CHAPTER 11

THE FUTURE SHAPE OF INDUSTRIAL RELATIONS

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I am pleased to have this opportunity to address the National Academy of Arbitrators (NAA). As a former arbitrator, I have a very high regard for your work. Indeed, the Commission on the Future of Labor-Management Relations (the Dunlop Commission), on which I served, devoted considerable attention to alternative dispute resolution (ADR) activities and concluded that these processes, as alternatives to industrial conflict, litigation, and governmental regulatory processes, are gaining increasing importance. ADR processes make it possible to resolve conflict more efficiently and with less damage to the relationship between parties than the alternatives. Because ADR processes complement, as well as substitute for, more expensive, time consuming, and damaging alternatives, they can remove some of the pressure on these other important activities and, therefore, make them more effective.

I have been asked to present some views on the future shape of industrial relations. When I am asked to talk about the future, I am reminded of Ken Galbraith's comment about economic forecasts: There are only two kinds of economists—those who don't know and those who don't know they don't know. I fall into the former category. I am also guilty of a bias toward collective bargaining and labor-management cooperation. Therefore, my projections may very well be heavily colored by what I would like to see rather than an objective assessment of where we are actually headed. I believe, however, that my bias is in the subject I choose to analyze, not in how I go about it.

The future of labor relations will be determined by three factors: (1) some very strong economic, social, and political trends; (2) the

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power relationships between workers and managers; and (3) public policy with respect to both economics and industrial relations. The trends and relationships are not difficult to analyze, but determining their impact is often ambiguous, requiring judgment, and therefore creating more room for error. Of course, economic and industrial relations policies are influenced by values as well as by analysis.

My values, as well as my analyses, favor the development of policies and institutions that would restore the kind of broadly shared prosperity Americans experienced between the late 1940s and the early 1970s, the longest period of broadly shared prosperity in our history. Labor relations played an important role in that prosperity, and I believe they must play at least as important a role as part of the policies to restore broadly shared prosperity in a more competitive, knowledge-intensive world of the 1990s and beyond.

Since the 1970s, however, prosperity has not been as broadly shared. Real per capita gross domestic product has continued to rise, but only the top 20 percent of income recipients are better off today than in the 1970s; the bottom 60 percent are worse off. The greatest losses in real wages have occurred among males without college degrees. Family incomes have been sustained only by more women working longer hours. This obviously is self-limiting—unless the real wages of men stop declining, family incomes will be lower, despite more hours worked by family members.

We do not know what the outcome of polarizing incomes will be for democratic institutions—no democracy has ever experienced the kind of inequalities implied by these trends for 21st century Americans. We do know that economic performance and social tranquillity are related to greater equality in wealth and income. We do not know why, but a study published in the *British Journal of Medicine* in April 1996 even found mortality rates in the United States to be directly related with income inequality. A good hypothesis explaining this event is that where income distributions are very unequal, it is harder to build consensus for universal high quality education and health care. It could also be, as Bob Reich wrote in an article shortly before he became Secretary of Labor, that many wealthy people have seceded from America—they have the means to provide for their own education, medical care, and even police protections; therefore, they have little interest in such public programs as quality education and health care for less affluent Americans. This growing inequality in wealth and income has serious negative political, social, and economic implications for America's future.

Economists disagree, however, over whether or not we can restore broadly shared prosperity. Analysts of all political persuasions believe that it will not be possible to accelerate the long-run growth above the 2.5 percent level of the mid-1990s. According to this view, any effort to accelerate growth to reduce unemployment below 5.5 to 6.0 percent will stimulate inflation, requiring the Federal Reserve to restrict the growth of income and employment. This judgment might be right, but we have every reason to be skeptical of predictions from orthodox economists who, using the same basic theoretical framework during the 1920s, thought it was impossible to have a general depression like the one we experienced in the 1930s. Others told us that with freely fluctuating exchange rates, we could not have persistent trade deficits like those experienced by the United States since the early 1970s. What some orthodox economists forget is that there is a big difference between *theoretical* and *actual* conditions. Clearly, moreover, if there is an actual natural unemployment rate, it is not stable and we do not know what it is. We also know that some part of the current level of joblessness is due to macroeconomic policies in the United States and other industrialized countries, especially Germany, where the fear of inflation and the absence of alternative price-stabilizing policies has perpetuated measures to deliberately keep unemployment at a much higher rate than it was in the 1950s and 1960s.

