealed a bargaining preference for directly defending levels of pay when the greater risk of unemployment was confined to a relatively small minority within their wide jurisdictions; hence risk aversion becomes a more plausible explanation of wage rigidity when considered in the context of explicit and collective rather than implicit and individual contracts.

National unions have attempted to organize or coordinate activity across plants within the firm and/or across firms within an industry. As multiplant organizations, they could resist employer efforts to "whipsaw", or transfer production from one plant in a firm to another, by striking on a company-wide basis. National unions might even gain a whipsaw advantage for their own side if they could and wished to conduct selective strikes against competing firms on a company-by-company basis. Even when competing firms confronted national unions with industry-wide associations of their own, the union could deploy the strike more effectively than isolated workplace groups. Moreover, these unions were in a better position to "take wages out of competition", either by raising wages in low-wage sectors of an industry or by resisting competitive erosion of average wage levels during cyclical downswings (Ulman 1955).

Unions, of course, have always sought to be offensive as well as defensive organizations. According to the Webbs' (1894) classic definition, they are designed to "improve" as well as "maintain" the condition of their members' working lives. Formal recognition by employers of unions as representatives of their employees, joint determination of conditions governing employee effort and security as well as pay, substitution of explicit for implicit contracts, and establishment of joint machinery for the disposition of employee grievances and of disputes arising over the terms of the contract, have been characterized as extensions of the procedure of democratic government and judicial processes to the conduct of industrial relations (S. and B. Webb, 1897; S. Slichter, 1941; Slichter, Healy, and Livernash, 1960). This has been the most compelling case for the establishment and support of collective bargaining in democratic societies.

The case for collective bargaining, however, must assume the existence of sufficient economic growth to enable that institution to satisfy historically rising levels of worker expectations reasonably well. It would be difficult for a continuing industrial relationship that is alternately adversarial and reconciliatory in nature to persist without the lubricant provided by growth to minimize conflict over the distribution of income.

The case against collective bargaining from the left proceeded from the belief (a) that capitalist innovation and investment must produce declining (rather than rising) profitability, employment and real wages; (b) that, as a result, distributional conflict was indeed inevitable; (c) that collective bargaining was a blind alley for unions and workers; and (d) that revolutionary methods would be required in its place. The syndicalist tendency was to reject collective bargaining as an instrument of class collaboration and to rely instead on such ad hoc tactics as local strikes or sabotage and on general strikes. Socialists have preferred parliamentary political activity, although they have also been willing to support and participate in collective bargaining, if only as a transitional device. Communists have sought rigorously to subordinate unions to party discipline and to adapt bargaining activity to their contemporary political requirements (which could call for either greater militancy or greater restraint than would seem optimal from the viewpoint of "business unionism").

Worker ideologies, employer reactions, and bargaining systems

The case against collective bargaining from the right has been that at best it will not exert an independent effect on economic outcomes and that at worst it is itself destructive of efficiency and growth. Some employers have been ideologically opposed to collective bargaining (notably in the United States), but most have viewed it pragmatically in terms of the costs which it imposes, the costs of averting or eliminating it, and the costs of likely alternatives. The last has depended on currently dominant ideological preferences and prevailing degrees of militancy among the wage earners. When the most likely alternative was simply an unorganized labour market, the employer's decision was typically to select the lowest cost combination of incentives and discipline which could preclude collective bargaining (provided that it was less than combined strike and settlement costs under collective bargaining). When the most likely alternative consisted of a serious revolutionary threat to the social and economic order, the decision - taken collectively - could be to accept or even encourage the method of collective bargaining, although in the least costly form possible.

Bargaining systems in Europe

As a result, the characteristic scope and structure of a given Western nation's "system" of industrial relations have been significantly influenced not only by market configurations (Dunlop, 1958), but also by the ideological orientation that prevailed within its (major) labour movement in the late 19th and early 20th centuries. In France and Italy, where anarcho-syndicalist influences have been strong, bargaining institutions have tended to remain relatively weak and underdeveloped. And, after World War II, the largest union movements in both countries came under the control of strong Communist parties which usually did not favour the emergence of independent bargaining at plant, enterprise or industry levels.

