

**LABOR AND  
INDUSTRIAL  
RELATIONS**

# LABOR AND INDUSTRIAL RELATIONS

A GENERAL ANALYSIS

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THE MACMILLAN COMPANY : NEW YORK

1951

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## PREFACE

From his studies of history, Arnold J. Toynbee concludes that war and class conflict are the two plagues that have destroyed or fatally smitten past civilizations.<sup>1</sup> If we are to continue to enjoy the benefits of our democratic way of life, workable solutions must be developed for the problems of our industrial civilization. The author of a college textbook in industrial relations has, therefore, an obligation to come to grips with the important and pressing problems that face the country in this field—issues such as the consequences of union and management policies, concentration of economic and political power in unions and management, paralysis strikes in essential industries, inflationary pressures under collective bargaining in a full-employment economy, and proper public policies in the area of industrial relations.

The analysis in this book rests on a broad base, particularly a realistic explanation of union and management behavior and of the many dimensions of industrial employment. Labor-management relations are complex. They have social, political, and psychological as well as economic aspects. What workers or managements believe or fear may be more pertinent to the solution of a labor problem than statistical facts or logical economic reasoning. The various social sciences—economics, psychology, sociology, and political science—are all needed for a full understanding of human relations in American industry.

Although the analysis is general, special effort has been made to develop an adequate economics of industrial relations. Indeed, I suspect that non-economists in the field will feel that too much attention and emphasis have been placed on economic factors and that the other social sciences have more to contribute to an understanding of industrial relations than my treatment would indicate. A decade ago when I was writing the *Economics of Labor*, research and instruction in labor problems was almost exclusively the province of economists. Since then other social scientists have made significant contributions to

<sup>1</sup> *Civilization on Trial*, Oxford University Press, New York, 1948, p. 23.

our understanding of labor-management relations. It was partly in recognition of the greater role that the other disciplines have played and can play that in 1947 an Industrial Relations Research Association was founded by social scientists specializing in the subject.

The writing of this book has been an intellectual adventure. It has provided me an opportunity to think through anew and to integrate the whole field of industrial relations, bringing to bear the wisdom of experience gained not only with the National War Labor Board but also from field studies of labor relations and of employer and union policies. One result has been the more human and less mechanistic conception of employer behavior developed in this book. A correct understanding of the operations of the individual firm is essential for an analysis of labor problems in a capitalistic economy.

The chapters in Part I provide the analytical basis for the rest of the book. Subsequent chapters apply and illustrate the ideas presented in the first five chapters. The book contains a number of special features. They include: a discussion of research methods in industrial relations, an analysis of wages and the market mechanism in industrial relations, two chapters on the essence and effects of union policies, two chapters on the rationale of management labor policies, a chapter on collective bargaining experience in four important industries which provides factual material for later chapters, a chapter on factors in good industrial relations, an extended discussion of the labor monopoly issue, an examination of government intervention in emergency disputes, treatment of social security in terms of policy issues, an economic analysis of minimum wages, a discussion of national wage policy, and a consideration of the labor aspects of economic mobilization.

As the author, I sincerely hope that those who read this volume will get some of the intellectual stimulus and satisfaction that accompanied its composition. If it aids in improving the level of understanding of industrial relations in this country, I shall consider my efforts well rewarded. By understanding, I mean an awareness of the limits to our present knowledge as well as an appreciation of the results of studies and the lessons of experience. Greater understanding should lead to better industrial relations and more intelligent national policies.

Many persons have helped directly and indirectly in the writing of this book. The staff of the Industrial Relations Section of Princeton University aided in supplying materials and references. Princeton granted me a term's leave of absence to work on the book. The assistance I have had from other writers is indicated imperfectly by the footnotes. Responsibility for the end product, however, is mine.

R. A. L.

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**PART I**

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**ANALYTICAL FOUNDATIONS**

## **CHAPTER ONE**

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### **INTRODUCTION**

Ours is an age of rapid change, unrest, and conflicting ideologies. Society is unsettled and individuals are apprehensive as groups of nations and organized groups within nations struggle for power and control over material resources and men's minds. It is in such a world setting of tension and cleavage that we view present-day relations between labor and management in America.

In this book we shall be concerned with the problems growing out of employment in modern industry and the interrelationships among workers, unions, and management. The term "industrial relations" includes not only the dealings between labor organizations and industrial management but also all aspects of labor in the American economy, including wages, productivity, employee security, management's employment practices, union policies, and governmental action on labor matters.

#### **THE IMPORTANCE OF INDUSTRIAL RELATIONS**

The readers of this book will, during most of their lifetime, be affected by or directly concerned with industrial relations—as owners or managers of business firms, as employees, as labor leaders, as union members, as public officials, as consumers, and as citizens who, through their votes, influence labor legislation and the administration of laws affecting labor. It is no exaggeration to say that the understanding and wisdom of management, labor, government, and the public in handling industrial relations will, to a considerable degree, determine the future of American industry and of political democracy in this country.

Some of the most serious and complicated issues facing our nation involve labor relations and factory employment. Although "labor problems" in one form or another have been present on this continent for at least a century and a half, they have become more intense and momentous with increasing urbanization, industrialization, and domination by large corporations and big unions. Nowadays labor conflicts may not only cripple significant sections of the economy but also imperil the health and safety of the people and even halt temporarily the functioning of government.

#### 4 — ANALYTICAL FOUNDATIONS

As it has grown in strength, organized labor has become one of the most potent factors for change in our economy and society. Unions have enhanced the job security of employees, greatly increased workers' participation in decisions affecting the terms and conditions of their employment, and given labor a significant role in community affairs. Improving the dignity and psychological well-being of the working man is important in a political democracy, which assumes a citizenry able to be persuaded by reason, and a free enterprise economy, which rests on the willing cooperation of employees. Large-scale unionism has, however, intensified the conflict between pressure groups for political control and has aggravated the problem of centralization of authority in America. If our economy and our democracy are to function satisfactorily, workable compromises must be developed between organized interest groups, either through direct negotiation or by political action. The need to achieve practical solutions is especially acute where the relationship between such groups is a continuing one, as is the case of management and labor in an enterprise or an industry.

In our kind of economy and political system, the effects of industry upon man and society may be more significant than the physical output of our factories. In the words of Professor J. M. Clark, "The most important product of industry is what it does to the lives of the people who work in it; and for its own safety it needs to contribute to making well-balanced individuals whose social faculties are neither atrophied nor perverted."<sup>1</sup> Wars and other national emergencies only serve to emphasize that a nation's existence depends on the strength of its human resources.

In a vital subject like labor, a textbook must tackle the tough problems that face the country in its field—the problem of paralysis strikes in a world of clashing economic systems; the influence of union policies upon output and industrial progress; the question whether collective bargaining can be made to work without sacrificing the public interest and multiplying the evils of monopoly; whether unions may weaken the effectiveness of industrial management and force the country into syndicalism or the corporative state; whether industry is splitting the population into management-minded and working-class groups with significantly divergent views and social values, thus causing misunderstanding, distrust, and social cleavage.

Many labor issues are exceedingly complex and do not yield to simple, unqualified answers. Often social and psychological, as well as economic, factors are involved. For example, the contention that union policies which increase workers' job security are reducing labor's incentive raises the question whether insecurity is a satisfactory stimulus to achievement and what harmful social and psychological results it may produce. In seeking answers to such

<sup>1</sup> *Alternative to Serfdom*, Knopf, New York, 1948, p. 50.

issues one should not only analyze the available data from a broad, social-science approach but also recognize the limitations and qualifications to his conclusions. A live, human subject like labor cannot be reduced to a set of mathematical equations from which an irrefutable solution can readily be derived.

## INDUSTRIAL RELATIONS AND SOCIAL GOALS

Views on labor issues are usually colored by our value judgments. Some may condemn unions, charging that they curtail freedom of the individual, are responsible for wasteful restrictions on efficiency, and impede the rate of industrial progress. Others may commend unions for introducing more democracy and justice in industrial relations, increasing employee security against arbitrary decisions by management, and engaging in social welfare activities for the benefit of members.

In a business civilization, the activities of industrial management are not likely to conflict with dominant cultural values. Business is respectable. Its successes are generally approved as meritorious achievement and progress, whereas success of a labor organization may be rather difficult to assess by our cultural standards. Then too, business practices that conflict with the values in our society have been tolerated for such a long period of time that, for example, the regimentation and subordination of workers to management authority in industrial plants is considered to be normal, and hence not likely to receive public condemnation as restriction upon individual liberty and freedom. That is still not generally true, however, of union restrictions.

The weight given to different social ideals or goals depends on one's economic and social philosophy. The economic individualist stresses freedom, efficiency, and personal achievement and development. Labor leaders are more likely to emphasize security, industrial democracy and justice, and social welfare. And whereas the industrialist thinks of freedom as the absence of government regulation and oppressive taxation upon business, the union official is more likely to talk of the threat to the workers' freedom and independence arising from economic insecurity, poverty, and social discrimination.

Clearly some social values may conflict with others. Increased security is likely to be at the expense of freedom; industrial democracy and greater social welfare may limit managerial efficiency and inhibit industrial progress. Hence none of these desires or objectives can be considered absolute (the supreme "good"). Society is continually working out, through practical compromises, the "best" balance among conflicting goals, all of which need to be included in a sound conception of the common welfare. In a democracy any balance is only temporary, for concepts of welfare and social justice change.

Pressure groups, including organized labor and business associations, strive to bring the balance closer to their particular value pattern.<sup>2</sup>

The dangers of extreme emphasis on one value, such as freedom, are illustrated by the faith that the old-style liberal placed in individual rationality and self-reliance and in the adequacy of free markets as the organizing agent. Self-interest was assumed to supply the necessary motive power, with competition and the "cash nexus" providing the means for securing social order and cohesion. Such a narrow pattern of social values places too onerous a burden on the individual, requiring of him a selfless readiness to give full support at all times to its stringent requirements. It obliges each person singly to make all adjustments to economic change and never to seek, through government or by means of organized group efforts, any protection from irresponsible self-interest and the blind compulsion of market forces. Reasoning on such premises, the doctrinaire liberals of a century ago found no useful function for labor organizations to perform and condemned them as misguided interference with the market mechanism. Their economic philosophy neglected the individual worker's need for the psychological "security" that can be gained by friendly group or community aid in a hazardous world ruled by powerful forces. They ignored, as Professor O. H. Taylor points out, "the human, psychological and sociological considerations which make unionism inevitable under capitalism; inevitable, and a vehicle of values—among them group solidarities, cooperation, and security of various kinds—which are worth some costs in terms of the values (or elements of community welfare) that enter into the economist's calculations."<sup>3</sup>

**Limitations of the market.** Many of the broad social and economic desires of mankind cannot be achieved through the apparatus of the market. It is not possible, for example, by means of individual purchases and sales in the market, to bring about a larger measure of economic security, greater economic and social equality, more understanding and tolerance between classes, better human relations in industrial plants, or adequate conservation of human and natural resources. Such "goods" cannot be purchased with cash; they must be achieved in other ways, ways that may even reduce the effectiveness of market forces. In order to have sufficient popular education and scientific research, it has been necessary to provide subsidies from tax money and private philanthropy. Indeed, governmental activities represent public refusal to rely upon market means to achieve those ends. Increasingly, political

<sup>2</sup> For a good discussion of the problem of balance between different social values, see J. M. Clark, *Guideposts in Time of Change*, Harper, New York, 1949, Chapter 3, "Objectives within Our Economy." See also Clark's *Alternative to Serfdom*, Knopf, New York, 1948, Chapter 1, "Wanted: a Balanced Society."

<sup>3</sup> "The Economics of a 'Free' Society: Four Essays," *Quarterly Journal of Economics*, Vol. LXII (November, 1948), p. 656. This paragraph draws upon Professor Taylor's article, especially pages 653-59.

action is being used to meet problems that the market fails to solve in a satisfactory manner.

The market mechanism is especially unsatisfactory with respect to many matters of great concern to labor. It affords little protection to the worker against arbitrary exercise of managerial authority on the job. The prohibition of child labor and of hours or conditions of work injurious to employees' health or morals are values that we now insist individual workers should not be allowed to destroy under pressure of economic need. In such cases, the social or group interest is considered more important than individual freedom.

Except in a slave economy, the market fails to allow for various social and human costs, such as, for example, unemployment caused by technological change or the effects of high-speed operations upon the length of an employee's working life. Not only does the market neglect social standards and human costs but it grants influence and power according to accumulated or inherited affluence, which is unfavorable to low-income, laboring groups. For these reasons labor is not too impressed with the argument that market forces should be permitted to solve our economic and social problems, on the grounds that the market distributes economic rewards objectively, diffuses authority, and safeguards individual liberties. As indicated above, far from being neutral and impartial, the market promotes and protects some values while ignoring and even injuring others. The operation of the market mechanism in labor matters is analyzed in some detail in Chapter 3.

### **BARRIERS TO SCIENTIFIC TRUTH IN INDUSTRIAL RELATIONS**

Search for valid conclusions in the field of industrial relations encounters many serious difficulties of analysis. Industrial relations are human relations. Involved are such imponderables as motives, attitudes, and satisfactions, which are difficult to measure and to compare from time to time.

Much human action is irrational, ungoverned by any single principle or set of principles. Logically reasoned behavior is far more rare than intellectuals realize. Persons, however honest and sincere, often give rationalizations rather than the real reasons for their behavior. And in matters such as labor-management relations, what men believe to be true may be more important than the actual facts objectively determined. It is for such reasons that the personal equation is so important in explaining differences in industrial relations between particular plants. Furthermore, because social influences and institutional compulsions play a part, the actions of men in groups cannot be assumed to be merely the sum of the explanations of the behavior of all the individuals involved considered separately. No wonder then that man has been called our most baffling problem.

Analysis of industrial affairs is impeded by the problem of obtaining satis-

factory data upon which to base conclusions. Even under relatively simple conditions, a number of factors are usually operating and interacting at the same time. Generally it is not possible to hold the various factors constant while one is changing or being altered. Laboratory or direct experiments under properly controlled conditions are hardly ever feasible. The investigator must make his observations while industry is performing its regular functions and must use data that are a by-product of normal economic activity. His problem is to attempt to reduce abundant miscellaneous information and complex reality to a form that is susceptible of analysis. The danger is that the search for some pattern of uniformity may lead to oversimplification of conclusions, too much emphasis on one relationship and neglect of alternative possibilities.

Changes in industry, in habits and attitudes as well as production methods, bring about new situations that may require the modification or replacement of conclusions once valid. With the findings of research historically and geographically conditioned, one must be careful to qualify his generalizations properly and be ready to discard outmoded answers. Because conclusions in the social sciences are not applicable to all times and all places, a study of past history and trends improves one's understanding of the current situation and prospects for the future.

Given the above-mentioned impediments to the discovery of truth, definite and exact conclusions cannot be expected in the social sciences in general and especially in industrial relations. Answers have to be in terms of tendencies rather than tidy mathematical sums. Findings are bound to be surrounded by margins of uncertainty. Contributing to the uncertainty in specific cases is the fact that time is required for an action to produce its full effects, so that the influences of one factor may be obscured by intervening changes in others. Such difficulties serve to underscore the need for care in generalization and for appreciation of the richness of reality.

## **METHODS OF INDUSTRIAL RELATIONS RESEARCH**

The obstacles to valid conclusions in industrial relations point to the need for serious consideration of tools and methods of research. With each situation complicated and more or less unique, a number of different research techniques often need to be used and many observations must be accumulated, in order to test a generalization and establish limits to its application. One approach or method of analysis may serve as a check on another. A brief discussion of various methods will serve to indicate their value and limitations.

**Historical studies.** Much of the printed material in the field of industrial relations consists of historical and descriptive studies—narratives of the labor movement, of collective bargaining experience in different industries, of com-

pany programs, and of governmental activities in the labor field, or factual discussions of union and management organizations, policies, and activities. From such material, the student can gain perspective and the wisdom to be derived from a wide range of knowledge. Descriptive and historical research also provides a significant part of the raw material for deductive conclusions. The authors of such studies themselves often attempt some explanation for the events and changes that they chronicle. Others with an analytical bent formulate hypotheses from such recorded facts and seek to test conclusions or earlier predictions by them.

For testing theories, however, historical-descriptive studies are generally not sufficiently specialized and concentrated. Adequate verification of cause-and-effect relationships is so difficult that doubts may not be eliminated even by a special research project designed for that specific purpose. Historical material is best adapted to the framing and testing of broad generalizations concerning, say, the development of the labor movement or the evolution of unions and corporate management.

**Logical deduction.** Until recent decades, most of the conclusions about labor matters rested largely upon traditional economic reasoning. On the basis of a few simple assumptions about human behavior, economists reasoned out an imposing theoretical structure. They were more prone to check their conclusions for logical consistency than for conformance to observed facts.

In the social sciences where controlled experiments are seldom feasible, considerable reliance must be placed on deductions from careful observation. Logic is an important tool, and testing for logical consistency is one means of detecting error. A great danger, however, is that one may reason logically from unwarranted assumptions to foregone conclusions. The researcher may mistakenly project his own attitudes and ways of thinking into industry, fail to state all the assumed premises that influence his results, or, in striving for simple and definite answers, omit important factors and overlook a range of possibilities. Hence, assumptions must be carefully examined and objectively tested so that they rest on more than introspection, and the results of reasoning need to be compared with the results of experience. Logical conclusions must be repeatedly tested by observed facts and attempted prediction.

One further danger of logical theorizing is that the results may take the form of barren axioms. Some propositions that sound reasonable in industrial relations cannot be proved or disproved by objective verification or the test of prediction. An example of such an unverifiable proposition is the statement that workers, in selecting and changing jobs, are governed by the principle of maximizing their "net satisfactions," or that employers seek to maximize their combined pecuniary and non-pecuniary incomes. Obviously any result can be claimed to conform to such vague, all-inclusive statements. To be fruitful,

theories or hypotheses need to state cause-and-effect relationships, to assert that under certain circumstances a particular result will take place.

**Statistical analysis.** Largely as a result of the activities of the U.S. Bureau of Labor Statistics, a considerable volume of statistical information exists on such matters as wages and earnings, productivity and unit labor costs, employment, hours of work, labor turnover, strikes, absenteeism, and the prevalence of various practices under union agreements. By analyzing such data one can, for example, tell what has happened to the level of wages in different industries and cities, or to wage differentials between industries, regions, and occupations; he can correlate wage changes with changes in productivity, or wage levels with labor turnover; and he can, by observing the timing of changes, explain patterns of wage leadership or the degree of cyclical rigidity in wage rates.

Although valuable as a means of summarizing a mass of observations and for testing hypotheses (when they are framed so that statistical verification is feasible), statistics in the labor field are nevertheless subject to a number of fairly severe limitations. First, there are difficulties of definition and measurement. For example, jobs seldom are exactly comparable between firms or periods of time, and, partly for that reason, labor productivity is extremely difficult to measure accurately for comparative purposes. Second, good statistical series for certain purposes are lacking. For instance, few labor series are publicly available on an individual-firm basis; data on actual wage rates paid by firms or industries over any length of time are also rare. Third, although correlations or leads and lags can be calculated, statistics do not explain why something happens. Consequently they do not automatically produce good theories or sound conclusions. They must be interpreted by someone with judgment and experience who knows their limitations. Fourth, valid statistical series are not available on psychological matters, such as the attitudes and opinions of employees and management. A standard test that would accurately measure changes in worker and employer attitudes between firms and over periods of time would be extremely valuable for determining important factors and stages in the evolution of labor-management relations, by firms and industries, and possibly for predicting the future course of such relations.

Statistical material obtained by private questionnaire can be on an individual-firm basis and for a specific purpose. Also it can include opinions based on experience. One trouble with the questionnaire technique is that the questions must be unambiguous, so that only simple facts and opinions can be requested. Also, there is always a question whether the returns contain a representative sample.

Statistics procured by attitude-opinion inquiries afford some notion of

workers' beliefs and attitudes and even the intensity of their views. Attitude surveying and opinion polling in industry are, however, at an early stage of development. Despite difficulties in formulating questions and avoiding biased answers, the polling technique is nevertheless a real improvement over introspection as a means of finding out how workers and managers feel and think. But the results need to be interpreted with caution by persons who understand the subject and appreciate the range of possible interpretations. Often commercial pollsters have taken polls on issues too complex to be handled by their technique and have drawn general conclusions from completely inadequate data. One of them, for example, attempted to measure workers' views on the 30-page Taft-Hartley Act right after its adoption in 1947 by asking a small sample of workers 10 specific questions. Unfortunately, the questions did not correspond in detail to provisions of the Act on those subjects, important parts of the Act were omitted from the questions, and it was falsely assumed, because each question separately received a varying majority of favorable answers, that a majority of all workers in the country were actually in favor of the Act as a whole. Handled crudely, statistics can readily cause perversion of the truth.

**Topical surveys.** A study of a particular subject may use a number of approaches and techniques—a review of past developments, logical and statistical analyses, questionnaires, interviews, case studies, and actual participation in the activity being investigated. Such general surveys of practice and experience have, however, usually involved gathering material from published sources and by means of questionnaires or interviews. Examples of single-subject surveys are the reports on seniority, company wage policy, employee stock ownership, profit sharing, employee counseling, sickness benefit plans under collective bargaining, and wages under national and regional collective bargaining, published by the Industrial Relations Section of Princeton University, or recent journal articles on wages in the paper industry <sup>4</sup> and the comparative effectiveness of factory labor in the North and in the South.<sup>5</sup>

At best, such extensive surveys of a single topic provide a broad basis for judgments and yield findings that are tentative or approximately accurate. A more profound knowledge of the factors and forces that determine policies and tactics may be gained from frank, confidential interviews with labor and management. For some subjects, a series of intensive investigations (case studies, actual participation, or controlled experimentation) may be necessary for careful testing and precise conclusions.

<sup>4</sup> W. Rupert Maclaurin, "Wages and Profits in the Paper Industry," *Quarterly Journal of Economics*, Vol. LVIII (February, 1944), pp. 196–228. ✓

<sup>5</sup> R. A. Lester, "Effectiveness of Factory Labor: South-North Comparisons," *Journal of Political Economy*, Vol. LIV (February, 1946), pp. 60–75.

**Case studies.** One method of intensive study is to focus different approaches and techniques upon a single plant or firm, usually concentrating also on one aspect of its experience, such as labor relations, the labor effects of technological change, wage-price relations, or the effectiveness of communication between and among management and employees.<sup>6</sup> By means of frequent and close contacts with the parties over a period of time, the investigators may acquire confidential insights, valuable inside statistics, and a thorough understanding of the situation.

Case studies also have their limitations. Without at least the aid of topical surveys, it is difficult to know how typical a case is and, therefore, the extent to which generalization is possible from one or a few cases. Such field studies are very time-consuming and costly, and, in the end, management or the union may not permit publication of all the important facts uncovered for fear that exposure will result in unfavorable publicity, will stir up members or stockholders, will be of some advantage to competitors, or will have undesirable effects on future negotiations. Also, unless such case studies are carefully planned for the testing of specific hypotheses there is a question whether they are not additive but merely scattered explorations.

**The clinical approach.** Management especially may call in an outside specialist or group of specialists to diagnose current difficulties and prescribe remedies. As a practitioner, the specialist studies the situation, usually suggests a number of measures, observes the changes that subsequently occur, and, depending on the developments, perhaps recommends additional action. On the basis of considerable experience and an intuitive familiarity with situations, he may develop special skill in diagnosis and prognosis.<sup>7</sup> Many of the consulting firms and academic specialists using this approach place special stress on open-end interviews as a means of discovering what is troubling employees and improving their morale by permitting them to air their grievances.

From a scientific point of view, the clinical approach has certain weaknesses. Because remedies are usually applied in combination or close succes-

<sup>6</sup> The following are illustrative: F. H. Harbison and R. Dubin, *Patterns of Union-Management Relations, United Automobile Workers (CIO), General Motors, Studebaker*, Science Research Associates, Chicago, 1947; R. A. Lester and E. A. Robie, *Constructive Labor Relations, Experience in Four Firms*, 1948; *Case Studies on Causes of Industrial Peace Under Collective Bargaining* (No. 1, Crown Zellerbach Corporation and the Pacific Coast Pulp and Paper Industry; No. 2, The Libbey-Owens-Ford Glass Company and the Federation of Glass, Ceramic and Silica Sand Workers of America; No. 3, The Dewey and Almy Chemical Company and the International Chemical Workers Union; and No. 4, The Hickey-Freeman Company and the Amalgamated Clothing Workers of America), published by the National Planning Association in 1948 and 1949; and *Industrial Wage Rates, Labor Costs and Price Policies*, Monograph No. 5, Temporary National Economic Committee, Washington, 1940.

<sup>7</sup> For a discussion of the clinical approach by a proponent, see Elton Mayo, *The Social Problems of an Industrial Civilization*, Harvard Graduate School of Business Administration, Boston, 1945, especially pp. 15-22, 34-37, 59-67, and 76-77.

sion, it is practically impossible to isolate the effects of any one action and to establish cause-and-effect relationships with any degree of confidence and exactitude. Without definite, provable results, it is difficult to communicate the knowledge of experience to persons who lack similar experience. Skills must be learned by each individual anew through experience on the job. Reference to medicine in support of this approach, like most analogies, is somewhat misleading. Wide differences exist between the human body and social affairs and institutions. And even so, scientific advances in medicine have arisen largely from medical research rather than private practice.

**Actual participation.** Those who engage in industrial relations—workers, members of management, and union officials—can gain the knowledge that comes from first-hand experience. Through a spell in overalls or in industrial management, the research worker may improve his understanding of industrial relations.

Reports and conclusions of participants are valuable to the extent that they are reliable, which means that they are the result of careful study and are supported by adequate evidence. The opinions and statements of management or labor cannot, however, be accepted merely on authority. They may be biased by a number of influences: self-interest, emotions, the attitudes of supervisors, the peculiarities of personal experience, positional restrictions on one's outlook, the climate of opinion in one's social circle, and so forth. As psychologists explain, statements regarding motives or in defense of one's actions are especially liable to rationalization. Representatives of both labor and management are under compulsion to support their side and win public favor by plausible explanations. For many problems, only the outside researcher has the necessary detachment, along with the training needed to avoid the fallacies discussed in the next section.

**Controlled experimentation.** As already indicated, experiments under conditions controlled by the investigator are difficult to achieve in industrial relations. An approximation to controlled experimentation may be possible in relatively simple matters that are part of normal business operations, such as the use of different employment tests or items of equipment. For most industrial relations problems, however, the laboratory type of testing is impractical for such reasons as the extreme difficulty of assuring strict comparability when many variables are present, deficiencies in the means for measurement especially of psychological phenomena, and the fact that the results are likely to be influenced by the operators' awareness that they are participating in an experiment.

Such difficulties were largely responsible for the rather negative results of the "scientific" experiments at the Hawthorne plant of the Western Electric

Company between 1927 and 1932, the total cost of which was reported to be a million dollars.<sup>8</sup> Workers in certain departments were divided into a "control" group and a comparable "test" group. The latter were subjected to changes in the lighting, the hours of work per day, the number of rest periods during the day, the methods of incentive payment, and supervision. Careful measurements of output and workers' physical condition were made of both groups before and after each change occurred. Time after time, however, the investigators found that unsuspected complexities vitiated their experiments, until finally they concluded that the most potent factor affecting their results was something that they could not measure: social and psychological influences in the working environment, especially informal group relationships and sentiments.

This brief survey of research approaches to industrial relations problems has indicated the advantages and limitations of different techniques, such as questionnaires, interviews, psychological tests, and controlled experiments. Interesting in this respect are the replies of 200-odd members of the American Economic Association late in 1945 to questions inquiring about the shortcomings of current procedures in economic research and about techniques for overcoming the shortcomings.<sup>9</sup> Classification of the replies showed "failure to consider the human element" to be the weakness most frequently mentioned (stressed in 33 replies), with "lack of scientific method" and "inability to obtain correct data" high in the list (both stressed by 27 respondents). In the opinion of the replying economists, the needed improvements in methodology to overcome the shortcomings were, in order of frequency: "better use of sampling and of statistics" (suggested by 43), "collaboration with other sciences" (recommended by 42), and "more case studies and direct contacts" (proposed by 31). Evidently many economists appreciate that, in the study of human activities, psychological and social factors are important, and that, despite the limitations inherent in different research methods, more emphasis should be placed on empirical investigations.

### SOME SOURCES OF ERROR

Certain pitfalls in reasoning on industrial relations matters have already been pointed out. Conclusions may be invalid because the assumptions were incorrect, some important factors were omitted from the analysis, or inconvenient facts were ignored in order to arrive at simple, unequivocal answers. With social influences and compulsions active in industrial life, one cannot reason on a purely individualistic basis, disregarding institutional and cultural

<sup>8</sup> Reported most completely in F. J. Roethlisberger and W. J. Dickson, *Management and the Worker*, Harvard University Press, Cambridge, 1939.

<sup>9</sup> See "Report of the Committee on Research," *American Economic Review*, Vol. XXXVII (May, 1947, Proceedings), p. 751.

factors. Most conclusions in industrial relations are surrounded by zones of uncertainty and are of limited applicability because human behavior is less logical than intellectuals are likely to presume and because conditions in industry and society are complex and constantly changing. It is erroneous, therefore, to assume that problems in industrial relations so resemble those in physics that they can be treated within a mechanical, "equilibrium" framework, or that social science consists of the discovery of invariant and universal "natural laws" rather than the development of hypotheses that need to be repeatedly tested by new observations.

**The problem of bias.** In reasoning on labor issues, it is extremely difficult to eliminate all bias. A student's attitude toward a particular labor problem or labor problems in general may be influenced by personal experience, the experience of parents and friends, or his hopes and ambitions—by the position in society that the student expects to occupy after graduating from the campus. One who looks forward to a high position in management is likely to take a different view of industrial relations from that taken by a student who seems destined to spend his working life as a wage-earner in the ranks of labor.

Because industrial relations are human relations, particular cases can readily be found to support any position or opinion. All sorts of people constitute labor and management, so that it is easy to cite some instance to prove any conclusion, and exceptions can be found to almost every generalization in the labor field. The student should, therefore, seek to arrive at a balanced view of the whole situation and avoid overstressing exceptional cases or the peculiar circumstances in his own locality. By living in various sections of the country—in steel or coal-mining towns, in rural or non-union areas, in cities where unions alone or in league with employers are forcing the public to pay high costs for local services and construction—one soon learns to what a large extent a person's opinions on labor questions are conditioned by his immediate surroundings and how difficult it is for one to expand his vision beyond the personalities and particular circumstances of the local labor situation so that he can, figuratively speaking, distinguish the forest from the near-by trees. The fact that so much of the published material on labor matters is a mixture of truth, prejudice, and rationalization makes it all the more necessary for the student to be discerning and cautious in drawing conclusions.

**Reasoning from the particular to the general.** A common source of erroneous reasoning in industrial relations is the tendency to draw incorrect general conclusions from an individual situation or particular cases, and to apply to industry or society as a whole conclusions that are valid only for a particular person, product, or group.

Often a policy that works well for a certain firm or union could not be

adopted by all of them because it involves trading on a differential advantage. Some companies, for example, are convinced from experience that it is profitable, in terms of employee selection and morale, for them to pay wages 5 to 15 per cent above the average level in the community or the industry. However, all firms cannot pay wages above the average, nor can they all have their pick of the best workers.

Certain industrial-relations policies or practices may have only limited application. A procedure, for example, may work well between a union and the management in one plant because it is suited to that particular situation. For other circumstances it may be inappropriate. To assume from one or a few successful applications that the procedure had universal validity would, therefore, be a real mistake.

The economic advantages of one group in society are often won at the expense of other groups. Particular firms or the membership of a certain union may, by restricting supply or output, raise prices and thereby achieve a relative increase in their yearly income. By making their goods or services more costly, they gain in wealth and comparative living standards, with corresponding injury to the rest of society. Consequently, such slogans as "What helps business helps you" and "What helps labor helps everybody" are of doubtful economic validity. Because individual or group advantage may conflict with the social good, it is a questionable practice to generalize on the basis of the selfish interest or the experience of some person or private group. Reinhold Niebuhr has pointed out that "there is no magic in either logic or the scientific method which will coerce men or nations to subordinate the particular to the universal interest or to correct the partial by the more universal insight."<sup>10</sup>

The contention that industrial harmony can be achieved by friendly personal relations and high personal morality overlooks such conflicts of interest between economic groups. It also ignores differences between individual and social loss, which are frequently illustrated by the development of a new machine. Its introduction into industry may cause a financial loss to firms owning existing equipment and a loss of earning power to highly paid skilled workers needed for the old process but not on the new equipment. It would be fallacious, however, to reason from such individual losses to the conclusion that society as a whole suffers a net loss, for new processes usually increase output and lower costs to the community.

The layman, of course, finds it difficult to believe that conclusions based on reasoning from particular cases are frequently unsound, because they appear to correspond so well with the lessons of everyday experience and seem to him to be simple common sense. The serious errors that can arise from apply-

<sup>10</sup> "Dilemma of Modern Man," *Nation*, Vol. CLXIV (February 22, 1947), p. 207.

ing to the whole economy conclusions derived from personal or business experience may be illustrated by other examples.

The individual who is hard up knows that his own economic difficulties would be solved if he had more money. Reasoning from his own situation, he naturally assumes that, in the same way, the nation as a whole would be better off if it had more money. Actually an increase in the nation's money supply may simply bring about price inflation, so that his larger money income is eaten up by higher living costs, leaving him no better off than before.

When business in general begins to decline, common sense would seem to indicate that the appropriate policy for individual businessmen to pursue is one of curtailed expenditures in order to avoid inflated inventories and to be in a position to take advantage of lower prices later on. However, costs to one man are income to others, so that curtailed expenditures mean shrinking incomes. Businessmen, by restricting expenditures, help to deepen the slump and intensify their own difficulties. Consequently, policies that seem so sound to individuals—to reduce expenditures, increase one's cash position, and save although the savings lie idle—are suicidal when followed by everyone. Thus, "sound" finance may bring about widespread bankruptcy, and personal economy, by causing economic resources to be idle, may result in social waste.

In reasoning on labor problems one must bear in mind that wage costs are a large part of the nation's income. Normally a fairly close correlation exists between payroll expenditures and the sales of industrial products. Consequently, the whole demand-and-supply analysis, which applies only to single products or services and assumes that other things (demand in general and other prices) remain the same, is well-nigh useless in reasoning on broad national policies such as the proper wage level or the best program to stimulate employment.

For the above reasons, the student should be chary of common-sense answers to labor problems, especially if they are derived by analogy from individual experience. The economics of labor may not be the same as the economics of Listerine or linseed oil.

## **THE NATURE OF OUR KNOWLEDGE OF INDUSTRIAL RELATIONS**

Tested knowledge in industrial relations consists of bits and pieces, which the student must try to fit into logically consistent patterns. Scientifically speaking, we are still at a very early stage of development in our understanding of labor problems. Much of the subject remains unknown; some of it may perhaps be unknowable. Consideration has already been given to the numerous obstacles that impede research in industrial relations (such as the large number of variables present in any situation, the inability to utilize scientific

cally controlled experimentation, the prevalence of non-logical behavior, and the mixed nature of human motivation). The researcher is forced to apply a variety of approaches and methods, because the yield of each one alone is open to objection on scientific grounds. Conclusions must be tested by checking the results of different methods and investigations against one another.

The findings of systematic research are generally more reliable than simple, common-sense notions that rest on random observation. The experienced researcher knows how to organize his material and to assess his results. Errors of reasoning that may invalidate one's conclusions are recognized and avoided. Despite research handicaps, a significant body of data and inferences has already been developed through patient observation, recording, analysis, and interpretation. Those research findings provide a basis for further advances in our knowledge, even though most existing conclusions must be considered tentative, subject to revision with further improvements in research techniques and with changes in the economy and society.

In addition to an understanding of existing limits to knowledge and an awareness of pitfalls in reasoning about industrial relations, the student needs to appreciate that social values change, leading to new working balances between conflicting goals. The doctrinaire condemns compromise and insists upon strict adherence to pure logic or a single principle. The American people are, however, essentially pragmatic, finding middle positions between logical extremes. Our history, like that of the British, shows a high degree of proficiency in solving very difficult and involved problems by workable compromises. Industrial relations, which are so peculiarly human, do not lend themselves to nice, neat solutions. In our complex world, the logically perfect answer often fails to work satisfactorily in concrete situations.

## CHAPTER TWO

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### UNDERSTANDING WORKERS AND MANAGEMENT

A number of the conditions and conclusions stated in the preceding chapter are significant for an understanding of industrial workers and industrial management. One is that, under our system, production depends in large measure upon the popular consent or willing cooperation of workers and not upon compulsion or command. Consequently, employee psychology (motives, incentives, and satisfactions on the job) plays an extremely important role in our kind of economy. Another is the inadequacy of the market as a means of solving many issues of vital concern to workers, such as human relations in the plant or differences in social goals between economic groups. The limits and bias of the market mechanism mean less stress on economic, and more emphasis on social, political, and psychological, ways of settling industrial relations problems.

In the preceding chapter, conflict between interest groups was considered mainly in economic terms. This chapter will examine psychological and social differences between labor and management (and also within both groups). Discussion of differences here mainly in psychological and social terms does not, of course, mean adherence to any theory that industrial conflict arises from psychological incompatibility or social cleavage, any more than the earlier discussion implied the adoption of a theory that industrial conflict stems from an inevitable clash of economic interests. The aim in this book is to blend the contributions that the various social sciences can make to the study of industrial relations and to avoid one-sided emphasis on either economics, sociology, psychology, or politics.

#### INDUSTRY AND THE WORKER

The growth of large-scale industry, giant corporations, and extreme job specialization has created a variety of psychological and social problems. They involve not only administration and government in industry but also work satisfaction for the increasing numbers of employees who sell their

services for a wage or salary income and spend their working lives on the premises and under the direction of corporate employers.

**Increasing "employeeism."** Labor issues are of primary importance in America because so much of the population earns a living by selling its services. "Labor problems" do not exist where persons work for themselves and sell the articles that they produce. The self-employed worker has, however, been fast disappearing from American industry. Eighty years ago the self-employed and employer groups represented around two-fifths of the nation's working population; today they account for only one-fifth.<sup>1</sup> Four out of every five persons who earn a living do so by becoming employees and working for an employer, usually an impersonal firm.

In addition to wage workers, the employee category includes the whole hierarchy of employed management, ranging from foremen to corporation presidents. As industry has become more complex and incorporated, the number of persons employed as managers has increased, reaching almost two million, or about one out of every twenty employees.

The working class generally includes all employees who are below the rank of foreman and who, therefore, exercise no managerial authority. They perform the physical work in industry, doing their daily stint under the direction of a "boss," who tells them what to do and how, when, and where to do it. Responsibility for thinking and planning about their work rests usually with persons higher up in the management organization. The intensity of supervision, of course, varies with the management and the occupation. The working-class group includes a wide variety of occupational classifications, ranging all the way from common labor to skilled craftsmen and white-collar clerical employees. Nevertheless the dividing line between the governing and the governed in industry is significant because it tends to create a difference in attitude toward work and encourages group solidarity among those in a subordinate position.

There was less need to consider the psychological effects of industry upon employees when the working class consisted largely of immigrants or native-born laborers with little schooling. Sixty years ago, for example, less than 6 per cent of the persons in the 14-to-17 age group were attending high school and more than one-seventh of the adult population was foreign born. By 1940 over half of those working as unskilled laborers or semiskilled machine tenders in non-agricultural pursuits had completed more than eight years of school, and one out of every 40 had attended college. The college-attending ratio was one out of five both for clerical and related white-collar workers

<sup>1</sup> Approximately three-fifths of those in the self-employed and employer classification are engaged in agriculture.

and for management officials excluding foremen. Increased education creates a need for more interesting and satisfying jobs if worker frustration is to be avoided. A study of 800 workers in a New England city in 1947 showed that the more years of schooling a worker has the more likely he is to express a strong desire for interesting work.<sup>2</sup> The revolt against employer paternalism and the movement for industrial democracy in factories have been tied up with the fact that the working population has been enjoying an increased amount of formal education and, therefore, has become more resentful of management domination during working and non-working hours.

**The changing character of jobs.** Employee dissatisfaction and resentment have also tended to increase as jobs have become more specialized and firms and factories have grown larger and more impersonal. In large industrial units, functions are sharply differentiated, jobs are narrowly circumscribed, and orders come down through a hierarchy of command which separates the affected workers from the real decision-makers. The sheer dimensions and complexity of company operations tend to dwarf the individual and make his job less meaningful. If his is only one of a sequence of jobs involving operations on the same material, he can hardly point with pride to any product as his own.

Reliable statistical data on the size of industrial units are not available for recent years. In 1937, one out of every six wage-earners in manufacturing was employed by one of the 50 largest companies (averaging 28,000 wage employees per company), and one out of every four wage-earners was working in a factory containing more than 1,000 other wage workers.<sup>3</sup> Since then firms have continued to enlarge not only in manufacturing but also in retail trade, finance, and transportation.

The visitor at a large factory is likely to be impressed, and perhaps depressed, at the sight of rows and rows of workers sitting at benches or standing at stations on an assembly line, all performing the same or similar mechanical operations. For 8 hours a day each employee may repeat one type of operation, such as tightening a few nuts, pressing a metal part, combining two or three parts into an assembled unit, taking completed units from an automatic machine, or inspecting hundreds of pieces of a particular item. Through time study, jobs are broken down into their simplest elements, thereby largely eliminating initiative and judgment. Often the worker is paced by conveyor belts or machines, to whose requirements he must conform. Such subjection to the speed of machine operations means loss of individuality, self-control,

<sup>2</sup> Lloyd G. Reynolds and Joseph Shister, *Job Horizons, A Study of Job Satisfaction and Labor Mobility*, Harper, New York, 1949, pp. 78-79.

<sup>3</sup> Willard L. Thorp and Walter F. Crowder, *The Structure of Industry*, Monograph No. 27, Temporary National Economic Committee, Washington, 1941, pp. 11 and 583.

and independence. Job specialization and regimentation have important implications for a political democracy, based on general understanding and independent citizenship.

**Job dissatisfaction and desires.** Public opinion surveys indicate that four great human desires are: economic security (stable employment at good wages, with protection against arbitrary dismissal and economic hazards through security benefits), a chance to better oneself (opportunity to advance for oneself and one's children), decent treatment (recognition of the dignity of the individual), and a sense of community contribution (the feeling of performing well something that society needs to have done). People want to fulfill all four desires and not just one or two to the exclusion of the others.<sup>4</sup> The jobs that industry provides vitally affect the ability of workers to satisfy those desires.

Interesting in this connection is a study of job satisfaction and dissatisfaction made in July, 1945, by means of a nationwide poll of a selected sample of 1,100 men.<sup>5</sup> Using a special set of questions, Professor Richard Centers found that large numbers of workers in the lower occupational groups were dissatisfied with their present jobs, whereas that apparently was not true of managerial and professional persons. Not one of the large-business owners or managers who were included (54 bankers, manufacturers, and large department store operators) expressed dissatisfaction with his job. On the other hand, more than one-fourth of the unskilled and over one-fifth of the semiskilled workers in the sample openly stated that they were dissatisfied. Asked what they did not like about their jobs, the dissatisfied workers placed almost equal stress on low pay, difficulty or speed of work, insecurity, and poor opportunities (ambitions unrealized or no chance to advance). The few dissatisfied persons in the white-collar and professional categories emphasized only low pay and poor opportunities.

A noticeable difference in the sources of work satisfaction seems to exist between lower and upper occupational groups. Professor Centers asked those who stated that they were satisfied with their present jobs what it was that they liked about their work. The unskilled workers stressed most frequently the people they worked with, followed by independence or freedom from supervision, decent pay, job security, and good treatment and benefits. In contrast, the owner-manager group liked their jobs especially because they provided interesting and varied activity but also because of the large responsibility and high status they involved and the people they met and associated with at work.

<sup>4</sup> Taken from a talk by Elmo Roper at the Fifteenth Summer Conference Course in Industrial Relations at the Graduate College of Princeton University, September, 1947.

<sup>5</sup> Richard Centers, "Motivational Aspects of Occupational Stratification," *Journal of Social Psychology*, Vol. XXVIII (November, 1948), pp. 187-218.

That the working class in general has different job desires or values from those of management and professional groups seems to be indicated by the answers that Professor Centers received with respect to questions concerning the kind of job they would choose: one that offered security, independence, self-expression, interesting experience, leadership, esteem, high pay, social service, power, or fame.<sup>6</sup> Security was clearly the attribute most preferred by the unskilled and semiskilled workers, followed by freedom from supervision and possibilities for self-expression. On the other hand, the answers of the owner-management group placed most stress on self-expression, followed by interesting experience and leadership, with security completely neglected. Security was stressed progressively more the lower the occupational rank, and greater emphasis was placed on interesting experience, leadership, and social esteem the higher the respondent's rank in the occupational scale. Noticeable was the extent to which all occupational groups seemed to prize independence or freedom from supervision.