A good guiding hypothesis is that the right set of national and international policies could achieve faster rates of broadly shared growth without unacceptable levels of inflation. Indeed, the fear of inflation is based not only on abstract theory but also on 1970s' assumptions about economic realities. Policy makers—especially central bankers and those influenced by conservative economists—seem to be guided by the mistaken belief that 1970s' conditions still exist. The basic cause of inflation in the 1970s was energy price shocks, which are much less likely today because of changes in energy-producing technology, the broader distribution of energy sources, and the greater flexibility of energy supplies, all of which make it unlikely that energy price spikes can last for very long. Similarly, the greater integration of product and factor markets and supply-side flexibilities probably make inflation much less of a threat in large, open democratic economies like that of the United States.

The remainder of this paper will outline some basic problems confronting American workers and managers, discuss some of the main origins of these problems, and examine the hypothesis that the restoration of broadly shared prosperity requires more effective labor relations as part of a comprehensive economic and social strategy.

My concentration on problems is not meant to minimize the strengths of the American economy. The United States, with all of its problems, still has the strongest economy in the world, with adequate resources to make the investments needed to restore broadly shared prosperity. In addition, our economy is relatively dynamic, with high levels of entrepreneurship and innovation.

To realize our economy's full potential, however, we must be concerned about those trends that raise serious questions about our ability to sustain present levels of prosperity and about the deterioration in economic performance since the early 1970s. In addition to stagnant family incomes, declining real wages for most workers, and growing inequality, the American economy's main problems include stagnant productivity growth relative to the 1950s and 1960s; job insecurity; lack of health insurance and other "fringe" benefits for many American workers; the declining power of labor organizations in the private sector; the obsolescence of the traditional legal framework for labor relations and the lack of suitable substitutes for that system; the absence of effective participation by American workers in the decisions that affect their lives at work and in the larger society; and a policy paralysis caused by a lack of consensus on economic and industrial relations policies.

As arbitrators understand very well, the current private sector industrial relations system no longer works very well for workers, labor organizations, companies, or the public. Years of evidence also suggest that the political relationships between business and labor organizations have become too adversarial to permit them to form a consensus. Even though they have the upper hand, the situation for employers is far from ideal and may worsen. It could therefore be that consensus to modernize the legal framework for industrial relations will come from public support for a system that would be beneficial to workers, managers, and the public. An understanding of the causes for the traditional system's obsolescence and the contours of a new system requires a brief outline of the traditional labor relations system and the factors that have caused it to become less effective.

The Traditional Labor Relations System

The labor relations systems in the United States and other industrialized democracies were part of the policies and institutions that helped these countries recover from the Great Depression and launch the strongest period of broadly shared prosperity in history. Before the 1930s, the United States had developed an incredibly productive economy based on mass production and economies of scale, virtuous economic cycles, and supportive policies and institutions. The main problems in that system were:

1. Market instability, because high fixed capital costs for large-scale enterprises caused rivalries between enterprises to drive prices below total costs. This problem was addressed by limiting competition through oligopolistic pricing and regulating "natural monopolies."
2. The imbalance in power between workers and management, which was addressed during the 1930s by encouraging collective bargaining and regulating labor markets. A major objective of this system was to limit labor market competition that tended to depress wages and working conditions below acceptable levels.
3. The tendency for production to outrun consumption, leading, as the Wagner Act put it, to "periodic recessions and depression," which was the main problem addressed by governments during the 1930s. Collective bargaining and social safety nets helped deal with this problem by providing workers with income and thereby sustaining aggregate demand.