Elsewhere in Western Europe, including Germany and Britain, the main challenge from the left took the form of parliamentary political activity by socialist (or labour) parties whose affiliated union movements favoured collective bargaining. When general strikes and social unrest occurred on the continent (in the first decade of the 20th century and during and after World War I), large-scale employers tended to respond by accepting the enactment and extension of public systems of social welfare and, in some instances, the establishment of labour court systems and legal and de facto restraints on employee dismissals. In Germany and Scandinavia, employers resisted extensive strikes by forming strong employer associations, which were armed with strike insurance funds and authority to order lockouts; but they also entered into continuing bargaining relationships with the unions at centralized (mainly industry-wide) levels. These political and industrial developments, however, meant that the domain of collective bargaining was limited in two respects: it was largely confined to the determination of industry-wide levels of wage and hours; and it did not control industrial relations at the workplace, as a result of which important determinants of productivity were left, at least proximately, to the unilateral determination of the employer. (After World War I, left-wing agitation resulted in the establishment of works councils, but they were mostly confined by both management and union efforts to non-adversary roles.)

In Great Britain, recognition of unions by employers appears to have resulted less from class behaviour on their part or from political considerations than on the continent (especially in Germany). British employer associations, moreover, were valued less for the bargaining resistance and cost containment that they offered than for "taking wages out of competition"; and they generally lacked the resources and authority found in Germany and elsewhere (Phelps Brown, 1983). British unionists, on the other hand, were militant and tenacious bargainers, sometimes tending to sympathetic strike action and generating a class of highly militant and autonomous shop stewards. As a result, employers were obliged to bargain with workplace groups over work rules and technical change at the shop level, as well as with national unions over wages at industry levels.

Both the British and the continental models were revived after World War II. Relatively high rates of economic growth in the Fifties and Sixties were conducive to the pursuit of collective bargaining. In some instances, however, centralized bargaining arrangements were weakened by the tendency of firms, either unilaterally or in response to pressure from local groups of workers, to grant "wage drift" (or payments in excess of centrally negotiated increases) during inflationary periods. Under the impetus provided by international competition, large-scale firms expanded at the expense of smaller and less efficient competitors; and they also embarked upon processes of "rationalization" which often required increased internalization of wage policy in the interest of greater worker efficiency. These developments, however, were paralleled by a tendency for wage earners to react against downward pressures on changes in real and effort wages (also, in the case of more highly skilled and white-collar groups, against reduction in relative pay), and ultimately against the emergence of lay offs, dismissals, and plant closings (as unemployment spread from the non-union periphery of the labour force to the organized core sectors). In the late Sixties and early Seventies worker reactions took the form of unofficial strikes, and in the Seventies, seizure of plants that were scheduled to be shut down (especially in France). At the same time there occurred a revival of interest in the old syndicalist objective of worker control of industry. This took a variety of forms - for example, "co-determination", with the inclusion of employee elected representatives on company boards of directors (especially in Germany since the end of World War II); worker "participation" in management (in France); profit-sharing or capital-sharing schemes (notably in Sweden). In some instances larger firms encouraged active employee participation in shop-floor management, along with major redesigning of production jobs, as non-pecuniary incentives to efficiency; in others it was viewed as a way to reinforce the employee's primary allegiance to the company. Whatever the motive, such managerial reaction to employee assertiveness may have ushered in a more bipartisan approach to industrial relations at company level on the continent (Flanagan, Soskice and Ulman, 1983). In the second half of the Seventies and the early Eighties, on the other hand, unions and bargaining institutions on the continent and in Britain weakened under pressures created by the emergence of dramatically higher levels of unemployment in the wake of the oil price shocks, international recession, accelerated technological change, and the loss of international market shares by heavily organized manufacturing industries.

