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"Emerging Patterns of Industrial Relations" by Kevin Gallagher

From the perspective of workers, the changes in the workplace that are addressed in this volume raise many questions. What are labor's goals? Should labor be working to expand democracy in the workplace? To secure employment and equity throughout the entire workforce? Or, to contribute to a firm's productivity and take home a paycheck? Are these goals mutually exclusive? And finally, *who* should be working *for* labor?

Labor is unique in economic theory because, unlike other resources or factors of production, it performs work that is a subjective human activity. Moreover, many important labor processes are inherently collective by nature. Therefore it is not surprising that workers have traditionally banded together in the form of trade unions to strive for their collective goals. Until recently, trade unions throughout Western Europe and North America were viewed as major actors in the struggle for democracy in and out of the workplace. They were considered the benefactors of a long development paralleling the history of industrialization. Industrial relations scholars built a sizable literature that pointed to the integrated effects of unions and predicted harmonious economic development based on balancing interest group representation and stable labor-management relations. Is this still the case?

The articles summarized in this part review how trade unions are responding to the changes occurring in the workplace and suggest how unions might respond to them in the future. Another set of summaries look abroad to works councils and producer cooperatives as possible alternatives to the traditional union model.

WHAT DO UNIONS DO?

Trade unions have won substantial gains for workers in the past; in the words of a recent bumper sticker "the people who brought you the weekend." It is common, if perhaps ungrateful, to ask what unions have done for us lately. Looking forward, can unions also enhance productivity and reduce workplace inequality? The traditional *monopoly union model* of neo-classical economics would say no. This model sees the union as maximizing a utility function (based on the wages and employment of its members) subject to the constraint of a labor demand curve. Unions will continually demand more pay and secure employment for their members. The model thus views unions as slowing a firm's response to declines in demand, and hence delaying the firm's hiring decisions; because, once hired, union members are harder to fire. In sum, costs will be higher and profits and productivity will be lower under such regimes. A theme that recurs throughout this volume is that such a simplistic formula seldom represents the real world.

In striking contrast to the monopoly view is the Richard Freeman article summarized in part II of the volume. Now a classic, the article applies Albert Hirschman's exit-voice concept to the industrial relations of the firm. Freeman's model asserts that, by addressing job issues with the employer through the expression of "voice," the need for "exit" is reduced. Consultations between unions and management can reduce quits, lower hiring and training costs, and encourage investments in human capital. Testing this theory on four large sets of U.S. workers, Freeman found that profits and productivity were enhanced where unions gave workers a "voice."

This part begins with a summary of work by Francine Blau and Lawrence Kahn, showing that unions can reduce the extent of wage inequality within the workplace. They conducted a comparative analysis of the inequality of the distribution of male wages in the U.S. and in nine other developed countries, where unions are relatively larger and more powerful. They found that wages are most compressed in unionized settings and that the difference between the U.S. and the other countries is located almost entirely in the lower half of the wage distribution. The most persuasive explanation of these patterns is the presence of centralized bargaining institutions in the European nations. That is, powerful unions seem to have pulled low-wage workers up toward the median income, while having surprisingly little impact on wages above the median.

If unions enhance democracy and productivity while simultaneously reducing inequality, why are unions on the decline?

HOW MANAGEMENT CHANGED

The employment relationship is changing throughout the developed world as employers, workers, unions, and governments adapt to greater international competition and technological change. Managers around the world are constantly experimenting with different employment practices with the hopes of increasing productivity and market share, or simply staying alive. Richard Locke and Thomas Kochan, in the next article summarized here, generalize four recent patterns of change in industrial relations: 1) decisions about employment, wage bargaining, etc., are increasingly being made at the individual firm level; 2) decentralization is accompanied by a search for greater flexibility in the organization of work; 3) there is a rising premium on skills, and an emphasis on training and retraining workers; and 4) unions are facing new challenges and declines in membership as industries restructure, the workforce changes in composition, and the average size of enterprises declines. In another article, Kochan recognizes that the backdrop for these developments is an increasingly conservative political environment and the decreasing effectiveness of labor laws as a deterrent to employer resistance to union organizing campaigns.[1]

Many of the new forms of flexible work organization involves varying degrees of employee participation and workplace committees. Such systems occur in firms and sectors with and without unions. These new work arrangements consist of systems such as quality circles, employee teams, gain-sharing plans, training programs, and information gathering forums, in addition to employee ownership programs and worker representation on corporate boards of directors. While some of these systems could be merely the latest management fad, the next article summarized here, by David Levine and Laura D'Andrea Tyson, finds that participation programs are starting to show a positive effect on productivity. These authors categorize participation schemes into three categories; consultative participation (such as quality control circles), substantive participation (often involving work teams), and representative participation (such as worker-management committees and employee represenatatives on boards of directors).