Other studies support Professor Centers' findings. By interviews with 800 workers in a New England manufacturing center during 1947, Professors Reynolds and Shister sought to uncover the major sources of job satisfaction and dissatisfaction.<sup>7</sup> Some 17 per cent of the interviewed workers stated that they were definitely dissatisfied with their present jobs. The most frequent reasons given for dissatisfaction with present or previous jobs were: low level of wages or wage inequities, too close or autocratic supervision, unfair treatment, physical characteristics of the job (plant conditions and amount of danger, fatigue, or discomfort in the work), and uninteresting nature of the work. The opposite conditions were stressed in explanations for satisfaction with one's present job, but with two additional reasons of major importance, namely, economic security and friendly relationships with fellow workers. Quotations from the interviews reveal more clearly than the statistical summaries that workers want an agreeable life on the job. That means "good" and equitable wages, pleasant relations with one's work associates, fair and human treatment from the foreman, absence of pressure or dictation by supervisors, and work that is interesting. Pleasure in the job also involves peace of mind, to which fairness of rewards and economic security (steady work and security benefits) contribute by reducing risk and uncertainty and helping to avoid worries and emotional upsets.

The significant factors in job satisfaction do, as already indicated, vary

<sup>6</sup> The ten attributes were in statement form, such as "a job which you were absolutely sure of keeping" (security), "a job where you could work more or less on your own" (independence), "a job where you could express your feelings, ideas, talent, or skill" (self-expression), "a job where you would be looked upon very highly by your fellow men" (esteem). Respondents were asked to mark their first three preferences.

<sup>7</sup> Lloyd G. Reynolds and Joseph Shister, *Job Horizons, A Study of Job Satisfaction and Labor Mobility*, Harper, New York, 1949, especially Chapter II.

from occupation to occupation and also from industry to industry. Much depends upon what workers become accustomed to and what they consider to be fair and right. Skilled craftsmen generally expect more wage uniformity, more freedom from supervision, and more interesting work than unskilled laborers have. Women may be less bored and discontented with assembly-line jobs involving endless repetition of a set of movements, because they consider a factory job as a temporary source of income and not as the chief factor determining their permanent status in society.

**Human aspects of employment.** The seller of labor may not sell himself, but he must deliver himself and spend his working time on the property and under the supervision of the purchaser or his agents. The seller of a commodity need not care where or how it is subsequently employed. To the manufacturer of bricks it matters not whether they are used in a palace or in an odorous sewer. To the bricklayer, however, "working conditions" are of vital importance, for labor services are inseparable from the worker's person. Most of a wage-earner's non-sleeping hours as an adult are spent at work. Consequently, job surroundings are of major importance to workers.

Although the physical, social, and governmental conditions in the plant are of vital concern to the wage-earner, they are largely prescribed for him. In accepting employment, the manual worker joins a social group about whose major purposes and policies he and his associates have very little to say. Usually he has no direct voice in the lay-out of the plant, in the choice of production methods, in the kind of products manufactured, or in the selection of his fellow-workers. Plant rules normally originate with the management. The foreman or "boss man" is imposed upon the work group by appointment. In a number of respects the situation resembles the schoolroom, where students have no choice in the furnishings, the rules and regulations, the subject matter, or the selection of the teacher. Democracy is preached but not practiced. And in the plant, the attitude toward the boss may approximate that toward the teacher in the classroom.

For the worker, employment has both human and monetary aspects. The human or in-plant features concern satisfaction and dissatisfaction during working hours on the job. The monetary aspects are indirect and off the job. They involve the satisfaction derived from the goods and services purchased with the pay. Economists are prone to stress the monetary or market features of employment. Sociologists, industrial psychologists, and political scientists are more interested in (and usually place more emphasis on) the social and governmental aspects of life in industrial plants. Apparently workers do not sharply segregate the facets of their jobs. Nevertheless, the studies cited above definitely indicate that human relations in the plant have significant effects upon workers' satisfactions, attitudes, and outlook on life.

## WORKERS' MOTIVATION AND BEHAVIOR

With industry dependent on the cooperation of workers, their desires and goals are of great practical significance. What influences workers with respect to their jobs? What conditions encourage cooperation in increased output and ambition to advance? What may arouse hostility that results in passive resistance or in search for another job?

**Social influences.** The discussion of job satisfaction and dissatisfaction indicated the importance of human influences as well as monetary incentives. Workers are responsive to the wishes of their fellow workers and the stimulus of community attitudes. Persons from a middle- or upper-class background, judging on the basis of their own psychology, are prone to overstress the effectiveness of wage incentives among the working class and to underestimate the motivating power of group influences, loyalties, and sanctions. Response to financial stimuli often depends upon the "climate of opinion" in the work group.

The worker's desire for a friendly atmosphere on the job and his resentment at excessive supervision have also been mentioned. Promotion to a foreman's position may involve breaking established relations with one's fellow workers, both during work and off the job. That, plus working-class sentiments toward management, frequently serves as a strong deterrent to workers to accept advancement into the ranks of management.<sup>8</sup>

Investigations indicate the marked effects of cultural and physical environment upon the motivation of people in the lower-income groups. For example, a study of 400 working-class and 200 middle-class families in Chicago, including intensive observation and interviewing of selected working-class families several times a week for nearly a year, revealed significant class differences in attitudes, values, and ambitions, largely as a result of the effects of insecurity and social influences upon the goals of underprivileged workers.<sup>9</sup> Inadequate physical resources and lack of steady work had forced them to concentrate on immediate, short-run objectives and to forego long-range goals involving a considerable period of training as well as family encouragement. Limiting their cultural and occupational aspirations is, for the most part, a realistic and sensible response by the lower working class to the conditions of their lives, including the great odds against significant advancement for most manual workers. And their cultural environment, giving social support and approval to the way of life forced upon them, permits underprivileged workers to achieve prestige and exert leadership in their communities. Your author grew

<sup>8</sup> See Reynolds and Shister, *op. cit.*, pp. 71-72 and 77-78. Other factors may include lack of job security and increased psychological pressure.

<sup>9</sup> See Allison Davis, "The Motivation of the Underprivileged Worker" in W. F. Whyte (ed.), *Industry and Society*, McGraw-Hill, New York, 1946, pp. 84-106.

up in a sheet-mill town and hence knows from experience the great influence that the dominant pattern of life in the community may have upon personal goals. People are goal-motivated; where social esteem is attached to pugilistic accomplishments, flashy clothes, and a sporty night life, the youth may aim to be "sheiks" and "tough guys" rather than strive to advance up the occupational ladder.

**Economic vs. non-economic motivation.** Recent studies and writings have stressed that people are, for the most part, non-calculating in their actions, that the causes of human behavior often are to be found in social forces, and that workers' performance and activities are to be explained more by social or group influences than by any innate drive of the individual. There has been a tendency to play down the importance of wages and competitive penalties. Economic rewards and sanctions are considered to be too narrowly based on individual greed and fear to furnish the morale and constructive qualities needed for high performance by working groups. Stress has been placed on group decisions establishing production goals in the plant.

Actually it is impossible to separate and compare the effectiveness of economic incentives and group stimuli upon wage-earners. Most persons are only dimly aware of the relative strength of the various impulses that govern their actions. In meetings, workers are likely to emphasize group interests, such as seniority, security, and general pay increases. Alone they may stress personal desires (credit for one's own efforts, advancement, and an interesting job) that are competitive. Considerable evidence does exist, however, that wage incentives will not work well without proper non-wage conditions and that work groups are more effective producers given satisfactory psychological and social conditions in the plant.

**Some concrete illustrations.** That the desires and satisfactions of workers affect production on the job is indicated by experience. Using production records and some 800 intensive interviews late in 1947, the Survey Research Center of the University of Michigan studied the problems of group motivation, morale, and performance in two large departments of the Prudential Insurance Company. It was found that production of employees performing similar tasks averaged significantly higher in work groups that had first-line supervisors who give workers some degree of freedom in the way they do their work, who consider interest in their employees of primary importance, and who encourage group participation in the making of decisions concerning the work.<sup>10</sup>

Commenting on human relations and productivity, W. Duane Evans, chief

<sup>10</sup> See *Productivity, Supervision and Employee Morale, A Report from the Survey Research Center of the University of Michigan, Human Relations, Series 1, Report 1, November 22, 1948.*

of the Productivity Branch of the U.S. Bureau of Labor Statistics, stated in December, 1946:

During the war period, I had an opportunity to visit many plants, each doing substantially the same job and faced with similar problems. Actual production in relation to the numbers of workers employed differed widely from one plant to another. Material reasons for these differences being lacking, they were usually ascribed to differences in worker morale. This convenient heading, however, simply begged the question. Further analysis usually developed that in the more effective plants the workers felt that they were an active and individually recognized part of an organization which was doing a useful job. In other words, a community of interest which stretched throughout the organization had been built up.<sup>11</sup>

Real participation by workers both in suggesting and carrying out programs for improving plant efficiency has been found to afford them a new sense of usefulness and belonging, which results in significantly higher labor productivity. Programs of union-management cooperation on production problems, with workers contributing their know-how and sharing in the savings on a group basis, have been installed in a number of plants in recent years.<sup>12</sup> The results of tapping the resources inherent in genuine labor cooperation have often been remarkable, not only in improvement of productive efficiency but also in employee attitudes, morale, and motivation.

### DIFFERENCES IN ATTITUDE BETWEEN ECONOMIC CLASSES

In our industrial areas, social cleavage and significant attitudinal differences exist between laboring and management groups. The separation between the bottom and top strata of industry is both physical and intellectual. They live in separate localities, read and hear divergent views, and lead different lives. Social intercourse between them is generally infrequent and usually formalized.

Available data indicate that the industrial owner-management group is the most distinctly conservative of all groups in its attitudes and beliefs. For example, Professor Centers found from a battery of six questions that 95 per cent of those in his sample who employed or supervised 50 or more persons were conservative in their views, and that respondents tended to be less conservative and more radical (in the sense of desiring more governmental intervention and

<sup>11</sup> "Productivity and Human Relations," *American Economic Review*, Vol. XXXVII (May, 1947, Proceedings), p. 418. Reprinted with permission of the author and the publisher.

<sup>12</sup> In a number of these cases, Joseph N. Scanlon, formerly research director of the United Steelworkers of America (CIO) and recently lecturer at Massachusetts Institute of Technology, has been an active influence. See John Chamberlain, "Every Man a Capitalist," *Life*, Vol. XXI (December 23, 1946), pp. 93-103; Russell W. Davenport, "Report on the Round Table on the Pursuit of Happiness," *Life*, Vol. XXV (July 12, 1948), especially pp. 99-100; Joseph N. Scanlon, "Profit Sharing under Collective Bargaining," *Industrial and Labor Relations Review*, Vol. II (October, 1948), especially pp. 65-72; and Russell W. Davenport, "Enterprise for Everyman," *Fortune*, Vol. LIX (January, 1950), pp. 55-59. The subject of union-management cooperation is discussed at length in Chapter 13.

favoring greater working-class power) the lower their occupational level and the poorer they are.<sup>13</sup> That is what one would expect.

Industrial management generally subscribes to an individualistic philosophy of life. Business executives achieve success through ambition, drive, and aggressiveness.<sup>14</sup> Typically they are promoted in individual competition. The higher their managerial positions, the more calculating and impersonal their actions in the company may become. Naturally they consider competition (with rewards related to ability and promotion according to assumed merit) to be the basis of our industrial effectiveness. Their attention is centered on markets, and when they talk of business principles they generally mean market solutions. Their associates live in the same environment and share the same views, which constitute an integral part of the culture and folklore of business men.

As we have already observed, the cultural pattern and social philosophy of the working class are more collectivistic, with emphasis on security and the achievement of other social values that the market either ignores or hampers. The stress placed on job security indicates a real fear of the destructive effects that market forces (through unemployment and other economic misfortune) may have upon plans and life in low-income families. Market or business principles may also affect adversely certain values (such as pleasant life on the job, interesting work, or group loyalty) that workers rate highly.

Differences in economic philosophy between occupational classes are indicated by the answers that Professor Centers received in his public attitude survey in July, 1945. Asked to select which of the two statements they "most" agreed with: "The most important job for the government is to make certain that there are good opportunities for each person to get ahead on his own" or "The most important job for the government is to guarantee every person a decent and steady job and standard of living," two-thirds of the unskilled and semiskilled workers in the sample chose the second alternative of economic security. In contrast, over nine-tenths of the owners or managers of large business, and more than three-quarters of the owners or managers of small business, selected the statement favoring individual opportunities.<sup>15</sup>

The existence of differences in attitudes and beliefs between occupational and social groups seems to be rather generally recognized. Professor Centers asked his nationwide sample of 1,100 what factors other than occupation

<sup>13</sup> See Richard Centers, *The Psychology of Social Classes, A Study of Class Consciousness*, Princeton University Press, Princeton, N. J., 1949, pp. 38-42, 57, 195, and 212. One may take some exception to the questions or methods used but the results are, without doubt, roughly correct.

<sup>14</sup> See William E. Henry, "The Business Executive: The Psychodynamics of a Social Role," *American Journal of Sociology*, Vol. LIV (January, 1949), pp. 286-97.

<sup>15</sup> See Centers, *op. cit.*, pp. 62-64. The poll sample was that of 1,100 men mentioned earlier in this chapter.

(family, wealth, education, beliefs, etc.) they considered most important to know in deciding whether another person belonged to their social class or not. Approximately half of those interviewed selected how the other person "believes and feels about certain things" as the most important test for determining class membership. That was two or three times as many as selected education, family, or money. In every occupational stratum, beliefs and attitudes were considered the primary criterion.<sup>16</sup>

Sharp differences in outlook and opinion between the working class and owner-manager groups have important implications for labor-management relations and political affairs. Persons holding common sentiments and interests tend to be distrustful and critical of those who have a different folklore and philosophy of life. Divergent viewpoints and values between employer and worker groups makes understanding, compromise, and cooperation more difficult.

### THE PSYCHOLOGICAL AND SOCIAL ROLE OF UNIONS

To workers, labor unions represent an instrument for meeting some of the economic, political, social, and psychological problems of large-scale industry, machine technology, and assembly-line production. They are a means of achieving working-class desires and goals discussed above. On the economic side, trade unions through collective bargaining help to improve worker's pay and job security. On the governmental side, they serve as an agency for industrial democracy, seeking to establish rights for workers to a voice in the determination of their "working conditions" and to afford them protection against arbitrary and unfair treatment on the job. Usually change in management practices and attitudes is involved. These matters are discussed in detail in later chapters. Here it is only necessary to point to certain psychological and social functions that unions perform.

From membership in a labor organization, the worker enjoys both a sense of power that helps to overcome feelings of inferiority and a sense of belonging to a group movement that transcends personal interests. His self-respect and dignity are enhanced by winning objectives through his own organization; no longer is he so dependent on employer largess or upper-class paternalism. As part of a movement with traditions and ethical goals, the union member can achieve the psychic satisfaction of group loyalty and identification with a worth-while cause. Moreover, a vast field of executive opportunities is opened up for workers in the numerous union positions carrying both responsibility and prestige. Service in the interest and welfare of the working class supplies a seemingly unselfish outlet for leadership aspirations and talents.

Unions may also help to fulfill the needs of members on the social side.

<sup>16</sup> See *ibid.*, pp. 91 and 93.

Through such activities as educational, health-and-welfare, and community-service programs they may develop new patterns of working-class life outside the plant and open to working people greater possibilities for participation in community affairs. In providing recreational, counseling, medical, financial, political, and similar services, unions compete for favor and prestige with other social institutions that are engaged in community-service activities, such as churches, charitable agencies, political parties, chambers of commerce, and businessmen's clubs. Conditions and forces exist in some unions impelling them to seek to expand their influence to embrace the whole life of members.<sup>17</sup> The danger to democracy arising from complete dependence or control of the individual by a single institution is considered in Chapter 21. It is well to bear in mind, however, that a vital institution like a labor union has its own status, dynamics, and goals, which are distinct from, and at times may take precedence over, the interests and objectives of the individual members.

### THE MOTIVATION OF MANAGEMENT

Little in the way of tested knowledge exists concerning the mental processes and motives of business executives. Not only are attitude surveys of management more rare than those of manual workers but also the influences on management are more varied, the danger of rationalized replies is greater, and, in addition, the complication of differences in goals between the owners and hired managers of corporations is involved. From his experience as a top executive in two large retailing concerns Oswald Knauth has written: "Modern business is governed by a complex of opposing forces and tendencies. Its explanation cannot be simplified. The intricate pattern of personal motivations and impersonal forces defies accurate description and analysis."<sup>18</sup>

**The changing character of industrial management.** In considering the influences and purposes that govern the actions of business executives, a distinction should be drawn between firms managed by their owners and corporations run and, in practice, controlled by professional managers, who own little or no stock in the corporation. The owner-operated corporations are usually the younger and smaller ones.

With the expansion and growth of corporations, the ownership and actual management of business have tended to become divorced, permitting the management to be relatively free and independent of the stockholders. The freedom of action of corporate managers has been enhanced by a number of factors: widespread diffusion of stock holdings, management control of the

<sup>17</sup> The implications of the service activities of unions and their use as a means of competition with other community agencies for prestige and loyalty in a concrete case, are well explained in C. W. M. Hart, "Industrial Relations Research and Social Theory," *Canadian Journal of Economics and Political Science*, Vol. XV (February, 1949), pp. 1-21.

<sup>18</sup> *Managerial Enterprise, Its Growth and Methods of Operation*, Norton, New York, 1948, pp. 8-9.

proxy machinery, the influence of management in the selection of directors, the number of directorships held by corporate officers, and the strategic position of the present management with respect to knowledge about the enterprise. Such factors are especially significant in huge corporations. By the mid-1930's, large corporations (those with assets over \$10 million) accounted for half or more of the assets and sales in manufacturing, mining, transportation, communication, public utilities, and finance (which combined supply over half of the nation's employment).<sup>19</sup> In those major branches of industry the big corporations generally predominate and set the pattern. Studies of 150 to 200 of the largest non-financial corporations (also in the 1930's) revealed that, in a majority of them, the holdings of all corporate officers comprised less than 1 per cent of the corporation's common stock with voting power, and that, in perhaps half of those giant corporations, the control of the management was practically complete due to unconcentrated distribution of the common stock.<sup>20</sup> Normally dissatisfied stockholders, instead of seeking to change the management, simply sell their shares in that company.

The large corporation is a quasi-immortal institution. Like labor unions, it has its own institutional aims, dynamics, and expansive propensities. Traditions, loyalties, and an identifying reputation develop around it. As in other large enterprises, the management tends to become complex and bureaucratic. Being in a fairly secure position, the officers can take a long-range view. Their reputations and prestige are tied up with the record of the corporation. As the function of corporate management is largely governmental and their attention is directed to markets, officers in large corporations are usually rather sensitive to public and private opinion. Prevailing attitudes are likely to influence them in deciding between the desires and interests of stockholders, customers, employees, suppliers, and other members of the management group, whenever any conflict exists.

Earlier discussion of attitudinal differences between economic classes indicated the prevalence of an individualistic philosophy among managers of fairly large companies. Generally they are aggressive and ambitious persons who pursue their career goals despite some sacrifice in terms of personal and social relations. Nevertheless the "climate of opinion" in business management does change under the influence of community attitudes, educational instruction, and social and political pressures. The growth of professional administrators in business is leading to the development of codes and standards in such areas as industrial relations. One who has attended conferences of business and personnel directors during the past three decades cannot help but be impressed with the marked differences between attitudes and views expressed

<sup>19</sup> Based on calculations from data in R. A. Gordon, *Business Leadership in the Large Corporation*, Brookings Institution, Washington, D. C., 1945. Chapter 2.

<sup>20</sup> See *ibid.*, pp. 30-45.

in the 1950's and in the 1920's and early 1930's. The younger men in management, those who were not out of college by the end of the company-union period in 1937, are much less likely to be basically anti-union than their elders.

**Economic and non-economic motives.** With management officers receiving most of their income from the corporation as fixed salary and enjoying fairly secure tenure and a sizable pension upon retirement, there is some question whether their chief aim in business is to achieve maximum profits for the stockholder-owners of the corporation. Studies of large corporations indicate that, for most executives, income in the form of dividends from stock held in their companies is less than 5 per cent of their total salary and bonus compensation, and that executives' bonus payments in most big corporations are much less significant than salary income.<sup>21</sup>

Business executives, like all human beings, are moved by various psychological impulses and goals. In addition to monetary or financial incentives they may be motivated by an urge for personal power and influence, a desire for prestige and social esteem, the wish for creative self-expression, the excitement of adventure, an urge to win in competitive rivalry, loyalty to one's associates, a professional interest in one's job, a desire to serve society, and a search for safety and security. The reader will recall that, in indicating their desires with respect to a job in Professor Centers' study, the managers of sizable concerns stressed self-expression, interesting experience, and the opportunity for leadership.

The question of motives is, of course, complicated by the fact that most important decisions in large concerns are influenced by many persons. To the extent that corporate actions really represent joint or group decisions and not the will of one man, they are more likely to be reasoned, with consideration being given to various pertinent factors and viewpoints. Group participation in a decision does not, however, mean action governed by a single principle or by economic factors exclusively, for group psychology and other non-economic influences may play a part.

Studies of the incentives and behavior of business executives disclose that their motives are usually mixed and that they do not pursue profits with single-minded purpose. From an analysis of published material and personal interviews in about 30 companies, Professor Robert A. Gordon came to the conclusion that "the traditional reward of the business leader—the profits arising from business ownership—is not a primary incentive to the majority of top executives in our largest corporations" and that "in terms of the personal desires which motivate businessmen, the non-financial attractions

<sup>21</sup> See Gordon, *op. cit.*, pp. 284-93 and 301.

offered by the large corporation also frequently outrank profits as an incentive for the salaried business leader.”<sup>22</sup>

The human inclination to coast along under satisfactory conditions and to shun personally difficult decisions also plays a role in business motivation and behavior. So long as dividend payments remain fairly satisfactory according to customary standards, management is not likely to be under stockholder pressure to reduce administrative costs. From another study of large corporations, which included interviews with some 250 executives in 30 companies, Marshall E. Dimock and Howard K. Hyde found:

Theoretically, management should seek constantly to maximize profits, and should never be satisfied merely because they appear adequate. But the urgency of the depression [of the 1930's] revealed how far from the truth that assumption is, because it reckoned without human laziness. The biggest companies felt the pinch and responded with increased attention to economies. For example, one large concern remained profitable throughout the depression simply by cutting expenditures to follow the reduction in revenue: “When revenues drop you figure out some way to make expenses drop correspondingly.” Or again, practices are reflected in such remarks of executives of large corporations as “[The company] has always been a profitable business and we haven’t had to worry about management principles very much—but it’s clear we’ll have to increasingly.” “As long as times are rosy they might as well be left alone.” “Executives are content to muddle along as long as profits are satisfactory. Attention to operating matters is the child of adversity.” “Now that the depression is past all interest in management has disappeared.”<sup>23</sup>

The notion that depressions are needed to purge business organizations of inefficiency and waste may stem in part from a guilt complex within managements that have allowed personal convenience to play too great a role.

Business executives have emphasized that large corporate enterprises pursue multiple objectives, which have psychological, political, and sociological, as well as economic, aspects.<sup>24</sup> Chester I. Barnard, who has written extensively on executive management and who for over two decades was president of the New Jersey Bell Telephone Company, insists that in business organizations “non-economic motives, interests, and processes, as well as the economic, are fundamental in behavior from the boards of directors to the last man.”<sup>25</sup> Elaborating on this theme before a group of company executives in industrial relations, he said:

<sup>22</sup> Gordon, *op. cit.*, pp. 312–13.

<sup>23</sup> *Bureaucracy and Trusteeship in Large Corporations*, Monograph 11, Temporary National Economic Committee, 1940, p. 66.

<sup>24</sup> See, for example, Oswald Knauth, *Managerial Enterprise, Its Growth and Methods of Operation*, Norton, New York, 1948, pp. 12–13; and Chester I. Barnard, “Some Aspects of Organization Relevant to Industrial Research” in *The Conditions of Industrial Progress*, published by the Industrial Research Department of the Wharton School of the University of Pennsylvania, January, 1947, pp. 63–64.

<sup>25</sup> *The Functions of the Executive*, Harvard University Press, Cambridge, 1938, p. xi.

It is an almost universal assumption that managers and owners in the detailed conduct of business are governed almost completely or exclusively by purely economic motives. Business men are inclined to insist that this is true and would appear usually to be ashamed to admit that it is not true in their individual cases.

In the broad sense that no business can escape its balance sheet, it is true that the economic or money motive governs the administration of business. Nevertheless my observation in several different well-managed businesses convinces me that business decisions are constantly being made that are not based upon economic motives. This is something that business men seldom admit, and of which they are frequently unaware. Prestige, competitive reputation, social philosophy, social standing, philanthropic interests, combativeness, love of intrigue, dislike of friction, technical interest, Napoleonic dreams, love of accomplishing useful things, desire for regard of employees, love of publicity, fear of publicity—a long catalogue of non-economic motives actually condition the management of business, and nothing but the balance sheet keeps these non-economic motives from running wild. Yet without all these incentives I think most business would be a lifeless failure. There is not enough vitality in dollars to keep business running on any such scale as we experience it, nor are the things which can be directly purchased with money an adequate incentive.

The business man can't admit this. He seems to think he would lose caste. He feels it necessary to take a "hard-boiled" attitude. He must do everything efficiently and "not the way politicians do them." Or he fears the bankers might think him soft. (I have found them just like the rest of us but they won't admit it either.) Part of this is professional pose. Some of it is the reaction to the unpleasant things that responsibility imposes—a sort of self-protective psychology. But if you will stop taking the business man at his word and quietly watch him when he is off guard, you will find he is taking care of poor old John who couldn't be placed anywhere else, that he is risking both profit and failure rather than cut wages, that he continues an unprofitable venture on nothing but hope rather than throw his men out of work. Much of this is unsound. It would be better if economic motives did operate more effectively, but the point is that it is impossible to get to the root of personnel relations or understand labor troubles or successes on the unrealistic assumption that economic motives exclusively govern. They merely limit and guide. They control more in some cases or some businesses than others.<sup>26</sup>

On this matter of business motives it has been necessary to quote so copiously because adequate psychological studies are lacking. Undoubtedly smaller, owner-operated companies (personally controlled corporations or unincorporated firms) are more closely guided and governed by economic motives than is true of big corporations that are administered and, for all practical purposes, controlled by hired managers.

Even the economic motives of business management are not limited to maximum profits but may include such long-run goals as the maintenance of a secure financial position in order to avoid the risk of creditor control, or the

<sup>26</sup> Chester I. Barnard, *Organization and Management, Selected Papers*, 1948, pp. 14–15. Copyright 1948 by Harvard University Press and reprinted with permission.

maintenance of the firm's market position at the expense of profits in order to avoid any decline in its relative status.

As Mr. Barnard suggests, the strength of the different motives of a particular management will vary from time to time with changes in conditions facing the firm. Just as society works out new balances between competing social values, so the management of a firm adjusts by establishing new balances between conflicting desires or goals. Indeed, changing social attitudes and values themselves affect the way that industrial management draws the balance between different pressures and purposes.

**Motives with respect to labor.** In their labor policies, business managements are influenced by many considerations, beliefs, and desires. Such varied factors as the following are stressed in interviews: promoting employee welfare, preventing unionization of the employees, avoiding competitive disadvantages in the labor market, continuing the firm's leadership position, maintaining its established reputation, achieving prestige and a favorable attitude toward the company in the community, acquiring profits, maintaining a liquid financial position, searching for objective principles upon which to base decisions for the convenience and peace of mind of managers, winning the allegiance and cooperation of employees, achieving high employee morale, gaining strategic advantages over union leaders, preserving management authority and functions from invasion by labor, upholding business codes of ethics, avoiding the ill-will of other companies.

Here again it is a question of balance between objectives that conflict with or supplement one another. Interviews reveal that most managements do not sharply distinguish between various factors or goals, weighing each one separately. Many influences are likely to be intermixed, with the stress that is placed on different factors tending to shift from time to time with changes in current circumstances.

Even casual reading of the daily press is sufficient to indicate that management decisions and actions with respect to labor may not be governed solely by careful calculations of the ultimate effects on profits. To take a rather extreme example, in 1937 the managements of certain steel companies, including the Republic Steel Corporation, refused to sign written agreements with the Steel Workers Organizing Committee, which later became the United Steelworkers of America (CIO). Such agreements, involving no increase in wages, had already been signed with the union by the United States Steel Corporation and 50 other firms employing about half of the workers in the industry. This strike cost the stockholders of Republic Steel millions of dollars. In addition to \$1,950,000 spent directly on the strike, the company was faced with some 100 damage suits totalling over \$2,000,000 as a result of riots at the company's plants, in which 16 persons were killed and 323 were injured.

The Chairman of the Board of Republic admitted that the company lost millions of dollars of business during the strike, which he characterized as "a tremendous waste of everything."<sup>27</sup>

### SOME IMPLICATIONS FOR INDUSTRIAL RELATIONS

The varying combinations of motives and goals (psychological and social as well as economic) that influence the behavior of wage-workers and business management make it difficult to arrive at scientifically satisfying conclusions. Lacking are the simplifying advantages of a single objective, such as profit maximization. Even separate measurement of the influence of each of the many incentives seems practically impossible. Certainly attempts at accurate prediction must await a much greater body of empirically tested knowledge.

Our survey of data on the desires of workers and the motives of management reveals significant differences. Employees, especially at the lower occupational levels, stress job security, freedom from close supervision, a friendly attitude in the plant, and collectivistic action in the interest of labor groups. Business owners and managers, on the other hand, are individualistic, conservative, and ardent in support of market solutions to economic and social problems. Worker-manager differences in attitudes and beliefs tend to be accentuated by social cleavage and institutional competition for employees' good-will and loyalty. Institutions under owner-manager control resist the tendency for labor unions to expand their influence and activities, especially where they challenge management's "prerogative" to administer industry as it deems best.

Other elements and trends indicate some possibility of expanding the areas of common interest and cooperative action. Management and wage-earners have many similar or mutual objectives. Experience seems to indicate, for example, that intelligent supervision and good human relations on the job pay off in production results. As business management becomes more mature and professional and is less strictly governed by profit considerations, greater attention is generally given to employee welfare and good labor relations.

One should, however, be careful not to exaggerate the possible areas of mutual interest and common objective. It is certainly naive to assume that if both parties could only understand each other's aims and attitudes, or had the proper personal morality, then industrial peace and harmony would prevail. Some psychological differences are bound to develop from contrasting economic roles and social positions, to say nothing of important differences of economic interest that cannot be completely eliminated. Industrial conflict is undoubtedly intensified by the rivalry between management and labor organizations, which have different objectives and strong institutional pressures.

<sup>27</sup> See *Hearings* on S. Res. 266, 75th Congress, third session, 1939, p. 13888.

## **CHAPTER THREE**

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### **THE MARKET MECHANISM IN INDUSTRIAL RELATIONS**

The limits and inadequacies of the market, especially from labor's viewpoint, were briefly discussed in Chapter 1. There it was explained that many important social and economic objectives of wage-workers could not be achieved through the market mechanism, which tends to neglect social standards and human costs. Chapter 2 brought out the important role that human relations (non-market influences) play in the job satisfactions and desires of workers. This chapter analyses the marketing process as it actually operates with respect to human services. The practices and peculiarities surrounding the purchase and sale of labor are examined from the viewpoint of both workers and business concerns.

#### **PRICES AS GOVERNOR IN ECONOMIC AFFAIRS**

Under free enterprise, market prices are supposed to solve automatically the central problems of the economy: the use and allocation of economic resources, the methods of production, and the distribution of income among persons. Money is the common denominator for products and services; human labor has its price tag in the form of wage rates. Occupying a pivotal position, price gives directions to consumers, labor, management, and investors. It guides consumers in the distribution of their purchases among competing goods. Differential wage rewards are assumed to spur labor to greater output and occupational advancement. The comparative prices of the various factors of production (labor, capital equipment, and natural resources) influence the methods of production that management adopts. Relationships between selling prices and cost prices stimulate industrial efficiency and are influential in determining business success or failure. Anticipated prices and purchases govern the geographical distribution of finished products for sale, actual prices and purchases determine the money incomes of persons and firms. By trial and error, with free spending and without conscious plan, the price mechanism provides answers to the most complex of economic problems. It organizes and

coordinates the productive efforts of numerous persons and enables consumers' dollars to direct economic activity.

That, in somewhat idealized form, is an explanation of the way the market system, with price as the governor, is supposed to operate in an economy of free spending and free enterprise. Clearly price and market purchases perform vital functions. But, as was pointed out in the preceding chapters, the market mechanism does not supply answers to all questions or even satisfactory answers to job problems. In centering on the fulfillment of individual material desires, it fails to satisfy certain group or social needs. Confined to monetary incentives, it neglects non-pecuniary factors that play an important part in work activities.

The functioning of the market is, of course, imperfect with respect to commodities as well as in labor affairs. As man-made institutions, markets can be controlled by man. Where economic units and capital investment are large, market prices may operate only slowly and tardily to correct mistakes and to eliminate inefficiency. Investment in fixed plant and equipment is committed until they are scrapped. Not only may large corporations exert monopoly control in markets but their financial position may also enable them to carry on some non-profitable activities indefinitely or to stand losses for considerable periods of time. And through reorganization, capital charges can be reduced, permitting a corporation to continue a long, if not wholly successful, life. Under such circumstances, survival of the fittest or the most efficient is not inevitable.

The following sections explain in detail why market price is frequently inefficient, and at times absolutely ineffective, as a governor in the field of industrial relations. Because of the special characteristics of labor, demand and supply operate to some extent independent of price, and market forces often function effectively only outside significant areas of indeterminacy. Differences in wage rates or job earnings may, therefore, play a minor role in controlling the distribution of labor resources, in stimulating work efficiency, or in determining production methods. Social and psychological factors cannot be dismissed merely as frictions in the market.

### **LABOR: A MOST PECULIAR "COMMODITY"**

Economists, especially in formal analysis, may not distinguish labor services from material products, contending that in principle there is no difference between selling labor and selling commodities. In practice, however, the differences are often so marked and significant that to reason by analogy from commodities to labor may be completely unrealistic and erroneous.

Human labor clearly has many attributes not possessed by material goods.

Workers have personalities and emotions, beliefs and expectations, loyalties and ethical notions. Machines do not. Unlike commodities, labor may argue, quit, soldier on the job, and vote. It may actively resist change and slow down when employment is curtailed, hoping to make the job last longer. Labor morale, as we have seen, may be extremely important for high output in the plant. Above all, labor can establish institutions (unions), which compete with existing power groups and may even challenge the power of the state. Obviously sound analysis cannot neglect such characteristics.

Employment, the purchase and sale of labor, is not the same as a commodity transaction. An hour of labor is intangible and indefinite, varying with the speed of machine operations, with the quality of supervision, and even with the hour of the day. In purchasing labor, a firm frequently assumes a number of obligations with respect to the new employee—rights to benefits, paid holidays and vacations, special reporting and overtime pay, and seniority. In taking a job, the worker places himself under the authority of the buyer on the latter's premises. The acceptance of a subordinate position is especially significant in view of the fact that a worker can fill but one job at a time, because he can only sell his own services.

A job is a complex of factors, most of which have no counterparts in commodity markets. Such factors include physical conditions in the plant, workloads, plant rules, length of workday and workweek, steadiness of employment on the job, advancement possibilities, social status of the job, character of the supervision, congeniality of fellow workers, opportunity for self-expression, and other job qualities mentioned in the preceding chapter. Promotion, demotion, transfer, and lay-off are processes foreign to commodity markets.

Company employment policies, even in the absence of unions, generally differ markedly from their policies with respect to the purchase of commodities. Established firms do not seek competitive bids or shop around in hopes of replacing regular employees with other labor that is offered at lower wages or that may be more effective. With respect to regular employees, industrial managements do not consider themselves free to bargain as they do in buying commodities, selecting the suppliers currently offering the best terms. Such a non-competitive policy is followed not only because a workforce represents a considerable investment in employee training, adjustment, and knowledge of plant conditions but also because of the importance of employee loyalty and morale and of community attitudes.

Unions, of course, seek to make employment as unlike commodity purchasing as possible. Provisions of labor agreements that develop rights in jobs restrict a firm's freedom to discriminate between labor suppliers or to cease buying the services of particular employees.

## HOW WORKERS VIEW AND CHOOSE JOBS

Typically a manual worker's view of jobs is a limited and pragmatic one. For a number of reasons it is impossible for him to operate like a seller (or a buyer) in a commodity or security market. Workers' services cannot be put on display. Work abilities can be demonstrated only by performance on the job, often following a necessary training period. In large-scale industry, jobs are generally somewhat different in each firm, and a management can know a worker's ability only by observation of his performance in its own plant under its own supervision. Consequently, the management of a firm cannot shop around among the whole workforce of a community, selecting those it considers best and rejecting all who prove not to be first-rate for its purposes and conditions.

Workers also cannot shop around the way buyers of commodities can and do. Only unfilled jobs are currently available, and information about them is not usually systematized and recorded in a central clearinghouse. Workers hear of job openings one at a time. Their knowledge about any vacancy is likely to be fragmentary and perhaps inaccurate, but often they must accept it at once or lose the opportunity. As already explained, a job is a complex matter. Workers are vitally interested in such intangible elements as friendly atmosphere in the workplace, the human quality of supervision, and long-run possibilities for security and earnings. Experience on the job is frequently the only way that one can really find out the important facts about it. But a worker can test only one job at a time. While he is at work in one plant he cannot shop for a job elsewhere.

Most manual workers are not constantly comparing jobs, calculating the advantage of each, and moving from job to job according to their estimates of maximum net advantage.<sup>1</sup> The quitting of a job is generally surrounded by doubt and uncertainty. Consequently, when a worker finds a job that he considers satisfactory, he usually develops an attachment to it, not only for social or sentimental reasons but also because of the rights (vacation, seniority, pension, etc.) and advantages that accrue from length of service with one firm. Especially are those advantages important in firms that follow a policy of hiring at the bottom of the occupational scale and promoting from within the company's workforce. Such companies are likely to consider a job applicant whose record shows many job transfers to be an undesirable "floater."

It is not surprising, therefore, to discover that most of the voluntary move-

<sup>1</sup> From interviews with 800 workers in 1947, Professors Reynolds and Shister concluded that "Workers who move deliberately from one job to a better job *which they know about in advance* are a minority of a minority—probably not more than 5 per cent of the labor force even in good years." See Lloyd G. Reynolds and Joseph Shister, *Job Horizons, A Study of Job Satisfaction and Labor Mobility*, Harper, New York, 1949, p. 88.

ment of workers from firm to firm occurs in the younger age groups. The only exception is migratory or casual work. Even the choice of the worker's first job seems generally to be haphazard and fortuitous. Instead of shopping around and making a deliberate choice after a careful canvass of the possibilities, beginners usually take the first job that they locate. Professors Reynolds and Shister discovered that seven-eighths of the workers they interviewed took their first job without comparing it with any other alternative job.<sup>2</sup> Little wonder then that for two-thirds of those workers the first job proved to be a blind alley, not leading to anything better.<sup>3</sup> The pressure of family financial circumstances or a strong desire to leave school may help to explain lack of investigation and deliberation with respect to the first job, but intelligent choice is hampered by other factors, such as the absence of good information, uncertain occupational goals, and dependence on friends or relatives for job opportunities. The period of trial-and-error sampling of jobs generally ceases when workers reach their mid-twenties, become married, and acquire heavier responsibilities.

In view of the typical attitudes of manual workers toward their jobs, it is hardly correct to draw up labor-supply schedules for individual firms. Such schedules imply a significant cause-and-effect relationship running from wage change to volume of labor offered to the firm. They give undue prominence to wages in assuming that the hours of labor available to a firm vary directly with its wage scales relative to those of other employers. Actually, as indicated above, workers are not continually on the alert for higher-wage employment elsewhere and ready to transfer at once merely for pecuniary advantage. Failure of a firm to keep pace with wage scales in the community is likely to result, not in actual loss of labor and disappearance of job applications, but in poor morale and efficiency of the regular work force. Studies indicate that workers are moved to seek a new job more by discharge, lay-off, and dissatisfaction with present jobs (with money earnings frequently only a minor factor in such dissatisfaction) than they are by the possibility of more attractive employment elsewhere. In their interviews with 800 workers selected at random from the telephone directory, Professors Reynolds and Shister found that of the workers who had left their jobs voluntarily, five-eighths of them quit the old job before they had a new one in sight.<sup>4</sup> Thus, comparison and choice between alternatives were not involved. Many of the remaining three-eighths got an opportunity to switch jobs, not through active search on their part, but on the initiative of a relative, friend, or former supervisor.

The manual worker's behavior with respect to employment is not irrational in view of the circumstances he faces and the goals he wishes to achieve. That workers may move for non-economic reasons, that job behavior is not

<sup>2</sup> *Ibid.*, p. 57.

<sup>3</sup> *Ibid.*, p. 64.

<sup>4</sup> *Ibid.*, p. 36.

predicated entirely on the worker's long-run economic advantage, may be disturbing to the economic theorist. Though the worker's course of action or failure to act cannot be predicted on the basis of pecuniary advantage alone, some prediction is possible if other factors are also taken into account, such as the amount of dissatisfaction in the plant, age and length of service of the workforce, and the workers' friendships and loyalties. As explained in the next section, personal friendships are frequently a determining factor in job selection and placement.

### METHODS OF LOCATING JOBS

With employers using a variety of recruitment methods, the demand for labor in a city is widely scattered and highly differentiated. Studies in Philadelphia in 1930,<sup>5</sup> in Fitchburg, Massachusetts, from 1937 to 1940,<sup>6</sup> in Trenton, New Jersey, in 1944 and 1945,<sup>7</sup> and in New Haven in 1946 and 1947,<sup>8</sup> indicate that generally from one-half to four-fifths of all jobs are secured by two informal means: application at the company's employment office (sometimes referred to as hiring at the gate) and recruitment of friends and relatives by present employees. By and large, those two methods seem to be of about equal importance.

Other significant agents in the employment process in most cities are the public employment service, labor unions, and newspaper advertising, which is used primarily for special skills not likely to be found among applicants at the gate or among friends of the present employees. Private employment agencies, the schools, and employers' organizations may also account for some placements, especially in certain occupations like stenography, domestic service, and special skilled crafts. Employers usually follow the practice of calling the union to obtain new employees in such industries as printing, photo-engraving, the building trades, trucking, pottery, and the garment trades. On the West Coast it has become customary to have in each city a central hiring hall, sometimes operated jointly by the employers and the union, to arrange for the employment of seamen, longshoremen, and loggers.

From an employer's point of view, the two main methods of employee recruitment have certain advantages. Personal application at the employment office enables the company officials to form a first-hand impression of a

<sup>5</sup> See Dorothea de Schweinitz, *How Workers Find Jobs*, University of Pennsylvania Press, Philadelphia, 1942, pp. 89, 91, 108, 111-13.

<sup>6</sup> Based on 233 interviews. See Charles A. Myers and W. Rupert Maclaurin, *The Movement of Factory Workers, A Study of a New England Industrial Community*, Wiley, New York, 1943, Table 7, p. 47.

<sup>7</sup> The Trenton Labor Market report, prepared by George B. Baldwin, is in manuscript form in the Industrial Relations Section of Princeton University. It is based largely on questionnaire returns from and interviews with the managements of 40 of the largest firms as well as interviews with employment-service and union officials. This section of the text draws heavily from that report.

<sup>8</sup> See Reynolds and Shister, *op. cit.*, p. 39.

worker, and even to check up on him, without any implied commitment or obligation. The fact that the worker has taken the trouble to visit the plant and make application indicates a favorable attitude toward the company, and may, therefore, be a significant selection factor. Companies usually seek to differentiate themselves so as to influence worker attitudes. Acceptance of job applications at the gate and recruitment from near-by residential sections by that means may also be good public relations.

Many firms have developed a fairly definite policy of utilizing present employees to recruit labor from among their relatives, friends, and acquaintances. Given the importance of employee congeniality in the plant, such a policy may contribute to employee morale by capitalizing on personal relationships existing outside the plant. Employees recruited in this manner can be expected to be fairly well informed about the company and the job as it looks to a worker, thus minimizing the number of unsatisfactory placements. Also an employee hired as a result of the recommendation of a fellow worker may have an added incentive to make good on the job. And employees may feel especially loyal and grateful to a management that values and accepts their recommendations in filling vacant jobs.