The New Deal in the United States and the Social Democratic parties in other industrialized democracies solved the problems of equity and macroeconomic imbalance through a combination of policies that included progressive income taxes, monetary and fiscal stimulus, social safety nets, and universal basic dual public education systems that included one for the professional, technical, and managerial elites and another for most workers. Despite the fact that incomes remained very unequal, this system produced a larger middle class and contributed to a long period of broadly shared prosperity. Social and political stability were achieved through steady improvements in the conditions of most workers until the early 1970s. The safety nets—mildly progressive taxes, collective bargaining, social security, unemployment compensation, minimum and prevailing wage regulations, the GI Bill of Rights, and civil rights and Great Society programs—moderated the natural tendency for competitive markets to widen economic inequalities.

The End of the Keynesian System

What can be called the New Deal, or Keynesian system, has become obsolete by the 1970s, although it took at least a decade for this reality to become clear to most economists and policy makers. The system was changed mainly by interactions between a constellation of factors that included technology, more intensive competition, and some fundamental demographic and labor market changes. Macroeconomic policies already had been weakened by their inability to deal effectively with inflation, especially the global supply-side shocks such as the energy crises of the 1970s. International competition made it difficult to maintain oligopolies and regulated monopolies, weakened the ability of Keynesian policies to stimulate the economy, and made it much more difficult to take labor out of competition through traditional collective bargaining and regulatory processes. The last hurrah of the Keynesian system in the United States was the Kennedy-Johnson tax cuts of the 1960s, which stimulated growth enough to reduce unemployment from almost 6 percent to about 3 percent. In fact, this tax cut was so successful that even Richard Nixon agreed, "We're all Keynesians now."

The much larger 1980s tax cut, by contrast, did not reduce unemployment or increase investment. In this very different economic environment, the tax cut caused the budget deficit to increase greatly, more than doubled real interest rates, and caused the value of the dollar to rise, which greatly stimulated imports and reduced exports. Indeed, 95 percent of the increased capital goods investments to supply rising consumption came from imports. And instead of declining, as it had in the 1960s, unemployment jumped to almost 11 percent. The employment problem was compounded by very tight monetary policy in the early 1980s; this was the only policy our system had to moderate the inflation that originated with the oil price shocks.

Technological innovation and intensified competition had very important implications for management and labor relations systems, as well as for macroeconomic policies. In a more competitive global system with rising unemployment, many companies had both the opportunity and the motive to avoid collective bargaining, and employment growth was mainly in competitive places and industries where unions were weak or nonexistent. Moreover, in a more competitive environment, the mass production system with its hierarchical management and adversarial labor relations system lost market share to more quality-oriented, flexible systems developed in the United States and other countries, especially in Japan, but also in Europe. Analyses of this competition support several conclusions:

1. In a more competitive environment, there are only two basic ways to compete: reduce wages or increase productivity and quality. Wage competition implies lower and more unequal wages and limited growth in productivity and real income.
2. A more dynamic, market-driven environment puts a premium on greater flexibility and adaptability than is possible with the traditional larger-scale, top-down management systems in basic American industries, which emphasized stability and control, not flexibility.
3. The high value added (i.e., productivity and quality) option implies competing by substituting ideas, skills, and knowledge for labor and physical resources and implies steeper productivity and income increases than can be achieved through systems that compete mainly through wages and costs.
4. This new economic and technical environment presents companies, workers, unions, and public officials with several options:

Maintaining the Traditional Mass Production System

Companies can, for example, attempt to maintain the traditional mass production system, with oligopolistic pricing and regulated monopolies. This system is likely to fail because:

- Oligopolies that attempt to stabilize prices by varying output and employment are vulnerable to firms that emphasize quality, reduce prices through improving productivity instead of reducing wages, and maintain stability in employment and output.

- The traditional mass production system has monumental waste of people and capital (especially inventories), which is offset by economies of scale. New technology enables economies of scale and scope without large plants. Flexible, decentralized, participative systems that develop and use leading-edge technology, therefore, can eliminate waste, reduce costs, and improve quality much better than large, authoritarian production systems with high fixed capital and overhead costs.
- The traditional system is too inflexible to respond quickly to changing markets and technology and, therefore, is extremely vulnerable to agile high-performance systems.
- The mass production system is producer-driven and, therefore, gives inadequate attention to quality—a major requirement for success in a more competitive, market-driven economy.
- The mass production system is adversarial, making it difficult to improve productivity, improve quality, and solve problems through cooperative labor-management and company-supplier networks.
- Mass production companies, therefore, will be forced to compete mainly through wage-cutting and downsizing, which implies a decision to liquidate in high-wage countries.