Substantive participation has a positive effect on productivity in most studies; the results for other forms of participation are ambiguous. Levine and Tyson conclude that a successful program must have elements of profit sharing, job security, measures to increase group cohesiveness, and guaranteed individual rights to workers. However, conditions in the product, labor, and capital markets may discourage firms from adopting industrial relations systems that allow for such participation.

During President Clinton's first term of office, the United States Departments of Labor and Commerce set up a "Commission on the Future of Worker-Management Relations." The commission was asked to address what new methods or institutions could enhance workplace productivity through worker-management cooperation and employee participation. The commission heard testimony, conducted and commissioned surveys, etc. During the testimony,

Bruce Carswell, Senior Vice President of GTE and Chairman of the Labor Policy Association said:

> the message that we would like to leave with you today is that our nation can no longer afford to view the employment relationship as American workers and management competing with one another in a zero-sum game. Instead, we need to create a partnership among empowered employees, government, industry, and unions, such that everyone is playing on the same team in pursuit of mutually beneficial objectives. [2]

In short, management is attempting to take the "voice" idea to market.

WHAT SHOULD UNIONS DO NOW?

How should trade unions, the historical vanguards of workplace democracy, respond to this changing environment? Some say that new forms of work organization are the latest attempt by management to increase control over the production process and therefore argue that they should be rejected. Others see them as an opportunity to increase union bargaining power.

The decline in union membership in the United States has been quite dramatic. In 1954, over 30% of all U.S. workers were union members, by 1996 that number dropped to 14.5%. This has been attributed to international trade, occupational and sectoral shifts, and the emergence within manufacturing sectors of new high-technology industries that employ high percentages of white collar workers and technical workers. Unions have been unsuccessful in responding to this decline because of their " association with rigid internal labor markets, their lack of any significant institutional presence in external labor markets, their inability to influence decisions in strategic management or to take wages out of competition, and the instrumental and work-place specific nature of union membership in the U.S."[3]

Because of their reduction in power, or the reluctance of management to give them power, unions are more and more being left out of new participation programs. The exclusion of unions from these work systems has led some unions to be very skeptical of them. Some authors go on to say that unions are therefore acting rationally when they are involved in rejecting such changes, and that a return to more radical measures is needed.[4]
A recent report by the AFL-CIO stated: "It is unlikely in the extreme that...management-led programs of employee involvement or "empowerment" can sustain themselves over the long term. It is certain that such systems cannot meet the full range of needs of working men and women."[5]

At the same time, recent research has begun to show that, when worker participation programs are coupled with union involvement, both workers and management reap higher benefits. A study of a large sample of Michigan firms found that firms with work teams and unions performed 35 % better than those without unions (performance was measured as value added net of labor cost per employee). The authors add that, compared to non-unionized settings, unionized workplaces provide greater insurance that a serious hearing will be given to employees ideas in participation programs.[6] Another, more recent, large-scale study sample found that unionized firms with practices that promote joint decision making with incentive based compensation have higher productivity than similar non-union plants.[7]

Findings of this type have led some to rally behind the idea of reforming the union movement. Since the management community has exhibited a consensus that greater flexibility and greater employee involvement are necessary, unions could work to help forge these participation programs rather than resist them.[8]

In an impassioned article summarized in this section, Joel Rogers adds that unions can again contribute to democracy if they expand their scope. Unions, in his view, could serve better if they aimed at career security rather than job security. This could be done in part by providing all workers with the advanced training they need. Also, unions should press industry and government to establish uniform conditions of compensation and employment. This twofold strategy will appeal to firms because employers will benefit from an increasingly skilled labor pool, and because they will be more willing to offer good pay and working conditions if they know that their competitors must do the same. Rogers goes on to argue that unions would have more power and be more effective if they sought more control over production decisions, were more spatially and sectorally coordinated, centered around markets, not firms, and played an active, independent role in politics.[9]

The question is, can such reform ever happen here? Rogers says that in small pockets it already is, citing a hopeful local example in Milwaukee, Wisconsin. It is too early to tell whether, as Rogers hopes, this will not just be an isolated incident, but the beginning of a trend.

WHAT ELSE COULD BE DONE?
A common conclusion is that the traditional union alone is not sufficient to represent workers and expand workplace participation in the economy of the twenty-first century. The rest of the articles in this section explore two other types of work arrangements that might serve as models for the future: works councils and producer cooperatives.