Various data, including the Trenton and New Haven studies, indicate that public employment offices generally account for only 15 to 20 per cent of all job placements in urban areas.<sup>9</sup> Lack of satisfaction with the quality of referrals is one reason that employers do not make more use of public employment services. Firms have non-occupational hiring preferences—"the type of girl we hire," "the kind of man who will fit into our organization"—which they may hesitate to reveal to a public agency and which, in turn, a public agency may find it difficult to respect. The special advantages of hiring at the gate or through present employees are lost when a public employment service is used. The workers sent by a central public agency are not necessarily ones who have a special preference for that particular firm. As a consequence of employer and union practices, workers in some cities may come to believe that the public employment offices are largely restricted to the less desirable and lower-grade jobs.<sup>10</sup>

## COMPANY EMPLOYMENT AND WAGE POLICIES

In recruiting and selecting employees, the management of a firm has a conception of the kind of work force it desires. That conception is influenced

<sup>9</sup> See also an unpublished Senior thesis by C. Lamar Barnes, *The Development of Public Employment Services in the United States, with Special Reference to Experience in the State of Tennessee*, January, 1949, especially pp. 111-17 for an estimate that public employment offices accounted for 19 per cent of all non-agricultural placements in 1947. The manuscript of the thesis is available in the Princeton University Library.

<sup>10</sup> The advantages and disadvantages of various methods of recruiting labor are also discussed in E. W. Noland and E. W. Bakke, *Workers Wanted, A Study of Employers' Hiring Policies, Preferences, and Practices in New Haven and Charlotte*, Harper, New York, 1949, pp. 107-22.

by the special institutional characteristics of the company—its past history and standing, the sort of people already on its payroll, the reputation and aims of its management, and its technological and social peculiarities. In hiring new employees, the management is interested in preserving (or improving) the reputation of the company in the community and the nation and also in making certain that new recruits will “fit in” well with the present work group. Through selection of “our sort of worker,” it seeks to achieve and maintain a well-integrated social organization. Consequently, a company’s management is interested not alone in the individual’s productive capacity but his character, personality, racial characteristics, and general social qualities.

For the selection of their “type” of worker, firms rely largely on the personal judgment of the official with hiring authority. Interviews in 1945 and 1946 with officials responsible for hiring policies and practices in 240 establishments in New Haven and Charlotte, North Carolina, revealed that pre-employment tests for character, temperament, and personality traits were being used for production and maintenance jobs by but 1 per cent of the firms.<sup>11</sup> Only 2 per cent used any special arrangements for testing the occupational aptitude and performance of applicants for such work.<sup>12</sup> The use of objective testing for those purposes is confined, for the most part, to concerns employing at least 200 workers.

The demand for labor in an area is differentiated by company not only by reason of the management’s conception of the firm’s institutional status and the prevalence of informal selection methods but also because most firms follow a common code of hiring ethics. To hire workers away from another company is considered to be “stealing” or “pirating” labor. Competition for labor on a wage-rate basis is also regarded as unethical. The consequence is that firms tend to hire at the bottom and promote from within, and to use the reputation of the company and non-wage attractions as drawing power.

Companies are restricted in the use of wage policy to affect their labor supply not only by the strong convention “that it is a dastardly act for one employer to lure away labor from another by the offer of higher wages,”<sup>13</sup> but also by the fact that company wage policy is influenced by a number of conventions and a mixture of economic and non-market objectives. Nowadays, for example, wage increases tend to spread, not by market forces, but by imitation and pattern-following. In many industries, companies conform to an industry pattern of wage scales or wage increases regardless of rates paid by other firms in the locality.

Some managements favor a formula for determining wage rates or strongly desire uniformity in wage scales. A study of the wage policies of some 100

<sup>11</sup> *Ibid.*, pp. 226–27.

<sup>12</sup> *Ibid.*, pp. 222–23.

<sup>13</sup> Joan Robinson, *Essays in the Theory of Employment*, Macmillan, New York, 1937, p. 14.

firms in 1946 showed that about half of them follow the dictates of a job evaluation plan<sup>14</sup> rather than community wage scales, if there is a conflict between the two criteria.<sup>15</sup> Of the 79 multi-plant companies with operations in two or more localities that were included in the study, one-sixth pay the same uniform wage scale wherever their plants are located, and three-fifths make company-wide changes in wage scales throughout all the company's plants regardless of the conditions prevailing in particular communities.<sup>16</sup>

Company wage policy may be influenced by such factors as institutional prestige, ethical notions of fairness and decency, and employee morale. Firms may pay wage scales above the community average, may raise wages with increases in the cost of living, may seek to lead in wage increases, or may hesitate to reduce wage scales although neighboring firms are doing it, not so much for reasons of labor supply as to maintain the company's standing and leadership, to preserve employee good-will, and to satisfy the management's notions of proper and human treatment of its employees.<sup>17</sup> For their own psychological well-being and for ease of actual management, executives may wish to supervise satisfied employees. From a study of the timing of wage reductions in 95 firms in the pulp and paper industry during the 1930's, Professor W. Rupert Maclaurin found that a number of companies continued to pay pre-depression wage scales, even at the expense of profits and accumulated surplus, when most firms in the industry had cut wages once or twice, and that such a policy was pursued often out of a sense of responsibility to the company's employees and a desire to maintain a contented work force as a social institution.<sup>18</sup>

Although company managements often state their wage aims in terms that include influencing job applicants and retaining good workers, they are prone to insist that wage scales either above or below the average for the locality or the industry are not a marked help or handicap in recruiting personnel, especially unskilled and semiskilled labor.<sup>19</sup> A number of high-wage firms state that the elimination of their wage differential above the industry or community average would not create any labor-supply problems for them.<sup>20</sup> Why should that be so? Selection methods used by high-wage firms generally are too informal, personal, and non-competitive for them to take full advantage

<sup>14</sup> Job evaluation is the determination of wage rates for jobs by a rating of jobs according to the relative requirements (skill, physical strength, education, etc.) of each job. Incidentally it has no counterpart in commodity markets.

<sup>15</sup> See R. A. Lester, *Company Wage Policies*, Industrial Relations Section, Princeton University, 1948, pp. 16 and 38.

<sup>16</sup> *Ibid.*, pp. 18 and 26.

<sup>17</sup> See *ibid.*, pp. 14, 23, 28, and 31-32.

<sup>18</sup> See "Wages and Profits in the Paper Industry," *Quarterly Journal of Economics*, Vol. LVIII (February, 1944), especially pp. 208 and 226.

<sup>19</sup> See Lester, *op. cit.*, pp. 22, 32-33.

<sup>20</sup> *Ibid.*, pp. 35-36 and 44.

of their wage policies or to penalize low-wage firms to any real extent.<sup>21</sup> Another factor is the attachment that workers have for a firm or an industry; they develop friendships and become accustomed to its conditions. More stress may be placed on atmosphere and security than on pay. Even in periods of relatively full employment, such as the period from 1947 to 1950, workers generally seem to be more job conscious than wage conscious.

In view of the peculiarities of company employment and wage policies, it seems of doubtful validity to draw up labor-demand schedules (representing price-quantity relationships) and to add such individual schedules together to arrive at an aggregate schedule of the quantity of labor demand for a community or an industry at different wage levels. Wages do not seem so pivotal or flexible, and the connections between a company's wage scales and its demand for labor do not appear to be so close, that such schedules can properly be constructed. At least over short periods of time, managements generally are not as financially minded and as completely dominated by a single purpose in their wage and employment policies as such schedules would imply. That business managements may have a number of economic and non-economic objectives, with the stress on each varying with the circumstances, has been pointed out in this and the preceding chapter.

### THE OPERATION OF MARKET FORCES

The concept of a market is ambiguous when applied to labor, except where workers are bought and sold as in a "slave market." By a "labor market" some mean the geographical area within which workers can and do commute regularly from their residences to work. But non-competing occupational groups, such as common labor, highly skilled craftsmen, and female clerical workers, can hardly be considered as part of the same market any more than beans and bananas could be so considered. Some authors attempt to escape this difficulty by assuming that a separate local market exists for each occupation. With differences between firms in job content, production methods, and products, however, jobs with a certain occupational title may vary markedly from one plant to another. Indeed, each buyer and each seller of labor services is distinguished somewhat from every other buyer or seller, and, as purchases normally occur on the buyer's premises, there are as many market places as there are buyers.

Here again, the application of commodity concepts to labor services may be misleading and lead to mistaken conclusions. As already pointed out, workers and managements do not behave like sellers and buyers in a commodity or security market. Workers may be influenced more by non-economic

<sup>21</sup> See Myers and MacLaurin, "Wages and the Movement of Factory Labor," *op. cit.*, pp. 253, 256, 261, and 263; and the same authors, *The Movement of Factory Labor, A Study of a New England Industrial Community*, Wiley, New York, 1943, pp. 73 and 76.

than by financial considerations, more by dissatisfaction with working arrangements than by differences in wages. Employer hiring and wage policies differ significantly from their practices with respect to commodity purchases. Regular employees continue in their jobs unaffected by outside competition. Wage scales change only once or twice a year and then usually by general, across-the-board increases or decreases; individual rates are not adjusted frequently and automatically according to local demand and supply conditions for that occupation.

The price flexibility, which is characteristic of commodity and security markets, would be most inappropriate with respect to labor. A considerable degree of stability in wage relationships and in individual wage rates over a period of time is essential for satisfactory employment and manufacturing operations. Frequent upward and downward changes in wage rates and numerous alterations in wage differentials between occupations within a plant would have adverse effects on labor efficiency. Such wage fluctuations would be incomprehensible and upsetting to workers, creating all kinds of suspicions and ill-will, stimulating undesirable insecurity for employees, and causing wages to be a constant source of friction and speculation. Economists explain that violent fluctuations in price are likely to occur in commodities with fixed (inelastic) supply as is the case temporarily for some agricultural products like wheat and cotton. Such price fluctuation is not, however, true for labor although, as pointed out in Chapter 5, the size of the nation's workforce changes hardly at all from year to year, and the labor supply in a community may be fairly fixed for short periods of time.

If the concept of a local "labor market" is a misleading abstraction, the notion of a regional or national market, as an aggregate or sum of local markets, is practically meaningless. As already explained, labor demand and supply schedules cannot with strict accuracy be drawn for a community. Any attempt to derive such schedules for a region or the whole country encounters, in addition, the further difficulty that wages make up a large portion of the nation's income, so that changes in wage levels are likely to affect the total volume of expenditures and, thus, the total demand for all employers' products. Consequently, it is erroneous to apply to such a broad area the demand-and-supply analysis that is appropriately used only for particular products or for single firms. This matter is discussed more fully in Chapter 5.

Caution with respect to the use of the term "labor market" or of labor demand and supply schedules does not mean that market forces are unimportant. To say that the apparatus of commodity-market analysis cannot be applied without serious and significant modification is not to deny that wages influence workers. Our discussion has, however, explained why wages perform the functions of price most imperfectly. As allocators of labor resources, wage

differentials may operate only crudely and over long periods of time. As stimulators of labor efficiency, differences in earnings may be effective only under certain circumstances.

Limitations on the effectiveness of market forces in a community are indicated by studies showing the persistence of marked wage differentials between local plants. The continued existence of significant differentials in the wages paid for comparable jobs in a local area is analyzed more fully in the next chapter. Here it is sufficient to point out that the movement of workers may do little to iron out wage "inequities" between plants because it is so unstudied and is influenced by factors other than calculation of long-run economic advantage. A pattern of wage multiplicity for comparable work may exist indefinitely in a community not only because of the nature of company wage policies and the fact that high-wage firms have limited employment needs but also because of informal hiring methods, non-competitive labor policies of managements, workers' lack of good job information, the importance of friendships and personal convenience to workers, and their investments in particular jobs.<sup>22</sup>

Mistakenly applying commodity-market reasoning to industrial relations, economists sometimes talk of "pure competition in the labor market," or of "the wage that clears the market," or of "a free labor market where different wage rates for the same kind of labor could not long exist." Commodity-market concepts lead them to assume that "We have a real problem of different wage rates for the same work only when there is not a free labor market—when there is labor monopoly."<sup>23</sup> The issue of labor monopoly is treated in a subsequent chapter. The point here is that market forces do not operate as effectively or precisely with respect to labor in a locality as they do in the case of commodities. In labor matters, financial factors are, to a much greater extent, modified, restricted, and even replaced, by social and other non-economic elements.

Geographic migration of workers is also influenced by social as well as economic considerations. Wide differences in wage levels between the North and the South since the Civil War have not caused any real net migration of whites from the South to the North, and the northward migration of Negroes only began to occur on a significant scale after the outbreak of World War I. Until then economic advantages, although relatively as great as after 1914, were not sufficient to overcome inertia, social ties, and the lack of information and lines of communication. And, although economic improvement may have

<sup>22</sup> For a discussion of the effects of the operation of some of these factors in a local labor market see C. A. Myers and W. R. Maclaurin, "Wages and the Movement of Factory Labor," *op. cit.*, pp. 253 and 256-64; and the same authors, *The Movement of Factory Labor, A Study of a New England Industrial Community*, Wiley, New York, 1943, pp. 50 and 76.

<sup>23</sup> Fred R. Fairchild, *Profits and the Ability to Pay Wages*, Popular Essays on Current Problems, Vol. I (The Foundation for Economic Education, Inc., August, 1946), p. 16.

been an important motive for much of the Negro migration from South to North, certainly the desire for social improvement has also been a significant factor.<sup>24</sup>

Often the availability of jobs seems to have been more influential than relative wage levels in determining the direction of worker migration or the lack of such migration. Especially under conditions of less than full employment, job security and job opportunity may outweigh comparative income levels in deciding the distribution of the nation's labor force. With some exceptions, people who moved in the 1920's did migrate from poorer to richer regions and from less to more prosperous communities within regions. However, the reverse was generally true during widespread unemployment in the 1930's.<sup>25</sup> Relative wage levels again began to play a vital role in labor migration during the periods of expanding and full employment in the 1940's. It is remarkable though that internal migration has been unable to bring about more equality in wage levels between regions and within states in view of the high mobility of the American people, whose rate of geographic movement or transfer of residence has been about six times the comparable figure for Great Britain.

Wages are analyzed in more detail in the next chapter. As background for a study of wages one needs to appreciate how much of worker and employer behavior must be explained by non-financial influences and how the peculiarities of industrial relations cause market forces to operate in special ways. Realistic understanding is necessary for relevance in analysis.

### EXTENT OF RELIANCE ON THE MARKET

In this country, reliance on the market mechanism (rather than non-market means) to solve labor issues has varied with changes in economic conditions and in prevailing social values. During business depressions and wars more stress is placed on non-market means. Also, market competition has seemed less potent and satisfactory as a method of economic and social control as we have had increasing industrialization, larger business units, greater economic dependence with increased specialization, and more serious unemployment problems. This century has witnessed marked expansion in governmental activities and in the area of decision-making outside of market control. Greater reliance has been placed on extra-market settlements (despite opposition insistence that such action was unnecessary, was harmful to the effective operation of market forces, and was essentially arbitrary) because an alternative test, both satisfactory and objective, was lacking.

In matters directly affecting labor, the degree of market control now varies

<sup>24</sup> See Gunnar Myrdal, *An American Dilemma*, Harper, New York, 1944, pp. 190-94.

<sup>25</sup> See Carter Goodrich *et al.*, *Migration and Economic Opportunity*, University of Pennsylvania Press, Philadelphia, 1936, pp. 505 ff.

considerably. Such matters as the volume of employment, geographic distribution of employment, and production methods are left almost completely to market determination. True, unions may seek to modify the effects of competition on employment and technological change by such means as guaranteed-employment plans, make-work rules, and control of the introduction of labor-saving devices, but to date such union policies (discussed in Chapters 8 and 9) have been too limited and ineffective to make much difference. Although we have enjoyed a large measure of freedom from government or union interference in private employment and methods of production, the Social Security Act of 1935 was designed to help protect workers from the economic insecurity caused by fluctuations in employment.

For certain matters of vital concern to labor, little reliance has been (or can be) placed on market competition to supply satisfactory solutions. In this category are such items as hours (length of workday and workweek), vacations, working conditions in the plant, and employee protection from arbitrary action by management. Competition is unsatisfactory as an answer for such issues partly because of workers' job attitudes and employer hiring practices and partly because of the difficulties of experimentation (concessions once made cannot readily be withdrawn). Also experience clearly indicated the need for legislation to protect workers' health, such as child labor and factory laws, because competition failed to prevent the evils of child labor or unhealthy and unsafe working conditions.<sup>26</sup>

Wages, the subject of the next chapter, occupy a position between the two extremes of almost complete reliance on the market and settlement by non-market means. As will be explained, the market sets outside limits to wages but non-market factors play an important role, under both non-union and union conditions, in determining where within the outside limits a company's actual wage rates will be. In addition, minimum wages have been established by governmental action.

No single principle or formula exists for deciding the extent to which determinations should be made by market forces, collective bargaining, social pressure, governmental action, or some other non-market influence. Actually we have relied on the pragmatic test of practical application and operation, decided on a case-by-case basis, regardless of whether the solution conformed to some social philosophy or logical pattern. Where the market mechanism works well, or no feasible alternative to it is available, main reliance has been placed upon the controlling force of competition. Where the issue cannot be settled through market purchases and sales, or competition fails to supply a satisfactory answer, we have frequently resorted to other means.

In the issue of market *versus* non-market controls, we have come to realize

<sup>26</sup> Hours of work and child labor are discussed in Chapter 5.

that it is not a matter of absolutes, of either one or the other. For most labor questions, intermediate positions are possible, representing a mixture of market and non-market forces. Ever present is an inherited opposition to government intervention and a bias in favor of keeping as many decisions as possible in private hands. That is particularly desirable in labor relations where both parties must continue to live with the decisions. Any one who has arbitrated such complicated issues as workloads, production standards, alleged inequities in plant wage structures, and union-security demands, appreciates the advantages of having solutions arrived at either by market forces or through agreement by the parties themselves. American industry varies widely in economic conditions and practices. As explained in a later chapter, practical difficulties arose when the attempt was made to apply uniformly certain provisions of the Taft-Hartley Act of 1947 in such different industries as longshoring, building construction, printing, and coal mining. Industrial differentiation is one of the reasons why a single solution to all labor problems is impractical.

## CHAPTER FOUR

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### STRUCTURE AND ANALYSIS OF WAGES

Wages are both a source of income and an item of expense. As the price for labor services, wages have a number of functions to perform. Some of them were explained in the preceding chapter. Wages should influence the distribution of the supply of labor between occupations, industries, employers, and areas. They should aid in shifting workers into expanding industries, into more efficient firms, and into jobs and localities experiencing labor shortages. As costs, wages should influence the demand for labor so that the nation's labor resources are used economically, in proper combination with other productive factors. High wages do not, of course, necessarily mean high labor costs; the employer's cost per unit of output depends upon the productiveness of the labor as well as its price.

Wages should serve as a stimulus to workers to increase their output as well as to seek occupational advancement. Various methods of wage payment are designed to encourage increased productivity. In addition to time rates (so much per hour), there are a variety of "incentive" methods, ranging from straight piece rate (a certain amount for each completed unit) to complicated schemes that vary the rate of pay in terms of output, not in strict proportion as under piece rates, but according to some special formula.

Another function of wage payments is to provide workers with money incomes. Through payrolls the fruits of production and economic progress are distributed to working groups. The amount of consumer goods and services that money wages will buy depends, of course, upon retail prices as well as the contents of workers' pay envelopes. Money wages are converted into *real wages* by adjustment for changes in the buying power of the dollar. As a large portion of the nation's money income (and hence also money costs), wages affect total spending and thus total purchases and employment. This employment aspect of wages is considered in the next chapter and also in Chapter 20.

The term "wages" has a variety of meanings and connotations. To avoid confusion and misunderstanding, one should keep in mind the distinctions between wage rates or scales, average hourly earnings, weekly earnings,

annual earnings, and labor costs. "Wage rate" usually refers to an hourly rate of pay for workers on time payment or to the "base rate" under an incentive scheme. The base rate may be either a guaranteed hourly minimum or the basis for calculating actual earnings, which are expected to exceed the base rate by significant amounts, depending on the incentive formula and individual outputs. With no change in wage rates, average hourly earnings may fluctuate not only because incentive earnings vary but also because of such factors as overtime and shift premiums, individual merit increases, and promotions or job transfers with changes in employment and product composition. Weekly earnings ("weekly take-home pay") depend, of course, upon the hours worked during the week. They decline with curtailed employment or absenteeism, and rise rapidly as the hours worked increase, especially if the additional hours are paid for at premium overtime rates. Annual earnings are also influenced by fluctuations in employment during the year.

Thus, considerable divergence may occur between changes in wage rates and in average hourly earnings, or between hourly and weekly or annual earnings. Not only may they increase by different percentages, but average hourly earnings may fall while wage rates are rising, or hourly earnings may increase when weekly earnings are decreasing. The same is true of wage rates or hourly earnings and employers' labor costs per unit of output. With no changes in rates, labor costs may rise or fall, depending on workers' output, which, in turn, depends on a multitude of factors discussed in the next chapter. Arguments between management and labor regarding the actual increase in wages are often at cross purposes because the parties are measuring "wages" in different ways. The measure most frequently used in this chapter is average hourly earnings excluding overtime, because most of the available wage statistics are in that form.

## WAGE MOVEMENTS AND DIFFERENTIALS

The facts about wages are extremely complex, far too complicated to be adequately elucidated by a single principle. The hundreds of thousands of wage rates in this country constitute a living, evolving structure, affected by all sorts of economic, political, and social influences. Among the main elements in the wage structure that require explanation are the following: (a) the general level of wages in the nation and its movements during past decades, (b) the wage spread between occupations and changes in the spread from time to time, (c) wage differentials between regions and areas and alterations in such differentials over the course of time, (d) inter-industry differentials and shifts in them, (e) inter-firm differentials in a locality and changes therein, and (f) differentials between persons working in the same occupation within a plant. Through statistical summation each of these differentials is abstracted

from a universe of interrelated wage rates, fluctuating in devious ways and patterns.

**The general level.** The average hourly earnings of non-agricultural workers in the United States in 1950 would buy more than six times as much as in 1840. In other words, the level of real hourly wages (in terms of workers' living costs) rose more than sixfold during those 110 years.

That rise was not, however, a steady one. Real hourly earnings in industry hardly increased at all during the two decades from 1840 to 1860 or during the 27-year period between 1892 and 1919. Prior to 1929, the most significant advances in the level of real wages occurred during periods of declining prices—from 1882 to 1887, from 1891 to 1896, and from 1919 to 1922. A marked increase in real earnings also occurred between 1936 and 1944, but the figures need to be corrected somewhat for the scarcity and quality of goods during World War II.

Basically, movements in the level of real wages are related to increases in the physical output per work-hour in American industry as a whole. For the two decades ending with 1919, the increase in output per work-hour in manufacturing averaged only about 1 per cent a year. On the other hand, manufacturing output per man-hour increased about 10 per cent a year during the 2 years from 1919 to 1921, which, together with the sharp relative decline in agricultural prices, made a remarkable difference in the real wages of non-agricultural workers.<sup>1</sup>

A study<sup>2</sup> of the inter-war years (1919 to 1941) shows that, during that 22-year period, output per man-hour in manufacturing increased, on the average, by over 4 per cent a year; average hourly earnings advanced about 2½ per cent a year; and unit labor costs fell about 1½ per cent. Thus, labor tended to receive about three-fifths of the increase in productivity in the form of increased hourly earnings and presumably most of the remainder in lower prices for consumer goods. These figures demonstrate the need to distinguish sharply between hourly earnings and labor costs. Apparently normal increases in productivity will permit hourly earnings in manufacturing to rise by as much as 4 or 5 per cent a year without any increase in labor costs per unit of output. In other words, it is natural in a progressive economy to have increasing money wages without increasing commodity prices. The figures for those 22 years also reveal that output per man-hour varied between the biennial censuses by almost the same percentage as did average hourly earnings, which seems to indicate that productivity changes were as important

<sup>1</sup> For statistical data on productivity see Solomon Fabricant, *Employment in Manufacturing, 1899-1939*, National Bureau of Economic Research, 1942, p. 331; and *Handbook of Labor Statistics, 1947 Edition*, U. S. Bureau of Labor Statistics Bulletin No. 916, 1948, p. 155.

<sup>2</sup> R. A. Lester, "Note on Wages and Labor Cost," *Southern Economic Journal*, Vol. X (January, 1944), pp. 255-38.

as wage changes in influencing and determining unit labor costs in manufacturing during that period.

**Occupational differentials.** In examining the statistics of wages in an industry covering a period of many years, one is struck by (a) the persistence of the pattern of occupational differentials and (b) the tendency for the differential between the extremes (between the unskilled and the highest skilled manual jobs in factories) to narrow in percentage terms.

Once a ladder of occupational rates becomes established in an industry, it is difficult to change the relative position of a job in that scale. Over a period of time, workers and employers develop a notion of where within the scale a particular job belongs; tradition, customary attitudes, and workers' efforts to maintain status operate against any change in the relationships between occupational rates. Such factors can maintain a hierarchy of wage rates without essential alteration for three or four decades,<sup>3</sup> despite the development of significant labor-supply differences between occupations, despite changes in a job that make it comparatively easier or more difficult, and despite the fact that according to systematic job evaluation the positions of various jobs in the wage scale should be considerably altered.

Illustrative of the stability of occupational relationships is the case of "boarders" in the women's full-fashioned hosiery industry. With the shift from silk to rayon to nylon hose, boarding (shaping damp hosiery on a heated, leg-shaped form) become an easier job. Nevertheless the semiskilled occupation of boarders suffered no relative decline between 1938 and 1946. Boarders continue to receive average hourly earnings well above those for important skilled occupations in hosiery manufacture like loopers, seamers, and toppers.<sup>4</sup> In the North the average wages of boarders have been above those for skilled maintenance workers (mechanics, electricians, and machinists) and only slightly below them in the South.<sup>5</sup> Job evaluation, however, shows that boarding jobs should be rated considerably below seaming, topping, and looping and far below the skilled maintenance occupations.<sup>6</sup>

During the past century, the percentage margin between the bottom and top rates in an industry has tended to decline. To take some rather extreme examples, loom-fixers in the 1850's and 1860's were paid about three times the rate for unskilled jobs in cotton textiles; in 1948 they received only about

<sup>3</sup> For a statistical study of the pattern of wage rates in seven industries between 1900 and 1940, see Stanley Lebergott, "Wage Structures," *Review of Economic Statistics*, Vol. XXIX (November, 1947), pp. 283-84.

<sup>4</sup> See *Wage Structure, Hosiery, 1946*, Industry Wage Studies Bulletin, Series 2, No. 32, U.S. Bureau of Labor Statistics, undated, p. 21 (mimeographed).

<sup>5</sup> Compared with unskilled and semiskilled labor, skilled craftsmen are relatively better paid in southern industry than in the North. The southern part of the hosiery industry has been largely non-union.

<sup>6</sup> See *Job Evaluation*, Full Fashioned Hosiery Manufacturers of America, Inc., Philadelphia, June, 1945, pp. 20-21.

one and a half times the pay for jobs at the bottom of the textile occupational hierarchy. In book and job printing, pressmen in the 1840's and 1850's were paid over three times the rate for press feeders. By 1900 the pressmen were receiving only about 70 per cent more than feeders, and in 1946 union rates for cylinder pressmen averaged only around 20 per cent above those for press assistants and feeders. During the decade before the United States entered World War I, union wage rates for skilled craftsmen in building (bricklayers, carpenters, plumbers, etc.) throughout the country were more than twice the average for helpers and laborers in the building trades; in 1948 the average for skilled journeymen was only 50 per cent above the helper-laborer average.<sup>7</sup>

An accurate measure of the narrowing of the wage spread in industries is difficult to develop because jobs change and new occupations and industries arise. Judging from such industries as cotton textiles, book and job printing, and building construction, in which jobs have not been subject to marked changes during the past century, the narrowing of the wage range in percentage terms occurred rather gradually prior to World War I and at an accelerated pace between 1916 and 1920 and again between 1935 and 1948. The gradual character of the development seems to indicate that long-run factors, like the advancing level of education, have played a role in the narrowing process. In the two periods of acceleration, wartime labor shortages undoubtedly were a factor. Additional factors in the relative rise of the low rates after 1935 were: the sharp curtailment of immigration; the widespread organization of unskilled and semiskilled workers; the union practice of asking, and the National War Labor Board policy of granting, uniform increases in cents per hour; and the establishment of rising minimum wages under the Fair Labor Standards Act and the National War Labor Board.

Although a depression like that of the early 1930's may temporarily arrest the narrowing of occupational differentials, the statistics seem to indicate that a business slump does not generally serve to increase such differentials. Apparently the volume and incidence of unemployment have no notable effects on the percentage margins between occupational rates.

**Industry differentials.** Some industries have much higher wage scales (both for unskilled and skilled labor) than do other industries. In terms of both entrance rates for common labor and of average hourly earnings for all production workers, the following are high-wage industries not only in this country but also in Canada and Great Britain: petroleum refining, automobiles, railway equipment, chemicals, rubber tires and tubes, and aircraft.

<sup>7</sup> The data in this paragraph are taken from Bulletins 604, 910, and 912 of the U.S. Bureau of Labor Statistics; the Bureau's Industry Wage Series Bulletin, Series 2, No. 37 on *Cotton Textiles*, 1946; and the *Monthly Labor Review*, Vol. LXVII (September, 1948), p. 268 and Vol. LXVIII (January, 1949), p. 40. For additional statistical calculations indicating the narrowing of occupational differentials see Lebergott, *op. cit.*, pp. 283-84.

By the same token, wage scales are relatively low in such industries as tobacco, cotton textiles, leather and leather products, food preparation and canning, lumber, fertilizer, and furniture.<sup>8</sup> Statistical comparisons indicate that an industry is likely to have relatively high average hourly earnings if (1) it has a large capital investment per worker, (2) labor costs are a low percentage of its total production costs, (3) employment in the industry has been expanding rapidly, (4) its productivity (output per worker) has been increasing more than the average for all industry, (5) the industry is highly unionized, and (6) its skill requirements are fairly high.

The relationship between each of these factors and high wages is not consistent. Numerous exceptions can be found, partly because competitive conditions in an industry's product markets influence its ability to pay wages. Nevertheless there is some degree of association between an industry's position in the wage array and such factors as capital investment, proportion of labor costs, changes in total employment and productivity, unionization, and skill requirements.<sup>9</sup> Industries located close to farming, such as food preparation, lumber, cotton textiles, and fertilizer seem to be able to attract labor from rural areas without paying high wages. In addition, the quality of labor and performance that they require may be lower than in such industries as petroleum refining and automobiles.

Although the pattern of industry differentials tends to persist, economic conditions and union influences may bring about a change in an industry's relative position. For example, average hourly earnings in bituminous coal, which were below those for autos in the 1930's and early 1940's, rose in three years (1945 to 1948) from a cent per hour under the auto average to 27 cents per hour above the average for automobiles. Hourly earnings in soft coal were 21 per cent above the hourly average for all manufacturing in 1945 and 42 per cent above it in 1948, which is especially noteworthy because of a general tendency during recent decades for hourly earnings in the low-wage industries to rise more in percentage terms than in the high-wage industries. Through collective bargaining, the United Mine Workers obtained large wage increases during the two and a half years after World War II, which was a boom period for the industry. During the same period (1945 to 1948), hourly earnings in the cotton textile industry rose from 67 per cent<sup>10</sup> to 82.5 per cent of the hourly average for all manufacturing. That remarkable rise in relative position came about largely through wage decisions by the National War Labor Board in 1945 and through increases won by the Textile Workers

<sup>8</sup> See Lebergott, *op. cit.*, pp. 275-77.

<sup>9</sup> See Jules Bachman and M. R. Gainsbrugh, *Behavior of Wages*, Studies in Business Economics No. 15, National Industrial Conference Board, March, 1948, pp. 37-60; and Fabricant, *op. cit.*, p. 257.

<sup>10</sup> Which was also the average for the five-year period from 1934 through 1938.

Union in 1946 and early 1947. Not only was the industry enjoying extremely high profits during those years, but the Southern Organizing Campaigns of the CIO and AFL also put upward pressure on textile wages, even though only about 20 per cent of the southern section of the industry was under union agreement. The author, as chairman of the Southern Textile Commission of the National War Labor Board, was surprised to observe the widespread adoption throughout the South of the scale of 30-odd occupational rates issued by the Commission in 1945 to aid negotiations for a balanced wage structure in the unionized mills. Newspaper publication under the name of a Federal agency apparently was sufficient to force the hand of management in many non-union firms.

One factor in the maintenance of industry differentials has been the prevalence of wage leadership and pattern-spreading. Thus wage changes in flat glass tend to follow the pattern of changes in autos and steel; on the West Coast, wage increases in paper and pulp have often adjusted to those in lumber operations. During the 1920's, steel and automobiles generally exercised wage leadership; in the 1940's, the coal and oil industries were at times the real wage leaders.

**Geographic differentials.**<sup>11</sup> Significant differences exist between regions and areas in the wage rates paid for identical or comparable work (for the same job in a particular industry). The problem of stating such differences in the form of a numerical average is complicated by (a) marked contrasts in industrial composition from area to area and (b) notable variation from industry to industry in the size of geographic wage differentials.

A part of the assumed difference in wage levels between regions and areas is really due to industrial and occupational differences. The working population of the South, for instance, is largely employed in agriculture, lumbering, cotton textiles, furniture, and fertilizer, which usually are low-wage industries and employ a high proportion of unskilled and semiskilled labor. The Detroit-Toledo-Cleveland-Akron area is one of the highest wage sections in the country partly because it has so much heavy industry (automobiles, machine tools, electrical appliances, transportation equipment, rubber tires, etc.) which utilizes a large proportion of high-paid, metal-working occupations. The West Coast is the highest-wage region in the country, especially in non-manufacturing, not only because such well-paying industries as aircraft and shipbuilding are important there, but also because basic industries like agriculture and

<sup>11</sup> The discussion in this subsection rests in part upon statistical data published in the *Monthly Labor Review*, Vol. LXVI (June, 1948), pp. 599-608, Vol. LXIII (October, 1946), pp. 511-25, Vol. LIX (August, 1944), pp. 237-50, and Vol. LVIII (April, 1944), pp. 804-15; and also *Average Hourly Earnings in Selected Industries and Occupations by Region, 1945-1946*, Wage Analysis Branch, U.S. Bureau of Labor Statistics, August 1, 1946, 80 pp. (mimeographed).

lumber on the Pacific Coast have such high productivity per worker.<sup>12</sup> Parenthetically it should be pointed out that incentive earnings usually exceed those of time workers on the same work by 15 or 20 per cent, so that average hourly earnings seem relatively high in New York City, Philadelphia, and Milwaukee, where incentive-paid workers represent a comparatively large proportion of the workforce.

Geographic differentials vary considerably from industry to industry and also between occupations in the same industry. For example, average hourly earnings in such industries as pulp and paper, bituminous coal, automobiles, glass, and seamless hosiery have for the past decade been about as high in the South as in the North (exclusive of the West Coast), and the same is true for some skilled metal and printing trades, some skilled occupations in iron and steel, and the engine and train employees on the railroads. It is for unskilled workers that regional differentials are most marked and exist regardless of the industry, with the West Coast consistently the highest region and the South the lowest. West Coast rates are, however, below those for sections of the East in the case of some skilled occupations in the telephone industry, in the railroad industry, in large-city department stores, and in a few skilled foundry and metal-working occupations.

Within the southern, eastern, and western regions of the country, industry and occupational differentials vary from section to section. Some industries and occupations have a relatively higher wage rank (and others a lower rank in terms of average hourly earnings) in the Southwest than in the Southeast, around the Great Lakes than in the mid-continental states, on the Pacific Coast than in the Rocky Mountain area. The average spread between wages for unskilled and for skilled work is greatest in the South and narrowest for the Pacific Coast.

For some industries and occupations, average hourly earnings are higher in urban than in rural areas and progressively higher the larger the city. The pattern of such size-of-city differentials, however, varies from industry to industry. Community-size differentials have been prominent in local-market industries like building construction and printing, in both of which union rates for cities with over a million population have averaged about 30 per cent above those for small cities. On the other hand, practically no association or correlation seems to have existed between the size of community and the level of hourly earnings in the pulp and paper industry or in paperboard and converted paper products.

<sup>12</sup> During recent decades the output per man-hour in West Coast lumbering has been approximately twice as great as in the South, and in agriculture the ratio of West Coast productivity compared to that of the South is much greater than in lumber operations. See author's *Economics of Labor*, Macmillan, New York, 1941, pp. 212-14.

Factors that appear to have been influential in the rural-urban and size-of-city differentials are: (a) the need for cities to recruit outside labor because the net reproduction rate of the population declines as cities increase in size, (b) the greater degree of labor organization and union power in the larger cities, and (c) the tendency for living costs to be higher the denser the population. It should be pointed out, however, that inter-city wage differentials are not closely associated or correlated with inter-city differentials in living costs for workers. High-wage cities are not generally the most expensive ones for workers to live in nor do low-wage areas necessarily have relatively low living costs.<sup>13</sup>

With significant differences in industrial composition between areas, with considerable diversity in regional differentials between industries, and with varying patterns of size-of-city differentials, it is difficult to draw precise conclusions from regional wage comparisons. One can, however, conclude that, for comparable work, wages on the West Coast average about 15 per cent above, and in the South about 15 per cent below, the level for the country as a whole. The Northeast region (including the Middle Atlantic states) and the Middle West region (including the Great Lakes states) have about the same level of wages, which corresponds closely to that for the whole nation.

During the past half century, broad differences in regional wage levels for work of the same character seem to have remained much the same. There has been a tendency, however, for the average South-North differential to narrow slightly during the period since the mid-1930's.<sup>14</sup> That differential is analyzed more fully in a later section of this chapter.

**Local wage differentials.**<sup>15</sup> One of the most significant facts about wages is that wide differences often exist in the rates of pay for essentially the same work within one community. Instead of a single rate for the same class and quality of labor, there is usually a band or zone of rates, ranging from the lowest-paying to the highest-paying firm in the locality. Furthermore, the high-wage firms generally have more favorable non-wage conditions (physical working arrangements, employee welfare programs, and income security) than low-wage firms, so that the existence and persistence of wage-level dif-

<sup>13</sup> See L. M. David and H. Ober, "Intercity Wage Differences, 1945-46," *Monthly Labor Review*, Vol. LXVI (June, 1948), pp. 603-604; and R. A. Lester, "Results and Implications of Some Recent Wage Studies" in *Insights into Labor Issues* (Lester and Shister, eds.), Macmillan, New York, 1948, p. 208.

<sup>14</sup> The narrowing tendency apparently is missed because of the occupations and methods used in J. W. Block, "Regional Wage Differentials: 1907-46," *Monthly Labor Review*, Vol. LXVI (April, 1948), pp. 371-77, although the responsibility is difficult to assess without a knowledge of the specific occupations used, which was to have been revealed in a more detailed report that has not been "forthcoming." The methods employed have two weaknesses: different occupations are used from one date to the next, and the median rather than an average is given, which is unfortunate where the occupations change and no allowance is made for the relative significance in the region of the occupations used.

<sup>15</sup> This subsection is largely based on my article, "Wage Diversity and Its Theoretical Implications," *Review of Economic Statistics*, Vol. XXVIII (August, 1946), pp. 152-59.

ferences cannot be explained by compensating advantages of a non-financial character.<sup>16</sup>

The wide diversity in local wage scales was strikingly demonstrated by surveys that the U.S. Bureau of Labor Statistics made in 1943 and 1944 for the National War Labor Board. Those surveys revealed, for selected occupations in each city or "labor market area," the spread in average straight-time hourly earnings<sup>17</sup> for an occupation that existed between the lowest-paying and the highest-paying plant included in the sample. Comparison of 2,910 such occupational spreads between local plant averages, showed that hourly earnings in the highest-paying establishment exceeded those in the lowest-paying establishment, on the average, by 50 per cent.<sup>18</sup> In almost one-tenth of the cases the high-plant average in the locality was double the low-plant average. The average percentage spread for each occupation would have been greater if the samples had been more inclusive (the number of local plants averaged but ten for each comparison) and if the comparisons were between the high and low earnings for all workers in the occupation in the locality rather than between plant averages. In conducting these surveys, the Bureau of Labor Statistics made special efforts to minimize differences in job content that might vitiate such occupational wage comparisons.<sup>19</sup>

To achieve a high degree of comparability, the author studied wage variation in 12 cotton textile jobs in six southern textile communities<sup>20</sup> for the months of April and May, 1945. Each community had seven to 16 mills, all of which were non-union except one mill in each of four communities, and none of these four union mills had the highest rate in its locality for any occupation. Only time rates were included for seven occupations, the selected occupations had a considerable degree of homogeneity because the equipment was fairly standard, and variations in range of duties and machine assignment tended to offset one another. To eliminate any influence that the varying number of firms included might have, the coefficient of average deviation<sup>21</sup> was used as the comparative measure of wage variability.

<sup>16</sup> See, for example, Charles A. Myers and W. Rupert Maclaurin, *The Movement of Factory Workers, A Study of a New England Industrial Community*, Wiley, New York, 1943, pp. 59-60.

<sup>17</sup> Excluding overtime pay, non-production bonuses, shift differentials, etc.

<sup>18</sup> The median was 40 per cent, indicating that the spread was that great or greater in half the cases.

<sup>19</sup> By such means as (a) use only of important standardized jobs that are definite and easily identified, (b) division of occupations by sex and into grade classifications where that was customary or desirable, (c) use of "concise enough definitions of occupations so that variations in rates would not be likely to represent in any significant degree differences in difficulty of duties," (d) use of experienced field representatives, visiting plants for data for only the one payroll period, and (e) restriction of the "labor market area" to the city proper for cities over 100,000 and some under that size.

<sup>20</sup> Their 1940 population ranging from 3,600 to 34,400 and the largest city containing no more than 7 square miles.

<sup>21</sup> It is computed by calculating the arithmetic mean (simple average) of the actual local rates for each occupation, then measuring the deviations of each actual rate from the calculated mean, and, finally, expressing the average of such deviations as a percentage of the mean.

The results of that study may be summarized as follows: Wage diversity in cities or other incorporated communities is generally at least half as great as it is for a whole region, and in some exceptional communities it is as great as for a region that includes many states. Occupational wage diversity (and also the high-low spread) may be twice as great in some communities as in others. Inter-firm uniformity of rates in the same locality for the same grade of labor is rare and exceptional. It is likely to occur under only one of four conditions: (1) common or combined action by employers, (2) collective action by workers, (3) joint action by labor and employer groups, or (4) compulsory action by government.

The existence of a band of rates, rather than a single *prevailing* rate, for the same work in a locality raises a number of interesting theoretical questions. What factors limit the range of wage variation in a community? What forces or circumstances serve to expand or to contract the possible range? Why may genuine differentials in wage scales within a southern community be one to three times as large as the real North-South wage differential in various industries? The discussion in the preceding chapter has indicated some of the reasons why market forces do not lead to local wage uniformity, to one rate that clears the market, nor even to a concentration of rates around a single wage for substantially the same work. Further light is shed on this matter in the next section.

**Other differentials.** Many other wage differences exist, such as sex, race, shift, overtime, service, and merit differentials. In recent years (especially under the National War Labor Board during World War II) shift differentials have become widespread, and many race and sex differentials have been reduced or eliminated.<sup>22</sup> Jobs with a rate range rather than a single rate will have workers on the same job at different rates of pay; those at the higher end of the range will be either long-service employees (where length of service with the company is the basis for progression within the range) or those to whom the company has granted the most "merit increases" (where that practice prevails). Especially difficult to explain by conventional wage theory (or by commodity-market reasoning) is the practice of paying one and a half or double the regular rate for overtime (hours beyond the normal work shift or the normal work week), or of paying double time for Sundays and holidays.

## WAGES UNDER NON-UNION AND UNION CONDITIONS

Examination of wage differentials and diversity indicates the problems that confront wage theory. It must explain not only the influence of competitive

<sup>22</sup> A shift differential may consist of, say, 4 and 6 cents an hour more for the second (night) and third ("graveyard") shifts respectively. The extent to which the scale of pay for, say, Negroes or females is less than that for white males may be difficult to determine where they are working on similar, but not the *same*, jobs in a plant.

forces in wage determination but also the role that personal, historical, and social elements play in the actual processes of wage fixing and change.

Industrialists and trade unionists have found academic wage theory too abstract and mechanistic for practical application and have, therefore, largely disregarded it. Instead management and union officials have developed their own wage principles, policies, and practices, which need to be studied if one is to have a real understanding of wages in our economy. The effects of union policies and practices on wage structures can best be understood from an examination of the local diversity in wage scales that prevails before labor organization has begun to play a significant role. Many southern communities were wholly, or almost completely, non-union prior to the Southern Organizing Campaigns, which began in 1946.