Automate the Mass Production System

Alternatively, companies can attempt to become competitive, as General Motors did in the late 1970s and early 1980s, by automating the mass production system and improving productivity by substituting capital for labor. General Motors spent $77 billion on this strategy, to learn only that the workers were not the problem and that technology was not the answer.

Adopt a "Lean Production" System

A third option is to adopt the Japanese "lean production" system by flattening the management structure, adopting teams, modifying the reward system to provide group bonuses for increased performance, and providing security for a core group of workers who participate in determining how to do what management decides should be done, but who do not participate in decisions about activities outside frontline production work.

Adopt a High-Performance System

Finally, there is the full-scale, value added option, which requires more mature high-performance systems than the lean production system. This system emphasizes quality, productivity, and flexibility; develops a lean, decentralized, participative system that, in its most complete form (e.g., Saturn, large German or Scandinavian companies), encourages worker participation in what previously were regarded as managerial decisions, not just frontline production systems; stresses the development and use of leading-edge technology and continuous education and training for all participants, including frontline workers, who are given much greater responsibility for developing technology; and stresses a more developed and positive reward system, including financial and nonfinancial incentives (dignity, self-esteem, the right to participate in decisions at every level). This model requires a high level of labor-management cooperation and trust. In essence, it improves productivity, quality, and flexibility by substituting clear outcome standards and positive rewards for the detailed rules and regulations and negative, or even perverse, incentives embedded in the other systems, especially the mass production system. Finally, in the high-performance system, performance is enhanced by the fact that workers are more willing to do their utmost to improve performance because they have an independent source of power to protect themselves from the adverse consequences of improving productivity. The relationship between workers and managers is inherently both cooperative and adversarial. Independent worker power enables the parties to manage the relationship to make the most effective use of both functions, but in general it maximizes cooperation and minimizes conflict.

The SHVA Strategy

What difference does it make which model companies pursue? In the short run, it might make very little difference to managers and stockholders which option they pursue because they could maximize profits by downsizing, reducing wages, outsourcing, or moving work offshore, but it makes a lot of difference to workers, unions, communities, regions, and countries, who are likely to suffer the negative consequences of low-wage development strategies, especially lower real wages for most workers, growing inequality of wealth and income, job insecurity, and destabilized communities.

I believe the United States should learn from these experiences and explicitly adopt a sustainable high value added (SHVA) economic strategy. A sustainable strategy would attempt to promote economic activities that emphasize high value added outcomes. A SHVA strategy could achieve environmental, economic, and social sustainability by being concerned about social and economic justice and expressly accounting for all costs, including environmental, social, and economic externalities such as occupational safety and health and damage to the environment, as well as the costs inflicted on workers and communities by business strategies based entirely on the maximizing of short-run profits. Thus, such a strategy would be concerned about contemporary as well as intergenerational equity.

Of all the options for companies, the one most compatible with a SHVA strategy is the full-scale HVA model. This model, by stressing full participation by workers, is not only the most sustainable and competitive, but also is most supportive of democratic values. In addition, the public policies required to encourage the SHVA model probably would do more to restore broadly shared economic growth than any of the other models. Neither of the mass production models are sustainable in the long run in high-wage countries. The lean production Japanese model is more competitive, but probably less compatible with democratic values and less sustainable in the long run. It also provides less emphasis on the need for education and training of low-wage workers; indeed, in many ways it promotes the deskilling of the skilled support workers required in the mass production system. That model also encourages very limited worker participation, especially as practiced in the United States.

The following actions would encourage HVA companies:

- Build public consensus for a SHVA strategy.
- Remove incentives for low-wage strategies from the American environment through adequate minimum wages and universal quality health care and education systems.
- Strengthen the right of workers to organize and bargain collectively and participate in decision processes that affect

them. This could be done by mandating or encouraging worker participation in joint labor-management activities to enforce worker protections (e.g., antidiscrimination, occupational safety and health).