WORKS COUNCILS

These changes may require forms of representation and participation that resemble European works councils more than American-style collective bargaining. There is an active and lively debate underway, both with the union movement and among managers and other industrial relations professionals and researchers, concerning the wisdom and viability of these new forms of participation, roles for unions, and models of organizational governance.[10]

Survey data indicate that 30 to 40 million American workers without union representation would like some form of representation, and some 80 million workers, many of whom do not approve of unions, nevertheless wish for some independent voice in their workplace.[11] What other options are available? While works councils have been in existence for a very long time, they have recently re-emerged in the U.S. industrial relations literature as a possible alternative and/or supplement to the traditional union model. Found mostly in Europe, works councils, which can operate as alone or as complements to trade unions, are representative bodies elected by all workers at a workplace, including union members, white-collar, and supervisory employees. These councils, sometimes mandated by law, institutionalize worker rights to information and consultation on the organization of production, and in some cases, codetermination of decision-making. In addition to institutionalizing work-sharing, works councils also often enforce state regulation of the workplace in such areas of occupational health and safety. They are seen as being able to extend their reach beyond the unionized sector while supplementing the work that unions already do. The key distinction between works councils and unions is that the former have information and consultation rights only.[12] The most extensive and best known councils are in Germany; others of particular merit are in the Netherlands, Spain, Greece, Italy, and France.

That works councils can be an important form of democratic participation is evident from workers' involvement in them. In Germany works council representatives are elected very four years on a nationwide election day, when there is a regular turnout of 90 percent. Furthermore, councils promote workplace democracy by changing the relationship between workers and their superiors. Works councils provide employees with a secure institution from which to raise concerns and complaints without fear of sanctions.[13]

Management and union responses to works councils are mixed. Employers have favored works councils "to the extent that councils give them access to reasonable worker representatives who were not outsiders -that is, not full-time union officials -and in the hope that councils would foster worker loyalty to the firm by stressing their shared interest with the employer in the firm's success in the marketplace." [14] Unions are at times suspicious that council membership will lure employees into rubber-stamping business decisions that they actually have no capacity to affect. Also, works councils are feared to "crowd out" traditional unions. On the other hand, in Germany, unions benefit from works councils because the councils make it possible for workers to be represented in vital non-wage interests. Works councils also provide union recognition and are used by unions to recruit new members.[15] While it has been shown that the likelihood of works councils substituting for unions is very low in Europe, unions still resist this form of work organization in the United States and Great Britain.

An economic analysis of works councils is presented in the summary of an article by Richard Freeman and Edward Lazear. With an eye to the possible use of works council in the U.S., the article develops modeling techniques to address whether works councils require external institutional mandating, outlines the requirements for a council's ability to communicate productivity-improving information between workers and firms, and examines what might go wrong in a works council setting. It has been argued that the strengthened trust within a works council setting will lead to greater productivity in these firms. Such claims have yet to be demonstrated empirically.[16]

PRODUCER COOPERATIVES

The ultimate form of participation is a firm owned and controlled by workers. Such producer cooperatives are rarely a reality, but the concept has given rise to a steady pool of both theoretical and empirical literature. If cooperatives are such a good idea, we don't we see an increase in this type of work arrangement? To what extent could they be a promising alternative to current industrial relations?

In a sweeping review article on the subject, John Bonin, Derek Jones, and Louis Putterman canvas the recent proliferation of theoretical and empirical findings on producer cooperatives (PCs). Their article, summarized here, is restricted to industrial cooperatives in developed countries where workers have formal decision-making power over the firm's operations. Even with this arguable narrow definition of a PC, there is a broad diversity of PC experience. Italy has the largest PC sector, accounting for 2.5% of all non-agricultural employment nationwide. Other countries with considerable numbers are France and Spain (particularly the much discussed Mondragon case), the UK, and to some extent Sweden and Denmark. As will be discussed a little later, the U.S. plywood industry in the Pacific Northwest also has a long history of cooperatives.

In theory, the absence of workplace hierarchies in PCs, may allow greater productivity through cooperative problem solving and informal social pressure supporting higher levels of effort. In addition, a feature of many PCs, profit sharing, has been identified as a factor contributing to productivity in conventional firms. On the other hand, it is also said that because worker-owned enterprises will attempt to maximize average earnings per worker, rather than conventional profit maximization, PCs may tend to decrease employment following an upward demand shift.

An article by William Bartlett, summarized in this section compares PCs with private firms in Italy, finding that the PCs provided more tranquil labor relations, with no strikes, low quit rates, and fewer and lower-paid managers. The PCs also offered greater employment stability, paid comparable wages, and acheived higher productivity despite lower capital-labor ratios.