**Local wage differentials under non-union conditions.** As indicated in the preceding section, study of hourly wage rates in six southern textile communities in the Spring of 1945 revealed significant differentials for the standard textile jobs. In one community (Gastonia), the high plant exceed the rate for the low plant by 5 to 25 cents an hour, depending on the occupation. On the average, the high-plant rate was 30 per cent above the low-plant rate.<sup>23</sup> Data on straight-time hourly earnings in cotton textiles for 15 "labor-market areas" in the South indicate that two years earlier (July, 1943) the high-low spread was probably even greater.<sup>24</sup> Although these differentials may, to some degree, reflect differences in job requirements and quality of workers, undoubtedly they are, for the most part, to be considered true wage differentials.

How can one explain the continued existence of significant differentials in wages paid locally for practically identical work or for equivalent labor on similar jobs? Why, in the absence of unions, is there locally a range of rates (and not a uniform price) for essentially the same work? The answer to those questions lies in company wage policy and practice and in the behavior of workers with respect to jobs.

a. COMPANY POLICIES. Under non-union conditions, wages are administered prices named by management. In selecting a wage scale and in deciding on changes therein, a management is influenced by a number of factors that may be grouped under four headings: the firm's wage-paying ability, the goals of the management, its strategy and judgment, and historical and accidental circumstances. Differences between firms in such matters largely account for local wage differences in the absence of unions.

1. The wage-paying ability of a firm depends upon such factors as the

<sup>23</sup> For some occupations in the other communities, the corresponding percentage was as high as from 10 to 20 per cent.

<sup>24</sup> See my article, "Diversity in North-South Wage Differentials and in Wage Rates within the South," *Southern Economic Journal*, Vol. XII (January, 1946), Table X, p. 255.

character of competition in the firm's product markets, the percentage that labor costs are of the firm's total costs, the relative efficiency of its management and equipment, and its financial position in terms of liquid resources. For example, because of favorable conditions (nature of competition, low percentage of labor costs, good financial position, etc.), large oil companies have paid and could pay much higher wage scales than cotton-textile firms for comparable work.

2. Whether a management that could pay relatively high wages will do so depends upon the purposes it seeks to achieve. Managements in firms with a high-wage policy are motivated by such aims as exercising wage leadership, encouraging employee loyalty, influencing employee morale, discouraging labor organization, attracting and holding labor of high quality, achieving and maintaining a good reputation in the community, and pursuing ethical concepts of fair employee treatment. Companies may also follow other objectives, such as company-wide uniformity in wage scales regardless of plant location, adherence to a particular job evaluation scheme regardless of changes in local labor conditions, or conformity to an industry wage-pattern. For instance, nation-wide uniformity in wage scales regardless of local conditions has long been characteristic of the glass and automobile industries.

3. Management strategy and judgment also are responsible for differentiated wage scales in a locality. Small firms generally pay lower wages than large firms and can do so with less fear of labor dissatisfaction and community disapproval. The rate of expansion that a company plans makes considerable difference in the kind of wage policy it may need to pursue. Another factor is the extent to which the management is forced to be guided by immediate or short-run considerations rather than long-run or ultimate goals. Of course, wages are only one means of achieving a company's objectives, whether short-run or long-range; other ways, such as welfare or training programs, may at times be considered a better means of achieving particular goals under the current circumstances. Furthermore, different managements may judge and rate the same jobs differently for wage purposes even under systematic job evaluation.

4. Part of the explanation for non-uniformity in local wage scales is historical and accidental. Before the 1930's, non-union companies generally considered the wage rates they paid to be secret information. For the most part, rates were not orderly but varied from person to person on the same job, reflecting favoritism, past mistakes, and conditions at the time the employee was first hired. Some firms get "stuck" with relatively high wage scales because of a need initially to draw trained labor into the community or to expand rapidly, say with a war boom financed by cost-plus contracts. After an inter-

firm differential becomes established and customary, it may be exceedingly difficult for a management to eliminate the differential, as the Ford Motor Company has discovered.<sup>25</sup>

b. WORKER BEHAVIOR. The job outlook of manual workers was examined in the preceding chapter. It was explained that workers do not and cannot act like sellers of commodities. Various reasons were given why workers' behavior does not serve to eliminate a band or range of rates for the same work in a single community. All that is necessary here is to make summary reference to the important factors.

Company employment policies prevent systematic shopping by workers. Not only are hiring methods largely informal and job information usually limited, but also some firms will not hire a worker employed by another company unless that company is willing to release him. Jobs in the high-wage plants may be open only occasionally and then only to applicants with particular qualifications. Workers develop an attachment to a job, firm, and industry for such reasons as investments already made and habits formed, the existence of seniority protection and privileges, and the company practice of hiring at the bottom of the occupational ladder and on the least desirable work shift. Workers may lay more stress on a friendly job atmosphere, personal convenience, and security than on relative wages. First job selections are more the result of accident than deliberate choice. Most workers, under non-union conditions, are either ignorant, or have very imperfect knowledge, of rates of pay for comparable work in different local plants. For these reasons, the movement of workers between local plants may not serve to narrow wage differentials, and firms with relatively low wages may not suffer from low employee morale, especially if the inter-firm differential is customary or expected.

Given the facts of company wage policy and worker behavior, it is certainly mistaken to reason as though competitive forces serve to eliminate, or even greatly reduce, local wage differentials under non-union conditions. "The competitive wage level" and "the wage rate that clears the market" are misleading abstractions. Nor do competitive forces bring about a well-functioning and properly aligned schedule of rates within a plant. Studies have revealed the haphazard and irrational character of the wage structures that existed in industrial plants prior to any changes under collective bargaining.<sup>26</sup> Instead of distorting a well-balanced wage structure, collective bargaining may, as explained later, bring some order out of chaos and considerably reduce the wage inequity and distortion within plants and localities.

<sup>25</sup> The subject of company wage policies is discussed more fully in Chapter 11.

<sup>26</sup> See, for example, C. C. Balderston, *Wage Setting Based on Job Analysis and Evaluation*, Industrial Relations Counselors, Inc., New York, 1940, pp. 3 and 4.

**Union influences on wages.** The policies and effects of unions are analyzed more fully in subsequent chapters. Here it is only necessary to indicate some of the influences that unions have had on wage structure and wage movements.

Collective bargaining, by interjecting the force of union wage policy, reduces the effectiveness of company policies in wage determination. Some managements even insist that their companies cannot really have a wage policy under union conditions, that the initiative in wage change rests with the union.

The effects of unionization upon wage levels and wage increases are difficult to prove statistically. Unions may organize either the high-wage or the low-wage plants, or some of both. Generally speaking, the larger firms and firms in larger cities are more likely to be organized. On the other hand, hourly earnings' data may be affected by the fact that incentive methods of payment probably prevail to a greater extent on non-union jobs than on jobs subject to union agreement. Some of the occupational wage surveys on a city or labor-market-area basis, which were made by the U.S. Bureau of Labor Statistics in 1943 and 1944, give separate figures for union and non-union establishments. In general, straight-time hourly earnings for an occupation in a city averaged higher in non-union plants than in union plants in almost three-tenths of the cases.<sup>27</sup> Such data certainly do not lend themselves to any simple conclusion. Wage scales in many non-union plants may actually have been influenced by the threat of unionization.

Comparisons of union and non-union wages over considerable periods of time are also inconclusive. The increase in average hourly earnings between 1890 and the 1920's was about the same for unionized planing mills and for sawmills in general, or for unionized foundries and machine shops and for the iron and steel industry as a whole.<sup>28</sup> A study in 1946 of two industries with 43 and 55 years of experience with collective bargaining on a national scale revealed that their hourly earnings had risen no more rapidly than in manufacturing as a whole and that their wage levels were not high compared with similar industries, located nearby and only recently organized.<sup>29</sup> Comparison of increases in average straight-time hourly earnings from 1935 to 1948 in 35 industries classified by the percentage of the industry under union agreement in 1945 failed to show any significant or consistent correlation between degree of unionization and relative increase in wages. Over that 13-year period, the

<sup>27</sup> About 2,100 such comparisons were made. See my article, "Reflections on the 'Labor Monopoly' Issue," *Journal of Political Economy*, Vol. LV (December, 1947), pp. 526-27.

<sup>28</sup> See *ibid.*, p. 528.

<sup>29</sup> See R. A. Lester and E. A. Robie, *Wages under National and Regional Collective Bargaining*, Industrial Relations Section, Princeton University, 1946, pp. 16-18 and 29-30.

percentage increase in hourly earnings for the group of industries that were 80 to 100 per cent organized in 1945 was no greater than for those 20 to 40 per cent organized.<sup>30</sup>

Although the effects of labor organization on wages in particular localities or industries cannot be measured or demonstrated statistically, there can be little doubt that widespread unionism has tended to increase uniformity in wage scales and to reduce wage differentials within occupations and industries. A general union principle is "equal pay for equal work" in order to "take labor out of competition." In line with that principle, unions have tended to reduce inter-firm differentials locally, to spread union scales to suburban areas, to narrow regional wage differentials (especially in textiles, meatpacking, iron and steel, and pulp and paper on the West Coast), and to lessen the spread between the extremes of the occupational-rate ladder.<sup>31</sup> The growth of multiple-employer bargaining (a group of companies negotiating jointly with a union) has helped to iron out inter-firm differentials within the bargaining unit. The union practice of wage-pattern spreading has tended to make wage increases more uniform. Some firms negotiating singly have sought to pare their differentials above average wage levels for the locality or the industry, on the grounds that under union conditions such differentials are unprofitable. By forcing firms to adopt systematic job classification and evaluation, unions have also simplified rate structures and brought about more uniformity in the rates paid within a plant. Their preference for a single standard rate for an occupation, or for automatic progression according to time served where rate ranges do exist, has been an additional influence in eliminating personal differentials.

Despite such differential-reducing influences, great diversity in wage scales and earnings continues to exist. Even with industry-wide uniformity in occupational rates, hourly earnings in one plant may exceed those in another plant by as much as 50 per cent. That, for example, has been the experience in the full-fashioned hosiery industry, where 30-odd mills pay a uniform piece-rate scale under a nationwide labor agreement.<sup>32</sup> Generally speaking, the newer industrial unions have not, as yet, gone far in eliminating local and regional differentials in manufacturing wage scales, and in some instances, unions have helped to maintain such differentials.

<sup>30</sup> See my comment, "The Influence of Unionism upon Earnings," *Quarterly Journal of Economics*, Vol. LXII (November, 1948), pp. 783-87, especially the table.

The effects of unions on inter-industry differentials and on increases in the general level of wages are considered more fully in Chapter 14.

<sup>31</sup> A statistical study covering a number of manufacturing industries indicates that, between 1931-32 and 1945-47, skilled rates tended to decline from 180 to 155 per cent of unskilled rates. See Harry Ober, "Occupational Wage Differentials, 1907-1947," *Monthly Labor Review*, Vol. LXVII (August, 1948), pp. 127-34.

<sup>32</sup> See Thomas Kennedy, *The Significance of Wage Uniformity*, University of Pennsylvania Press, Philadelphia, 1949, especially Table I, p. 7.

## FACTORS IN WAGE DIFFERENTIALS

A different explanation is necessary for each type of wage differential. Varying rates of population growth are an important factor in geographic differentials. Industry differentials are to be explained, in large measure, by the nature of the industry (character of price and product competition, rate of expansion and technological improvement, kind of work and labor, etc.) and by the policies and bargaining strength of the union or unions with jurisdiction in the industry. Inter-plant differentials locally for the same type and grade of labor seem to be the result mainly of four factors: industry differentials, differences in management and plant efficiency, differences in employer wage policies, and the combination of company hiring policies and worker job behavior. Custom is also important.

Occupational differentials well illustrate the role that economic and non-economic influences play in wage differences. The wide spread between rates for skilled and unskilled labor during the last century and early decades of this century is to be explained largely by the existence of abundant supplies of unskilled immigrant labor accustomed to low living standards, whereas skilled craftsmen were relatively scarce and mostly native-born. Also, labor organization was largely confined to skilled workers prior to the 1930's. Thus, a large skilled-unskilled spread became traditional in American industry, and managements came to consider such a spread as necessary in order to induce workers to aspire to and train for the more skilled occupations.

The underlying situation has, however, altered. Immigration was sharply restricted after World War I, the level of education of the population has been steadily rising, most of the unskilled and semiskilled workers in manufacturing have become organized since 1932, and social attitudes toward wide occupational differentials have changed. Not only do we have minimum-wage legislation, but in the unions in manufacturing industries the unskilled and semiskilled, in most cases, far outnumber the skilled and their interests tend to predominate in the formulation of union policy. Under the changed circumstances, the percentage differential between unskilled and skilled occupations need not be as large as formerly, and the non-wage attractions of skilled jobs, such as their preferred social status and more pleasant working conditions, may take on added importance as incentives to advancement within manual occupations. Thus, a level of skilled wages 50 per cent above the unskilled level (rather than the pre-1930 figure of 80 to 100 per cent) may provide a sufficient number of qualified recruits for the skilled occupations. Nevertheless some managements may consider the old, pre-1930 spread to be the only right and proper one.

Managements, especially of large firms, generally prefer to follow an inde-

pendent wage policy, to maintain large occupational differentials, and to have economic forces determine differentials between industries and areas. Unions, on the other hand, generally favor a common wage scale for plants producing the same items and the fixing of occupational differentials according to the workers' evaluations of the various jobs. Managements consider union influence in wage determination to be largely political, whereas they like to think of their own wage decisions as purely economic. Actually, as was pointed out in Chapter 2, non-profit motives are often important in management decisions. Personal and historical factors help to explain wage structures in many firms and industries. One has but to recall how Henry Ford's policy of high wages and nationwide uniformity has affected wages in the automobile industry since 1914, or how Harold H. Swift's notion of classifying cities into three or more wage-level categories has affected wages in the meat packing industry since 1928.

**The case of North-South differentials.**<sup>33</sup> The complex nature of geographic wage differentials and some of the difficulties in explaining them are well illustrated by differentials in wages between the South and the North. Numerous factors have been mentioned in explanation or justification of these differentials. It is claimed, for example, that the relative shortage of capital in the South leads to less capital equipment being employed per worker in southern plants than in northern plants. However, available data raise doubts as to the general validity of that contention. Of 44 replying inter-regional firms, 42 stated in 1945 that lower wage rates in the South had not *themselves* caused the company to use production techniques or methods in its southern plant or plants that require more labor and less machinery than the proportions of labor to machinery used in its northern operations. The southern wage scales for those 42 concerns averaged about 12 per cent under their northern scales, and ten of the concerns had southern scales 20 to 30 per cent below their northern rates for all comparable jobs. Generally speaking, the southern plants are newer and more modern in such industries as furniture, hosiery, cotton textiles, pulp and paper, and rubber. Also census data show that the electric energy used per man-hour in southern manufacturing has generally averaged well above the average for the northeastern and north central states. Some of the smaller southern companies in certain industries do, of course, use a relatively high proportion of labor to capital investment, as is the case in the southern lumber industry, largely because of the size and location of the trees.

In support of lower wage levels in the South it has frequently been alleged that southern labor is less "efficient" or less "productive" than northern labor.

<sup>33</sup> The material for this subsection has been taken from a series of studies by the author, which are summarized in "Southern Wage Differentials: Developments, Analysis, and Implications," *Southern Economic Journal*, Vol. XIII (April, 1947), pp. 386-94.

Two detailed studies of three textile firms with plants in both regions indicated that southern labor in those cases was fully as efficient as northern labor. Twenty-three out of 41 replying inter-regional concerns reported in 1945 that the efficiency of factory labor in their southern plants was equal to or (in four instances) above that of labor in their northern plants, yet a majority of those 23 concerns were paying wage scales in the South that averaged from 10 to 25 per cent lower than in the North. Such data contain little support for the contention that North-South wage differentials are largely due to sectional differences in labor effectiveness. Where inter-regional firms have not experienced labor efficiency in their southern plants approximately equal to that in their northern plants, it is frequently due to less effective management in their southern establishments.

The view that North-South differentials rest on cost of living differences also fails to meet the test of statistical facts. Studies by the U.S. Bureau of Labor Statistics have indicated that living costs for a normal worker's family in southern cities average only 3 or 4 per cent under the cost of the same plane of living in northern cities of comparable size. In many large, and some small, southern cities the cost of a particular scale of living is higher than in a number of northern cities. Furthermore, cost-of-living differentials are not closely associated with wage differentials between cities.

Neither singly nor in combination do cost of living, labor productivity, or labor-capital ratios adequately explain North-South wage differentials or changes in such differentials. Two factors that seem to have been of considerable significance are the rate of population growth and company and industry wage policies. The population growth has increased at a somewhat more rapid rate in the South than in the North (excluding the West) during most of the years since 1890, which has meant that the supply of unskilled labor from low-wage southern agriculture has tended to be large relative to job opportunities for such labor in manufacturing industry in the South.

With respect to company and industry wage policies, it should be noted that the average North-South wage differential varies widely and irrationally from industry to industry. Such a differential is practically non-existent in the various branches of the glass industry, aircraft production, rayon, bituminous coal, seamless hosiery, pulp and paper (excluding the West), and in many skilled trades. The average North-South differential is only 5 to 10 per cent of northern rates in such industries as automobiles, oil, printing, work clothes, railroad transportation, men's shirts, and cotton textiles. Yet for furniture, full-fashioned hosiery, rubber tires and tubes, and food products, the average southern wage is between 20 and 30 per cent below the average northern wage

for all comparable jobs.<sup>34</sup> Why, for example, the average percentage differential between the two regions for comparable jobs should be three or four times as great for rubber tires as it is for such related industries as oil, autos, and aircraft is difficult to explain, especially since output per man-hour and labor effectiveness in the southern plants of some tire companies has been as high as in their northern plants and rubber tires generally sell for the same price all over the country.

The significance of company wage policy is indicated by the fact that a number of southern plants in industries having a sizable average differential maintain wage scales as high as those paid by their northern competitors. For example, out of 51 southern firms in eight industries that replied to a questionnaire in 1945, one-third (17) reported no differential or only a negligible one (less than 5 per cent) between their wage scales and those of their northern competitors for comparable jobs, yet the average North-South differential for all 51 concerns was 13 per cent. Of 47 inter-regional firms with plants both in the North and the South, seven were paying the same uniform wage in both regions, while ten were paying 20 to 30 per cent less in their southern plants. Such differences in company policy help to explain why 1945 wage comparisons between the southern and northern plants of the same concern showed that, for five inter-regional pulp and paper firms, the southern scales ranged all the way from 105 per cent of the northern scale in one company to 79 per cent in another, and that the corresponding range for eight inter-regional cotton textile concerns was 100 to 80 per cent. Also, the North-South differential for 12 southern furniture companies varied from no differential for one company to a figure for another company of 60 per cent of the scale that northern competitors were believed to be paying for comparable jobs; the corresponding range for three southern paint companies and for two southern shoe firms was from no differential to 75 per cent of the scale paid by northern competitors.

During the past 60 years, North-South wage differentials for various industries have not increased or decreased in unison but have frequently moved in opposite directions. For example, although the cotton-textile industry has had close economic relationships with agriculture, southern wage levels in cotton textiles rose from 61 to 83 per cent of the New England average during

<sup>34</sup> True North-South wage differentials are difficult to determine. It is almost impossible to insure strict comparability of data—comparability in terms of products, equipment, and supervision as well as job comparability. In addition to comparability is the question of representativeness. The amount of the calculated differential will vary considerably depending on the different levels of skill of the jobs being compared, the size of the city and the sections in the North and in the South where the jobs are located, and the industries and firms used for comparative purposes. Southern industry is more decentralized in small towns, and many firms in the South pay wage scales as high as the average level for similar plants in the North (exclusive of the West Coast).

the two decades from 1925 to 1945, yet southern farm wages declined from 70 to 63 per cent of the New England farm average during the same period.

Since the mid-1920's, average differentials between the North and the South have narrowed considerably in such industries as cotton textiles, seamless hosiery, pulp and paper, paperboard, and bituminous coal. On the other hand, the ratio of southern to northern wage scales appears not to have changed much since 1890 in other industries like lumber, furniture, building construction, and pig iron production.

The factors that seem to have been influential in narrowing or eliminating the North-South wage differential in some industries are: (a) relative expansion of the industry in the South (e.g., cotton textiles, hosiery, and pulp and paper), (b) minimum wages under the National Industrial Recovery Act, the Fair Labor Standards Act, and the National War Labor Board, which particularly affected low-wage industries (e.g., seamless hosiery, fertilizer, cotton garments, and cotton textiles), (c) union organization and union policies (e.g., the effects of the threat of unionization and actual organization in cotton textiles, and the elimination of any North-South differential for day-work in bituminous coal by the United Mine Workers in 1941), and (d) high-level employment during the 1940's. The relative importance of those four factors has varied from industry to industry, and in certain industries they seem to have been ineffective. For example, relative expansion of the furniture and rubber industries in the South was not accompanied by a permanent reduction in their regional differentials as happened in pulp and paper, hosiery, and cotton textiles under similar circumstances. Nevertheless, industrial expansion and union activities have probably been more influential than Federal wage minima in bringing about real changes in wage differentials between the two regions.

This discussion shows how complicated is the subject of regional wage differentials. The significance of different factors is difficult to assess; it varies from time to time and from industry to industry. Additional factors might also have been considered, such as improvement in the quality of management and labor in the South with more education, better health, and longer industrial experience.

In reviewing the available data, one cannot help but be impressed with the marked differences in geographic wage relationships between industries and firms. Wage differentials seem to vary widely and often in inexplicable ways, with little tendency toward standardization. The differentials between firms within a single labor-market area in the South have generally been considerably larger than the average North-South differential in such industries as cotton textiles, furniture, and hosiery. For some communities in the South, the inter-firm range of variation in hourly rates for cotton-textile occupations

was one and a half to three times greater than the average North-South differential in 1945, and for the South as a whole the differences in wage scales between firms in industries like cotton textiles or furniture have been two to four times greater than the real North-South differential for the industry.

Certainly market forces are far from adequate to explain the variety and complexity revealed by wage statistics. Any satisfactory explanation must include such factors as company and union policies and practices, community attitudes and mores, and personal and historical influences. Further investigation is needed to discover the precise role that different factors, non-economic as well as economic, play in limiting or extending the range of wage variation.

## **CHAPTER FIVE**

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### **USE OF HUMAN RESOURCES**

The nation's most valuable resources are human resources. Our industrial effectiveness depends primarily upon the physical and mental efforts and abilities of those who manage and perform the productive operations. Without human energies, skill, and knowledge, natural resources are inert and of little value. Consequently, one must think in terms of people as well as output, the conservation of men as well as materials.

In a democracy, success is measured not only in economic goods but also in social and political well-being. People's attitudes affect both production and political processes. It is, therefore, important economically, politically, and socially that adults have the opportunity to develop their potentialities and utilize their capacities. Jobs are related to human and democratic values; an important product is their effect on people. To have a healthy society, the citizens must not only enjoy physical health but also have adequate education and be free from psychological frustration and the corroding fear of economic insecurity. The proper use of manpower resources involves long-range, as well as more immediate, considerations.

In this chapter we shall be concerned with the different facets of the problem of manpower utilization—the size and composition of the nation's workforce; trends in its occupational, industrial, and geographic distribution; child labor and industrial retirement; hours of labor, training, and other items affecting labor productivity; and factors causing changes in the volume of employment. To management, such matters involve problems in adjusting the firm's labor force to employment and job changes and in using labor economically so as to achieve high productivity per dollar of total costs. To workers, they constitute the related problems of work requirements, job uncertainty, and lifetime earnings. To society it is a matter of the contributions that people make to help meet the nation's economic needs and the effects of employment and unemployment upon the whole population.

Frequent reference will be made to statistics. One should not forget that the figures either measure human activities or represent people. Behind each statistic stand human beings.

## CHANGES IN THE WORKFORCE

The population of the nation may be divided by function into four major groups: (a) breadwinners, (b) homemakers, (c) students, and (d) a miscellaneous remainder consisting of persons who, for some such reasons as age or illness, do not work for economic gain. The first group constitutes the *labor force*. They are the ones who, either as employees or as self-employed enterprisers, produce economic goods and services. Of course, a person may be in two or more groups at the same time or at different times of the year. For instance, homemakers or students may also be employees and, hence, members of the labor force in the latter capacity. Even though unemployed, a person is considered a part of the nation's labor force as long as he is seeking gainful work.

**Size and composition.** The numbers in the nation's labor force are influenced by custom and public opinion as well as by economic factors. The role that social and psychological influences play is reflected in the figures for children, women, and men over 65 in the labor force. For example, between 1890 and 1940, the percentage of persons between 10 and 19 years of age who were in the labor force fell from 28.9 to 16.6 per cent of all persons in those ages, and the number of men 65 and over who were in the labor force declined from 63 to 42 per cent of the total in that age group. Popular sentiment with respect to length of schooling and age of industrial retirement largely explains such marked changes in half a century. Longer school attendance and early retirement both tend to reduce the proportion of the total population that is in the labor force. Their reducing effect, however, has been more than offset by the increasing proportion of women gainfully employed. Between 1890 and 1940 the percentage of all females 10 years of age and older who were in the labor force rose from 17 to 24 per cent. The greatest expansion during that period was for married women (the percentage of all married women who were in the labor force rising from 4.5 to 15.4 per cent); the percentage for single women of all ages increased from 37 to 46 per cent. As a consequence, the ratio of labor force to total population rose from 35 per cent in 1890 to 40 per cent in 1940.<sup>1</sup> The effects of World War II, including Selective Service and patriotic appeals, brought the labor force (including the armed services) up to a peak of 46 per cent of the total population in 1945, with the ratio declining again to the more "normal" figure of 42 per cent in 1949.

Customs and economic conditions that influence labor-force participation vary with the type of community. The contrast is especially marked between

<sup>1</sup> Many of the data in this subsection have been taken from John D. Durand, *The Labor Force in the United States, 1890-1960*, Social Science Research Council, New York, 1948, especially Chapters 2 and 3 and the Appendices.

metropolitan and rural areas. Boys living on the farm enter the labor force, on the average, at least a year earlier than non-farm boys, and farmers continue in gainful employment later in life. The 1940 census revealed that half of the surviving men in urban communities had withdrawn from the labor force at age 68, whereas the corresponding figure for men in rural-farm areas was 74 years of age. The proportion of urban women in the labor force, on the other hand, is more than twice as great as that for farm women.

Attitudes and customs with respect to participation in the labor force are shaped to a considerable extent by economic circumstances. The attitude in farm areas that wives should remain in the home and not accept outside work for pay rests partly on the larger families and relative paucity of gainful employment for women in farm areas. The increase in women in the labor force from one out of every six gainful workers in 1890 to one out of four in 1940 has been due to such factors as the following: the relative expansion of employment opportunities in clerical, trade, and service occupations and in the lighter assembly operations in manufacturing; the reduction in hours of work per week; the increase in labor-saving equipment and various home conveniences; and the decreasing family responsibilities for women. Such changes made it economically feasible as well as socially respectable for more women to work outside the home.

Similarly changes in industry have reduced the openings available for youngsters or for older workers. Between 1890 and 1900 a steady expansion occurred in the percentage of boys and girls 10 to 15 years old who were gainfully employed, rising from 19 to 26 per cent for boys and from 7 to 10 per cent for girls. After 1900, on the other hand, the percentages dropped sharply to 6 per cent for boys and 3 per cent for girls in 1930. By 1940, child labor in the form of regular gainful employment for children under 16 had virtually ceased. Social encouragement of longer schooling in urban areas undoubtedly reflects the decreased demand for child labor with larger capital equipment per worker. There has, of course, also been an increasing awareness that a better educated labor force means greater productive potentialities as well as cultural and political progress. As for retirement, the age that is socially regarded as appropriate in urban areas is influenced by the pace and character of machine operations. Self-employed farmers can, and are expected to, continue in gainful employment long after workers of their same age have retired from manufacturing employment in urban areas.

Except during and right after World War II, the labor force has been a remarkably steady percentage of the total population, rising only slightly each decade since 1870. Of course, the size of the labor force varies during the year, being at least four million larger in July after the closing of schools and colleges, than it is in the low month of January. However, from year to year

or over a business cycle, the labor-force proportion is surprisingly stable. As we have noted, that stability has, in large measure, been the result of opposing trends—longer schooling and earlier retirement on the one hand and increasing employment of women on the other hand. It is assumed that those trends will continue during the next two or three decades, although that may not prove to be the case.

The percentage of the population in the labor force appears to be practically unaffected by income and employment fluctuations. The labor-force propensity apparently is so deeply rooted in habits and customs, in prevailing educational standards, and in current views concerning retirement, that ordinary economic pressures cause very little expansion or contraction in the overall size of the working population.

Little statistical support can be found either for the theory that depressional unemployment and declining worker incomes cause large numbers of additional persons to seek employment to maintain living standards or for the theory that increasing income causes significant net withdrawals from gainful employment.<sup>2</sup> Indeed, the labor force seems more likely to shrink slightly as employment declines and to increase a bit as employment recovers. Although rising incomes may tend to reduce temporarily the female propensity to labor-force membership in large cities, such an effect appears to be absent in other areas so that it is hardly noticeable in the national statistics. Study of the figures, especially for the 1930's, seems to indicate that participation in the labor force is governed more by accepted social standards than by economic calculation.

The supply of labor, as defined by economists, is not the same as the labor force. In 1949 the civilian labor force<sup>3</sup> consisted of about 60 million persons—employers, self-employed, unemployed, and unpaid family workers as well as employees. Only about 47 million were employees or persons seeking paid employment, who would normally be considered part of the labor supply strictly defined. Attempts have been made to derive a short-run supply schedule, representing variations in the total hours of labor offered for sale in an area or the nation at different levels of wages. Such efforts have, however, proved rather fruitless, because the ratio of the labor force to total population has been found to be so stable, and no significant inverse relationship seems to exist between the level of wages and the size of the labor force.

**Industrial and occupational trends.** Marked changes have occurred in the industrial and occupational composition of the nation's labor force since 1870. Over half of the working population was engaged in agriculture in

<sup>2</sup> For a discussion of these theories based on statistical investigations, see C. D. Long, "The Labor Force and Economic Change," in *Insights into Labor Issues* (R. A. Lester and Joseph Shister, eds.), Macmillan, New York, 1948, pp. 329–55.

<sup>3</sup> Excluding some one and a half million then in the armed forces.

1870; now agriculture represents only 15 per cent of all gainful workers. The greatest relative expansion has occurred in the white-collar lines—professional and clerical service and wholesale and retail trade, which combined have risen from 10 per cent of the labor force in 1870 to over 30 per cent in 1950. Transportation and communication industries expanded during that 70-year period from 4 to over 8 per cent of total gainful employment. On the other hand, manufacturing, which rose from 20 per cent in 1870 to 30 per cent of the labor force in 1920, had by 1950 declined to include only about 25 per cent of the working population, or considerably less than the white-collar lines. As the standard of living rises, expenditures for services increase relative to expenditures for goods.

Significant changes have also taken place in occupational distribution during the past half century. The trend has been away from heavy, unskilled manual labor toward semiskilled machine tending and white-collar occupations. Technological improvements and expansion in the service lines have been primarily responsible for the decline in “strong-back” or “muscle” jobs and the relative increase in semiskilled, machine-operating and parts-assembling jobs and in clerical, sales, and professional occupations. Since 1870, skilled white-collar occupations, such as engineers, accountants, artists, supervisors, and teachers have been increasing three to thirteen times as fast as the total working population.

Application of mass-production methods in manufacturing has meant more and more subdivision of jobs, with narrower and narrower specialization. Man, however, is not a single-purpose machine. Restriction of one’s work activities to the endless repetition of a single set of motions tends to increase workers’ fatigue and strain. Lack of use of a large part of a person’s capacities may result in dissatisfaction and resistances that lower working efficiency.

The effectiveness of the workforce depends not only on its size, composition, and economic distribution but also upon the extent and efficiency of its employment. We now turn to those aspects of the manpower problem.

## **ELEMENTS IN LABOR PRODUCTIVITY**

**Meaning and measurement.** Some measures of “productivity” are desirable in order to compare the results of input in terms of output, and thus gauge the efficiency of industry. In attempting to devise such statistical measures it must be recognized, however, that industrial output flows from the combination of many interrelated factors, and that in modern industry it is not possible to isolate the influence of a single element in a complex process, to ascertain the exact contribution of each factor to the combined result. An increase in productivity presumably means more efficient utilization of one or more of the various factors of production: more efficient management,

improvements in technical knowledge and tools, more effective use of existing plants and other overhead items, better supplies of materials and parts, and more ability, experience, and effort on the part of the workforce. Historically, the factors most responsible for expanding productivity in manufacturing have been (a) more and better tools per worker and (b) more electrical energy per worker.<sup>4</sup> For most industry over a long period of time, improvements in managerial efficiency (organizational economies) undoubtedly have had greater effect on output than improvements in the labor element.

Productivity can be expressed as the physical output per unit of horsepower used, per unit of capital equipment operated, per unit of materials consumed, or per unit of labor employed. The most common practice is to express productivity in terms of labor, either as the output per worker or per payroll-hour (man-hour). It is fairly simple to divide the total output by the total number of payroll-hours.<sup>5</sup> Labor-hours are easily measured and are common to all industry, whereas equipment varies widely and is difficult to reduce to a common denominator.

The use of the term "labor productivity" to denote physical (or value) output per man-hour is, however, misleading. It implies that changes in such output are primarily due to labor, whereas, as already observed, workers' effort is only one of many interrelated and inseparable influences; the productivity of capital and management are more responsible than labor for output changes over considerable periods of time. During short time intervals, output per man-hour may drop significantly with change-over to new product models, shift to higher quality products, use of poor materials, interruptions in the flow of work, and other dynamic changes in equipment, supervision, or rate of operations. Most industries, for example, have non-production or overhead workers (such as maintenance and staff employees), whose numbers do not decline proportionately as plant production falls off with reduced demand. Such factors affect man-hour output whether measured at the plant, industry, or national level. Consequently, productivity indexes may not portray changes in the efficiency of labor or other productive elements.

**Productivity trends and differences.** Various estimates indicate that since 1850 the gain in output per man-hour has averaged almost 2 per cent a year for the economy as a whole.<sup>6</sup> That means we have doubled our living standards (or per capita output) about every third of a century. It has not, however, been a steady gain from year to year or decade to decade. Produc-

<sup>4</sup> See Jules Backman and M. R. Gainsbrugh, "Productivity and Living Standards," *Industrial and Labor Relations Review*, Vol. II (January, 1949), especially p. 171.

<sup>5</sup> Differences between hours paid for and actual hours worked arise with paid vacations, lunch periods, or travel time; with provision for reporting pay of so many hours a day whether worked or not; etc.

<sup>6</sup> See, for example, J. Frederick Dewhurst and Associates, *America's Needs and Resources*, Twentieth Century Fund, New York, 1947, p. 23.

tivity gains have been at a considerably higher rate in some recent decades than was the case earlier. For example, output per man-hour seems to have increased only 3 or 4 per cent during the decade from 1870 to 1880 compared with an increase of about 40 per cent between 1930 and 1940. On the other hand, apparently no overall productivity gain occurred in civilian industry either during World War I or World War II.<sup>7</sup>

The average for the whole economy conceals a diversity of experience in different sectors. In manufacturing, where mass-production methods and mechanical power have been applied most widely, the increase in man-hour productivity has averaged over 3 per cent a year in recent decades, whereas in the field of distribution (white-collar lines) the average yearly increase has been less than 1 per cent. As explained in the preceding section, the greatest expansion in employment during recent decades has occurred in the white-collar occupations and industries that have been characterized by small productivity gains. Within the mechanical industries, those that are young and are experiencing sharp expansion in sales and rapid change in technique often show striking gains in productivity over short periods of time, achieving increases in man-hour output of as much as 20 per cent a year. Examples include rayon, automobiles, rubber tires, and petroleum refining. On the other hand, in older industries, which are undergoing little technical change and even suffering a downward trend in market demand, change in the level of output per man-hour may be nominal or even negative. Carriages, wagons, and lumber-mill products are examples. Such marked differences in productivity experience make it impractical to gear either occupational or industry wage structures to changes in physical output per man-hour. The relation of wages and productivity is discussed in Chapter 20.

**Mobility and training.** Economic change requires adjustments in the labor force. If labor is to be distributed in proper relation to economic needs and resources, workers must shift as firms and industries expand and contract, as new occupations arise and old ones decline, as some firms fail and new ones are born, as industry and people migrate, and as seasonal peaks in employment occur. Hence the movement of workers may take any one or more of the following forms: into or out of the labor force, into or out of employment, between industries, between firms, between occupations, and between localities. The term "labor mobility" has been used to cover all those types of transfer. Some writers use it to mean readiness to move as well as actual movement. The term "labor turnover" generally refers to actual changes in the workforce of a firm (accretions, quits, discharges, and lay-offs). An industry turnover rate would, therefore, represent a composite average for individual firms in the industry.

<sup>7</sup> See Backman and Gainsbrugh, *op. cit.*, p. 182.

Labor mobility is influenced by economic factors, especially employment opportunities. Workers follow jobs and patterns of occupational progress. As the discussion in Chapters 2 and 3 has indicated, however, they seem to move more because of job dissatisfaction or job loss than because of the motivating force of wage differentials. Much of the inter-firm and inter-area movement appears to be either uninformed (if not unintelligent), or influenced to a considerable degree by the availability of a job or by non-financial considerations. Although American labor has a high rate of geographic mobility, most of the migration apparently is accounted for by persons under 25 years of age. Attachment to a job, firm, or locality increases with age and family responsibilities.

Present employer hiring practices and employee methods of job selection are so haphazard that undoubtedly there is considerable waste motion and failure to distribute the workforce among the available jobs in a way that would make the best use of its capacities and provide the maximum amount of job satisfaction. Properly run employment services should help to reduce this waste, which is alleged to be part of the necessary social cost of a free society. Actually, forced labor in countries where that practice prevails probably is no more efficiently distributed than is free labor here. Ours is a highly dynamic economy, yet expanding occupational, industrial, and area demands for labor seem, generally speaking, to have been met (even in the tight labor-supply conditions prevailing during World War II) almost as fast and fully as was warranted under the existing circumstances.

Training has been an important means of adapting labor to developing demands. It may be apprenticeship training for a skilled craft, training of workers for supervisory positions, or specific job instruction such as how to operate a turret lathe, to spot weld, or to assemble radio tubes. Training that includes instruction in job relationships should not only increase employees' skill in performing specific tasks but also their willingness to accept new production methods, their knowledge of organizational relations, and the amount of satisfaction they derive from their work. In short, good in-plant training should enhance the total effectiveness of the workforce by improving attitudes as well as skills.

**Work hours and output.** The length of the workday and the workweek not only influence labor-force propensities, especially the percentage of married women engaged in gainful employment, but they also affect workers themselves and their productivity. The longer the hours of work above eight a day and 40 a week, the greater tends to be the amount of sickness, absenteeism, work injury, machine breakdown, and defective output. Of course, the extent to which such adverse effects accompany longer hours varies with the kind of work. The important factor is fatigue. The fatiguing effects of long

hours are more marked, the greater is the amount of physical exertion required on the job and the more the worker is forced to conform to a work pace set by the rate at which machinery operates. Long hours are more likely to injure workers' health and reduce the length of their working lives on arduous, machine-paced jobs than would be true on light, operator-paced work. The increased absenteeism accompanying longer hours also arises from insufficient time off to attend to personal matters and household duties.

Various studies have been made of the relation between work hours and personal efficiency on the job. Generalization is, however, difficult because workers tire faster on some types of work and some work shifts than on others, because a considerable period of time is required for hours changes to work their full effects upon workers' health and output and other things do not remain unchanged in the meantime, and because the atmosphere in the workshop seems to make considerable difference in the results. Nevertheless studies do indicate that, generally speaking, "the 8-hour day and 40-hour week are best in terms of efficiency and absenteeism and that higher levels of hours are less satisfactory."<sup>8</sup> That was the general conclusion drawn from 78 case studies in the 1940's, covering some 3,500 workers in 34 plants in a variety of industries. An increase in daily hours from eight to nine and a half or ten under a five-day week tended to result in a 4 or 5 per cent decline in output per man-hour. Shift from a six-day to a five-day week with no change in daily hours tended to increase hourly output from 5 to 10 per cent. That was true for workers on some type of wage incentive.

Except during World War II, the workday and the workweek have steadily decreased in length during the past century. In 1850, average hours of work in manufacturing were eleven and a half a day. Thereafter the daily average declined to ten by 1890, to eight and a half by 1920, and below eight by 1940. The weekly average of actual hours worked in non-agricultural pursuits fell from 68 in 1850, to 58 in 1890, to 48 in 1920, and 42 in 1940. In World War II, the weekly average rose to 45, only to drop to 40 per week by 1950.<sup>9</sup> In 1950, the five-day, 40-hour week was the most prevalent arrangement, with a widespread practice of granting manual workers annual vacations with pay. Despite this marked decline in working hours, the physical output per worker has, as observed above, continued to increase at a significant rate from decade to decade.

As noted in Chapter 1, the market mechanism does not automatically establish the length of the workday or workweek that is most desirable from

<sup>8</sup> *Hours of Work and Output*, Bulletin No. 917, U. S. Bureau of Labor Statistics, 1947, p. 1. See also H. M. Vernon, *Industrial Fatigue and Efficiency*, Dutton, New York, 1921, and *The Health and Efficiency of Munition Workers*, Oxford University Press, London, 1940; P. S. Florence, *Economics of Fatigue and Unrest*, Henry Holt, New York, 1924; and *The Five-Day Week in Manufacturing Industries*, National Industrial Conference Board, New York, 1929.

<sup>9</sup> See Dewhurst and Associates, *op. cit.*, p. 695.

either the personal or social point of view. Society must consider not only workers' output per hour or per week but the total over a working life, not only the economical use of labor but also efficient utilization of capital equipment. With a single shift, shorter hours tend to increase capital costs per unit of output, because equipment is less fully employed during a year when it is operated fewer hours each day. If, on the other hand, a shorter workday leads to a double shift in place of a single one, the equipment is used more hours a day, less capital equipment is required for a certain volume of output, and capital costs per unit tend to be reduced.

Shorter or longer working hours have so many short- and long-run effects—on hourly and lifetime output, on absenteeism and work accidents, on workers' health and happiness, on labor-force propensities, and on the use of capital equipment—that it is difficult to strike a net balance and to say which work schedule represents the most efficient use of labor from the standpoint of society in general. From the personal viewpoint, one's own well-being may seem the most valid basis for judging the appropriate hours of work. Unfortunately that is not a decision that each person can make independently, because factories cannot be operated efficiently except on uniform work schedules. In a democracy presumably the people should somehow decide how much of their increased productivity they should take in additional goods and services and how much in the form of more leisure. But how should that decision be made so as to affect work schedules in industry—by ballot and legislation, by piecemeal collective bargaining between management and labor, or by unilateral decision of management or unions in adopting work rules? Perhaps because the problem is so complex, each of these means is used to some extent in our economy.

### CHANGES IN THE VOLUME OF EMPLOYMENT

Not only is labor the fundamental resource in any economy, but it is also a resource with a high maintenance cost and a tendency to deteriorate rapidly if left idle for any great length of time. Indeed, an unemployed worker is the most costly unused resource for an economy. He and his dependents must continue to be provided for (fed, clothed, housed, etc.). Employment insecurity also has adverse psychological effects. Extended unemployment may impair workers' morale, work skills, work habits, and family and social life.

**Facts about unemployment.** Business depressions have occurred periodically in this country during the past two and a half centuries. In the period from 1720 to 1723 and again in 1729–30, the colonies of Pennsylvania, New Jersey, and Delaware suffered from "hard times," a "general decay" or "stagnation" of trade. Money was "scarce," coins were "hoarded up," markets were "glutted with goods," prices fell "sharply," shipyards were almost "empty,"

shipbuilders and carpenters "starved for want of work," "honest and industrious tradesmen were reduced to poverty for want of employ."<sup>10</sup> Only following issues of paper money was "trade revived," with money circulating "speedily" and goods selling "briskly," so that "artificers found employment" and shipbuilders again enjoyed "full employment at their trades."

Descriptions of those early depressions stress the chief characteristics of business cycles: (a) marked variation in total money spending and (b) accentuated swings in the capital-equipment industries, with much less fluctuation in the consumer-goods lines that are producing non-durable items. Cyclical waves in employment and production have been greater the more long-lasting the product and the further the industry is from the consumer. Purchases of durable goods can be postponed by using them longer. Through variations in inventories and investment in equipment, changes in consumption are transmitted in magnified form back toward the initial processing of the raw material.