Bargaining and non-unionism in the United States

In the United States, a pragmatic and implicitly optimistic belief in the efficacy of collective bargaining within the domain of capitalism predominated among unionists over the radical alternatives that were offered to them before World War I. For employers, therefore, the most likely alternative to collective bargaining was the unorganized labour market rather than radical social change; and large-scale corporations could oppose collective bargaining (along with social insurance) instead of accepting it as the lesser of two evils, as some of their foreign counterparts had been doing. The opposition of American employers to unionism and collective bargaining took two forms: direct and often ruthless measures to break up unions (including liberal recourse to strikebreaking, blacklisting, and the labour injunction) and, in the early 1920s, a variety of paternalistic measures designed to forestall unionism among the employees in various large corporations. Such "welfare capitalism" schemes included the maintenance of relatively high wages, a variety of insurances, pensions, and other benefit plans, career opportunities through promotion ladders, and the replacement of the pre-World War I "drive system" of management with an "enlightened" approach that emphasized consultation and "human relations in industry."

Hence, while in Europe industrial unionism in the manufacturing sectors antedated World War I and generally survived the interwar period, it did not take hold in the United States until the occurrence of an extraordinary sequence of events in the 1930s and 1940s. First came the wage cuts, speedups, and layoffs associated with deep depression in the 1930s, which generated widespread labour unrest and militancy. Next came a sharp change in the prevailing political climate ushered in by the New Deal and market by the passage of the National Labor Relations Act of 1935, which forbade employers to interfere with their employees' efforts to organize and required them to bargain in good faith with union representatives elected by majority vote in government-held elections. Finally, during World War II, economic conditions were created which were to the unions' bargaining advantage; and the unions were compensated for cooperating with wartime wage controls by the widespread adoption of a variety of non-wage benefits and devices which enhanced their "security" vis-a-vis both employers and the membership in the plants.

There emerged from these developments a set of bargaining relationships in many industries which were distinguished from prevailing European arrangements in the following respects: bargaining between individual firms and national unions in some large-scale industries; plant-level bargaining which was integrated with company-wide bargaining; negotiation of a wide range of non-wage benefits (which in Europe have been provided primarily through government social welfare programmes); long-term contracts (usually of three years' duration), with interim protection for employees provided by cost-of-living escalator clauses and for management via no-strike clauses, and grievance procedures, typically with provision for impartial arbitration. The latter have tended to strengthen the authority of the national union at plant level through inclusion of the latter in appellate stages, and they have permitted management to proceed with the introduction of "new or changed jobs" subject to subsequent grievance, rather than to prior negotiation.

This system was credited with contributing both to a relative absence of wage drift (due to strong national union authority at local levels) and to greater wage flexibility than prevailed in Europe. During the second half of the Seventies, long-term contracts contributed to money wages lagging behind prices, and in the early Eighties many firms in actual or threatened financial distress prevailed on unions to reopen their long-term contracts and negotiate significant "give-backs" in wages and benefits.

On the other hand, collective bargaining had opened up large differences between union and non-union levels of compensation during the stagflationary Seventies; and the flexibility in real wages during that period also reflected the low levels and sharp decline of union organization which characterized postwar industrial relations experience in the United States, union membership fell from a relatively low initial rate of about 35 per cent of the private non-agricultural labour force in the mid-1950s to under 20 per cent in the mid-1980s. The success of union negotiators in raising nominal wages and benefits, taken in conjunction with shifts in product demand, increased competition in product markets and technological change, helped to shrink the historical jurisdictions of unionism. Meanwhile, the unions were unable to prevent the growth of non-union sectors within manufacturing and mining and in the growing services sectors and white-collar labour force.

Their failure was reflected in a resumption by non-union employers of a postwar carrot and stick strategy similar to that employed by their predecessors in the Twenties. The strategy included the adoption of deterrent wage-setting and in some cases of schemes for worker participation in management decision-making at plant level (which elsewhere were integrated into established union-employer relationships). It also included a variety of tactics which, by weakening the effectiveness of protection extended to employees by the Wagner Act of 1935, and by exploiting some of the protections that had been extended to employers by the Taft-Hartley Act of 1947, helped to account for a steady decline in union success rates in representation elections conducted by the National Labor Relations Board. But (as union leaders themselves have implied), a decline in the desire of workers themselves - at least non-union workers - to organize and bargain collectively cannot be ruled out as a cause of organizational failure. Protection of the opportunity to organize certainly remained greater than it had been in the pre-Wagner era. But postwar experience revealed to workers the economic limitations (notably in the area of employment protection), as well as the potential, of traditional collective bargaining as an instrument for continuing the historic advance of industrial democracy into the 21st century.

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