Similar results were found in the case of producer cooperatives in the U.S. plywood industry. Producer cooperatives in the plywood industry in the Pacific Northwest date back to 1921. By 1950 almost 25% of the industry's output came from cooperatives. In 1986, it was estimated that the cooperatives' share of plywood production was almost 50%. Studies of these cases have found that a cooperative is more likely to adjust earnings and less likely to adjust employment with changes in output and input prices than is a conventional firm.[17]

If PCs have remained a productive force for such a long time, in this era of turmoil in industrial relations, why are there so few PCs in industrial market economies? Bonin's survey of the literature concludes that "the explanation of the relative scarcity of PCs lies in the nexus between decision making and financial support. Worker control requires (at least partial) worker ownership for incentive reasons but the latter conflicts with the worker's desire to hold a relatively low-risk, diversified portfolio. External financiers with no direct control of company governance will not commit significant funds without receiving a substantial premium to reflect the risk involved. Hence, worker controlled PCs have difficulty finding the internal sources and competing with conventional firms for investment funds.[18]

The final article in this section, by Herbert Gintis, shows how democratic firms in general suffer from these obstacles. In addition to the differential access to credit and capital markets outlined above, workers and stockholders also have divergent interests with respect to risk. He argues that owners can induce desired risk behavior more effectively through incentives to a few managers than through a wide distribution of incentives to its members. Gintis sees the most successful policies that could remedy this problem would be to repair the failures in labor and capital markets.

WHERE TO GO FROM HERE?

Labor and management can be seen as actors who are either fundamentally at odds with each other, or else harmoniously joined together in their shared interest in productivity. Much of the literature falls between these two positions. When looked at more closely, it can be divided into a literature that argued for a democratic workplace for democracy's sake, and a more recent literature about employee participation for productivity's sake. Future research will have to ask the question: Can these two goals be compatible or are they necessarily in conflict?

Notes

1. Kochan, Thomas, and Kirsten Wever. "American Unions and the Future of Worker Representation." The State of the Unions. George Strauss, et al. (eds). (Madison: Industrial Relations Research Association, 1991), 368.
2. Commission on the Future of Worker-Management Relations. "Fact Finding Report." (Washington, DC: United States Department of Labor, United States Department of Commerce, 1994), 32.
3. Kochan, Thomas, and Kirsten Wever. "American Unions and the Future of Worker Representation." The State of the Unions. George Strauss, et al. (eds). (Madison: Industrial Relations Research Association, 1991), 368.
4. Sorge, Arndt, and Wolfgang Streeck. (1988). "Industrial Relations and Technical Change: The Case for an Extended Perspective." New Technology and Industrial Relations. Richard Hyman and Wolfgang Streeck (eds). (New York: Blackwell).
5. The New American Workplace: A Labor Perspective. A Report by the AFL-CIO Commmittee on the Evolution of Work. Washington DC: AFL-CIO, February, 1994.
6. Cooke, William. "Employee Participation Programs, Group-Based Incentives, and Company Performance: A Union-Nonunion Comparison." *Industrial and Labor Relations Review*, vol 47, no. 4 (July 1994), 597.
7. Black, Sandra, and Lisa Lynch. "How to Compete: The Impact of Workplace Practices and Information Technology on Productivity," (forthcoming).
8. see Kochan, p 377.
9. A focus on markets would allow the union to represent the peripheral work force described in the last section; those part timers, members of temporary agencies, those in subcontracting arrangements, etc.
10. Kochan, Thomas. "American Unions and the Future of Worker Representation." The State of the Unions. George Strauss et al eds. (Madison: Industrial Relations Research Association Series, 1991). See also: Piore, Michael. "The Future of Unions," The State of the Unions. George Strauss et al eds. (Madison: Industrial Relations Research Association Series, 1991).
11. One example of findings like this is Farber, Henry, and Alan Krueger. "Union Membership in the United States: The Decline Continues." M. Kleiner and B. Kaufman eds. Employee Representation: Alternatives and Future Directions. (Madison: Industrial Relations Research Association, 1993).
12. Rogers, Joel, and Wolfgang Streeck. "Workplace Representation Overseas: The Works Councils Story." Working Under Different Rules. Richard Freeman (ed). (New York: Russell Sage Foundation, 1993), 98.
13. Ibid, 105-106.
14. Ibid, 103.
15. Ibid, 117.
16. John Addison has attempted to use the exit-voice model to analyze works councils in Germany, but found little effect. See Addison, John, Kornelius Kraft, and Joachim Wagner. "German Works Councils and Firm Performance." Employee Representation: Alternatives and Future Directions. B. Kaufman and Morris Kleiner (eds). (Madison: Industrial Relations Research Association, 1993), 305-335.
17. Pencavel, John, and Ben Craig. "The Empirical Performance of Orthodox Models of the Firm: Conventional Firms and Worker Cooperatives." *Journal of Political Economy*, 1994 102(4).
18. See Bonin et al. "Theoretical and Empirical Studies of Producer Cooperatives: Will Ever the Twain Meet?" *Journal of Economic Literature*, 1993 (31), 1316.