Although rather irregular in their timing, major depressions in this country have occurred, on the average, every eight and a half years during the period since 1790. Of course, some major depressions have been much more severe in depth and duration than others. In addition, one or two minor recessions generally occur during each major business cycle.

For each of the four decades prior to 1930, unemployment in this country averaged 5 or 6 per cent of the labor force. During the decade of the 1930's, however, it averaged 17.5 per cent. In 1932 and 1933, one out of every four persons in the nation's labor force was unemployed, and a large part of the remainder had only part-time employment. Hence it is estimated that in each of the four years from 1932 through 1935 between 40 and 50 per cent of all available hours of labor was lost because of unemployment and underemployment. In building construction and durable-goods lines, production in 1932 was but one-fourth of the 1929 figure, and employment contracted almost as much. In the decade of the 1940's, on the other hand, unemployment averaged only 5 per cent of the labor force, ranging from a high of 14 per cent for 1940 to a low of 1 per cent for 1944.

In a dynamic economy, some "frictional" unemployment is unavoidable. With shifts in consumer and business demand, laid-off workers may fail to make immediately the adjustments required to get a new job. Transfer of workers between occupations, firms, and localities may require some interval of time for training and geographic movement, for obtaining housing facilities

<sup>10</sup> The facts and quotations are taken from two articles on colonial currency issues and depressions, written by the author. See "Currency Issues to Overcome Depressions in Pennsylvania, 1723 and 1729," *Journal of Political Economy*, Vol. XLVI (June, 1938), pp. 324-75; and "Currency Issues to Overcome Depressions in Delaware, New Jersey, New York, and Maryland, 1715-37," *Journal of Political Economy*, Vol. XLVII (April, 1939), pp. 182-217.

and making other arrangements. In addition, temporary lay-offs occur due to seasonal variations, shortages of materials and parts, breakdowns, and other frictional factors. In the absence of a general deficiency in the demand for labor, such frictional unemployment would presumably be short term and, therefore, not too serious in its personal or social consequences, especially with the availability of weekly benefits under unemployment compensation.

The waves in the demand for labor in the durable-goods industries (industrial equipment, construction, and consumer durables like automobiles) are a basic element in business cycles. It may not be possible to prevent fluctuations in purchases of capital equipment and consumer durables if people can continue to spend their money as they wish and industry is permitted to satisfy consumers' demand promptly.<sup>11</sup> A boom is an expansion in those lines at a rate faster than can be maintained. The additional new capacity added to the replacement demand gives a disproportionately large total. Such a bunching of durable-goods purchases may occur as a result of postponed buying during a war, of a shift to new products or industries that requires new capital investment, or of the uneven adoption of new inventions by industry causing waves in replacement demand. The difficulty in eliminating cyclical fluctuations in a free economy becomes apparent when one asks what measures would be necessary to achieve steady growth in commercial and home construction from year to year and decade to decade.

**Analysis of unemployment.** Explanations of depressional unemployment are as numerous, varied, and contradictory as theories of the business cycle itself. Contrasts in economists' diagnosis and prescriptions with respect to unemployment stem largely from fundamental differences in approach. Two distinct types of approach are: the "particularistic" or "equilibrium" approach, and the "general" or "monetary" approach.

An economist's reasoning and conclusions on the problem of unemployment are bound to be influenced by his approach. In assessing responsibility for depressional unemployment, "equilibrium economists" are prone to stress "maladjustments" and "rigidities" in the price-cost structure, monopolistic restrictions and government interferences, and impediments to economic adjustment and private investment. "Monetary theorists," on the other hand, are more likely to emphasize the flow of money incomes and spending, price-level movements and expectations, and changes in total demand with alterations in money holdings.

The notion of equilibrium or balance of forces represents a mechanical analogy applied to economic affairs. In mechanics, disturbing forces will cause an object to move along the line of the resultant until it again comes to rest.

<sup>11</sup> For a discussion of this matter see David McCord Wright, *The Economics of Disturbance*, Macmillan, New York, 1947, especially Chapters 5-7.

In like manner, it is argued, changes in the economic forces of demand and supply will cause prices to move and come to rest at the point where demand and supply are again adjusted, where the volume demanded and supplied is equal so that the price clears the market. Only some "artificial" interference or restraint can prevent this "natural" norm from being reestablished after each "disturbing" change. Such an analysis explains the existence of unused resources or unemployment in terms of friction, maladjustments, and restrictions that prevent price and wage movements from establishing equilibrium.

Equilibrium analysis may be applied to only a small part of the economy—to one product, one firm, one industry, or one locality. It has also been applied to the economy as a whole. In dealing with adjustments in only a small part of the economy, other economic conditions (such as total spending) are assumed to remain unchanged. In other words, the outside reactions to the particular change are disregarded under this abstract method. General equilibrium analysis attempts to explain the effect of various disturbances upon the system as a whole. It assumes that the partial equilibrium solutions must be adjusted to one another to give a single solution for the whole economy that balances demand and supply in all markets.

The notion of general equilibrium rests more on faith than factual proof. Indeed, for business-cycle problems the equilibrium method of analysis is rather mystical and sterile, since one cannot subject it to empirical or statistical tests. Actually price movements may aggravate an unstable situation rather than restore or maintain any mechanical sort of equilibrium. For instance, a rise in the price of a security on the stock market may stimulate an increase in demand, leading to a larger rather than a small volume of sales, and so on in cumulative fashion. General price movements, such as changes in price and wage levels, are especially likely to lead to a vicious spiral, to be self-reinforcing rather than self-corrective. A sharp decline in the price level, instead of stimulating demand, may lead to hoarding, smaller incomes, and a smaller volume of sales—to cumulative contraction. As a General Motors official has explained: "The fact of the matter is that the usual theory of the law of supply and demand frequently works in reverse, that is, when buyers believe prices will rise, buying increases. It is significant that business activity is usually the greatest when prices are rising. When prices begin falling, however, most purchasers stop buying which makes a bad matter worse."<sup>12</sup>

The notion of general equilibrium places too much reliance on interest rates to bring about a balance between money savings and investment and tends to neglect the hoarding of money. Savings give employment only if they are spent or invested. However, decisions to save and decisions to invest are

<sup>12</sup> S. M. DuBrul, "Significance of the Findings" in *The Dynamics of Automobile Demand*, General Motors Corporation, 1939, p. 135.

generally made by different sets of people at different times and for different reasons. It is not surprising, therefore, that planned savings may exceed or fall short of planned investment. Interest rates do not automatically equate those two aggregates. Consequently, savings may remain unused or, in technical terms, be hoarded. Hoarding in this connection is defined as any decrease in the rate of turnover of cash and checking accounts. Money may be held longer. As the rate of circulation of money declines, so do money incomes, sales, and prices. Hoarding causes total receipts to be less than total costs, because a portion of the funds paid out are withheld from the market and not used for purchases. A price-level decline instead of overcoming the deficiency in demand may only stimulate more hoarding. Money can be held as a speculation against such contingencies as changes in the price level, in interest rates, or in money incomes. Such speculative hoarding may, indeed, give rise to a cumulative tendency for incomes and prices to decline, which, in turn, enhances the value of the hoarded dollars.

Purchases and incomes may, on the other hand, expand in a cumulative fashion. Such an expansion could be caused by the expectation of rising prices and a business boom. The more money people spend, the greater are total incomes, and the more people can spend. It is not true for the individual that the more he spends the more funds he will have to spend, but that is true for all people in the economy as a whole, because collectively money incomes come from expenditures. The expenditures of some constitute the incomes of others. A person's money holdings at the beginning of a period plus his money income during that period, along with his borrowing capacity, set the upper limit to what he can spend during the period. His plans and his expectations with regard to incomes, prices, and so forth, determine his willingness to spend up to that limit. The closer he and all others come to spending their limit, the greater, of course, will be their incomes—the more they will be able to spend. Equilibrium analysis, because it assumes simultaneous change and neglects the flow of money incomes and expenditures, is not well adapted for a study of the general process of economic expansion and contraction. In an exchange economy, the rate of turnover of money and goods is an important element in the economics of unused resources.

Depression unemployment must, for the most part, be explained in general or monetary terms. Labor, as a factor in production, really represents output in general rather than simply a particular kind of output. Consequently, there cannot be too much labor in the same sense that there can be too much cotton compared with other commodities. Furthermore, money wages make up a large share of the nation's money income, so that changes in wage rates are likely to change the total demand for products. A demand schedule for all labor, therefore, cannot be discovered by the use of the same demand-and-

supply analysis that is applied to single products or firms, which assumes that all other things (other prices and wage rates as well as incomes and the rate of spending) remain constant. Yet that error frequently is committed.

**Wage rates and unemployment.** Often it is claimed that workers are unemployed because the price of labor is too high—not the relative price of a particular kind of labor but the whole wage level. Wage reductions are proposed as the means to sell more labor and eliminate unemployment. One economist has expressed this view as follows: "Merchants the world over know that the way to stimulate sales is to cut prices. What is true of soap or shoes is equally true of the labor used in making the soap or shoes." He concluded: "In the last analysis, it can truthfully be said that unemployment is, in the main, caused by wage costs being so high as to make it impossible to market the entire output which industry can conveniently turn out."<sup>13</sup>

Such an argument for general reduction in wages as a stimulus to employment is based upon the common-sense fallacy, discussed in Chapter 1, of reasoning by analogy from the particular to the general.<sup>14</sup> As is indicated more clearly by the following quotation from an article on the demand for labor, economists reasoning in this way assume that what is valid for one industry taken separately holds true for the economy as a whole:

In a particular employment, provided demand for its product is elastic, more persons can be employed if they will work for less remuneration. In all employments taken together, demand is indefinitely elastic, and consequently indefinite numbers can be employed if they do not ask for too high a remuneration. General unemployment appears when asking too much is a general phenomenon.<sup>15</sup>

It is true, of course, that a reduction of wage rates in a single industry, if it resulted in a reduction in the price of the product, would tend to increase the sales of that article and lead to more employment in that industry. So far as an individual firm or industry is concerned, the effect of a wage cut upon the demand for the firm's or industry's products can generally be disregarded. The workers in the automobile or the shoe industry, for example, buy such a small percentage of all the automobiles or shoes they manufacture that a reduction in their wage incomes has little effect upon the total sales of automobiles or shoes. From the point of view of a single firm or a single industry,

<sup>13</sup> Wilford I. King, "Wage Rates, Wage Costs, Employment, Wage Income and the General Welfare," *American Economic Review*, Vol. XXIX (March, 1939), pp. 39 and 40.

<sup>14</sup> A. P. Lerner also points to "the danger of taking propositions that have been established as true when applied to sections of the economy and illegitimately applying them to the economy as a whole." He writes: "What is true of a firm or of a particular industry or a set of industries need not be true of the economy as a whole. To draw attention continually to such relationships between the parts and the whole is probably the most distinctive function of the economist." See "The Relation of Wage Policies and Price Policies," *American Economic Review*, Vol. XXIX (March, 1939) supplement, p. 158.

<sup>15</sup> Edwin Cannan, "The Demand for Labour," *Economic Journal*, Vol. XLII (September, 1942), p. 367. Quoted with the permission of the publisher.

there would undoubtedly be a stimulus to expansion from a relative wage-price cut, which explains why people often are convinced of the economic wisdom of such action.

In an analysis of general expansion or contraction, however, the effects of a wage cut in a particular industry upon total sales in the economy cannot be disregarded. Unless the wage reduction somehow increases the total volume of purchases during the ensuing period, the increase in sales and employment in the industry experiencing wage-price decline will be at the expense of reduced sales and employment elsewhere in the economy. "Any one man in a crowd can get a better view of the procession by standing on a chair, but if they all get upon chairs no one's view is improved."<sup>16</sup> In examining the effects of a wage-rate change in a single industry or group of industries, one must take into account the repercussions in other branches of the economy, the effects upon total expenditure for consumption and investment.

In an exchange economy, the volume of employment depends upon total expenditures for goods and services, and the amount of spending determines total income. The rate of flow of money from one spending unit to another is influenced by the plans and expectations of consumers and producers, by decisions to consume and decisions to invest in capital equipment. In capitalistic economies, people can spend or hoard freely. They can pile up money claims to goods and services. They may forego dinner today without ordering one or two additional dinners at any future date. Saving in itself is merely negative; it means not spending. Most savings eventually are spent by investment in plant and equipment. Expenditures may, however, be delayed or spread over time in a way that fails to create sufficient inducement or opportunity to invest in capital equipment so as to absorb rapidly all the funds that are not spent right away for consumption goods.

Popular psychology influences money expenditures. People's plans, fears, and hopes for the future affect sales and employment. Consumers' readiness to spend, especially for durable goods, depends upon their expectations with respect to income and prices. Business spending, particularly for capital equipment, seems to be guided, not so much by cold calculation, as by a "feeling" concerning the future, which has been called "business confidence." The more economic power and business decisions are concentrated in the hands of a group of professional managers of large firms, the more will waves of optimism and pessimism affecting that class tend to cause waves in total business spending. If a business management fears a slump, it may hesitate to invest and even begin to reduce inventories and current operations, which, if practiced widely, would help to bring about cumulative contraction. If, on the other

<sup>16</sup> Joan Robinson, *Introduction to the Theory of Employment*, Macmillan, New York, 1938, p. 51.

hand, improvement in economic conditions is expected by people generally, it will tend to be realized, because such an expectation would lead to actions that would increase spending, incomes, and employment.

To result in an increase in employment, a reduction in wage rates must not cause total money expenditures (for consumption and investment) to decline, or at least not to drop as rapidly as the price level. It is possible that particular reductions, especially in building construction or other capital-goods industries, might stimulate consumption and investment (and thus increase employment) in those lines to a greater extent than sales and employment would contract in other areas. In that event, improved "balance" in the wage structure would increase the physical volume of sales. On the other hand, wage reductions that arouse an expectation of further cuts in wages and prices may induce people to postpone expenditures and start a spiral of declining demand. Under certain conditions, wage cuts involve a transfer of purchasing power from potential spenders to potential savers and hoarders.

The employment effects of a change in wage rates are so varied and uncertain that wage reductions cannot be relied upon to reduce unemployment. Restricted cuts in particular lines may, under certain circumstances, result in a net expansion of employment. Whether a wage reduction will have favorable or unfavorable effects on spending for capital equipment largely depends upon expected needs for additional capacity in the future and the extent to which any contraction in consumer expenditures caused by the wage cut may increase the hesitancy of management to invest when some current capacity is already idle. After examining the various possibilities, Professor E. M. Bernstein concludes: "Because the favorable effects are likely to operate on a very small scale, and because there is a possibility of unfavorable psychological effects that may operate on a large scale, a general reduction in wages cannot ordinarily be regarded as a desirable remedy for unemployment."<sup>17</sup>

The statement that wage rates are too high in a particular industry can be interpreted to have one or more of three meanings: too high relative to wages for comparable work in other industries, so high as to attract a disproportionately large reserve of unused labor, or so high that lowering them somewhat would probably help to increase the total volume of sales in the economy. It is, however, difficult to understand what is meant by a statement that the general level of wages is too high. Too high relative to what? The price level? Wage levels abroad, given the current rates of foreign exchange? The money supply? A reduction in wage-price levels with an unchanged volume of money would free part of the money supply for the purchase of additional products. That favorable result would not occur, however, if the money supply should

<sup>17</sup> "Wage-Rates, Investment, and Employment," *Journal of Political Economy*, Vol. XLVII (April, 1939), p. 226.

decrease correspondingly or if the money so freed were hoarded because the wage-price cuts had unfavorable repercussions on consumer and business expectations.

The discussion in this section indicates how complex, obscure, and unpredictable may be the effects of wage change upon employment. Psychological repercussions on buyers' plans (their expectations with regard to sales, incomes, and prices) may be difficult to forecast. Much depends upon the timing of wage changes and the speed with which the ensuing reactions and interactions occur; ultimate consequences may be more significant than immediate effects. The question of wage-employment relationships is examined further in Chapters 19 and 20.



## **PART II**

### **UNIONS, MANAGEMENT, AND COLLECTIVE BARGAINING**



## CHAPTER SIX

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### THE AMERICAN LABOR MOVEMENT: HISTORY AND GROWTH

Labor organization has a long and interesting history in this country. During the decade following the inauguration of George Washington as the first President in 1789, unions of shoemakers, printers, and carpenters were organized in cities like New York, Philadelphia, and Boston; collective bargaining negotiations were conducted with employers; and strikes occurred. Indeed, unions were functioning here for some time before the first American business corporation was chartered.

This chapter surveys some 160 years of union history in this country. It deals principally with conditioning factors, major developments, and patterns of membership growth. The traditions and beliefs of organized labor in America embody the lessons of long and (sometimes) bitter experience.

#### BACKGROUND CONSIDERATIONS

To understand the American labor movement, it is necessary to examine the special conditions in this country that have influenced the development of trade unionism here. A labor movement is molded by the economic and social circumstances in which it develops. Labor movement is a broader term than labor union. It presupposes some solidarity between workers in different trades and industries, some mutual association or common action by a number of separate unions.

**Conditioning factors.** Despite an early start, the growth of labor organization in this country was hampered by several retarding factors. Trade unionism arises when employer and employee functions become clearly differentiated so that definite conflicts of interest exist between employing and employed groups. To have some permanence, it must be founded on a fairly continuous group of workers who have sufficiently long-range interests as employees to warrant support of a protective labor organization. Thus, the inter-class fluidity in our economy, immigration, rapid geographic movement of industry and labor, an individualistic legal and social philosophy, and the rural background of much of our factory labor all served to restrict labor

organization in this country during the nineteenth century and the early decades of this century.

In America, class lines have been fluid. Large possibilities have existed for workers (and their children) to move up the occupational ladder and out of the wage-earning class. Until World War I, the movement of immigrants into unskilled jobs enabled the earlier settlers and native sons more easily to rise into skilled occupations and management positions. The abundance of free land during most of the nineteenth century permitted many workers to become self-employed farmers. It is difficult to build a labor movement on a wage group that shifts so much in its composition. That is one reason why female workers, expecting to move out of the factory via marriage, have generally been less responsive to unionism.

Immigration also produced a working population with great racial, linguistic, and cultural differences. The problems of labor organization are multiplied where a variety of tongues are spoken within a work group and where intra-group cultural and social differences are so wide that they can be used to disrupt efforts at common organization and combined action of the group as a whole.

The movement of industry and labor geographically has also been upsetting to labor organization. Such internal migration has meant not only a changing composition of local work groups but also the threat to eliminate labor organization by the transfer of business elsewhere. It is worth noting that, prior to the 1930's, labor unionism was especially strong in local-market lines of business that were less subject to out-migration or to outside competition, like building construction, newspaper printing, transportation, and other services.

Free land and frontier conditions gave the country a social philosophy with a distinctly individualistic (anti-collectivistic) flavor, which became embedded in our federal and state constitutions. Legal obstacles to the existence and policies of trade unions have played an important role in the history of American labor. The political philosophy of individualism held sway longer here than in other industrial countries because the population was relatively sparse, the factory system was slow to develop on a wide scale, and agriculture played such an important role in our economy and our politics. In the decades before the Civil War, industrial wage-earners and their families represented less than a quarter of the nation's total population, whereas persons engaged in agriculture and their families constituted almost half of the citizenry. [Because industrial wage-earners were comparatively weak in voting strength, they tended, during the nineteenth century, to join politically with farmers and small businessmen, both of whom were independent-minded.]

Factory workers in this country were recruited not only through immigra-

tion but also, in considerable measure, from rural areas, where the birth rate has been high and individualism the dominant philosophy of life. The closer workers are to a rural background the less likely they are to join in the collective activities of labor unions.

On the other hand, Americans in general are great joiners. We are notorious for membership in organizations of all kinds. Perhaps our associative propensities can be partly explained by the incongruity between an inherited philosophy of individualism and a condition of large-scale production and large-city living.

Although labor organizations started here early as a native American development, a high proportion of our labor leaders in the past have been immigrants and sons of immigrants. That is understandable. Some immigrants from England had experience in labor unions there and acquired a desire to spread the gospel. Immigrants from other countries who possessed leadership qualities were prevented, either by unfamiliarity with the English language or by their economic philosophies, from rising to high positions in business or politics. Their leadership drives found an outlet in the labor movement.

**Some psychological aspects of unionism.** The psychological and social roles of unions were briefly discussed in Chapter 2. Here we are concerned primarily with historical influences.

The lessons of 160 years of union experience are reflected in the beliefs, attitudes, and philosophy of American labor. Throughout most of that period, only a minority of the wage-earning population was organized, and most unions had to struggle for recognition and survival. Threatened by business hostility, legal obstacles, and economic insecurity, American unions developed in an atmosphere of conflict and militancy. No wonder that much of the folklore of the American labor movement is in terms of martyrs, battles won or lost, alleged class bias of courts, and employer wickedness. Struggle for survival also developed a pragmatic attitude, emphasizing short-run objectives, on-the-job service, and other means of holding and acquiring membership.

A labor movement is not a business matter, subject merely to dollar-and-cents calculation. Union leaders frown upon "slot-machine" unionism—the idea that so much in dues should result in some corresponding increase in the pay envelope. Unionism is a cause, a part of a protest movement, striving for democratic participation by workers in industry, for specified curbs on management's economic power over employees, and for improvement in labor's status. Trade unionism develops psychological ties of loyalty and class solidarity that extend internationally and cause workers to respect a picket line even though it is against their economic interest to do so.

For most workers, union membership is more a matter of social psychology than of rational calculation. The leaders may be motivated by a mixture of

economic, idealistic, and even ideological impulses. They may aspire to positions of influence and power; a good organizing record can aid in their advancement within the labor movement. The gospel is spread by psychological as well as pocket-book appeals. Joining a union may serve as an emotional release for frustrated workers who have a grudge against the management, as a means of standing well with one's fellow workers, or as an opportunity to cooperate for the achievement of worthy objectives. Successful organizing activity is mass conversion; it is closer to a religious movement than it is to market activity (the purchase or sale of commodities). The economic motives for union membership are often overstressed. Workers sign union cards and pay dues for a combination of economic, social, and psychological reasons—financial gain, job protection, social approval, personal fear or discontent, and so forth. So mixed are the motives that usually it is not possible to assess the relative importance of each.<sup>1</sup> Though workers may give a rationalized explanation, they may be no more aware of the reasons that prompted them to become and remain union members than is a person who joins the church, the American Legion, or the Masons.

### HISTORICAL DEVELOPMENTS<sup>2</sup>

During the colonial period, custom played an important part in economic affairs. It was generally necessary to serve a regular apprenticeship of five or more years in order to become recognized as a skilled worker in a trade—a “master craftsman.” Such craftsmen usually were able to establish their own businesses in a small shop making articles for local customers, so that the functions of merchant, capitalist, and worker were not sharply distinguished.

With the widening of markets at the end of the eighteenth century, a class of wholesale merchants arose, who bought the products of different workshops and sold them to retailers in the same or distant localities. The development of marketing specialists, separating producers from customers, caused employers and communities to compete with one another in terms of price. The merchant wholesalers exerted pressure to lower production costs, which led to attempts by employers both to reduce the wages of skilled craftsmen and to subdivide the work so as to use cheaper unskilled workers—even women and children—on some processes. The apprenticeship system began to disintegrate in the first two decades of the nineteenth century as former trades were divided into, say, half a dozen separate tasks, on some of which “green hands,”

<sup>1</sup> For a good discussion of complex nature of motives for union membership, see Clinton S. Golden and Harold J. Rutenber, *The Dynamics of Industrial Democracy*, Harper, New York, 1942, Chapter 1.

<sup>2</sup> Much of the material in this section has been drawn from J. R. Commons *et al.*, *History of Labor in the United States*, Macmillan, New York, 1918, Vols. I and II. For a more condensed history of American Union history, see H. A. Millis and R. E. Montgomery, *Organized Labor*, McGraw-Hill, New York, 1945, Chapters I through V. A recent, more popular treatment is to be found in Foster Rhea Dulles, *Labor in America, A History*, Crowell, New York, 1949.

who had not served an apprenticeship, were used. In shoemaking, for example, the craftsman not only tended to specialize on one operation, such as heeling or stitching soles, but he frequently worked at home, with the aid of his family, on raw material furnished by the merchant capitalist, who paid for the work at a piece rate. Thus, the activities of merchant capitalists gave rise to a distinct wage-earning class, which frequently did not own the hand tools it worked with and was dependent on a merchant class for work.

**First unions: generating conditions and modern features.** It was resort to wage-cutting and the use of "green hands," under the bargaining pressure of merchant capitalists, that led to the first real conflicts in this country between employers and employed. Skilled craftsmen formed organizations and called strikes in order to protect their standard of living and jobs from the competition of lower-paid workers. They complained that their skill, acquired by apprenticeship, was "a thing of property," which must be safeguarded if they were to support their families. The same kind of competition and conflict, accompanying the development of a merchant capitalist group, also resulted in the formation of the first labor unions in other countries, which were likewise organizations of skilled craftsmen.

The early unions were remarkably modern in their characteristics and tactics. Around the turn of the century, craft organizations or trade societies were established by shoemakers, printers, tailors, carpenters, cabinetmakers, shipwrights, stonecutters, weavers, and hatters, in cities along the Atlantic seaboard. Local in character, these first unions were exclusive craft organizations. They adopted a scale of wages ("book of prices") below which they would not work, and sought to force employers to hire only members of the organization, which meant only those who had served an apprenticeship. Probably more effort was exerted then by unions to establish the principle of the closed shop than in any subsequent period. In some cases, collective bargaining negotiations were conducted with employers, a few simple agreements covering wages were signed, picketing during strikes was practiced, and sympathetic strikes and the payment of strike benefits occurred. Most of these craft protective organizations had benefit features such as accident, sick, and death benefits to protect members and to aid widows and orphans.

**Employer reaction.** Employers' organizations or associations to combat labor unions, "to break them up altogether, root and branch," were formed as early as 1798 amongst employer-shoemakers in Philadelphia. Employers in this country, as in England, soon used the law and the courts against trade unions. From 1806 to 1815, shoemakers' organizations were prosecuted in six cases under the English common-law doctrine of conspiracy, which the courts ruled as also the law in this country. In four of these first six cases of conspiracy, the journeymen shoemakers were found guilty and were given

slight fines, but not imprisoned as in England. In the first decision, the defendant shoemakers were held to be "guilty of a combination to raise wages." This decision called forth a vigorous protest, the Jeffersonian democrats attacking both the Federalist judges and the English common law, while the workers complained that other groups, including employers and merchants, had their associations and meetings to affect wages and the price of goods. In the succeeding conspiracy cases, the judges changed the emphasis, declaring that combinations to raise wages were illegal only when unlawful means (such as coercion or intimidation) were used, or when the workers conspired to injure a third person (such as a non-member) by trying to secure a closed shop. In 1821 the shoemakers tried unsuccessfully to prosecute employers for conspiring to reduce wages. The court held that it was lawful for employers, who were forced by employees to raise wages, to combine in order to restore them to their "natural level," but that "it would have been criminal" if the employers had combined to depress wages below what they would have been if there were no resort to artificial means by either side.

The complaint against unions as combinations was to some extent affected by the development of business corporations. In the 1830's and 1840's, such "combinations of capital" were criticized for depersonalizing economic life and fostering monopoly. For example, a legislative committee in Massachusetts pointed out in 1850 that the state legislature had "destroyed the natural relations" between employer and employee by passing incorporation acts, which "created immense artificial persons, with far larger powers than are possessed by individuals." The corporations, the committee insisted, "all act substantially in concert in dealing with laborers and avoid all competition in overbidding for labor," which enables them "to fix inexorably, without consultation with the laboring class, all the terms and conditions of labor." The committee, believing fully in the doctrine of *laissez faire* under normal circumstances, maintained that artificial strengthening of the power of capital by state intervention in the form of incorporation laws made necessary legislative action to "protect the interest and welfare of the laborers," especially by means of restrictions on child labor and the hours of work for women.<sup>3</sup>

**Century of oscillation between economic and political action.** The labor history of the nineteenth century is characterized by recurrent shifts between alternative means and objectives, largely with changes in business conditions. During prosperous periods, unions would thrive, with the emphasis on collective bargaining, restrictive craft unionism, and conservative methods. As prosperity gave way to depression, unions would begin to disappear and interest would shift to political action, radical or utopian schemes, and more

<sup>3</sup> See S. M. Kingsbury, *Labor Laws and Their Enforcement with Special Reference to Massachusetts*, Longmans Green, New York, 1911, pp. 79-80.

inclusive programs, attractive not only to less skilled workers but also to farmers and other non-employee groups. Trade unionism revived and expanded during the following periods of prosperity (usually accompanied by rising prices): 1810–15, 1824–37, 1850–57, 1863–73, and 1879–85. On the other hand, labor unions were wiped out or practically eliminated during the depression years of 1816–20, 1837–49, 1857–62, and 1873–79. It was only in the late 1880's, with the triumph of craft unionism after the founding of the American Federation of Labor, that labor organizations achieved sufficient strength and permanency to weather severe depression without losing most of their membership.

Two periods of rapid growth in union organization during the nineteenth century are of considerable interest, namely, 1824–37 and 1879–86. In this survey of major developments, they will be given special emphasis.

a. ORGANIZATIONAL SURGE FROM 1824 TO 1837. By the mid-1820's, the less-skilled workers in the factories had begun to organize and the first strike conducted solely by female workers had occurred. In 1827, a strike by the Philadelphia building trades for the ten-hour workday led to the formation of a city federation of separate local trade unions—the first in the world, antedating similar city-central associations in England by three years. Out of the movement for a ten-hour day emerged the "Working Men's Party," which is alleged to be the first known labor party. It began in Philadelphia in 1828 and flourished in New England, New York, and Ohio in the years from 1829 to 1832. Appealing to persons outside the wage-earning class, its demands included: a free and universal system of tax-supported schools (then one-third of the children between the ages of 5 to 15 were not in school; children in those ages represented a third of all factory workers), the ten-hour day, abolition of monopolies, more just taxation, and opposition to protective tariffs.

Disillusioned by lack of political success, workers turned again to trade-union action between 1833 and the panic of 1837. Over 160 strikes were recorded in contemporary newspapers during those five years. At the time of reversion to economic action, New York City had 29 organized trades, Philadelphia had 21, and Baltimore 17. By 1836, the number of local trade unions had increased to 58 in Philadelphia, 52 in New York, 23 in Baltimore, 16 in Boston and Newark, 14 in Cincinnati, and 13 in Pittsburgh. In that peak year practically every urban community had some labor organization. Inter-trade solidarity was indicated by the existence of city centrals in at least 13 cities at that time. During the 1833–37 period, five trades (the shoemakers, printers, carpenters, comb makers, and hand-loom weavers) held national conventions and organized on a national basis, and the first national federation, composed of local unions, city centrals, and national unions, was established. Some two-thirds of New York City's workers were said to have been union members

in 1836, and total trade-union membership for that year has been estimated at 300,000, a figure half as large as the total then employed in manufacturing.<sup>4</sup> It was almost 40 years before as many as 300,000 were again enrolled in unions, and exactly 100 years (1936) before such a high ratio of union membership to total persons employed in manufacturing occurred again.

b. POLITICAL-ECONOMIC FLUCTUATION BETWEEN 1837 AND 1879. In the panic of 1837 and the depression years that followed, practically all trade-union organization was wiped out. The unions were crushed by economic circumstance, aided by organized employer opposition. In the face of falling prices and unemployment, union leaders hesitated to call strikes, workers deserted unions for fear of blacklisting or other employer retaliation, and labor organizations were prosecuted in the courts for conspiracy. Significantly the members, chiefly mechanics and artisans, did not consider themselves to be part of a distinct and permanent wage-earner class. Consequently, during the years from 1837 to 1850 their attention was shifted to programs of social reform—producers' cooperation, socialistic communities, and settlement on public land under homestead legislation—by which they might escape from the wage system and become independent producers.

With the return of better times in the 1850's, the pendulum swung back to labor organization and collective bargaining. The scope of union organization was more narrowly confined to skilled craftsmen than was the case in the 1830's. The broadening of the area of competitive production with expanding railroad mileage gave added stimulus to organization of labor nationally along craft lines. In more than a dozen trades, locals joined in forming national craft unions in the 1850's, and labor agreements between unions and employers or employers' associations became rather common. However, an industrial panic in 1857 and the ensuing depression caused the weaker national unions to disintegrate and many local unions to disappear.

The Civil War at first tended to disrupt labor organization as many workers and a number of labor leaders joined the army. But the sharp rise in prices that began in 1862 caused such a significant decline in real wages that workers turned to labor unions in order to improve their living standards. Strikes occurred, but as a friend of labor Lincoln was reluctant to support government intervention. A trade-union directory for 20 states lists 78 local unions at the end of 1863 and 300 by the end of 1865. During the war at least 12 new national unions were formed, and by 1870 some 30-odd national trade unions were in existence. Estimated union membership during the years from 1869 to 1872 reached a peak of 300,000, or perhaps even 400,000, members.

With labor organizing on a national scale and local federations in every

<sup>4</sup> Some union members were, of course, engaged in pursuits not strictly classified as manufacturing.

large city, the time seemed ripe for a grouping of separate unions for united action on a national scale. In 1866 a National Labor Union was established after the French pattern, with city trades assemblies and national unions both represented, together with farmers' societies and other political groups. From the outset it was reformist and politically oriented. In addition to the eight-hour day, the leaders of the National Labor Union attempted to promote producers' cooperatives, homesteading on public lands, an increase in greenback money, and other means of avoiding a permanent wage-earning class. The cooperative ventures, like previous ones, generally failed and the trade unionists lost interest in the political program. By 1870 the national unions had seceded from the National Labor Union, after which it rapidly declined and disappeared.

In the period of prolonged business depression from 1873 to 1879, trade-union membership fell to 50,000, as wages were reduced and unemployment increased. The number of national unions decreased to eight or nine in 1877 at the bottom of the depression. The membership of the surviving national unions declined sharply; the cigar makers lost almost five-sixths of their membership, the barrel makers about fourth-fifths, the machinists about two-thirds, and the printers over a half. As during previous depression periods, labor leaders again turned to political action. In this period, workingmen's parties were active in industrial regions, in some cases joining forces with farmers who were agitating for greenback currency issues to increase prices. The socialists also appeared as active participants in the labor movement at this time. Although successful in electing some labor and farmer candidates, the strength of labor-farmer political groups began to wane with the return of prosperity in 1879. Higher prices caused the farmers to lose interest, and, with increasing employment, the workers turned again to organization and bargaining for wage increases.

During the depression from 1873 to 1879, employers sought to eliminate the unions by a systematic policy of lockouts, black lists, labor espionage, use of strikebreakers, and legal prosecution. The widespread use of black lists and Pinkerton spies induced labor to organize more or less secretly, and undoubtedly helped to stimulate the violence that characterized labor strife during the 1870's. A secret miners' organization (the "Molly Maguires") engaged in terroristic tactics during the 1874-75 strike in anthracite coal. The railroad strikes in July, 1877, resulted in widespread rioting and bloodshed,<sup>5</sup> the burning of many millions of dollars of railroad property, the use of federal troops to suppress disorders in several cities, and popular alarm at the violence and interruption of railway traffic.

#### c. THE CLASH BETWEEN ALL-INCLUSIVE AND CRAFT UNIONISM (1879-87).

<sup>5</sup> A dozen persons were killed in Baltimore and 25 in Pittsburgh.

Under the banner of the Noble and Holy Order of the Knights of Labor, an attempt was made to develop one all-embracing, nationwide labor organization, which would include the workers in all industries and occupations. The national trade unions had organized on craft lines, so that they appealed to skilled craftsmen. The Knights not only admitted to membership any person who worked for wages but also former wage-earners, except for liquor dealers, lawyers, bankers, stockbrokers, and professional gamblers. Into "one fold" were to be gathered "all branches of honorable toil." It represented the first significant attempt in this country to establish one big, general union.

From a small secret organization, the Knights under a new constitution became a national organization with secrecy completely eliminated in 1878 and 1879. Its objectives were similar to those of the National Labor Union—the 8-hour day, producers' cooperation, homesteading on public lands, monetary expansion, prohibition of child labor, compulsory arbitration, income and inheritance taxes, and a number of other progressive proposals. Although its heterogeneous program seemed largely reformist and political, the leaders sought to control collective bargaining and industrial action, supporting strikes and boycotts even though opposed in principle to strike action. One difficulty with the Knights was the ambiguous and uncertain position of its leadership. The central office actually could not control matters, although the constitution provided for a high degree of centralization of authority. On the assumption of common interests among the common people, many of the local units of the Knights were "mixed," including persons of diverse occupation, race, and sex. Until 1887, however, most of the local "assemblies" seem to have been single trade or single industry units, and the Order admitted, as "trade assemblies," a number of national craft unions without loss of identity or any change in their structure.

The period of rising prices and prosperity from 1879 to 1883 witnessed the usual increase in the number of national trade unions and their membership. By 1884 they had at least 300,000 members. The great expansion of the Knights began with depression and wage-cutting in 1884. It was accelerated by the remarkably successful strikes in 1885 against railroads controlled by Jay Gould and the epidemic of almost 200 boycotts in the same year, nearly all of which were supported by the Knights. From 52,000 members in 1883, the Knights mushroomed to a membership of 700,000 in 1886. Unskilled and semiskilled workers, small-town merchants and mechanics, and farmers accounted for much of the expansion, thereby diluting the membership with elements possessing little interest in the problems agitating urban wage-earners.

The polyglot membership of the Knights resulted in disunity of purpose, internal conflict, and vacillation. Differences of interest arose between the

farmers, shopkeepers, and small employers, who were for the most part politically minded, and the trade unionists in the large cities, who stressed economic action. The unions in the skilled trades were interested in trade autonomy and craft protective devices, such as enforcement of apprenticeship rules and prevention of invasion of the craftsmen's work by "green hands." Their objective was to organize all competing employees in the same line of business or trade in order to control conditions of labor throughout the whole area of competitive production. The skilled craftsmen were a stable and cohesive group whose indispensability gave them considerable bargaining strength. The Knights, however, tended to disregard craft lines and the leaders directed the organization's resources toward assisting the less skilled workers who flocked into and out of it. By 1885 the craft unionists in the Knights were dissatisfied with the lack of regard for their interests, and the craft unions began to abandon the Noble and Holy Order. In the end, even the industrial unions, like the miners and brewery workers whose jurisdictions included a whole industry, were opposed to a general labor organization like the Knights.

The conflict between the craft unionists and the Knights proved irreconcilable. In 1881 the trade unionists had helped to form a Federation of Organized Trades and Labor Unions of the United States and Canada, which had a constitution taken almost verbatim from that of the British Trades Union Congress. Primarily a political organization, with less than 50,000 members in the affiliated unions in 1884, it afforded little protection to the craft unions against the growing Knights of Labor, which admitted seceding factions of national unions and even boycotted the label of such unions. In October, 1886, the Knights refused to accept a proposed "treaty" under which that organization would have agreed to abandon all jurisdictions where craft unions were established. That refusal, accompanied by further acceptance of rival unions into the Knights, caused the craft unionists, for self-protection, to establish the American Federation of Labor, with which the Federation of Organized Trades and Labor Unions was merged. The new federation, unlike its predecessor, had economic as well as legislative functions. The national or international (North American) unions were made the basic units of the federation, which in 1886 represented a membership of about 150,000. Following refusal of the Knights to agree to refrain from interfering with the national unions and from signing up locals in their trades, open warfare broke out that even resulted in one side "scabbing" on the other in strikes. A second attempt in 1888 to negotiate some compromise between the Knights and the Federation also failed, revealing anew the fundamental differences in purpose and philosophy between the two organizations.

After mid-1886, membership in the Knights of Labor started to decline almost as rapidly as it had expanded. A series of unsuccessful strikes, including

one on another part of Gould's Southwest system, revealed weaknesses in the organizational structure. The leadership proved timid and vacillating, and parts of the membership became irresponsible and uncontrollable. In addition, the Knights, although in no way responsible, reaped some of the odium of the Haymarket Square bombing in May, 1886. [The basic difficulty, however, was incompatibility of interests within the organization's membership base, resulting in disregard of the economic needs of the workers.] As the membership fell to 222,000 in mid-1888 and to 100,000 in 1890, the leaders of the Knights turned toward political activity, and it became predominantly an agrarian and small-town organization, having lost its hold on the wage-earners in the large cities.

The experience of the Knights of Labor again proved the difficulties of founding in nineteenth-century America a strong and stable organization on a working-class basis for either economic or political action. The American wage-earner has lacked the political and class solidarity of European workers. Skilled workers could develop cohesive and disciplined organizations for economic action, centering around their common interests in preserving and enhancing the value of their craft skill. They could not, however, be induced to subordinate that craft interest to a program for elevating the mass of unskilled workers, whose ranks were being constantly replenished by immigration. The unskilled and semiskilled workers lacked the bargaining strength, the unity of interests and ideology, or the political power upon which to base a strong and stable organization. Repeated attempts to achieve labor goals by political action were hampered by the diverse politics of urban wage-earners and the political importance of rural areas and small towns.

The decline of the Knights of Labor and the rise of the American Federation of Labor in the late 1880's was to mark the beginning of half a century during which conservative, craft unionism predominated. After almost 100 years of oscillation between trade unionism and political action, craft-consciousness and all-inclusive organization, collective bargaining and schemes for eliminating the wage system, business unionism had triumphed.

**Period of AFL domination (1888-1935).** Prior to the founding of the American Federation of Labor, the national unions had been strengthened by changes in policy. In the late 1870's the leaders of the Union of Cigar Makers, Adolph Strasser and Samuel Gompers, had reorganized that union along British lines. To ensure stability and permanency of the organization, they adopted high dues, a system of sickness and death benefits, and centralized control, which gave the national officers complete authority over locals and assured strict discipline in the use of the strike weapon and adequate financial support for strikes officially sanctioned. Other trade unions followed the lead of the cigar makers by adopting similar procedures for financial

stability and centralized authority. The new union philosophy was one of pragmatism and business-like methods. Recognizing a real conflict of interest between employers and employees, reliance was placed on trade organization, job control, and the negotiation of written labor agreements. Taking to heart the lessons of a century of experience, the new unionism shunned direct participation in politics or support for any program to revamp the economic system.

The creed of the new unionism became the philosophy of the American Federation of Labor, largely through the influence of Samuel Gompers, who was its president for all but one of the first 38 years of its existence. The national trade unions formed the real basis of the reoriented labor movement. In sharp contrast to the Knights of Labor, the Federation's principles involved strict autonomy for the national unions (no Federation control over their internal affairs), avoidance of political alignments, and major emphasis on economic action, with the Federation lending support to the national unions in strikes and in organizing activities. Politically the Federation's policy was non-partisan, to reward labor's friends and punish its enemies.

a. THE FIRST DECADE. During the early years of the AFL, the growth in the membership of affiliated unions was slow but steady. From 150,000 at its founding in 1866, the total affiliated membership rose to 225,000 in 1890, to 250,000 in 1892, and to 278,000 in 1898. It is significant, however, that for the first time no real decline in total membership occurred during the depression years from 1892 to 1898, although employer hostility continued, along with an unfavorable attitude by the government and the courts. The unions, aided by their new policies and written agreements, were generally able to weather the storm. In 1892 the Amalgamated Association of Iron, Tin and Steel Workers, a strong union affiliated with the AFL, suffered a severe defeat at the Homestead plants of the Carnegie Steel Company, where private warfare broke out between Pinkerton detectives and the strikers, and some 2,000 strikebreakers were brought in to run the mill. In the Pullman strike of 1894,<sup>6</sup> however, the defeat of the American Railway Union (an industrial union of 150,000 members threatening to displace the craft unions in the railroad industry) served to eliminate a rival type of unionism, although it established a precedent in the use by the federal government of a blanket injunction against the strike (along with special deputies and Federal troops) and in the jailing of the leader (Eugene V. Debs) for disobeying the injunction. Probably the greatest achievement of the trade unions in the 1890's was the widespread use of the trade agreement, and particularly the development of national negotiations and agreements in such industries as glassware, stoves, printing,

<sup>6</sup> As in the railroad strikes of 1877, violence and rioting occurred, and 25 persons were killed during the controversy.

and bituminous coal. Written agreements, renewed year after year, involved a new conception of unions as continuous-service organizations, gradually achieving labor's aims through gains wrested from management.

b. FROM 1898 TO 1914. Between 1898 and 1904, total trade-union membership expanded fourfold (from 500,000 to 2,000,000), and then stabilized at 2 to 2.7 million during the subsequent decade. In 1898, AFL affiliates with 278,000 members accounted for about 55 per cent of the total union personnel, the railway brotherhoods with some 100,000 members representing the largest unaffiliated group. Although the brotherhoods in the railroad engine and train service remained unattached, the number of national unions in the AFL almost doubled during the six years ending with 1904, when AFL unions had about 80 per cent of all union membership. From then until the rise of the CIO in 1935, the AFL accounted for 75 to 85 per cent of all organized labor.