Current U.S. Labor Relations Policy

Perhaps the most important deficiency in the American context is in labor relations policy. Workers participate less in decision-making at work or in the larger society than their counterparts in other countries. U.S. policies within the firm and in the society, therefore, inadequately reflect worker interests.

The Dunlop Commission's work makes it clear that declining union membership and weak worker participation are not due entirely to the wishes of workers. The Worker Representation and Participation Survey, by Richard Freeman and Joel Rogers,[1] found that most workers want to have greater voice in workplace decisions. Indeed, about a third of nonunion respondents would like to have union representation, but most are afraid that attempting to organize would cost them their jobs. Moreover, the Dunlop Commission reported that "Evidence demonstrated conclusively that current labor law is not achieving its stated intent of encouraging collective bargaining and protecting workers' rights to choose whether or not to be represented at their workplace."[2]

Indeed, the Dunlop Commission's evidence demonstrated that the present legal framework for labor relations really does not serve anyone very well, with the notable exception of a growing number of "union avoidance" specialists. Because of the absence of alternatives, employers face mounting costs of litigation, government regulation, and the expenses of union avoidance campaigns. The United States is the only democratic industrial country where workers must engage in lengthy, often acrimonious, campaigns and risk their jobs for the right to organize and bargain collectively. Considering the evidence the Dunlop Commission accumulated on the obstacles workers face in gaining private sector bargaining rights, it is surprising that workers succeed as often as they do. After acrimonious election campaigns, moreover, there is no assurance

[1]*Worker Representation and Participation Survey: Top-Line Results* (Princeton Survey Research Associates, October 1994).

[2]Commission on the Future of Worker-Management Relations, *Report and Recommendations* (U.S. Dep't of Labor & U.S. Dep't of Commerce, December 1994), xviii.

that workers can negotiate without a strike, which is very risky because U.S. law permits employers to recruit permanent strikebreakers. Again, the United States, alone among the major industrial countries, permits companies to continue to operate with permanent replacements during strikes.

The major beneficiaries of the present U.S. labor relations laws are professionals who specialize in union avoidance and anti-union politicians, especially in the U.S. Senate, who have used their ability through filibusters to block reform efforts by majorities in the Congress, as they did in 1978, when the Carter administration's modest reform proposals passed the House by an almost 100-vote majority and had a comfortable majority in the Senate, but fell one vote short of the 60 votes required to break a filibuster.

As one who proposed the creation of the Dunlop Commission, as well as a member of that body, I had hoped that we could fashion bipartisan support to modernize our obsolete and debilitating labor statutes to meet the needs of employers, workers, and the public. In particular, we sought to clarify the legality of labor-management committees that did not engage in collective bargaining, to expedite the representation process to prevent lengthy campaigns, and to strengthen the penalties for violations of the law. The Commission's proposals were even more modest than those proposed by the Carter administration and, as the Commission stressed, would work only if considered as a package. I believe acceptance of the Commission's recommendations and legislation prohibiting permanent striker replacements would be a modest first step in modernizing labor law and giving workers the independent source of power needed to make HVA systems work most effectively.

Of course, recapturing broadly shared prosperity would require more than strengthening the right of workers to organize and bargain collectively, but it is hard to see how we will achieve that objective unless workers have this minimum source of independent power.

Reforming labor law will not necessarily strengthen union membership in the private sector. Much depends on the ability of unions to modernize their structures and policies to appeal to workers and gain public support, as well as their ability to obtain enough political, economic, and moral power to achieve their objectives. There are signs that the prospects for union revitalization and growth are better than they have been in years. However, the public interest is served in allowing workers to decide for themselves whether or not they want to bargain collectively. Labor relations law does not now adequately protect this fundamental right for private sector employees.

Conclusion

The prospects that the United States will adopt the necessary policies to restore broadly shared prosperity are not bright. Reversing the negative trends will require: (1) an appropriate set of national and international policies and institutions; (2) effective union leadership, policies, and institutions; (3) business leadership willing to adopt high-performance work systems and SHVA policies; and (4) greater public support for SHVA strategies, including the right of workers to participate more effectively in workplace decisions.

As specialists who understand the need to include labor relations matters in comprehensive SHVA strategies, I hope members of the NAA will help elevate these matters on the national political agenda.