The period of rapid expansion from 1898 to 1904 was one of rising prices and prosperity, and, after 1900, the federal administration was somewhat sympathetic toward labor. The membership increase represented largely growth in unions already established. The expansion was especially marked in coal mining and the building trades which, together with railroad and other transportation, accounted for over half of the total union membership in 1904. One should bear in mind that nine-tenths of all employees continued to remain unorganized.

The sharp increase in union membership and a number of strike successes brought forth strong employer opposition, which took the form of an "open-shop" drive. Between 1901 and 1903, many employers' organizations made strong statements in favor of management's right unilaterally to determine wages and conditions of employment. In 1903, some 100 employer organizations formed a federation for collective action on a national scale in order to combat "the enormous Labor Trust" (i.e., labor organization and collective bargaining). Citizens' alliances and vigilante groups were active in driving unions from localities so that they would avoid "untold loss from being unionized," and employers dealing with unions were called "traitors."<sup>7</sup> Managements were urged to join associations and to help defray the cost of combatting strikes because "in defending a fellow manufacturer, no matter where located, you are defending yourself."<sup>8</sup> The employers' open-shop drive was perhaps the main reason for the failure of total union membership to expand significantly between 1904 and 1914. In this campaign, employers also used the courts to obtain injunctions restraining certain union activities. In two

<sup>7</sup> *Labor Policies of Employers' Associations, Part 3, The National Association of Manufacturers*, Senate Committee on Education and Labor, Senate Report No. 6, Part 6, 76th Congress, first session, 1939, p. 10.

<sup>8</sup> *Ibid.*, Part 1, *The National Metal Trades Association*, p. 23.

cases in 1908 and 1911, the United States Supreme Court declared general boycotts illegal.<sup>9</sup> In one case, triple damages were assessed against an AFL union under the Sherman Anti-Trust Act. In the other case three top officials of the AFL, including Samuel Gompers, were sentenced to prison by a lower court for refusing to obey an injunction. Although their sentences were set aside by the Supreme Court, the boycott injunction against the Federation was upheld.

Despite strong employer opposition to conservative unionism, the socialists were able to make little headway in the AFL, and the attempt by radical and dissident elements to establish in 1905 the Industrial Workers of the World as a rival general union did not threaten the dominant position of the Federation. In this new single union (the IWW as it was called), the militant miners, lumberjacks, and migratory workers of the West joined hands with eastern socialistic groups and proponents of industrial unionism. Advocating the elimination of capitalism, the IWW bitterly attacked the policies of the AFL while engaging in violent strikes, sabotage, and other dramatic tactics. Like the Knights of Labor, the membership of the IWW was shifting and highly unstable, probably never exceeding 60,000 or 70,000 paid members at its height in the years before World War I.

c. WORLD WAR I (1914–20). By 1916 the boom caused by World War I had begun to raise total union membership above the plateau of the previous decade. The war strengthened the hand of organized labor in a number of ways. The shortage of labor improved the position of workers and dulled such employer weapons as discriminatory discharge and the black list. Most employers were willing to make concessions to labor during the war, and the anti-union, open-shop drive was suspended, along with the anti-trust laws. Anxious to avoid labor trouble and work stoppages, the federal government set up special labor adjustment boards for such industries as shipbuilding, the railroads, and the maritime industry. For other war industries, a National War Labor Board was established to mediate labor disputes. In its advisory capacity, the Board adopted the following principle with regard to labor organization: "The right of workers to organize in trade unions and to bargain collectively, through chosen representatives, is recognized and affirmed." By serving as representatives on wartime labor agencies, the prestige of labor leaders was raised. In taking over the railroads during the war, the federal government set an example by dealing with the various railway unions on a national basis. It is not surprising, therefore, that as prices doubled between 1915 and 1920, so did trade-union membership, which reached 5,000,000 in 1920. A similar expansion occurred in Great Britain. The increase in union

<sup>9</sup> *Loewe v. Lawlor* (1908), 208 U.S. 274; and *Gompers v. Bucks Stove and Range Co.* (1911), 221 U.S. 418.

membership here, which included many unskilled and semiskilled workers, was especially marked in those industries most directly affected by governmental policy, such as the railroads, ocean shipping and shipbuilding, and the metal trades.

With the Armistice in 1918, the attitude of employers, the public, and the government began to change. The Bolshevik Revolution in Russia led to a red scare in this country, which influenced public attitudes toward the rash of strikes that broke out in 1919, and particularly the general strike in Seattle and the police strike in Boston. The organizing drive in steel, sponsored by the 24 AFL unions claiming jurisdiction in the industry, failed when the U. S. Steel Corporation refused to negotiate and defeated a strike by the use of scare propaganda and vigorous strike-breaking tactics.<sup>10</sup> Also in 1919 the federal government by means of an injunction forced the United Mine Workers to call off an announced stoppage in bituminous coal. Despite such setbacks, labor remained militant and total union membership continued to expand until 1920.

d. THE DOLDRUMS OF THE 1920'S AND EARLY 1930'S. Total union membership declined each year from 1920 through 1933, except for a 1 per cent increase in 1927. Not only did it drop by almost one and a half million from 1920 to 1923, but a further decline of 180,000 occurred between 1923 and 1929, a period of extraordinary prosperity (see Table I). For the first time, the labor movement suffered a numerical contraction during a business boom. When the 1929 slump began, total union membership was lower than at any time during the preceding 12 years.

A drop in the numerical strength of organized labor in the 1921-22 slump was to be expected. Indeed, the industries accounting for three-fourths of the wartime expansion (building, transportation, metals, shipbuilding, machinery, and clothing) were responsible for three-fourths of the large loss in membership between 1920 and 1923. The railroad shop crafts suffered a membership reduction of over 40 per cent as a result of their unsuccessful strike in mid-1922, in which hundreds of college students served as strikebreakers and the Attorney General of the United States obtained an injunction prohibiting any statements to the public, aid to the strikers, or attempts to persuade anyone to stop work.

A variety of explanations have been offered for the continued decline in total union membership after 1922. They include an employer offensive, an unfavorable attitude in government, the failure of living costs to rise, changes in industry, and weaknesses in union structure and leadership. In view of the unique experience of labor during the decade, each of these factors will be

<sup>10</sup> As an indication of the extent of violence, 20 persons (18 of them workers) were killed before the strike was terminated.

discussed briefly. Some of them were present during previous periods of prosperity when organized labor expanded numerically.

After the war, employer opposition to unionism returned with renewed vigor. In the 1920's the open-shop drive was called "the American Plan." In 1921 an official of the National Association of Manufacturers stated that more than 500 organizations in 250 cities had endorsed the plan, and an

TABLE I:  
TOTAL UNION MEMBERSHIP IN SELECTED YEARS\* (in thousands)

| Year | Total for all unions | AFL affiliates | CIO affiliates |
|------|----------------------|----------------|----------------|
| 1898 | 501                  | 278            |                |
| 1904 | 2,073                | 1,682          |                |
| 1910 | 2,141                | 1,587          |                |
| 1914 | 2,687                | 2,061          |                |
| 1917 | 3,061                | 2,457          |                |
| 1920 | 5,048                | 4,093          |                |
| 1923 | 3,622                | 2,919          |                |
| 1929 | 3,443                | 2,770          |                |
| 1933 | 2,973                | 2,318          |                |
| 1935 | 3,889                | 3,317          |                |
| 1937 | 7,180                | 3,358          | 3,718          |
| 1939 | 8,980                | 4,006          | 4,000          |
| 1941 | 10,489               | 4,569          | 5,000          |
| 1943 | 13,642               | 6,564          | 5,285          |
| 1945 | 14,796               | 6,931          | 6,000          |
| 1947 | 15,000               | 7,578          | 6,000          |
| 1949 | 15,000               | 7,241          | 6,000          |
| 1950 | 15,000               | 7,143          | 6,000          |

\* Statistics through 1935 have been taken from Leo Wolman, *Ebb and Flow in Trade Unionism*, National Bureau of Economic Research, New York, 1936, and those for 1937 from Wolman, "Union Membership in Great Britain and the United States," *National Bureau of Economic Research, Bulletin 68*, December 27, 1937. Data for the years 1939 to 1945 are from *Brief History of the American Labor Movement*, U.S. Bureau of Labor Statistics, W-558, October, 1947, p. 17. The figures for the AFL and CIO for the post-war years are those given out at the time of their annual conventions. The 15-million total for recent years is a rough estimate.

American Plan Conference, attended by representatives of some 100 employers' organizations, met semi-annually during the 1920's. In certain cities like Chicago, San Francisco, and Cleveland, various financial and merchant groups raised million-dollar funds in the early 1920's in order to weaken the building-trades unions and to introduce the open shop in local construction. In the metal trades, the employers' organization (the National Metal Trades Association) pursued a vigorous non-union shop drive from 1920 to 1924, using such anti-union practices as labor espionage, blacklisting, mobilization of strikebreakers, and the accumulation of a common defense fund. In what appears to have been an anti-union campaign, large buyers of soft coal, like the railroads, put pressure upon union operators to adopt an open-shop policy or suffer a threatened boycott.

The 1920's was the period of "welfare capitalism." In industry, departments

of personnel administration multiplied; employees were favored with company magazines, group insurance, benefit and recreation programs, and employee stock-ownership; and employee-representation plans (dubbed company unions) were widely used by large firms in such industries as the metal trades, railroads, oil, rubber, and public utilities. Although a device for representation rather than collective bargaining, such plans were sometimes established by companies as an alternative to national unions. Employee representation really got its start during World War I when the federal labor boards, in over 125 awards affecting plants where no union existed, called for the establishment of some form of employee-representation or works-council plan.<sup>11</sup> Although the awards of the war labor agencies were not mandatory, strong pressure made it difficult to disregard them. Many firms also adopted such plans voluntarily, so that by 1919 over 400,000 employees were covered by arrangements for employee representation, and in 1928 the coverage exceeded 1,500,000 workers.<sup>12</sup> Because formal membership and dues were not a part of such plans, their coverage was not comparable with the membership figures of unions. During the 1920's, the company "welfare offensive" proved difficult for the dominant type of unionism to combat.

Late in 1919 the friendly attitude of the federal administration toward organized labor changed. As already mentioned, the Federal Attorney General got an injunction against the United Mine Workers in 1919, and his Republican successor obtained a sweeping decree against the striking railway shopmen in 1922. The preceding year the U.S. Shipping Board helped to bring about the defeat and decline of the International Seamen's Union by refusing to let the Board's vessels be used by any operator renewing the agreement with the union. The federal administrations from 1920 to 1932 primarily represented business interests. The third-party candidate, Senator Robert LaFollette, whom labor supported in the 1924 election, was badly defeated. Congress in 1926 did pass the Railway Labor Act, embodying an understanding reached by the railroad unions and the carriers, which obligated the parties to strive to maintain written agreements and to refrain from discrimination or support of company unions.

The judicial branch of the federal government also acted against unions in the 1920's. Labor leaders had thought that the Clayton Act of 1914 excluded labor from the anti-trust laws but they discovered that, although the Supreme Court found some business combines "reasonable" combinations, it held in four significant cases (1921-1927) that labor-union activities, such as boycotts against non-union materials, were "unreasonable" restraints of interstate commerce. In fact, the Supreme Court upheld injunctions forbidding

<sup>11</sup> See *Collective Bargaining through Employee Representation*, National Industrial Conference Board, New York, 1933, p. 8.

<sup>12</sup> *Ibid.*, p. 16.

union organizers to solicit members among employees who had signed "yellow-dog" contracts not to join a union. In 1928 the AFL submitted a list of 389 injunctions granted by federal and state courts in the previous ten years.

During the period from 1923 to 1929, the cost of living remained practically unchanged in this country, and the wholesale price level declined somewhat. Real earnings tended to rise, a result for which the credit went to non-union, mass-production industries rather than to union action.

Technological changes in the middle of the nineteenth century tended to develop new crafts—the iron molders, the machinists, the glass blowers, and the railroad crafts. More recent technological advances, particularly during the decade following World War I, have served to break down existing crafts and reduce the demand for craft skill. Not only did the ratio of semiskilled and unskilled to skilled workers increase but for the first time the relative importance of manufacturing employment declined during the decade of the 1920's. Changes in the structure of industry were making craft organization suitable for a smaller and smaller percentage of the workforce. Increasingly in the mass-production industries, skilled jobs were becoming peculiar to the industry and skilled workers becoming industry-conscious rather than craft-minded.

The relative reduction in the industrial base of craft unionism found the leadership of the AFL clinging to its traditional philosophy and seeking to woo employers by conciliatory and cooperative overtures. The legislative and organizing programs of the Federation during the 1920's proved to be lacking in appeal both to workers and employers. Opposition was expressed to legislation for unemployment compensation or for minimum wages or maximum hours for men. The AFL's organizing campaigns in automobiles (1925) and textiles in the South (1929–30), promoted on the basis that unionism was good business, failed to win over the employers, who seemed more impressed by economic strength than by the olive branch of cooperation. Lacking in inspirational and dramatic qualities, they failed to win enthusiastic support among the workers. The dominant unionism seemed to be too complacent and inflexible to cope with the changes occurring in industry and government.

The stock-market crash in 1929 and the ensuing slump played havoc with the whole program of "welfare capitalism." Employee stock-ownership and profit-sharing for employees back-fired, when the employees became disillusioned; the impotence of employee representation was revealed in the fear and favoritism accompanying large-scale lay-offs. Organized labor, however, seemed too helpless and demoralized to take advantage of the situation. The years from 1929 to 1933 were relatively free from strikes or other aggressive

action. They witnessed a further decline of half a million in total union membership, which fell below three million in 1933.

During the early years of the great depression, the dominant type of unionism was ineffective politically as well as economically. In the 1932 political campaign, the AFL declined to support either Roosevelt or Hoover. Passage of the Norris-LaGuardia Act in 1932 did represent a real gain for organized labor. Not only did it withdraw legal support for yellow-dog contracts but it also prohibited federal courts from issuing injunctions in labor disputes except under carefully defined conditions.

**Rise of industrial unionism and great expansion under the New Deal (1933-45).** As indicated in Table I, total trade-union membership experienced a fivefold expansion in the dozen years from 1933 to 1945. The conditions and factors contributing to that unprecedented increase are treated only briefly here. Subsequent chapters deal in detail with various aspects of New Deal experience—changes in union structure, industrial relations in different industries, labor legislation, governmental intervention in labor disputes, national wage policy, and so forth. This general discussion provides a frame of reference for those more detailed chapters, while serving to carry forward the story of the labor movement in this country.

A number of factors contributed to the remarkable growth of unionism under the New Deal. Public sentiment changed significantly as the prestige of business management dropped, sympathy for labor rose, and governmental intervention seemed to be the only means of economic salvation. Furthermore, under New Deal legislation, industrial management was put in the position of opposing the government and engaging in illegal acts, while legislative investigating committees disclosed such unsavory information as that 283 firms had spent over \$9,000,000 between 1933 and 1937 for labor espionage, strike-breaking, private guards, and industrial munitions.<sup>13</sup>

The 1930's were years of labor unrest. Worker resentment and search for job security were reflected in the rush to form and join unions. The drop of almost 40 per cent in manufacturing employment from mid-1929 to mid-1932 helps to explain the fact that about a half million workers were involved in the rash of sit-down strikes in 1936 and 1937.

Governmental policies and viewpoints were an important factor in the expansion of union membership in the 1930's. Section 7 (a) of the National Industrial Recovery Act (1933-35) stipulated that employees had the right "to organize and bargain collectively through representatives of their own choosing" without employer interference. Union organizers interpreted that to mean federal support for their activities. In the "Wagner" or National Labor

<sup>13</sup> See *Industrial Espionage*, Senate Committee on Education and Labor, 75th Congress, second session, Senate Report No. 46, Part 3, 1937, pp. 79-89.

Relations Act (passed in 1935 and upheld by the Supreme Court in 1937) the right of employee self-organization was protected against management interference by providing that anti-union activities on the part of management (including the establishment and support of company unions) were legally banned as "unfair labor practices." Not only were past obstructions to union activity thus removed but provision for employee elections under a federal board, with management obligated to bargain with the agent selected by a majority of the employees, enabled unions to become established and recognized simply by a vote instead of by an economic endurance contest.

The change in governmental attitude extended to the state level and to the courts. The success of the sit-down strikes partly depended upon governors sympathetic to labor in such states as Michigan and Pennsylvania. Through a series of decisions, the U.S. Supreme Court went to the extreme of exempting unions from prosecution under the anti-trust laws and freeing them from legal restraints against which labor had struggled for over a century.

The changed conditions (public sentiment, worker disillusionment, and governmental support) provided an opportunity not only for the expansion of existing unions but for widespread development of industrial unions (composed principally of semiskilled and unskilled workers) in the mass-production industries. In the latter half of 1933 and the first half of 1934, industrial unions had arisen in automobiles, rubber, electrical equipment, lumber, etc. At the same time, company unions also expanded, their coverage increasing over a million to an estimated total of two and a half million in 1935. Following passage of the Wagner Act, many of these company unions were practically taken over by unions under the newly formed CIO (Committee for Industrial Organization from November, 1935, to November, 1938, the Congress of Industrial Organizations thereafter). Originally a committee composed of the heads of eight AFL unions (seven of them really industrial unions), it set out to organize the mass-production industries where spontaneous organization had been occurring since 1933.

The CIO brought to the labor movement new viewpoints, a new militancy, new methods of organization, and a new group of young leaders, who were unhampered by respect for inherited traditions. Compared with the AFL, the CIO leaders were more willing to resort to political action and to welcome to full membership women, Negroes, and other minority groups. In organizing campaigns, they spent large sums and employed modern methods of publicity. However, the CIO followed the AFL philosophy in adherence to business unionism (collective bargaining and written agreements) and in the establishment of a federation of autonomous national unions. The competition of the CIO forced the AFL to modify its traditional views regarding state assistance, to expand existing craft unions to include semiskilled and unskilled workers,

and to engage in aggressive organizing campaigns. Unionism spread not only into middle-sized and small manufacturing communities but also into retail trade and service lines as the two rival federations strove to outdo each other. The result was that some 22 per cent of all employees were union members in 1940 compared with 9 per cent in 1930, and over half of all organized workers were in industrial or quasi-industrial unions in 1940, whereas over four-fifths of all union members were in craft or compound-craft unions in 1930.

During World War II, total union membership increased nearly 50 per cent. As in World War I, the cost of living rose, labor shortages occurred, employers were in no position to engage in a campaign of resistance, labor leaders occupied high positions in war agencies, and the government was sympathetic to organized labor. Union representatives were one-third of the War Labor Board's tripartite set-up, under which provisions for maintenance of membership were freely granted and union demands were given a sympathetic hearing. However, the numerous strikes during the war, and especially those in coal and the railroads that necessitated government seizure and operation, caused some change in public sentiment toward organized labor (reflected in the wartime Smith-Connally Act passed over a presidential veto). On the other hand, the wartime record of munitions production helped business to regain some of the public respect it lost in the 1930's.

**The post-war period (1945-50).** With the end of the war, liquidation of the War Labor Board and wartime wage stabilization commenced. Free collective bargaining was to be restored. However, the Labor-Management Conference called by the federal government late in 1945 revealed a lack of general agreement on the principles to govern industrial relations in the post-war years. With labor demanding sizable wage increases to compensate for increased cost of living and reduced working hours, a series of big strikes occurred in oil, steel, autos, electrical equipment, farm machinery, coal, and the railroads. In addition, work stoppages interrupted telephone service, electric power in Pittsburgh, building and tugboat service in New York City, and school teaching in a few cities. In contrast to earlier periods, industry did not even try to operate the struck plants, so that for the first time in such cases bloodshed was absent. Nevertheless industry-wide strikes and stoppages of essential services impressed on the public with dramatic force the dangers in the arbitrary exercise of organized labor's economic strength. Growing public concern with the apparent power possessed by leaders of important unions helps to explain passage of the Taft-Hartley or Labor Management Relations Act of 1947 over President Truman's veto. With that legislation, the pendulum had swung back to the days before the New Deal, for it places specific curbs on a number of union activities (declaring them to be "unfair labor practices"

or “unlawful”), and liberalizes the use of court injunctions to prevent certain practices (as, for example, secondary boycotts and sympathetic strikes) or to restrain temporarily strikes that would imperil the nation’s health and safety. By greatly increasing governmental regulation of industrial relations, the Taft-Hartley Act seemed to indicate that federal interference in labor matters was here to stay. One result was that organized labor made arrangements to engage in politics on a greater scale than at any time during the past century.

The post-war period proved to be one of membership stability. In contrast to the situation after World War I, the numerical strength of the labor movement did not decline in the late 1940’s, nor did the employers engage in the open, anti-union campaign after the pattern of the early 1920’s. On the other hand, the Southern Organizing Campaigns of the CIO and AFL, which began in 1946, were not highly successful. Much of southern industry is situated in rural areas or small towns, which are likely to be dominated by business interests and are not too congenial to unionism. Scattered location not only makes union penetration more difficult but also relatively expensive to achieve and maintain. In addition, a number of southern firms, especially some of the larger ones, were able to apply lessons learned in the North and to forestall unionization by such means as assuring employees of wages and working conditions at least as good as those prevailing in union plants in the area.

### **FACTORS IN UNION GROWTH**

Our survey of the labor movement in America indicates that the numerical strength of organized labor has been stimulated or limited by various economic, political, and psychological influences. Some of the factors contributing to increased unionization have been underlying trends in the economy, such as increased industrialization and urbanization, expansion in the size of industrial plants and business units, and reduced inter-class movement (greater stability within occupational groupings). Such long-run factors are particularly important in explaining the rising trend in total union membership since 1890 and the step-by-step expansion of unionism into new industries and areas.

Short-run factors explain fluctuations in union membership around the upward trend. Looking back over 160 years of labor history, the effects of such influences are often clearly evident. Among the most significant short-range factors are: business prosperity or depression, rising or falling prices and living costs, employer attitudes and policies, governmental policies and actions, popular sentiment, union policies and leadership, and changes in union structure and the extent of union rivalry. Union expansion is generally rapid during war periods because a combination of favorable factors is usually present: prosperity that is accompanied by labor shortages, rising living costs that stimulate union demands for wage increases, governmental policies that are sympa-

thetic toward organized labor, and curtailment of employer policies that are definitely anti-union. During the early years of the New Deal and the CIO, the combination of favorable circumstances included: a pro-union policy in the federal government, public sentiment sympathetic toward organized labor, the development of industrial unionism under the CIO which provided competition for the AFL, and the rise of a militant leadership using new organizing tactics.

A review of union history in this country shows that the labor movement has continued to exist and expand despite all kinds of obstacles—legal prohibitions, employer opposition, and economic adversity. Evidently unions fulfill a real need in modern industrial society, a need that appears to be growing more widespread and acute with recent trends in American industry. Since the scale of industry is likely to grow larger and larger in most branches, total union membership can be expected to continue to expand both in absolute numbers and in terms of percentage of all employed workers. As in the past, there will be periods of marked expansion, followed by years of little or no increase in total membership. However, business depressions have had much less effect on union membership since 1890 than was the case before the AFL was well established.

Indeed, the depression of the early 1930's can be said to have been one of the chief factors contributing to the threefold increase in union membership from 1933 to 1939. Victims of the widespread lay-offs in the mass-production industries from 1929 to 1933 were prone to feel that managements had played favorites and had been unfair. The result was employee resentment, a readiness to join unions, and a demand for seniority protection in employment reductions under new union agreements. Before then, seniority had been confined largely to the railroads. Protection of job security was an important element in labor organization in the 1930's, as it was for the skilled craftsmen a century earlier when the first unions were formed or for the new foremen during World War II, who feared displacement or layoff in the post-war years and, therefore, became interested in protection through labor organization. If the depression of the 1930's had not occurred, union membership today would probably be less than half its present total.

## **CHAPTER SEVEN**

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### **UNION STRUCTURE AND GOVERNMENT**

As indicated in the preceding chapter, an important part of union history has been concerned with the structure of unions—the shaping and reshaping of union forms to meet changing conditions and the adjusting and readjusting of relations between local unions, national unions, and union federations. Some of the most dramatic conflicts in American labor history have been struggles regarding the structure of labor organization, such as the battle of the Knights of Labor and the AFL in the 1880's and between the AFL and the CIO during the 1930's.

Structure is related to function and effective administration. Consequently this chapter discusses not only patterns of organization but also union government and control. Involved are such matters as trade-union democracy, the distribution of funds and power, union discipline and responsibility, and civil liberties within unions. Do unions, which stress worker participation in policy formation and respect for human rights in industry, practice such precepts in their own internal operations? Can labor organizations operate effectively under democratic procedures? Is union responsibility possible with rank-and-file control? Those are some of the questions concerning union government that will be considered after an examination of organizational forms and issues.

#### **STRUCTURAL QUESTIONS**

In biology, structure is adapted to function. The giraffe has a long neck in order to reach the tender shoots high up in trees; the anteater has a tubular nose and a long, sticky tongue so that he can collect a meal inside an anthill. The structure of labor organization also reflects the functions that the organization is supposed to perform. The Noble and Holy Order of the Knights of Labor, for example, was obviously better adapted for such purposes as education, political action, and boycotts than it was for increasing the wages of skilled workers by means of apprenticeship and other craft regulations, which serve to maintain and enhance the value of craft skills. The craft unions in the AFL won out over the Knights because their structure and policies were better adapted to current needs and conditions. Survival and growth are the practical tests of union structure.

**The structure of industry and union structure.** If labor unions are to grow and function effectively, their organizational units and the distribution of authority need to be related to the industrial environment. Such industrial factors as the extent of the market for the product, the size of employer units, the occupational characteristics of the work, and the rapidity of technological change have a direct bearing upon union structure. As a consequence of differences in such matters, the industrial problems that are important for one union may be of no significance for another.

The contrast between men's clothing and building construction will serve to illustrate how the nature of the industry may affect labor organization. In men's clothing, the area of competitive production extends from the East to the West Coast. Consequently, the union must cover practically the whole competitive area and exercise some central control, if shops in the various manufacturing centers are to be kept in line with general union standards. In building construction, on the other hand, the market is local and there is less need to worry about non-union competition from other areas. As a result, authority and financial resources can be decentralized. Also, buildings are constructed largely by skilled craftsmen—carpenters, plumbers, bricklayers, plasterers, painters, paperhangers, etc. Each craft is distinct and self-contained, with practically no movement of workers between crafts.

If buildings were manufactured in plants and shipped out ready-made to all parts of the country, as men's clothes are, the whole structural pattern of the building trades would be radically changed. Strike and financial control would need to be centralized, the building tradesmen in one area would commence to worry about non-union production in other localities, and the change in the technique of production would break down craft divisions by making most of the jobs semiskilled and unskilled work in mass-production factories. The occupational pattern in mass-production industries is not so much segmentation along craft lines as a great variety of jobs, with hiring mainly in the low ranks and promotion from lower to higher jobs on such bases as seniority, merit, and personal qualifications.<sup>1</sup>

Thus, organizational forms and governmental arrangements suitable for one industry or one stage of industrial development may not be suitable for other industries or industrial circumstances. With changes in industry, the structure of unionism in a country also changes, and the direction of change is not always toward fewer and larger organizations. In the printing trades there used to be one industry-wide organization. Toward the end of the last century, the workers decided that industrial developments made it desirable to break down this all-inclusive organization, and it was gradually split up into five

<sup>1</sup> In the manufacture of men's clothing, a few craft-like occupations still exist, such as cutter or baster, but most of the work is semiskilled.

separate craft unions—the compositors, the bookbinders, the photoengravers, the pressmen, and the stereotypers and electrotypers. Generally, however, the tendency has been for unions to expand as they extend their jurisdictional territory or they amalgamate, as, for example, the merger of the plasterers and the cement workers, or the aluminum workers and the steel workers. Where such absorption occurs among crafts that are peculiar to an industry (rather than among crafts common to a number of industries), the resulting organization may approach industrial unionism (a single union for all manual workers in an industry). In all industrial nations during recent decades, a tendency has existed for separate unions to combine and for the industrial form of unionism to expand relative to the craft form. Increased mechanization and division of labor have, of course, favored the industrial membership base.

**The significance of structure.** The bearing of union forms upon total membership was indicated in the preceding chapter, particularly in the discussions of union experience during the 1920's and the 1930's. The type of union organization also plays an important role in such matters as inter-union relations, union policies, control of unions, and the possibilities of union reform. Certain types of structure may lead to numerous disputes between unions, which assert conflicting claims to jurisdiction over particular kinds of work or groups of workers. Some organizational arrangements may combine workers with such diverse economic interests that the union, or aggregation of unions, is divided into factions that make concerted action difficult, if not impossible. Generally speaking, smaller and more exclusive unions are likely to be conservative in policy and to pursue restrictive practices. An extreme example is the Window Glass Cutters League of America, a strictly craft union with about 1,500 members employed in cutting window glass by hand.<sup>2</sup> Labor organizations with a large membership base, on the other hand, are more likely to use political pressure to attain objectives. Thus, the character and philosophy of a country's labor movement are closely related to union forms and structure. Presumably the basis of an organization should measure the common interests of its membership. The one big-union or labor-solidarity concept, upon which the Knights of Labor and the IWW were founded, assumed that wage-earners have more to gain by combined economic and political action as a class than by concerted action as workers in a single craft or industry, or in related crafts and industries.

The real significance of union structure becomes evident when one asks how the 15 or 16 million unionists in this country ought to be organized. In one big union like the Knights of Labor or the IWW? By occupation or craft? By industry? By employer? By "labor market area"? By region? According to

<sup>2</sup> Representing a declining craft with restrictive membership, apprenticeship, and output policies, the League voted to confine its membership to hand cutters after organizing more than 10,000 unskilled and semiskilled glass workers in 1933 and 1934.

the area of competitive production? On a national scale? How many local unions should there be? How many national unions? Should limits be placed on the size of each unit? What kinds of federations or other inter-union agencies should there be? How should power and authority be distributed among the various units and subdivisions?

Clearly the organizational forms and structure one would favor would depend on the purpose or purposes to be achieved. If it is considered most important to have the whole area of competitive production covered by a single authority, industrial unionism would be the favored type. If, on the other hand, emphasis is on control of labor supply, craft unionism or organization on a community basis might seem more appropriate. For the purpose of political action or boycotts, a single union, or at least all unions in a single strong federation, might seem to be the most effective arrangement. Should the accent be on collective bargaining rather than political action, strong national unions (and correspondingly weak federations) would be required. Arrangements for autonomous local unions have been proposed as a means of eliminating headquarters control and reducing the economic ("monopoly") power of large national unions.<sup>3</sup> Other objectives, such as avoidance of jurisdictional disputes and rival unionism, or rapid organization of white-collar groups, or control of the labor movement by progressive elements, might each involve special structural arrangements. It is interesting to note that unions controlled by left-wing or Communistic leadership have not differed from more conservative unions in structural form and organizational features. Part of the explanation is that they were, for the most part, established industrial unions when they came under the control of followers of the Communist Party line.

The present union structure is the result of long evolution. It represents an adaptation to the conflicting interests of different employee groups and the changing balance between centralizing and decentralizing forces. It reflects historical and personal influences as well as more basic industrial changes. With the passage of time, structural units develop strong personal loyalties and vested interests. For such reasons, attempts to reorganize and simplify union structure in England, Sweden, Norway, and Australia in the 1920's encountered real difficulties, including objections from the craft unions. After three years of consultation and investigation, the General Council of the British Trades Union Congress concluded in 1927 that any one general scheme of organization was impractical, that a program of organization by industry was not feasible because of the impossibility of defining any fixed boundaries for industry, and that the complex forms of union organization

<sup>3</sup> Such proposals are discussed in Chapter 14 dealing with the monopoly issue.

existing in Britain, which were the growth of generations, would have to be gradually adapted to meet new conditions.<sup>4</sup>

**Craft vs. industrial unionism.** Unions are classified according to the membership base or job territory included in their jurisdictional claims. As indicated in the preceding chapter, the membership base of the first unions was the single craft. A craft is a skilled trade, generally requiring a definite training or apprenticeship. Because craftsmen have a common or identical training, each can usually perform all phases of the craft work. Some craftsmen, such as machinists, molders, electricians, and carpenters, may work in many industries. Their interests may, however, be mainly along craft lines—in protecting the value of their craft skill—rather than along industrial lines.

If employment in a particular industry (regardless of the worker's occupation or trade) is the basis for membership, the organization is called an industrial union. The delineation of industries, however, presents real difficulties. Production involves the use of raw materials, parts, transportation, and other services. Are services such as trucking, plant maintenance and repair, and selling to be classified as separate industries? How classify plants supplying parts or materials to a number of industries? Classification on the basis of a common material would make the United Brotherhood of Carpenters and Joiners an industrial union, for its membership stretches from the growing tree to the finished wood product, including lumbermen, sawmill hands, woodworkers and woodfinishers, and box and furniture workers as well as carpenters on construction projects. Classification on the basis of the main end-product of a single employing unit or property would lump in one industry all the workers at River Rouge where the Ford Motor Company operates a railroad, a steel plant, a foundry, a paper mill, a glass factory, a cement plant, a private telephone system, and electric power plants as well as automobile assembly lines.

The membership base of most national unions is not confined to a single craft<sup>5</sup> or to manual workers in a single industry. Where workers in a number of cognate trades or occupations are united, the organization may be called an associated-craft union. Where workers in only some occupations in an industry are joined together, the resulting unit is referred to as a semi-industrial union. Often the grouping of employees pursuing various occupations into the same local union, or into locals of the same national union, has occurred through extension of a national union's jurisdiction to new groups of workers or through an amalgamation of two or more national unions. Some

<sup>4</sup> See *Report of Proceedings at the 59th Annual Trades Union Congress*, 1927, pp. 102-103.

<sup>5</sup> A study of 85 AFL unions in 1939 showed that only 12 of them, with less than 1 per cent of the total membership, were pure craft unions. See David J. Saposs and Sol Davison, "Structure of AFL Unions," *Labor Relations Reporter*, Vol. IV (May 15, 1939), p. 385.

national unions are multi-industrial organizations, including in their membership workers in a number of industries. The wide industrial coverage of some unions is indicated by their titles (the International Union of United Brewery, Flour, Cereal, and Soft Drink Workers of America, or the United Automobile, Aircraft and Agricultural Implement Workers of America), but many unions include workers whose employment is far removed from the types of work implied in their titles or their statements of jurisdiction.

a. **ECONOMIC BASIS OF CRAFT UNIONISM.** Because recent developments have favored industrial unionism, popular opinion is prone to overlook the economic advantages of the craft form for certain classes of workers. Those advantages are brought out by the question, Why was the first industrial union of Carriage and Wagon Workers formed in 1891 and not in the 1820's? Why did groups working on wagons, such as carpenters, painters, blacksmiths, and wheelwrights, form separate craft unions instead of an industrial union of wagon workers?

One reason for the craft form in wagon making was that the carpenters and other craftsmen might work in a number of industries in the course of a few years. Universal application of the industrial form of unionism would have required that they change unions each time they moved from one industry to another. Also, in a union based on the industrial principle, unskilled and semiskilled workers, not acquainted with or particularly interested in the problems of skilled craftsmen, would usually have majority control of the organizational unit.

For skilled workers, craft interests may transcend industrial attachments. Generally the wages of skilled workers, like machinists and electricians, have been governed more by the general value of their skill than by economic circumstances in particular industries. The craft type of organization on a national scale enables the craftsmen as a group to preserve and enhance the value of their craft skill. This they often do in the same manner as doctors and lawyers, by controlling the supply of qualified sellers of the services and by maintaining the demand for their services by preventing outsiders from performing any of the work that they claim as their jurisdiction. Protective regulations to influence the supply of and demand for craft skill are an important part of the economic basis upon which craft unionism rests. So strong is the factor of craft protection that, where separate crafts have amalgamated into a single union, each craft generally insists upon retaining the exclusive right to jurisdiction over employment in its trade, and the movement of workers between the combined trades is jealously guarded.

The economic strength of craft unionism has been underestimated by those who measure power in terms of numbers. Although a craft may be numerically small, its membership is likely to be cohesive and it may represent consider-

able economic strength, if there is no suitable substitute for the craft skill in case of a strike. Furthermore, the distribution of craftsmen among a number of industries may serve to spread the risk of wholesale strikes and save the union from almost complete annihilation in one contest of strength with employers in an industry. If combined action by unions in the same industry is desirable, craft unions can join together in allied trades' councils or industrial federations as the building, printing, and metal trades have done.

b. ECONOMIC BASIS OF INDUSTRIAL UNIONISM. The arguments for a single-industry base of membership for labor organization rest primarily upon the characteristics of modern large-scale industry. As explained in the preceding chapter, recent technological changes have been reducing the need for craft skill in manufacturing. Jobs in large firms are becoming so specialized and peculiar to the firm or industry that comparatively few workers can be considered skilled craftsmen, belonging to a definite recognized trade. Therefore, organization on a strictly craft basis would exclude from any labor organization most of the workers in the mass-production industries. If the unskilled and semiskilled machine operators in the basic industries are to be organized, it must be along industrial lines. Furthermore, workers in the mass-production industries think along employer or industrial, rather than craft, lines.

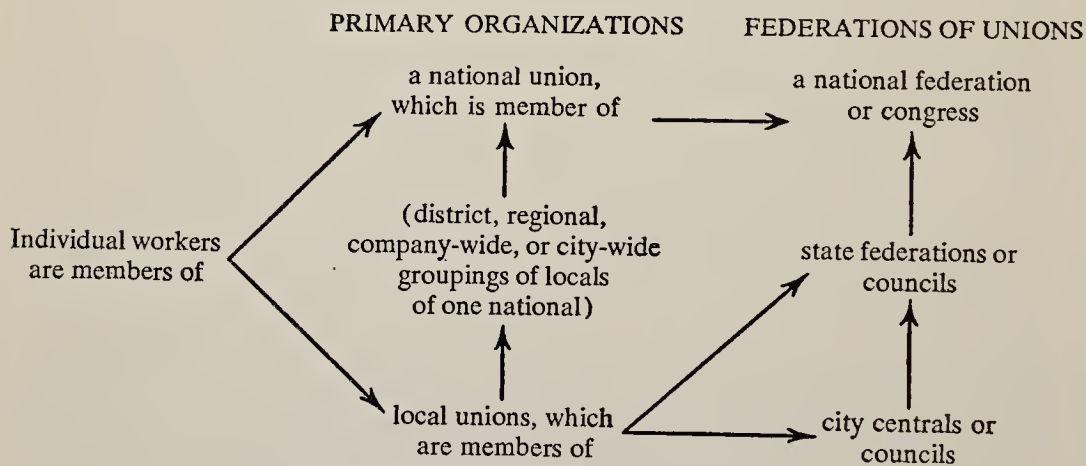
The advocates of industrial unionism have pointed out that craft unions were unable to gain a foothold in large-scale manufacturing. The AFL organizing campaigns in steel (1919) and automobiles (1925-27) failed miserably. That it is easier to organize most workers along industrial lines seems to be indicated by the fact that the AFL has first organized workers into federal labor unions, which are really industrial unions or general labor unions. Later, in attempting to distribute many of the members of such industrial locals in automobiles, rubber, or steel among some 15 or 20 craft unions, the unity of the local organization was shattered.

Organization and combined action by labor along industrial lines is desirable, it is claimed, because employers and employers' associations are organized mostly upon that basis. In bargaining, employers tend to stress conditions in their product markets. It is also claimed that industrial unionism is a solution for jurisdictional disputes between unions. In the absence of clear-cut and unchanging industrial boundaries, however, one finds jurisdictional disputes occurring between industrial unions as well as between craft unions.

## STRUCTURAL FORMS AND FUNCTIONS

The main structural units in American labor organization are the local and national unions, plus the federations that parallel the three levels of political division (national, state, and local). The local and national unions are the

primary organizations because the individual worker is a member directly of a local chartered by a national and because the national unions are independent and autonomous, which means that each national decides its own policies. The locals and nationals are the units that negotiate with employers, call strikes, and participate in the administration of agreements. The federations are loose organizations of affiliated local and national unions, engaged mainly in political activities and publicity work. The “union” printer, for example, belongs to a local of the Typographical Union and the “union” steel worker to a local of the United Steelworkers of America, both national unions. The first is affiliated with the American Federation of Labor and the second with the Congress of Industrial Organizations. The individual printer is not a member of the AFL national, state, or local federations, nor is a steelworker a member of the National CIO or its state and local “industrial union councils.” The figure below outlines these structural arrangements and relationships.



*Structural Arrangements*

In the diagram an intermediate layer of administration is inserted in parenthesis between the national union and its constituent locals. Such intermediate boards, councils, divisions, or departments are particularly characteristic of large unions with jurisdictions extending over a number of industries. Locals of the various national unions constitute the membership of the city and the state federations, although not all of them belong to such federations.

**Local unions.** The worker's point of contact with the labor movement is the local union. He participates in union affairs through the meetings of his local—the regular meetings once or twice a month and any special meetings. In that sense the local union is the basic unit of labor organization. Actually, in most unions it is unusual for attendance at meetings to exceed 15 or 20 per cent of the local's membership, except when there is internal controversy or

consideration is being given to the provisions for a new agreement or to the use of the strike weapon.

The local is, of course, chartered by the national union of which it is a part. Therefore, it is subject to the provisions of the constitution and by-laws of the national union and to rulings and policies adopted at the national's conventions. In practice that means that such matters as election and judicial procedures, membership qualifications and provisions, conduct of meetings, and financial matters are subject to the supervision of the national union.

The degree of independence of local unions, their individual importance in national union decisions, and the range of functions left for them to perform, depend upon several factors. They include the nature of the industry, the origin of the union, the size of the local, the membership base, and the type of leadership in the national union. Locals generally serve as collectors of fees and dues, the initial processors of in-plant grievances, and the real authority with respect to seniority. Usually agreements are ratified by majority vote of the local before they become effective. The extent to which locals exercise autonomy with respect to wage changes, the length of the workday and work-week, the negotiation of new agreements, the calling of strikes, and similar matters varies from union to union depending on factors such as those just mentioned. In local-market industries, like building construction, building service, and barbering, the local unions may have the power to call strikes and negotiate agreements without formal approval from national headquarters. In craft unions, however, craft protective regulations, which directly affect the value of craft skill (such as rules with respect to apprenticeship, the use of labor-saving devices, and subdivision of the work) are usually subject to national control. Locals are likely to be more independent and self-assertive if they were well established prior to the national union and participated in its formation. This is evident, for example, in the Teamsters union, where the older locals in the large eastern and mid-western cities are much less willing to accept guidance and instructions from national union officials than is true of locals in the eleven western states, which have developed under Dave Beck's tutelage and control. The significance of size is well illustrated by the role that the Philadelphia local, representing one-quarter of all the membership, has played in the affairs of the American Federation of Hosiery Workers.

The size and coverage of local unions are largely the result of historical and industrial influences and administrative convenience. Craft locals frequently cover a number of employers in a locality, whereas industrial locals more often are confined to a single employer or plant. In the mass-production industries, which are centers of industrial unionism, employing units are large. Although many nationals have less than two dozen locals, six nationals have over 2,000 local units. Locals vary widely in size, ranging from as few as a

dozen members to over 60,000 members in the Ford local of the UAW at River Rouge. When a local exceeds 1,000 or 1,500 members, its meetings tend to become mass assemblages rather than self-governing units. In the United States and Canada, there are between 60,000 and 70,000 local unions, which means an average of 200 to 250 members to a local. That locals of AFL unions tend to be smaller in size than those in CIO unions is indicated by the fact that in 1949 there are some 43,000 locals in unions affiliated with the AFL (or an average of about 160 members per local) compared with an estimate of 11,000 or 12,000 locals in unions affiliated with the CIO (or an average of over 500 per local).

The local officers (president, vice president, secretary, treasurer, executive board, etc.) usually are elected and, in many unions, contests for local offices are normal, with turnover of personnel fairly high during a decade. In the smaller locals, the officers and the shop stewards (or grievance men) continue to work in the plant, conducting union business in their spare time, on company time, or during hours taken off from work and paid for by the union. It is common for locals in the building trades, metal trades, and clothing industries, as well as some of the larger locals in other industries, to employ one or more full-time salaried officers (also elected). Called "business agents," "business managers," "deputies," or some similar title, they may serve as job dispensers, trouble shooters, piece-rate adjusters, contract negotiators, and office managers. In the building trades, where the scattered and changing job characteristics of the industry require that they have authority to call a strike, business agents have, at times, used their powers in an autocratic (even racketeering) manner. With small attendance at meetings, the problem of preventing "machine" control in local unions is somewhat similar to that in city and county governments.

**National unions.** In this country there are about 200 national unions, sometimes referred to as "international" unions because they have locals in Canada. Over 100 nationals are affiliated with the AFL, about 40 with the CIO, and the rest, many of which are in the railroad industry and government service, are not attached to any top federation. National unions vary considerably in size. Some are small; 40-odd have less than 5,000 members. On the other hand, six multi-industry giants have between one-half a million and a million or more members.

In industries with a wide area of competitive production, the national union is generally the most important unit of labor organization. In this country, the national union has customarily enjoyed complete autonomy in fixing dues, forming policies, negotiating agreements, calling strikes, and organizing new locals. Presumably the size of the country, the importance of craft unionism,

and the lack of class solidarity are largely responsible for the American principle of national union sovereignty, which finds no parallel abroad.

No two national unions are exactly alike. Their differences may be due in part to historical circumstances and contrasts in leadership, but the economic structure of the industry or industries in which they operate has generally been the primary determining factor. For example, the distribution of authority and control between national unions and their locals is influenced by the size of the area of competitive production. In coal mining, textiles, and glassware, which have wide market competition, the national body exercises considerable authority over collective bargaining and other activities. On the other hand, in industries like building, barbering, or baking, with localized market areas, the national unions exert relatively little control over locals. More than half of the national unions require approval by the national office before a local engages in a strike. In the building trades, the local unions generally reserve the right to strike without referring the matter to the national union. Such local freedom is necessary not only because of the nature of the industry, but also because the local building trades generally cooperate as a group in strikes. The strike assistance of locals of the other building unions may be more important than aid from the parent union. In many cities, most of the real power resides in the local building-trades councils, which at times have not hesitated to act counter to the wishes of national unions in the industry.

A national union operates under a written constitution, which is subject to amendment at the union's conventions or by referendum vote. A convention is a representative body, consisting of from 50 to 2,000 delegates elected by the locals. Such union conventions are held at stated intervals or on call. Seven out of every ten national unions (including all CIO affiliates) hold a convention annually, biennially, or triennially. The chief factors in lengthening the interval between conventions are the expense and the union's age. It may cost a large union as much as a quarter of a million dollars to hold a one to two weeks' convention; older unions, whose policies are well established, do not need to convene as frequently. The convention, generally open to the public, serves not only as a periodic review of the leadership and a means for settling internal disputes but also as the supreme legislative and judicial body. In addition, many unions make use of direct legislation (the referendum and initiative). Between conventions an executive board, usually consisting of the president, secretary, treasurer, and a number of vice presidents, administers the union's affairs. Such officers are generally elected at the convention, although sometimes by referendum vote.

Officers of national unions may acquire considerable political power. The authority to hire organizers and the headquarters staff, to issue new charters,

to suspend or take over the administration of locals, and to pay out the union's funds (including strike benefits), places a considerable amount of political influence and patronage in the hands of the president or a majority of the executive board.

**Federation of unions.** Common interests cause local and national unions to federate along political and geographic lines. Locals of various national unions may form a city central body for combined action on both the economic and political fronts. City federations of local unions operate under various names—central labor union, trades and labor assembly, or central labor council for the 800-odd AFL city centrals, and “industrial union council” for the 250 CIO local federations. Directly under the control of the executive board of the national federation, city centrals engage in political, educational, and public relations activities and serve as a clearinghouse for information and aid. The AFL and CIO also have state-wide federations, composed of local unions and city centrals. Such state federations are especially active in legislative matters of interest to organized labor.

a. **THE AMERICAN FEDERATION OF LABOR.** Like the United Nations, the AFL is a loose confederation of over 100 sovereign national unions. Each national union enjoys absolute control over its internal affairs, is free to develop whatever policies and philosophy it wishes, and can leave the Federation at any time for any reason. As Samuel Gompers explained, “No national or international is subordinate to the American Federation of Labor. They are sovereign entities in themselves.” The AFL is “a rope of sand,” limited to activities that do not impinge on the autonomy of each trade.

The chief functions of the AFL may be summarized under the following seven headings: (1) jurisdictional—defining and preserving the jurisdictional rights of affiliated unions, including the settlement of jurisdictional disputes; (2) organizational—assisting national unions in organizing activities and carrying on preliminary organization in new industrial and geographic areas; (3) legislative—attempts to obtain the enactment of legislation favored by the Federation; (4) educational and public relations—seeking to influence public opinion in favor of organized labor and its policies through publications and other means of communication; (5) technical—giving research, legal, and other assistance to member unions; (6) international—representing its membership in international organizations and in international affairs; and (7) economic—supporting strikes of affiliated national unions and the purchase of goods bearing the labels of such unions. The Federation has no authority to call members of national unions out on strike or to order national unions to call off strikes.

The doctrine that the Federation shall in no way interfere with the sovereignty of a national union has sharply limited the central organization's

ability to improve conditions within national unions that may be embarrassing to the Federation. For example, racketeering (the extortion of money from employers or employees) has occurred with some frequency in local-market lines like the building trades, in which business agents have considerable power. However, only the national unions can clean up such abuses, for each union member and local official is a citizen of his national and not of the Federation. The Federation's only means of action against a national union is expulsion. Because the Federation officials have considered themselves impotent to intervene constructively in the affairs of national unions, some forward-looking elements have finally revolted against the inept or corrupt leadership of a national union. Even when the insurgents have been supported by more than a majority of the union's membership, the Federation generally continues to recognize and aid only the "regular" officers who hold the union's charter and the jurisdiction granted by the AFL.

Until the rise of the CIO, the Federation's policy of assuring exclusive jurisdiction to an affiliated union and of combatting any threats to that jurisdiction served as a powerful lever to force national unions to be members of the Federation. An outside union might at any time find itself confronted by a rival union supported by the Federation and all its subordinate units, including state federations and city centrals. In effect, therefore, the AFL served to protect national unions against insurrection or rivalry, by forcing local unions to be a part of the national union in that jurisdiction or to remain completely outside the Federation's "family of labor." Unlike a public utility, that national union did not need to exercise the exclusive franchise granted by the Federation in order to retain it.

There is one exception to the statement that workers are not members of the AFL but of its constituent national unions. In organizing certain areas, trades, or industries, the Federation may first combine the workers in "federal trade unions" (if they are all in one trade) or in "federal labor unions" (if they represent a variety of occupations). For such local unions the AFL temporarily functions as a national union. They represent a transitional form of organization, considered necessary because no national union exists with jurisdiction over those workers, or because there are not enough of them to form separate locals of the national unions with jurisdiction, or because a general or industrial basis seemed the most suitable one to adopt in the campaign to organize those particular workers. Sometime later presumably, most workers in such federal unions will become members of a national union affiliated with the Federation.

The large unions tend to dominate the AFL. In the yearly convention, voting power is in direct proportion to the total membership upon which the national union has paid the regular monthly "tax" of three cents per member (37.5

cents per member for local federal unions). During recent decades, the dozen largest unions have accounted for a majority of the total votes in the convention. The convention elects an Executive Council of 15 (the president, 13 vice presidents, and the secretary-treasurer). Between conventions, it exercises authority and determines policy for the Federation. Limited only by the constitution and convention actions, the Council may even control the convention through the power that the 13 vice presidents have over the votes of their own unions.

The political policies and activities of organized labor are discussed in a later chapter. Here it is only necessary to mention that the AFL in 1947 established "Labor's League for Political Education." Separately financed by voluntary contributions, the League was founded as a result of the political defeat that labor suffered with the passage of the Taft-Hartley Act.

A split in the AFL occurred following a sharp difference in the 1935 convention over the issue of organization of the mass-production industries. The more progressive leaders, many of whom headed industrial unions, were dissatisfied with the conservative, cautious policies of the Executive Council. A minority report of the resolutions committee called for industrial unions covering all workers "in those industries where the work performed by a majority of the workers is of such nature that it might fall within the jurisdictional claim of more than one craft union, or no established craft union." Existing jurisdictional claims of national unions were to be disregarded on the ground that changes in industrial methods had so altered the jobs in those industries that they could not have been included in the jurisdictional outlines of charters issued to national unions prior to such changes. This minority report was opposed by 62 per cent of the votes cast in the convention. Shortly afterwards the Committee for Industrial Organization (CIO) was formed by the officers of seven of the national unions in the AFL that had been active in support of the minority report favoring industrial organization for the mass-production industries. Following refusal of the Committee to cease its organizing campaigns, the Executive Council suspended from the AFL ten national unions that had joined the Committee. The Council's action was ratified by the 1936 convention. The Committee for Industrial Organization became the Congress of Industrial Organizations (continuing the magic initials, CIO) at its constitutional convention in November, 1938.

b. THE CONGRESS OF INDUSTRIAL ORGANIZATIONS. Like the AFL, the CIO is a confederation of 40-odd national or international unions that ostensibly enjoy autonomy within their own jurisdictions. In fact, the structural patterns and basic provisions of the constitution of the CIO are so similar to those of the Federation that it would be repetitious to describe them in detail. The same is true of the functions performed by the CIO. The seven outlined above

fit it as well as the AFL. Like the Federation's Executive Council, the Executive Board of the CIO directs the affairs of the organization between conventions and supervises the city and state industrial union councils and the "local industrial unions" (similar to the AFL's local federal unions). The Board's decisions, of course, are subject to appeal to the annual convention of the CIO. The Board also makes recommendations with respect to jurisdictional disputes between affiliated national unions; the convention has the supreme authority to decide them.

A few significant differences exist between the constitution of the CIO and that of the AFL. Each annual convention of the CIO elects an Executive Board consisting of a president, nine vice presidents, a secretary-treasurer, and 40-odd additional members, one nominated by each affiliated national union. On roll call votes, only the non-officer members of the Board participate, and they each cast the number of votes represented by the membership of their respective national unions. Consequently, the five largest national unions, which account for a majority of all votes, can control not only the convention but also the Executive Board. The CIO's monthly "tax" is 5 cents per member for each national union and 50 cents per member for each local industrial union.

In the course of time, the policies and objectives of the two top union centers have come closer together. Nevertheless some practical differences are worth noting. In contrast to the AFL, the presidents of the CIO have also been presidents of large constituent unions and have exerted considerable influence over the internal affairs of some of the affiliated national unions. That was to be expected in view of the financial and other assistance that some CIO unions have received. Although claiming not to be tied to any political party, the CIO was, through its Political Action Committee established in 1943, somewhat more active than the AFL in supporting the candidacies of Presidents Roosevelt and Truman. Perhaps because they average some ten years younger than AFL union heads, top officials in the CIO unions have generally been more favorable to governmental intervention in economic affairs. Also, admitted Communists and followers of the Communist Party line were prominent in a number of CIO unions before the expulsion of 11 Communist-dominated unions from the CIO following its 1949 convention.

Originally the CIO was formed for the purpose of organizing the workers in mass-production industries into industrial unions. It represented an attempt to free labor organization from the restraint of unused franchises or monopolies in the form of "paper" jurisdictions, by which AFL craft unions claimed jurisdiction over skilled workers in those industries. Soon, however, the CIO became a rival union center, chartering separate unions for such crafts as marine engineering, barbering, and radio telegraphy. Now there are rival CIO

and AFL national unions in a large number of industries including automobiles, textiles, meat packing, pulp and paper, lumber, glass, chemicals, leather, shoes, furniture, lithography, government service, longshoring, maritime transportation, laundry service, retail clerking, and transportation by bus or street car. The situation in the maritime industry is especially confused, with an AFL longshoremen's union and a CIO seamen's union on the East Coast and just the opposite situation on the West Coast. Furthermore, the CIO local industrial unions and the AFL federal labor unions have been organized and are being organized in the same industries and occupations. In elections to determine union representation, AFL unions as well as CIO unions have in a majority of instances petitioned the National Labor Relations Board for industrial (in contrast to craft or associated craft) units.

Competition by the CIO has had a stimulating effect on the AFL and its affiliates. A number of national unions in the Federation adopted the industrial-union principle by enlarging their jurisdictions. The AFL itself spent large sums to organize the unorganized, including unskilled and white-collar workers. The new spirit and vitality in the labor movement after 1935 were in sharp contrast to the stagnation and decline that marked the 1920's and early 1930's, when the labor movement was almost completely unified instead of being divided into rival camps. The split in the movement has, however, had harmful as well as beneficial effects. Employers, the public, and many workers directly affected have been annoyed and disgusted with the bitter rivalry between the two federations, which at times has resulted in strikes and boycotts simply because a group of workers decided to belong to a particular organization. The ill-will engendered by such internecine warfare contributed to the passage of union-restricting legislation in the states and by Congress in the 1940's. The split also served to generate political rivalry within the labor movement, which reduced labor's legislative effectiveness.

Although the public and the rank and file of organized labor may desire peace between the AFL and CIO, actual unification would present many problems, as the representatives of the AFL and CIO discovered when they held a series of meetings on "organic unity," beginning in July, 1950. Expulsion of the Communist-dominated unions from the CIO has helped to facilitate unity but has also reduced the numerical power of the CIO, so that its unions would be a minority if complete merger with the AFL did occur. Since 1938, the areas of possible conflict between unions have widened with an increase in the number of rival national unions and an extension of jurisdictional claims. In addition to jurisdictional problems, unification through the merging of existing organizations might reduce by as much as 50 per cent the number of union presidencies and other offices. Consolidation would upset existing loyalties and injure many vested interests. Above all there is the question of

which forces would control a majority in the convention of any united labor federation, and hence have the power to determine jurisdictions and policies.

**Jurisdictional difficulties.** Disputes between unions over jurisdiction (right to exclusive control over a certain type of work or a certain group of workers) are bound up with the problem of union structure. Such disputes are more likely to arise where unions are formed on different structural principles or on no particular principle except expediency, where the same national union may be a craft union in one industry and an industrial union in another industry, and where national unions belong to rival federations or remain unaffiliated.

A union's jurisdiction determines its size and character. Union officials may desire a large organization for political influence within the labor movement and in the nation at large. The left- and right-wing rivalry within the CIO in the late 1940's had an effect upon the jurisdictional claims and mergers of affiliated unions. Craft unions may seek to maintain or extend their jurisdictions in order to preserve and enhance the value of particular craft skills.

Changes in machinery, materials, and methods of production in a dynamic economy raise questions concerning who should perform work on the new equipment, process, or product. Thus one finds the Carpenters and Plasterers both demanding the right to nail up plasterboard, the Carpenters and the Sheet Metal Workers each claiming exclusive right to put metal trim and metal doors and windows in buildings, and the Electrical Workers and the Telephone Workers both insisting on the right to install telephone conduits in buildings. Such work assignment disputes have been especially rife in the building trades and more prevalent between craft than industrial unions. Industrial unions have nevertheless had jurisdictional conflicts. The Seamen and the Longshoremen have disagreed as to where the work of one occupation leaves off and the other begins. The men's and ladies' garment unions have clashed regarding jurisdiction over mannish types of women's clothes (such as slacks) and over bathrobes and raincoats. In addition to work-assignment disputes, there are rival- or dual-union conflicts where two unions are trying to organize and represent the same group of workers.

Jurisdictional disputes have often been exasperating and costly to employers caught in the cross fire of such conflicts, and also expensive for the participating unions. Nevertheless, the actual importance of such disputes has been exaggerated. The classified statistics of the U. S. Department of Labor show that in no year from 1927 to 1948 did jurisdictional strikes account for as much as 3 per cent of all man-days lost from labor disputes, and that strikes caused by conflict between rival unions or factions accounted for less than 3

per cent of all man-days lost by strikes during most of those 20 years (never reaching as much as 9 per cent in any year).

The American theory of the sovereignty of national unions serves both to increase the severity of jurisdictional disputes and to make it difficult to enforce a lasting solution for any particular conflict. The national unions are free to disregard any decision by the AFL, the CIO, or an outside arbitrator. The result has been that such disputes may drag on for four or five decades, and never be really settled. That, for example, has been true of the dispute between the Carpenters and the Sheet Metal Workers over metal trim and doors and the controversy between the Brewery Workers and the Teamsters for jurisdiction over the drivers of brewery wagons or trucks. Furthermore, there is no one satisfactory principle that can be consistently applied to all cases of jurisdictional conflict. The holding of representation elections by the National Labor Relations Board and state boards has served to minimize strikes between rival unions seeking to represent a particular group of workers.

As explained more fully at a later point, the Taft-Hartley or Labor Management Relations Act of 1947 directs the National Labor Relations Board to determine jurisdictional disputes over work assignments in case the parties fail to adjust them in ten days. Under the Act, a union that engages in a strike or boycott of materials in order to force an employer to assign work to employees in a particular union or occupation commits an unfair labor practice, and thereby subjects itself not only to the usual remedies of the Board but also to possible court injunction or to damage suit by any person injured in his business or property by the strike or boycott. The severity of these legal provisions has served to reduce the frequency and length of jurisdictional disputes and caused the AFL unions in the building trades to establish in 1948, in cooperation with the Association of General Contractors, a National Joint Board for the Settlement of Jurisdictional Disputes in the Building and Constructional Industry.

### **GOVERNMENT AND CONTROL**

The political scientists have not given the subject of union government the attention it deserves. Most of the problems of political bodies are clearly revealed in union experience, with all kinds of variations and nuances. Labor unions, for example, face such problems as the centralization of functions and financial power in the national headquarters; the perpetuation of political control by means of machine politics, Communistic tactics, and dictatorial methods; the reconciliation of efficient and rapid action with the maintenance of democratic control and checks on personal power; the development of rank-and-file interest and participation in the government of a large organization, which is highly centralized; the extent to which one agency should

attempt to interfere with and control all aspects of the individual's life (the issue of totalitarianism); the maintenance of civil liberties, including freedom of speech and press, within organized labor; and the enforcement of compliance with adopted policies.

Union government is significant from many points of view. It is involved in the issue of union responsibility, in the question of the economic power and control exercised by labor leaders, and in the charge that unionism may mean merely the substitution of a dictatorial union boss for an authoritarian company boss. The labor movement has a tradition of equalitarianism, fraternalism, and democratic ideals. One of the most important functions of unions from the social viewpoint is that they open to manual workers a channel for leadership and an opportunity to practice the techniques of democracy in matters directly concerned with their daily work. That benefit, however, is lost if a union is operated in an undemocratic manner.

The public, workers, and employers have been none too clear on the kind of unions they desire or that circumstances may require. Should unions, like corporations, be run on a business basis, with authority from the top down and fulfillment of all commitments? Or should they operate like our governmental units, with political parties, close attention to internal political currents, and perhaps frequent changes in leadership and policies? How do the functions that unions perform—negotiating, striking, and administering agreements—affect the kind of government needed for effective operation? How do employer policies and militancy react on union political processes and control? Can unions be both political and businesslike, democratic and responsible? Employers sometimes complain that particular unions have too much politics and rank-and-file irresponsibility for stable industrial relations—that the union officials are so insecure they feel compelled to make anti-management statements, to insist that the workers are always right, and to refuse to compromise at all in negotiations, which makes it difficult for management to deal with the union or to predict what will happen.

**Some types of union government.** The extremes in union government are one-man control at the top and rank-and-file control from the bottom. The United Mine Workers under John L. Lewis and the American Federation of Musicians under James Caesar Petrillo have at times approached the condition of one-man rule. Rank-and-file control is more characteristic of new and local unions. A good example of a national union that has been characterized by vigorous internal democracy is the United Automobile, Aircraft, and Agricultural Implement Workers (CIO).

Under the reign of John L. Lewis the United Mine Workers has been changed from a strongly democratic union to one of the most autocratically controlled. Complete one-man domination was achieved in the 1920's by

developing a political machine and ruthlessly destroying all opposition. The main methods used to achieve unquestioning loyalty and absolute control were the expulsion of opponents from the union and the replacement of elected officials with Lewis' appointees, known as "provisional officers." For over 20 years most of the Union's districts, containing from two-thirds to three-quarters of the total membership, have been under such "temporary arrangements." To repeated pleas in the Union's convention for elected rather than appointed managers of the district offices, President Lewis has replied with statements about administrative efficiency and responsibility such as: "It is a question of whether you desire your organization to be the most effective instrumentality within the realm of possibility for a labor organization or whether you prefer to sacrifice the efficiency of your organization in some respect for a little more academic freedom in the selection of some local representatives in a number of districts," and "Do you want an efficient organization or do you want merely a political instrumentality?"<sup>6</sup> Furthermore, a majority of the union's Executive Board has consisted of Lewis' appointees.<sup>7</sup> Consequently, the whole union responds without question to the will of one man.

The constitution of the American Federation of Musicians gives its president the authority to call strikes himself without consultation or vote and to issue executive orders that are binding on all members and all locals. By such orders he may "annul and set aside" any or all rules, resolutions, or provisions of the union's constitution and by-laws, and "substitute therefor other and different provisions of his own making." Mr. Petrillo, who became president of the AFM in 1940, has made frequent use of such absolute powers, suddenly issuing ukases forbidding members to play musical instruments for, say, disk recording or for television, and just as suddenly rescinding such bans. The plight of "live musicians," disemployed by recording and transmission devices, has been used to explain such dictatorial power and one-man domination of the union.

Since its founding in 1936, the United Automobile, Aircraft, and Agricultural Implement Workers has been a union characterized by a democratic grass-roots militancy and a marked degree of rank-and-file participation in policy determination. The union was built from the bottom up by groups passionately interested in its affairs and ready to sacrifice for its success. They early learned the dangers of centralized power. The first president, Homer Martin, not only acted in a high-handed manner but proposed constitutional

<sup>6</sup> See *Proceedings of the Thirty-fourth Constitutional Convention of the United Mine Workers of America*, 1936, Vol. I, pp. 122 and 130. For an extended discussion of undemocratic methods in United Mine Workers, see James A. Wechsler, *Labor Baron, A Portrait of John L. Lewis*, Morrow, New York, 1944, especially Chapter 6.

<sup>7</sup> See the preceding references, *Proceedings*, p. 119, and Wechsler, p. 80.

changes to increase the president's power. His proposals were defeated in the 1934 convention and not long afterwards the union had a new president. That was only one of a series of crises (including the 1937 sit-down strikes and the 1941 walk-out at Ford), in each of which rank-and-file members took matters into their own hands to save the union from retreat or defeat. As is characteristic of vigorous democracies, factions of all kinds and colors have existed in the UAW. Such factions or "caucuses" have been free to organize, to campaign among the membership, and to argue the issues at the conventions, which are mass meetings of 2,000 delegates, famous for their heated debates, frank criticism of officials, and general dramatic qualities. The extent to which the membership and convention delegates, as opposed to the top officials and headquarters staff, have determined the course of the union is remarkable in view of its size (about a million members), the practice of company-wide bargaining with giant concerns (General Motors, Ford, and Chrysler), and the technical nature of many issues with which the union has been concerned (price-wage-profit relationships, wage incentives, speed-up and time study, pensions, welfare funds, and efficient union administration). It is perhaps ominous, however, that by 1949 no significant opposition to the Reuther leadership existed in the UAW.<sup>8</sup>

The political arrangements in the International Typographical Union are unusual for a labor organization. For half a century, the printers have had a regular two-party system, with both parties enjoying complete freedom to hold caucuses and circulate the membership. The rivalry frequently is sharp and bitter. The official journal of the union remains politically impartial; according to the union's by-laws each candidate is to be allotted the same space in the journal. National officers are elected by referendum vote of the membership, and no officer at union headquarters can order a member on strike until the local has authorized such action by a three-fourths vote. The age of the union (founded in 1852) and the high level of intelligence of the membership undoubtedly contribute to the successful operation of a two-party system.<sup>9</sup>

Most unions occupy an intermediate position between autocracy or oligarchy and rank-and-file control. Representative democracy operates as a satisfactory check on personal power in many labor organizations, with local unions maintaining considerable responsibility even though the industry produces for a national market. That, for example, has been true of the United Rubber Workers, the American Federation of Hosiery Workers, the Flint Glass

<sup>8</sup> This paragraph draws heavily from Irving Howe and B. J. Widick, *The UAW and Walter Reuther*, Random House, New York, 1949, Chapter 11. See also F. H. Harbison and R. Dubin, *Patterns of Union-Management Relations, UAW-CIO, General Motors, Studebaker*, Science Research Associates, Chicago, 1947.

<sup>9</sup> For a detailed discussion, see S. M. Lipset, "The Two Party System in the ITU," *Labor and Nation*, Vol. VI (Fall, 1950), pp. 31-35.

Workers, the Pulp Workers, and the National Maritime Union. In Communist-controlled unions, a tightly knit caucus exercises behind-the-scenes control, often cloaking its rule with statements about rank-and-file democracy.

**Union finances.** The extent and distribution of union power are tied up with the size and allocation of union funds. The more that the strike, benefit, and other funds are concentrated in the national union, the more power headquarters officials tend to possess.

Initiation fees and dues (plus special assessments) represent the cost of union organization to the worker and the source of income for unions. In CIO unions, initiation fees usually range from \$2 to \$10, and monthly dues generally are from \$1 to \$2.<sup>10</sup> In AFL unions, initiation fees of \$25 and \$50 and monthly dues of \$2 to \$3 seem to be the most common.<sup>11</sup> The highest initiation fees (up to \$200, \$300, and, in a few locals, even \$500) and the highest monthly dues (up to \$5, \$6, and even \$7) are charged by the skilled building trades and other long-established unions. One reason for the higher charges in AFL unions is the wide variety of (death, sick, disability, unemployment, and pension) benefits they provide for members, amounting for all AFL unions to a disbursement of about \$50 million a year. Other reasons for high initiation fees are: (a) the craft policy of limiting membership to maintain both the value of skill and employment for the members, and (b) the contention that new recruits should pay some of the past costs incurred to achieve existing wage and working standards.

In many unions the power of the national's purse is an important element of control over local unions. In CIO unions, generally 40 to 50 per cent of the income from monthly dues is turned over as a per capita tax to the national headquarters.<sup>12</sup> The percentage would probably average about the same for all AFL unions. The monetary significance of a 50 per cent share is evident from the fact that the gross income of all unions is between \$400 million and \$500 million a year. The total net worth of all national unions (locals excluded) apparently approached \$400 million in 1948.<sup>13</sup> That is an average of about \$25 per member, but it was quite unevenly distributed, varying from about \$2 a member in the United Auto Workers and \$3 in the United Rubber Workers to some \$155 a member in the United Mine Workers and around

<sup>10</sup> See *The CIO, What It Is and What It Does*, Publication No. 173, Congress of Industrial Organizations, undated but published in 1949, Table II, pp. 14-15.

<sup>11</sup> See Philip Taft, "Dues and Initiation Fees in Labor Unions," *Quarterly Journal of Economics*, Vol. LX (February, 1946), pp. 219-232.

<sup>12</sup> *Economic Outlook*, Vol. VII (February, 1946), published by the CIO.

<sup>13</sup> See Nathan Belfer, "Financial Resources of Trade-Unions," *Journal of Political Economy*, Vol. LVII (April, 1949), pp. 158-59. Data are not available for estimating the funds in the hands of the 60,000-odd locals, although, as Belfer indicates, the combined total is probably at least as large as the figure for all national. Thus, total union assets probably exceed a billion dollars.

\$240 a member in the Railway Trainmen and the Railroad Conductors unions.<sup>14</sup>

**Control by national unions.** Since 1932 there has been a marked tendency for more and more functions and power to be concentrated in the national headquarters at the expense of the local unions. Undoubtedly, intervention by the federal government in labor relations during the New Deal and World War II contributed to such centralization, but a number of economic and political forces have also been working to expand the role of national unions at the expense of their locals. Among the economic factors are: expansion of the area of competitive production and the number of workers covered by a single labor negotiation, the increasing technicality and complexity of the issues in collective bargaining, the stress on efficient administration and responsibility in unions, and the need to pool benefit and strike funds for actuarial and protective reasons.

Unions seek to maintain standards throughout the whole area of competitive production. With multi-plant companies under headquarters control and centers of production spread throughout the country, it is obvious that plant locals must coordinate their bargaining policies, which means reliance on the national union for such coordinating activity even to the extent that the national officials insist upon the incorporation of certain provisions in all contracts. In the case of national, regional, or other forms of multiple-employer negotiation, the role of the national union in bargaining expands, and the influence and authority of any single local is reduced. Not only did the rapid growth of unionism in the 1930's leave many locals with inexperienced officers, but collective bargaining has come to involve such matters as job analysis and evaluation, production speeds and wage incentives, pension and welfare funds, critical evaluation of statistical series, arbitration and legal proceedings, and presentation of cases before governmental tribunals and boards, for which local leadership generally lacks the specialized training and experience. As unions grow in size, the problems of bigness appear. Procedures, such as annual conventions and local membership meetings, are not well suited to a national with over half a million members or to a local with 10,000 to 60,000 members. Efficient administration of the union's business, enforcement of adherence to agreements, and effective marshalling of the union's resources for tests of strength, all seem to require an expert staff at headquarters and subordination of locals to national authority. In addition, centralization of strike funds may be needed to increase their effectiveness and prevent unwise dissipation; the actuarial soundness and protective features of many benefit funds are improved by national pooling.

<sup>14</sup> See "Top U.S. Labor Unions," *Life*, Vol. XXIV (May 31, 1948), pp. 80-81.

The political factors furthering centralization are not new. They include the appointive powers of the national officials, headquarters control over avenues of communication (particularly the official periodical received by all members), and the power of national officers to suspend local officials and expel members. The national president, in some unions with approval of the executive board, appoints not only the headquarters staff but also the organizers and field representatives of the union. The patronage at the president's disposal may facilitate the development of a centralized political machine, increasing the strength of the national and weakening the independence of the locals. Control of the official publicity organs, coupled with presidential power to suspend or expel dissident groups, may mean that the locals have no means of effective opposition to national policies. In only a few unions (like the International Typographical Union, the National Maritime Union, and the Newspaper Guild) are the columns of the official newspaper or journal open to the expression of views opposed to those of the national administration of the union. Generally, the president or the national executive board has the power to remove local officers and expel members for acts that, in most union constitutions, are so vaguely worded as to give national officers wide discretion and to permit the elimination of any real local independence. Usually the suspended officers have the right of appeal to the next convention (although in at least 23 unions, mostly AFL affiliates, no such right exists).<sup>15</sup> However, large conventions are hardly the place for a fair and judicial handling of such cases. In most unions, the president appoints all the convention committees,<sup>16</sup> and usually the top officials tend to run the show.

Less potent are the factors operating in favor of the decentralization of functions and powers. They include factionalism within the union, the existence of rival unionism, and the development of large and vigorous locals with little aid from the national union. Factional differences in a union tend to reduce the discipline that national exerts over its locals as each faction seeks the support of subordinate units. Another strong influence in preserving local authority is competition between national unions to organize the same industry. Where the possibility exists for locals to change affiliation, nationals are likely to be more responsive to the wishes and proposals of local leadership. Locals may continue to retain autonomy in unions that have developed from the bottom up and in which some locals became strongholds of union power under vigorous local leadership. Good examples of such locals can be found in the United Rubber Workers, the American Federation of Hosiery Workers, and

<sup>15</sup> See Paul A. Brinker, "Functions of National Unions as Contrasted with Their Locals," *Southern Economic Journal*, Vol. XVI (July, 1949), pp. 32-33. See also Sumner H. Slichter, *The Challenge of Industrial Relations*, Cornell University Press, Ithaca, 1947, p. 108.

<sup>16</sup> See *Democracy in Trade Unions: A Survey with a Program of Action*, American Civil Liberties Union, New York, November, 1943, p. 44.

the Teamsters. One danger is that, if local unions become mere dues-collecting and administrative agencies of the national, positions in local unions will not be attractive to capable persons and the sources of leadership material in the union will begin to dry up.

## DEMOCRACY, RESPONSIBILITY, AND ECONOMIC STRENGTH

The problem of union democracy is a particularly troublesome one for conscientious and reflective union officials. The trade-union movement has a democratic tradition. It has developed as part of a protest movement against autocracy in industry, as an instrument for the articulation and achievement of the aspirations of the industrial working population. Consequently, some union officials in the middle ranks are distressed by the widespread existence of machine politics and conditions approaching one-man or oligarchic rule in the labor movement.<sup>17</sup> Usually, however, such feelings only find oral expression in private conversation. Few labor officials publicly denounce union dictatorships; many seem to admire the great power wielded by a Lewis or Petrillo and the accomplishments that they are able thereby to achieve.

The fact is that questions concerning internal union government do not lend themselves to easy answers. Should unions be democratic? What kind of democracy? Under what conditions? Should they maintain democracy at the expense of weakening the union's economic strength? Is union democracy compatible with union discipline and responsibility? Consideration of such questions gives one an appreciation of the practical problems of union administration.

The functions that unions have to perform are bound to affect their internal management. In bargaining, they are dealing with business firms, in which the president has complete authority over subordinates. In conflicts with man-

<sup>17</sup> For example, Will Herberg, research and educational director of a branch of the International Ladies Garment Workers Union, writes ("Bureaucracy and Democracy in Labor Unions," *Antioch Review*, Vol. III, Fall, 1943, p. 410): "The net result . . . is the emergence of a powerful tendency toward the concentration of effective power in the hands of the top leadership of the organization, with the paid officials forming the kernel of the ruling group. The power of a union administration is frequently quite unlimited, for virtually none of the restraining factors we are familiar with in our political machinery (checks and balances, independence of the judiciary, balance of socio-economic interests) are operative. And the power of a union administration gains immensely with the extension of the union's economic control in the industry." Copyright 1943 by The Antioch Review and reprinted with permission.

Anthony Ramuglia, an organizer for the Textile Workers Union and formerly an officer in the Amalgamated Clothing Workers, writes even more critically as follows: "Most of our international unions operate on the level of the cities' political machines. We have in our unions the counterparts of the Hagues, Pendergasts, Vares, Penroses, etc. In many of our unions the democratic processes are as much a mockery as in the sectors of our nation just referred to. In some unions there is even no pretense of democracy. In others there is some finesse in the exercise of dictatorial powers. However, the whole movement is top heavy. The plague of concentrated power is as general in the CIO as it is in the AFL." "Democracy in Unions," *Labor and Nation*, Vol. III (July-August, 1947), p. 41. Copyright 1947 by Labor and Nation and reprinted with permission.

agement, solidarity of the membership may be essential. In some cases, secrecy is an important element of strategy, especially in the matter of strikes. Often in negotiations or strikes, decisions must be made quickly. Democratic processes not only involve disclosure but also are time-consuming. Union leaders may feel compelled to act first and obtain rank-and-file approval later. Business executives make commitments without a ratifying vote by the stockholders. Moreover, if unions are to be responsible, businesslike organizations they must be in a position to insist that their members live up to signed agreements.

Not only is union government influenced by the business functions that unions perform but also by their need for protection from internal attack by Communist groups, employer agents, or other disruptive or destructive elements. Much union folklore and ritual and some constitutional provisions stem from the pre-New Deal era when labor espionage, blacklisting of unionists, and similar anti-union actions were common. Possible threats to the security of a union nowadays vary, of course, with its age, industrial penetration, and other circumstances. However, even well-entrenched and financially strong unions continue to talk in terms of threats to their survival, long after any such danger has ceased to exist. That is part of the trade-union tradition.

It is against such a background that questions concerning union democracy and rights of individual members must be viewed. The main purpose of unionism is collective bargaining. Maintenance of the union as an effective organization is the primary objective, to which other matters like internal democratic processes and justice for individuals are perforce subordinate. The important question with respect to internal union government is, What political processes and safeguards are necessary and practical? Certainly the membership of a union should have a genuine opportunity to take part in framing important policies and in making major decisions. For it to do so intelligently, opposing groups should be able to present their views to the membership and its elected representatives. What is needed to insure such a condition? A free press and freedom of speech at union meetings? Uncontrolled elections frequently held? An independent judiciary? Revision of union constitutions and by-laws?

If unions are to have a healthy political life, some protection is needed for members who disagree with the national's leadership, criticize its policies, and point out official misdeeds. As already indicated, practically the entire labor press consists of organs that serve as mouthpieces for the administration in power in each national and that are, therefore, virtually closed to opposition views. Dissent from the official "party line" is also discouraged by constitutional clauses prohibiting vague and undefined acts. Common in union constitutions is the prohibition of such activities as slandering an officer or mem-

ber, creating dissension, undermining the union or working against its interest, and circulating written material dealing with union business among members or locals without permission of the national's executive board.<sup>18</sup> The penalty may be reprimand, fine, suspension, or expulsion.

In unions, no sharp distinctions are made between the executive, legislative, and judicial functions. The top officials are given the responsibility for both making and executing policy. Generally they also constitute a court of appeal from local verdicts against individual members. Although the accused member usually can appeal to the convention from the decision of the president, another national official, or the national executive board, the convention is under the supervision (if not domination) of the national officials so that their decisions are not likely to be upset. Thus, well-intentioned and even well-founded opposition to the national's administration may be suppressed by fear of expulsion.<sup>19</sup> The problem of democratic practices and protections in unions is further complicated by the practical difficulty of distinguishing between sanctions that are necessary to prevent irresponsibility, or to provide protection against organized minorities directed from outside, and sanctions that stifle honest criticism and constitute arbitrary or unwarranted exercise of authority. The question of trade-union discipline needs more careful analysis from both the economic and political viewpoints than it has so far enjoyed.

The internal government of unions needs to be examined anew in the light of present conditions. Their constitutions and political arrangements were shaped in a period when labor organizations were smaller and less secure. Public opinion can help to bring about improvement in the political conduct and operations of unions provided there is appreciation of the need, especially in some of the newer unions, for guarding against irresponsibility and debilitating disunity. In view of the problems of union government discussed in this chapter, it would be ill-advised for the federal or state governments to intervene in the internal affairs of some 200 national unions for the purpose of insuring political democracy. Not only are the issues too complex for simple answers, but popular government must develop from within; it cannot be enforced by outside authority.

<sup>18</sup> Professor Philip Taft found that the general prohibitions stated in the text occurred in 15 to 29 of the 81 union constitutions that he examined. See "Judicial Procedure in Labor Unions," *Quarterly Journal of Economics*, Vol. LIX (May, 1945), pp. 377-80.

<sup>19</sup> For a discussion of the authority granted to union presidents, see Professor Taft's article on "The Constitutional Power of the Chief Officer in American Labor Unions," *Quarterly Journal of Economics*, Vol. LXII (May, 1948), pp. 459-71.

## **CHAPTER EIGHT**

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### **UNION POLICIES AND PRACTICES**

Unions do not follow the same policies and tactics. Craft regulations and restrictions are not prominent in the programs of industrial unions. The policies and practices of organized labor in local-market industries or in government service will differ from those pursued by unions in manufacturing industries with a nation-wide market. Newly formed unions facing non-union competition may be forced to adopt policies that strong, well-entrenched organizations can avoid with impunity. The survey of union history in Chapter 6 revealed how union programs and practices vary with the experience and tradition of the union and with the policies of management and the government.

Despite evident diversity, however, unions share many aims and, for the most part, would pursue common policies if confronted with the same set of circumstances. Consequently, it may be well, before discussing the policies of unions with respect to particular subjects (like union security, job control, benefit plans, wages, hours of work, technological change, and scientific management) to consider general objectives that influence union policy.

#### **CONCEPT OF A UNION**

Union policies presumably aim to achieve the goals of the members and the goals of the union leadership. The two are not always identical. The discussion of workers' motivation and behavior in Chapter 2 indicated the stress that employees put on job security, freedom from oppressive supervision, and an agreeable and friendly atmosphere on the job, as well as improvements in economic well-being. Unions generally seek to promote those objectives by negotiating written agreements with employers. Clauses in such agreements usually serve to reduce employee insecurity by providing various job protections, to increase job satisfaction by enabling workers to have a voice in the decisions affecting their work, and to lessen worker suspicion and rivalry by establishing working rules and standards. In addition, of course, collective bargaining and agreements with employers are a means of increasing wages and shortening hours.

In considering union policies, one must bear in mind that they are designed to protect the workers' interests as employees and, therefore, stress minimum human cost at work rather than lowest money cost of products at retail, maximum human satisfaction and development on the job rather than maximum satisfaction as a consumer. Unionism represents a repudiation of the notion that labor is only a commodity. In seeking to minimize the rigors of competition, it tends to conflict with the consumer criterion of the cheapest possible price regardless of psychic costs to labor. Of course, some union objectives, such as increased security for workers through provisions for seniority in lay-off and protection from arbitrary discharge under the grievance procedure, may not increase labor cost; indeed, they may improve productivity and hence have favorable results from the consumers' viewpoint.

As explained in the preceding chapter, union leadership both formulates and executes union policy. The leaders of a union generally seek to promote the union's strength and to maintain themselves in office. As heads of political institutions, union officials must develop workable compromises for any serious conflicts of interest among the membership. Consistency in policy may be difficult to maintain with shifts in the balance of power within the union. A stable leadership, unchallenged by rival forces, can place more emphasis on long-range goals and enjoy considerable freedom in the strategy it pursues to attain its objectives. We have already noted that control of union communications may be a useful tool with which the leadership can influence membership attitudes and opinion.

To a greater extent than the rank and file (or local officials), the leadership of a national union is likely to be interested in the union's development as an institution, as well as the security and convenience of the national administration. Therefore, the leadership may be willing in negotiations with management to trade a wage increase for acceptance of the union shop, or may prefer multiple-employer bargaining for the union security and efficiency of administration that it provides, even though such bargaining may result in lower wages for some members than would occur under local bargaining. The institutional orientation of top officials helps to explain their tendency to stress union responsibility and gradual achievement of purposes. Sensitiveness to public opinion is one reason that the policy pronouncements of union officials cannot always be taken at face value, particularly if they are intended for public consumption.

The extent to which policies are oriented toward the institutional development of the union or have a rank-and-file orientation varies with the policy and the circumstances. In unions with a high degree of central control, the national headquarters tends to determine policy. In most unions, policies with respect to lay-off, transfer, promotion, and plant rules are left to local decision.

Certain conditions, such as the threat of competition from non-union plants, cause headquarters officials to emphasize union security. In 1946, for example, when the American Federation of Hosiery Workers still had no more than three-fifths of the women's hosiery industry organized, the national officers were "severely criticized" by elements in the membership for not insisting upon greater wage increases, which undoubtedly could have been obtained in the sellers' market then prevailing. In that union a majority of all members are female employees, whose interests are chiefly short-run because they hope in a few years to transfer from the factory to the kitchen. However, the males in the more skilled occupations, although in a minority, have tended to constitute the dominant rank-and-file influence and have been the source from which the continuing officialdom in the national has been recruited. Those officials argued for a policy of moderation, taking the longer view in insisting that "irrational opportunism" and "unwise policies" would serve to hasten a further shift of the industry away from the older, unionized areas and, thus, jeopardize the union's position.<sup>1</sup>

From the above discussion it should be clear that no single principle or purpose governs union policy. Unions do not seek steadfastly to maximize the (hourly, weekly, or annual) income of all union members or all employed union members. Indeed, as Professor Ross has pointed out,<sup>2</sup> the employment effects of wage change are so unpredictable and employment in a particular industry is affected by so many factors, that union officials usually do not and cannot calculate primarily in wage-employment terms. Nor is union policy ruled by any other single economic objective, such as the greatest possible income for the union itself or acquisition of the largest possible membership, although headquarters policies may at times be influenced by such goals. Incidentally, the frequent refusal of union conventions to approve the recommendations of national officials for increases in the monthly dues and assessments is another indication of possible differences of interest between leadership and membership.<sup>3</sup>

To sum up, unions have the political problem of drawing and redrawing a balance between different (and, at times, conflicting) objectives—some which are of immediate advantage to the membership and others which are primarily in the interest of the union as an institution or in the interest of the top leadership. The politics of policy-making and policy-executing are complicated by

<sup>1</sup> *Report of the Thirty-fourth Convention of American Federation of Hosiery Workers*, Philadelphia, Pennsylvania, February 11, 1946, p. 8.

<sup>2</sup> See Arthur M. Ross, *Trade Union Wage Policy*, University of California Press, Berkeley, 1948, Chapter IV, pp. 75-98.

<sup>3</sup> It could be argued that the long-run economic interest of the union's membership as a group is to have a strong union and that any policy which strengthens the union is thus in conformity with the single principle of maximum economic welfare of the membership in the long run (whatever that means). Such a vague proposition has, however, practically no analytical or predictive value and seems to offer little help in explaining union policies.

too many influences to permit easy generalization. Such influences are non-financial as well as economic. Diversity of policy arises principally out of differences in situation and experience.

## COLLECTIVE BARGAINING AND NEGOTIATED AGREEMENTS

The primary and basic policy for most unions is the establishment of collective bargaining as a recognized method of decision-making in industrial relations. It is through the negotiation and administration of written agreements with management that the union becomes an effective instrument of worker representation in industry. The "collective agreement" or "labor contract" reflects both the reasons why workers join and support unions and the policies of unions on specific subjects.

By "recognizing" a union as the representative of the plant employees and bargaining with it "in good faith," a management loses some of its authority and freedom of action. A set of rules, restrictions, and procedures, which are jointly adopted and administered, replace unilateral action by the management. Most of the agreement is management-regulating, and the appeals procedure, in cases of alleged violation of the agreement, usually terminates in arbitration (decision by an outside party). Consequently, it is not surprising that managements, in the main, have had to be forced into collective bargaining initially, that managements often seek to limit the scope and effectiveness of collective bargaining, and that management and union officials look at collective bargaining somewhat differently. Collective bargaining is the primary purpose of unions, whereas it is but one among the many functions of management.

Collective bargaining consists of representative negotiation and group action. Dealing through representatives is necessary where the number of persons concerned is so large that it is impractical to meet and negotiate *en masse*. Furthermore, it permits the workers to hire a specialist in bargaining whose experience gives him a wide knowledge of the labor market, the industry, and conditions in other firms, and who is independent in the sense that the employing firm with which he is bargaining has no control over his job, his salary, or his advancement.

Collective action or the threat to use such action is the power by which the workers' representatives may gain some of their objectives (such as improved labor standards, some union control over jobs, and working rules that protect employees from arbitrary action by foremen). Without the threat of a strike or other collective action (i.e., activities curtailing production such as a slowdown), the union would lack a means of inducing employers to make any agreements restricting management authority. It is the possibility of collective action by labor (or less frequently, a lockout by management) that causes

both parties to make concessions in order to arrive at a settlement. The function of a strike is to exert continuing, often progressively increasing, pressure on both sides to end it by a compromise solution.

Collective bargaining is not a particularly apt term for the negotiation, administration, and enforcement of labor agreements. Although a business corporation is a collection of capital provided by shareholders, generally the management side of the negotiations is considered "collective" only when a number of firms join together in a single negotiation, sometimes called multiple-employer bargaining. The word bargaining connotes haggling and crafty handling of a transaction. As used in labor relations, however, it covers not only the negotiation of the initial agreement and its periodic renegotiation but also the day-to-day decisions regarding its application to concrete situations. It is through decisions on grievances that specific meaning is given to the provisions of the basic, written agreement. In other words, collective bargaining is a more or less continuous process of adjustment. Moreover, the negotiators are not individuals operating on their own but official representatives of an institution (the union or the company), whose interests they have been selected to protect and promote in the bargaining sessions.

The process of collective bargaining is conditioned by the fact that it is between labor and management organizations. Ideally perhaps, negotiations should represent a mutual exploration of problems by persons with minds open to persuasion. Actually they are not just a matter of determining the facts, indicating their significance, and appealing to reason. Although the language of negotiations is largely economic, internal politics is generally an important consideration for the union, and political factors may also play a significant role on the management side. Negotiated terms must usually be ratified by majority vote of the membership in the bargaining unit before the agreement is really accepted by the union. Consequently, it is almost axiomatic that the occupation with the most employees, or the few large occupations, must fare well if the settlement is to be acceptable to the union. Each member casts an equal vote. In addition to fulfilling union and company internal political needs, collective bargaining must also take into account inter-union and inter-company political considerations. The development of "pattern" bargaining has tended to create united fronts on both sides of the bargaining table. A management may be reluctant to make a concession that would expose it to criticism by other companies, just as a union hesitates to accept any compromise that might weaken the bargaining position of other unions or might be used to its disadvantage by a rival union.

The viewpoints and creeds of union officials differ from those of business management not only for internal political reasons but because a union must

minister to the interests of the members as a group rather than emphasizing individual differences. Unions stress group solidarity, combined action, mutual aid, uniformity of treatment, and egalitarianism. Management, on the other hand, thinks in terms of individual differences, rewards for merit, competition and rivalry, stimuli to efficiency in the workforce, and pleasing one's boss as the basis for advancement. Unions are generally in the position of protesting against management's actions, whether they involve discipline or operating changes. Consequently, one would not expect their philosophies of labor relations to be identical.

The merits of collective bargaining are that it enables parties with differing outlooks and compulsions to reach agreement on a variety of issues to which the market mechanism fails to supply satisfactory solutions. It is a flexible instrument, resting on voluntary acceptance and backed by the threat of economic force. Through negotiation of agreements and the settlement of day-to-day grievances, mutually acceptable answers are found for the diverse and complex problems that arise out of work for pay. As a process involving self-government in industry, it has educational values, contributing to mutual understanding and extensive communication of ideas and facts.

That the virtues of collective bargaining are widely realized seems evident from a few statistics. It is estimated, for example, that over 100,000 labor-management agreements are signed every year in this country. Generally, each year at least 24 out of every 25 collective-bargaining contracts are renegotiated without a strike. The number of plant grievances settled every year in the United States probably exceeds a million. Under the agreement of the General Motors Corporation and the United Automobile, Aircraft and Agricultural Implement Workers (CIO), for instance, about 35,000 grievances were filed annually in the 1940's, or an average of one grievance a year for eight employees.<sup>4</sup> Nevertheless both parties, and especially management, seek to restrict the range of operation of collective bargaining. Some unions have national rules that they refuse to submit to collective bargaining. Many managements strive to limit the scope of collective bargaining, insisting that certain subjects must be excluded from the bargaining table or from the final steps in the grievance procedure.

## UNION SECURITY

Union insecurity has been an important element in American labor history and union policies. That insecurity stems from a number of factors. Employer hostility toward unions has been more pronounced and prolonged here than in other countries. Such hostility, along with a lack of class consciousness, has

<sup>4</sup> Frederick H. Harbison and Robert Dubin, *Patterns of Union-Management Relations, United Automobile Workers (CIO), General Motors, Studebaker*, Science Research Associates, Chicago, 1947, p. 81.

made it difficult to organize workers and to keep them organized. Both non-union competition and rival unions have served as threats to the continued existence of particular organizations.

The new unions in the mass-production industries arose in the 1930's with strong political and legal assistance. The passage of federal and state anti-union legislation in the 1940's indicated the weak foundation of politically fostered unionism. Dictatorship abroad in the 1930's demonstrated how easily well-established unions could be destroyed or rendered impotent.

The leaders of organized labor realize that, while management is indispensable, business enterprises can operate without unions. The inferior position of a union, as political representative of a claimant interest, is indicated by the fact that management administers practically all the provisions of collective bargaining agreements. The union seeks to regulate, and protests against, management actions.

Such historical, political, and industrial factors underlie the union demand that its position be made more secure by means of a provision in the agreement that every worker must join and remain a member of the union in order to continue employment in the enterprise. They also help to explain expansion of union activities beyond the single shop. Multiple-employer or industry-wide bargaining reduces the dependence of the union on a particular employer. Extension of union activities to sickness, death, and other benefits and to all kinds of services (educational, social, and personal) tends to increase members' loyalty to and dependence on the union. It is worth noting that provisions in union-management agreements requiring that employees become and remain union members are peculiar to this country where employer hostility and lack of class feeling have been such significant elements.

National Labor Relations Board certification of the union as the sole agent with whom the management can and must bargain does, of course, enhance union security. "Union security," however, has come to mean the inclusion in a collective bargaining agreement of a provision that some or all of the workers in a plant or other unit must become and continue as union members in good standing as a condition of employment.

### **TYPES OF UNION SECURITY**

Union security exists in a number of different forms. Under the "closed shop," the company agrees to hire and retain only union members. Workers must be in the union before they can work on a job in such a shop. Whether and how such a provision restricts the firm's ability to recruit the most effective labor force depends upon the extent to which the management is free to reject workers referred by the union or can recruit from non-union

sources, and upon the freedom of the union to withhold or withdraw union membership. Some closed-shop agreements protect management against unreasonable restraints by the union.<sup>5</sup> The closed shop is illegal under the Taft-Hartley Act which restricts union security to a special kind of "union shop."<sup>6</sup>

The "union shop" form differs from the closed shop in that no restrictions are placed on the management's freedom to hire whomever it wishes, but all employees must join the union within a stipulated period of time after commencing to work. As under the closed shop, the management agrees to dismiss an employee from his job if and when he ceases to be a member of the union in good standing. Under a valid union-shop agreement under the Taft-Hartley Act, such dismissal of a former union member from his job *because* of loss of union membership can legally occur only if the worker has been expelled from the union for non-payment of regular dues and fees.

In contrast to the closed and union shops, the "maintenance of membership" form of union security does not require an employee to join the union at any time. If he does join, however, he must remain a member in good standing for the life of the agreement; otherwise the management agrees to dismiss him from his job. He can, without jeopardy to his job, resign from the union during designated "escape periods" when old agreements expire. Sponsored by the National War Labor Board during World War II, the maintenance-of-membership arrangement contravenes the Taft-Hartley Act unless it complies with the union-shop provisions of that law.

Under a preferential-shop agreement, union members may be given preference in hiring or in any reduction in workforce. Such preference may operate through a union hiring hall or a central hiring hall nominally administered jointly by employers and the union. In industries like maritime shipping and building construction, which are characterized by casual employment and frequent change of employer, the central hiring hall may serve as a means of eliminating employer discrimination and of equalizing job opportunities through rotating assignment. Hiring through a central hiring hall actually under union control may be tantamount to the closed shop.

The "check-off" is an American practice under which the employer agrees to serve as a tax-collection agency for the union, deducting union dues and fees from the pay of union members. It presumably grew out of the custom of subtracting from each coal miner's wages the amounts due to the company for his mining supplies, for the rent of company housing, and for purchases on credit at the company store. The check-off was granted by the employers in

<sup>5</sup> For typical clauses illustrating the variations in closed-shop provisions, see *Union-Security Provisions in Collective Bargaining*, Bulletin No. 908, Bureau of Labor Statistics, U. S. Department of Labor, 1947, pp. 7-10.

<sup>6</sup> This and other provisions of the Taft-Hartley Act are discussed in Chapter 16.

the bituminous coal industry when the first Central Competitive Field agreement was signed in 1898, so that the union might have sufficient financial strength to organize the non-union mines in the outlying areas.

Reliable data on the coverage of union-security provisions are not available for the period since the passage of the Taft-Hartley Act in 1947. Tacit arrangements or "bootleg" agreements for the closed shop exist in a number of industries in violation of that law. An analysis of agreements in 1946 by the United States Bureau of Labor Statistics showed that of the 14.8 million workers covered by such agreements, some three and a third million (about 23 per cent) were under closed-shop provisions, four million (about 28 per cent) were in union shops with or without preferential hiring, three and two-thirds million (25 per cent) were covered by maintenance of membership, and the remaining three and two-thirds million were covered by "open shop" agreements containing no hiring or membership requirements. Approximately six million workers (41 per cent of all under union agreements) were subject to some form of check-off of union dues.<sup>7</sup> Since 1946 a relative expansion has occurred in the coverage of the union shop. During the first two years of the Taft-Hartley Act (July, 1947, to July, 1949), unions won union-shop elections in bargaining units containing three and a half million workers.

**Arguments pro and con.** Throughout American labor history, the "closed shop," often not clearly defined, has been the subject of strongly expressed sentiments. However, as a variety of union-security arrangements developed and as experience under them accumulated, debates on "the principle" of the matter have given way to consideration of the practical aspects.

Union leaders and some employers have favored the closed shop or the union shop for such reasons as the following: (1) Each employee who enjoys the benefits of union-obtained standards in the shop should pay his share of the cost. (2) The union becomes more responsible, because it is not compelled to hold and attract members by extreme demands, anti-employer statements, and prosecution of unjustified grievances, and it can be more strict in disciplining members who violate the agreement or union rules. (3) Such a provision eliminates any suspicion of employer hostility toward the union and indicates an intention to continue dealings with the union as a permanent institution. (4) It reduces union rivalry and removes any need for a union to use the strike as an organizing device or as a means of gaining workers' allegiance. Professor Sumner H. Slichter has concluded that "the employer is likely to have more freedom in a closed shop or its equivalent than in one where the union is uncertain of its status"; he found from examining some 300 agreements that only 54 per cent of those with closed-shop provisions con-

<sup>7</sup> Data from *Extent of Collective Bargaining and Union Recognition, 1946*, Bulletin No. 909, Bureau of Labor Statistics, U.S. Department of Labor, 1947.

tained restrictions on the employer's freedom to make lay-offs, whereas 86 per cent of the open-shop agreements contained such lay-off restrictions.<sup>8</sup>

Opponents of the closed or union shop have contended that such union-security provisions (1) restrict the right to work; (2) hamper management in recruiting and retaining an adequate supply of qualified labor; (3) make employers recruiting and dues-collecting agents for unions; (4) increase the control of unions over individual workers and the workforce by giving union leaders the power, through expulsion from the union, to discharge workers from their jobs; and (5) because of such control, force management and the public to be concerned with the internal operations of unions.

That the closed or union shop is not necessary for strong and effective unionism is indicated by the experience of the railroad unions. Such provisions did not become an established practice in that industry prior to 1951, and, from the passage of the Railway Labor Act in 1926 until an amendment in 1951, it was unlawful for railroad management to influence or coerce employees to join or remain members of a union or to check-off or help collect union dues.<sup>9</sup> The railroad unions attracted and held members by such means as rigid seniority systems, strong union representation in grievance cases, well-established union-run insurance programs, and social pressure.

Serious problems are posed by union-security clauses. Union-shop elections under the Taft-Hartley Act demonstrate that workers in well-organized plants overwhelmingly favor provisions for compulsory membership. In some 33,000 such elections during the first two years of the Act, six-sevenths of the three and a half million workers eligible to vote actually voted, and 94 per cent of the votes cast were in favor of the union shop. But where the union shop prevails, expulsions from the union that necessitate loss of employment become matters affected with the public interest. The precise line between "proper" and "improper" grounds and procedures for loss of union membership is difficult to draw, and attempts to draw it raise the issue of dictatorship and democracy in unions that was discussed in Chapter 7.<sup>10</sup>

## JOB PROTECTION AND CONTROL

Unions seek to establish various protective rules and practices in the shop in order to control jobs in the interest of their members. These work rules or job protective regulations cover such matters as (1) entrance to the trade,

<sup>8</sup> See Sumner H. Slichter, "The Changing Character of American Industrial Relations," *American Economic Review*, Vol. XXIX (March, 1939) supplement, p. 124.

<sup>9</sup> The 1951 amendment provides that under a union-shop agreement on the railroads a worker may not be required to maintain membership in more than one union. That provision is designed to meet the problem in the running trades where employees may hold seniority in two crafts and move between them many times during their working careers.

<sup>10</sup> See, for example, Joe Dickmon, "John L. Lewis Won't Let Me Work," *Colliers*, Vol. CXXVI (July 8, 1950), pp. 13, 15, and 62.

(2) rate of output, (3) number of workers per machine and other "make-work" arrangements, (4) lay-off policy, (5) disciplinary actions by management, and (6) stability or guarantee of employment.

In forcing management to operate according to rules which the union helps to make, workers' security is increased and the members' interests in particular jobs are afforded some protection. More specifically, such work rules are designed to (a) protect the members' investment in work skill, (b) safeguard workers' health, safety, and length of working life, (c) make more work for certain employees, (d) eliminate favoritism and protect long-service employees, (e) reduce workers' fear of management, and (f) maintain workers' wage incomes.

Over a period of years, workers make certain investments in their jobs. These investments take such forms as special training, specialized skills, homes near the work, and obligations acquired on the basis of the job. Thus, a complex of relationships is developed around the job, leading to the notion of vested rights in a particular job, from which the worker should be dismissed only for good and just cause. Some employers have seemed to recognize the existence of workers' investment and property rights in jobs by granting them dismissal compensation, based on length of service, in case employees have to be laid off permanently.

Job protective rules would not disappear in a full-employment economy as some authors assume. Such rules rest not only on job security but also on interest and investment in particular jobs. Through collective bargaining agreements, workers seek to protect and improve their own jobs.

Shop rules governing the job vary with the circumstances. Craft unions stress protective regulations that maintain and enhance the value of craft skill, whereas industrial unions do not attempt to regulate entrance to a trade or the use of helpers. Unions in the mass-production industries and on the railroads have emphasized lay-off according to seniority, whereas the garment trades during slack periods follow the principle of equal division of the work under a reduced workweek. Such policy differences are not mere happenstance; they have historical and economic bases. It is important to understand the relationships between particular union policies and the conditions under which they have developed.

**Control of jobs through apprenticeship and admission policy.** Some craft unions attempt to regulate new entrants into the trade by means of apprenticeship rules. Such rules require that a young man serve a regular apprenticeship of two to six years before he can qualify for membership in the union and be admitted to the trade as a journeyman. The national union may insist upon a certain ratio between the number of journeymen and the maximum number of apprentices or learners in any one shop. And union members

may be forbidden to teach their trade to any persons except certified apprentices employed in union shops. Entrance restrictions are also found in professions like medicine, law, and teaching.

Craft apprenticeship has been of declining significance during recent decades. Increased opportunity to learn trades in schools and in other ways besides a formal apprenticeship have reduced the effectiveness of this control device. Only about 20 national unions still profess to require apprenticeship or the equivalent work experience for admission to union membership, and in most of these unions, such as the building and printing trades, strict enforcement of apprentice requirements is confined to certain localities.<sup>11</sup> Usually after workers have learned the trade and can get employment in it, the union seeks to organize them as members whether or not they have served an apprenticeship.

Apprenticeship requirements for admission to the union may be designed to maintain the skill standards of the craft, to protect the members' investment in the skill by preventing its depreciation through excessive supply, and to maintain the available jobs for union members. Because most craft unions have only incomplete control of entrance to the trade, success with this type of restrictive policy has generally been limited, and its effectiveness has been reduced in manufacturing as technological improvements have decreased the demand for the journeyman, all-round type of skill.

**Output control and make-work rules.** Workers, through unions, seek protection from the "speed-up" (too rapid a pace of operations) and the "stretch-out" (too many machines or duties), which, by causing undue strain or fatigue, may endanger their safety or injure their health. Furthermore, a standard of performance that cannot be maintained after the worker reaches, say, 50 or 55 years of age, would threaten to shorten the length of his working life. Workers may also oppose the speeding up of operations for fear of "killing the job" by reducing the number of hours of work required.

As anyone who has attempted to arbitrate a dispute concerning work standards realizes, it is often difficult to decide the proper tempo or complement of work duties for a particular job. Workers generally prefer a comfortable, steady pace that will afford a fairly pleasant life on the job. Restriction of output has been widely practiced by unorganized as well as organized workers.<sup>12</sup>

Once a customary standard of output becomes established by a work group, any change is resisted. Effective resistance is particularly likely to occur in

<sup>11</sup> For a rather recent discussion of this matter, see C. W. Summers, "Admission Policies of Labor Unions," *Quarterly Journal of Economics*, Vol. LVI (November, 1946), pp. 66-107. See also Sumner H. Slichter, *Union Policies and Industrial Management*, Brookings Institution, Washington, D.C., 1941, Chapter 2.

<sup>12</sup> See, for example, S. B. Mathewson, *Restriction of Output among Unorganized Workers*, Viking Press, New York, 1931.

skilled, worker-paced operations in local-market lines like building. Not only is the pressure of outside competition absent but craft unions seek to maintain the demand for craft skill and to preserve, if not enlarge, their jurisdictional base. It is no accident that "featherbedding," in the form of hiring unneeded stand-by workers or performing unnecessary work, has been characteristic of the building trades, newspaper printing, theatrical productions, local trucking, and musical performances, which, unexposed to outside competition, could charge what the local traffic would bear.

Many output restrictions or make-work rules represent survivals which technological progress and other improvements have rendered inapt and even shocking. For example, before the Civil War when printers were paid by piecework and experienced irregular earnings, they insisted that their earnings not be reduced by newspapers exchanging prepared type, especially advertisements on which earnings were high because of the large amount of blank space. Later, by collective bargaining, newspaper compositors were able to eliminate various abuses, including the piecework method of payment. Nevertheless they still continue the rule of "setting bogus," which means that, whenever a ready-made matrix is supplied by local advertisers and used, the newspaper must, within a specified period of time thereafter, have the same advertisement made up again, corrected in the shop, and then scrapped.

In limiting daily output, in stipulating the employment of an excessive number of workers for a given task, or in requiring the performance of unnecessary work, unions are attempting to control the amount and location of the demand for labor. Usually such restrictions as those upon the number of bricks a bricklayer can lay a day, the number of bundles of lath a lather can tack in any one day, and the number of barrels of lime a plasterer can handle per day, are not embodied in collective agreements but are enforced unilaterally by a local union or informally by its members.

It is worth noting that make-work practices are likely to occur in occupations and industries characterized by intermittent or seasonal employment (the musicians, stage hands, and the building trades) and in industries experiencing contracting employment (like the railroads). Such factors help to explain union demands for the hiring of stand-by orchestras, superfluous stage hands, and two firemen on a diesel locomotive. Protection of craft jurisdiction explains union insistence that certain work be done only by its members, which often compels management to hire extra men. Shift of work from the building site to the factory underlies such requirements as that assembled plumbing or electrical apparatus be reassembled on the job, or that factory painted seats be gone over by local painters with dry brushes.<sup>13</sup>

<sup>13</sup> For further discussion of make-work practices and restrictions on output, see Slichter, *op. cit.*, Chapter 4, pp. 164-200. See also a series of articles on "featherbedding" by Will Lissner in the *New York Times*, May 5, 7, 8, and 12, 1947.

John L. Lewis' effort to control output in bituminous coal by enforcement of a three-day workweek during December, 1949, and January, 1950, was not for the purpose of making work but to put upward pressure on coal prices, so that the operators would be more willing to grant a wage increase and other demands of the union. Union control of output can be used for a variety of purposes.

**Distribution of work and lay-offs.**<sup>14</sup> A strong union demand for control of lay-offs arose in the mass-production industries during the depression of the 1930's. Many workers joined unions then because they believed that the widespread lay-offs had been conducted without proper regard for workers' job equities and with foreman favoritism too often the important factor. With employers free to conduct anti-union campaigns before validation of the Wagner Act in 1937 and in the absence of some form of union security such as the union shop, labor organizations needed protection against discriminatory lay-off or transfer of union members and officials. (Freedom to lay off and keep furloughed is equivalent to unrestricted right to discharge; freedom to transfer to other jobs is tantamount to unlimited ability to demote employees.) In the 1930's, moreover, the share-the-work movement went to such an extreme that it aroused resentment against work sharing. The result of these developments was that most of the new agreements in manufacturing industry contained some provision for lay-off and transfer in inverse order of seniority (length of continuous service with the particular firm). Seniority, which up to that time had been largely confined to the railroads where union security was forbidden by law and which had not been a significant element of union policy abroad, became a widespread practice in this country.

a. PRINCIPLES. A work reduction can be distributed by various methods or principles. Management may be free unilaterally to carry out the decrease, in which case an important criterion in selecting workers for lay-off is likely to be management's assessment of individual abilities and efficiency. Or, if union participation is involved, some principle may be applied such as equal division of the remaining employment among the work group, or lay-off of workers by the seniority principle, the last hired being the first one furloughed and so on in reverse order of length of service. Seniority may also be used to govern workers' opportunity to transfer to another job in lieu of lay-off and their order of recall from lay-off. Often some combination of these three bases—ability, work sharing, and seniority—may control the allocation of work curtailments.

A principle that can be uniformly and objectively applied has a number of

<sup>14</sup> This subsection draws heavily from a study that I supervised, the results of which are reported in Robert L. Aronson, *Layoff Policies and Practices, Recent Experience under Collective Bargaining*, Industrial Relations Section, Princeton University, 1950. See also Slichter, *op. cit.*, Chapters 4 and 5, pp. 98-163.

advantages. Strict application of equal division of the work or lay-off according to seniority assures workers of impartial treatment, thus avoiding discrimination against individuals or favoritism by foremen. By protecting rights in jobs and providing a measure of job security, work sharing or seniority reduce fear and uncertainty, usually with favorable effects on employees' morale. Workers generally consider work sharing or seniority a fair basis; employees with the longest service usually have the greatest investment in the job and are least adaptable to new work or able to obtain employment elsewhere. Whereas workers' ability and efficiency often cannot be readily and accurately measured, both work sharing and seniority are definite, easy to understand, and subject to routine administration. Furthermore, both of them are anti-competitive; an employee cannot avoid sharing the work or lay-off during slack periods by offering to accept lower pay or by engaging in pace-setting efforts. Of course, no principle for the distribution of reduced work can guarantee absolute job security, for jobs may simply disappear.

A number of factors determine whether work sharing or lay-off according to seniority is the more appropriate way to adjust the workforce to reduced operations. In general, equal division of work is better where the reductions in employment are of short duration and of seasonal regularity, where the firms are small, and where jobs tend to be transient, so that workers change employers frequently. Building construction, men's and ladies' garments, and boots and shoes, are examples of such industries. The full-fashioned hosiery industry has the piece-rate method of payment and a high proportion of female employees who expect to leave the industry after marriage, two factors which seem to favor work sharing. Lay-off in inverse order of seniority is preferable where the work curtailments are expected to be of long duration or permanent, where work sharing would mean earnings below, say, 70 per cent of normal for a considerable period of time, and where firms are large and stable and promotion from within the plant through various non-craft grades is the practice. The union's internal situation and unemployment compensation may also be important considerations. Work sharing tends to maintain union solidarity, whereas lay-off by seniority, especially if frequent, may split the union into long-service and short-service groups with strongly divergent interests. Provisions with respect to unemployment benefits and employer taxes differentiated according to benefit costs have affected the issue of lay-off *versus* work sharing and also the method of work sharing (reduced workweek for all *versus* work equalization by means of rotating weeks of employment).

In the application of a rule, whether seniority or equal division of the work or some combination of the two, it is necessary to determine (1) the employment unit within which the rule or rules will apply, (2) the employees within the unit to whom the rule or rules will apply, (3) the type of employment

reductions to which the rule or rules will apply, and (4) whether the application of one rule or another will be automatic, subject to the discretion of the management, or open to negotiation by the parties at the time the work is curtailed.

b. **THE UNIT.** Local conditions influence the boundaries of the employment unit within which a rule, especially seniority, operates. Whether the seniority unit is narrow (confined to one or two occupations) or broad (covering all manual workers in the plant or the company) depends on such factors as the size of the workforce, the degree of similarity of jobs, social groupings in the plant, age distribution in the workforce, and the extent and distribution of employment fluctuations, as well as the location of the plant. Plant-wide seniority is generally preferable in single-plant or one-industry communities. The seniority unit may also vary with the cause and duration of the curtailment, being wider for permanent reductions, or it may be wider for groups with long service (say over five or ten years) than for employees with shorter service.

Generally speaking, unions prefer wider seniority units than managements. Narrowly defined units cause much less inter-job transfer and cost of training and readjustment. In some companies the lay-off of 100 workers requires the transfer of 300 to 500 employees, who successively displace others with lesser seniority until 100 with the least seniority are dropped; recall of the 100 would mean reversing the whole process. However, narrow units have the disadvantage that, with unequal distribution of age or curtailment among units, employees with over 10 or 20 years of service may be laid off while others with only one or two years of service are kept on in another seniority unit in the plant. A wider seniority unit, although providing more work security to senior employees, also increases job uncertainty because it enlarges the number of persons who may displace a particular employee from his job.<sup>15</sup>

Often seniority or work sharing does not apply to some employees in the unit. Usually probationary and temporary workers have no seniority and are laid off first. The position of union steward in the shop may be exempt from regular seniority by being given "superseniority," which means that the shop steward, whoever he is, would be the last one in the unit to be laid off. Management may be permitted to retain, without regard to seniority, a stipulated percentage of the workforce or designated "key" employees such as skilled maintenance men, specialists, and trainees. Where such exemptions are permitted, management may be less insistent that the application of seniority be qualified by some test of ability.

c. **MODIFICATION OF SENIORITY.** The application of seniority is a local prob-

<sup>15</sup> For discussion of a case where "bumping" under plant-wide seniority became extreme and extremely costly, see Clark Kerr and Lloyd H. Fisher "Effects of Environment and Administration on Job Evaluation," *Harvard Business Review*, Vol. XXVIII (May, 1950), pp. 86-87.

lem to be worked out in each plant and, in some situations, for each work curtailment. No standard pattern exists. Even the same seniority clause may be applied and interpreted with marked differences, depending on local conditions and practices or decisions of arbitrators in particular disputes.<sup>16</sup>

In agreements, seniority is often qualified by ability or efficiency of the worker. The pertinent clause may state that "ability and efficiency being equal, seniority shall govern" or that "seniority shall be conditioned only by the employee's competence to perform the job." Determination of workers' ability or competency may be based on judgment of the management, demonstration of capacity during a trial period, previous experience of the employee in the same or a similar job, or some other test or record. Proof of significant differences in ability to perform a job is frequently so difficult that management may follow the seniority rule in at least nine-tenths of the cases. Management may, however, be able to use the ability qualification to avoid an intolerable amount of transfers, training, and inefficient operations.

Flexibility in the application of seniority may be necessary to meet special situations, to adjust to alterations in the views and needs of the employees, or to keep down the cost of displacing and retraining workers transferred in lieu of lay-off. Changed conditions may require the working out of a new balance between work sharing and lay-off by seniority, between narrow and wide seniority units, and between seniority and ability as criteria in lay-offs. A number of companies found such revision necessary as a result of experience with lay-offs after World War II.<sup>17</sup> Perhaps the most satisfactory practice has been to share the work down to four or even three days a week, with lay-off according to seniority (possibly modified by ability) applying with any further curtailment, as well as to all cases of permanent reduction in work-force.

d. EFFECTS OF SENIORITY. The use of seniority as the dominant principle in the allocation of work curtailments produces a variety of effects. It stimulates management to exercise care in the selection of new employees and in weeding out of employees during the probationary period. Management is also forced to base actions on accurate and complete information, since seniority causes unions to contest discharge cases more stubbornly. Inter-firm and geographic mobility of labor are discouraged by seniority, which attaches a reserve of labor to the company. As an anti-competitive device, it may weaken the workers' incentive to operate efficiently. By keeping older workers on their regular jobs where they are most effective, it helps to prolong working lives;

<sup>16</sup> Some notion of the great variety of seniority provisions and arrangements can be gained from the study of *Collective Bargaining Provisions*, U.S. Bureau of Labor Statistics, 1949, Bulletin 908, series 11 on seniority and series 7, Chapter 2 of which deals with lay-off, work sharing, and recall.

<sup>17</sup> See Aronson, *op. cit.*

but, by the same token, seniority accentuates the problem of superannuation. Finally, seniority tends to place the burden of adjustment upon younger, short-service employees, which may cause sharp conflicts of interest among a union's membership. The effects in any particular case will depend, of course, on the local circumstances and the strictness with which the seniority principle is followed.

Use of the seniority principle in connection with promotions is less prevalent than in lay-offs. For promotions it can hardly be supported on grounds of job security. Where seniority is one of the factors considered in promotion, it is usually secondary to skill and ability. If ability and fitness are approximately equal or applicants have "sufficient fitness," the one with the most seniority generally is given the first opportunity to qualify for a promotion. Too much emphasis on seniority in promotions may seriously weaken incentives to superior performance, but some companies have found that where significant differences between jobs are lacking, where group incentives prevail, and where the union is "reasonable," such weakening has not occurred.<sup>18</sup>

**Discipline.** As a complex bundle of rights and benefits develops around the job under collective bargaining, disciplinary action that results in an employee's demotion, suspension, or discharge becomes a serious matter. Discharge results not only in loss of all seniority rights but also usually in loss of all rights to a pension and other employee benefits from that company.

Under collective bargaining the union can challenge management's disciplinary actions. Agreements provide for a grievance procedure with a series of steps. If the shop steward and the foreman cannot settle the issue, appeal can be taken to joint committees at successively higher levels. Should disagreement continue at the highest level, say between the company president and the union president, provision is usually made for appeal to an "outside" or impartial arbitrator. Under most state arbitration laws, his decision is final and binding on the parties unless it contravenes or exceeds the collective agreement, or is obviously illogical or incompetent.

Through the grievance procedure, the union participates in the settlement of alleged injustices on the job and protects workers from unjustified penalties by management. Management can, of course, still discipline and discharge workers for inefficiency or other good cause, but it has to have a case that conforms to the agreement and will be convincing to an arbitrator. Since the passage of the Wagner Act (1935), it has been an unfair labor practice for an employer to use discipline as a means of discouraging union membership or of discriminating against unionists.

<sup>18</sup> See, for example, Frederick H. Harbison and King Carr, *The Libbey-Owens-Ford Glass Company and the Federation of Glass, Ceramic and Silica Sand Workers of America*, Case Study No. 2 in *Causes of Industrial Peace under Collective Bargaining*, National Planning Association, Washington, October, 1948, pp. 27-28.

**Dismissal compensation.** When employees have to be laid off permanently for such reasons as shutdown of a plant or department, companies may recognize the existence of accumulated job rights by granting severance or dismissal allowances. Usually the allowance is a lump-sum payment, the amount being graduated according to the employee's length of service and his rate of pay. By granting, say, one week's pay for every year of service, recognition is given to the seniority rights that the employee has accumulated and to the moral claim that long-service employees have under an industrial pension plan if, through no fault of theirs, they have to be dismissed before they reach retirement age.

Separation allowances increase the job security of employees. By making it costly to terminate employment, they provide an incentive for management to work out alternative employment opportunities when a product, process, or plant is being abandoned. Provisions for dismissal compensation have been most prevalent in collective agreements in newspaper publishing and on the railroads, but they have also been written into some agreements in the clothing, rayon, oil, and communications industries.<sup>19</sup>

**Guaranteed employment and wages.** Job security can be provided through formal commitment by a company to supply all or some of its employees with a stipulated amount of employment or wage income during a specified period of time. A thorough study found 196 plans guaranteeing employment or wages in effect at the beginning of 1946.<sup>20</sup> Covering but 61,000 workers, they were mostly small firms (two-thirds had under 100 employees) which were either in retail and wholesale trade or in consumer goods and service industries with relatively steady demand and predictable seasonal fluctuations. In 130 plans, the employees covered by the guarantee were represented by unions, and, in a majority of such cases, the guarantee arrangements were subject to collective bargaining.

In 1944 the United Steelworkers of America demanded that the steel companies include guaranteed annual employment in their new collective agreements, and the national CIO adopted the "guaranteed wage" as part of its official policy. Wage or employment guarantees have also been pressed by CIO unions in industries such as automobiles, meatpacking, oil, shipbuilding, and ocean shipping. While concerned with worker security, AFL unions have generally not been such strong advocates of work and wage guarantees. In carrying out a yearly guarantee of 40 to 52 weeks of work, it might be necessary to transfer workers in ways that would break down boundaries between

<sup>19</sup> See *Dismissal Pay Provisions in Union Agreements, December 1944*, U.S. Bureau of Labor Statistics, Bulletin No. 808, 1945. For an extended treatment of severance pay see Everett D. Hawkins, *Dismissal Compensation: Voluntary and Compulsory Plans Used in the United States and Abroad*, Princeton University Press, Princeton, 1940.

<sup>20</sup> See Murray W. Latimer, *Guaranteed Wages*, Report to the President by the Advisory Board, Office of War Mobilization and Reconversion, January 31, 1947, pp. 296-97.

skills and conflict with the protective regulations of craft unions. Also, AFL unions have, by and large, organized the smaller firms which would be more readily bankrupt by the burden of wage guarantees.<sup>21</sup>

In practice, wide variations exist in the completeness of work or wage guarantees—in the proportion of a year's normal income or employment guaranteed, in the percentage of the workforce covered, and in the conditions that may release the company from its obligations under the plan. A guarantee of three to six months of employment or wages under an annual agreement with the guarantee confined to employees having three or five years of service, may be difficult to distinguish from a liberal plan of dismissal compensation. A guarantee restricted to older workers whom the company expects to retain even during a major depression may, to them, seem to differ little from lay-off according to seniority.

Annual employment or income guarantees would place wage-earners on a yearly contract like school teachers. It would give them much the same tenure as business executives, salaried workers, and government employees. Therein lies its popular appeal. But if, for financial or other practical reasons, the guarantee is limited to a part of the workforce, then a privileged group is provided security at the expense of an unprotected group of employees, upon whom rests the full burden of adjustment. As in the case of seniority, such a division may threaten to split the union.

The guarantee of wages or employment has some of the same effects as the application of seniority. It causes management to use more care in the selection and retention of employees; discharge cases take on added importance; and labor mobility is discouraged, as the incentive to accept or find work elsewhere is reduced. Labor productivity may be increased by such evidence of management's good intentions as well as by the pressure of the added obligation.

By changing labor from a variable to a fixed cost, work and wage guarantees may have other consequences. Like experience rating in unemployment compensation taxes, they tend to retard expansion by causing employers to stabilize their employment at low levels. They may add significantly to the risks of business, thereby discouraging investment. Guaranteed employment with uncontrolled demand for goods puts the cart before the horse. How serious the effects of such transposition might be for a particular firm would depend on the guarantee given and economic conditions. The financial cost of a complete guarantee might average 20 per cent of total payroll for an industry like steel,<sup>22</sup> the demand for which rests on other heavy goods indus-

<sup>21</sup> For a discussion of labor viewpoints, see A. D. H. Kaplan, *The Guarantee of Annual Wages*, Brookings Institution, Washington, 1947, Chapter 2 on "Labor's Position on Guaranteed Annual Wages."

<sup>22</sup> For cost estimates for a dozen plants in the steel industry, see Latimer, *op. cit.* pp. 75-76.

tries and fluctuates widely over the business cycle. Analyses indicate that widespread application of guaranteed employment plans might not significantly modify the business cycle.<sup>23</sup>

The demand for guaranteed wages is also considered as a lever to achieve higher unemployment compensation benefits under state laws and support for government programs to maintain full employment. Following the pattern of supplementary pensions under collective bargaining, some CIO unions propose supplementation of unemployment benefits through guaranteed wage plans. Reduction in the company supplementation as the public benefit increased would presumably serve to enlist employers' interest in and backing for more liberal unemployment benefits under state laws. By presenting a demand for guaranteed employment in bargaining negotiations, CIO unions force consideration of the alternative of a national full-employment program which they favor.

### NEGOTIATED PENSIONS AND WELFARE PLANS

Shift in policy emphasis and adjustment of union tactics to take advantage of changing circumstances are well illustrated by union programs for negotiated retirement, sickness, and welfare benefits during the 1940's. The underlying desire of employees for security from the financial hazards of illness and old age was played up in bargaining demands in order to exploit the "breaks," most of which resulted from governmental action. And negotiated plans were used as a lever to secure employer support for more adequate benefits under the Federal Old-Age and Survivors Insurance program.

For half a century or more, many AFL and railroad unions have had their own programs of sickness, death, and old-age benefits, financed by the members. Partly intended as a device for attracting and holding members, they did not spread much after World War I because in some cases they proved to be financially unsound and in most cases they were rather costly, especially for younger members who were less interested in the benefits.

Under the "welfare capitalism" movement in the 1920's, many companies, especially large corporations, sponsored and financed employee life, sickness, and retirement insurance as part of an industrial relations program. Organized labor generally considered such programs "paternalistic" and "anti-union," because they were designed to win the loyalty of workers to the particular firm. During the campaign for negotiated pension and welfare plans in the 1940's, many of those unilateral arrangements were converted into joint programs under collective agreements.

<sup>23</sup> For a good analysis of the economics of guaranteed wages on an extended scale, see Alvin H. Hansen and Paul A. Samuelson, "Economic Analysis of Guaranteed Wages," Appendix F, pp. 412-73 in Latimer, *op. cit.*

Stimulus for the wartime and post-war campaign of employee benefits under collective bargaining was provided by a series of circumstances and events in which the federal government played a critical role. Wartime restrictions on wage increases diverted union demands to "fringe" benefits, which were usually approved by the National War Labor Board if the employer agreed, as he often did in order to hold or attract necessary labor for war production. Under the wartime excess profits tax, the actual cost of such benefits to the company was greatly reduced. In 1946 the federal government intervened in a bituminous coal dispute and signed an agreement with John L. Lewis establishing contributions to a pension-health-welfare fund for that industry. In 1948 the National Labor Relations Board ruled, with subsequent court approval, that employees are obligated under the Taft-Hartley Act to bargain concerning pensions and group health and accident insurance programs for workers in the bargaining unit. In the meantime, fuel was added to the union drive for negotiated pension and welfare plans by the failure of Congress to adjust old-age and survivors' benefits under the Social Security Act for the increase in the cost of living since 1939. Another wave of negotiated plans occurred in the Fall of 1949 when the fact-finding panel, appointed by President Truman in the steel dispute, recommended that the companies contribute 6 cents per hour for pensions and 4 cents per hour for welfare benefits, at the same time rejecting a demand for a wage rise after three post-war "rounds" of pay increases.

CIO unions spearheaded the pension-welfare campaign. Generally speaking, they were in the industries that enjoyed the greatest post-war profits and had most of the company programs for employee benefits. AFL unions were generally more circumspect and less inclined to forego wage increases for non-wage benefits, not only because some of them had their own union benefit programs but also because their dealings were more likely to be with smaller firms and in industries with high worker mobility.

The coverage of negotiated plans expanded rapidly in the post-war period. Total workers under bargained pension plans rose from less than half a million in 1945 to over four million in 1950; the number covered by bargained health and welfare plans increased from some 600,000 in 1945 to over five million in 1950. The health and welfare plans included such items as group life insurance, cash indemnity for wage loss due to non-occupational accident or sickness, and insurance for hospital and medical bills.

The drive for negotiated benefits raises important issues of union and public policy, particularly with respect to pensions. Fundamental is the question of the proper division of gains between wages and non-wage benefits. A study by the U.S. Chamber of Commerce covering a group of representative firms for the year 1949 disclosed that non-wage payments by employers added about

16 per cent (or approximately 24 cents per payroll-hour and \$477 a year per employee) to the firm's wage bill.<sup>24</sup>

Retirement pensions or annuities are a complicated, technical, and long-time matter not easily handled by periodic negotiations and in agreements running only a few years. In order to keep costs down, the negotiated plans have tended to concentrate especially on near-future needs at the expense of (a) the funding of accumulated liabilities to safeguard benefit rights in the more distant future and (b) accumulated pension credits that workers can take with them to another job, both of which are of special interest to younger workers. Lack of transfer credit reduces the likelihood that workers in their 20's or 30's will ever get a private pension, because such a small fraction of them will remain employees of the same firm until they reach age 65. Thus, the pension issue tends to split young and old, short-service and long-service, mobile and immobile members of the union. The split may become particularly acute if a company becomes so pressed financially that a choice has to be made between reduced wages or reduced contributions to the pension fund. Also, pensions tied to continuous employment with a particular company may make older members hesitant to strike for fear of jeopardizing pension rights, while younger members may be reluctant to remain on strike over involved pension issues.

Unions have, of course, gained prestige and member gratitude by the negotiation of liberal pension and welfare plans. Through joint administration, the union acquires the security of a role in a long-term arrangement. If eligibility for pension or welfare benefits is dependent on being a member of the union in good standing, as was the case in bituminous coal and some other negotiated plans, the members are more securely tied to the union and union discipline acquires added force. Under such an arrangement, the union shop is less needed to assure prompt payment of dues or for protection against rival unions.

From the point of view of public policy, negotiated private pensions may have socially undesirable consequences. They encourage discrimination against older workers by making it costly to hire them. They discourage needed labor mobility and raise financial problems, including security of the promised benefits. Their coverage is necessarily limited to certain firms and industries, which means uneven protection. Pension rights or needs are placed in competition with wage and other demands. Added to other non-wage items, they

<sup>24</sup> Included were payroll taxes for unemployment compensation and federal old-age insurance, premiums for workmen's compensation, vacations and holiday pay, and bonuses. The cost of private benefit plans alone averaged 5 per cent of payroll. The 16 per cent compares with slightly more than 1 per cent of payroll for non-wage items in 1929 according to a U.S. Department of Commerce study. See *Wage Supplements, Non-Wage Labor Costs of Doing Business*. Economic Research Department, U.S. Chamber of Commerce, 1950, especially p. 6.

tend to place too great a burden and too much dependence on the employment relationship.<sup>25</sup>

Recognizing the validity of such objections, CIO leaders have justified negotiated pension plans as a means of gaining employer support for a more complete and adequate public program for social security.<sup>26</sup> But, once negotiated programs have become established and embodied in written agreements, their atrophy and eventual elimination seems unlikely. The practice in union negotiations is to consolidate gains and demand more. In pension programs, varied interests and rights are developed among the membership, which might make the swapping of retirement rights for wage increases difficult for the union. And, as the next chapter indicates, wage policy may also involve internal political considerations that are serious for the union.

<sup>25</sup> For a forceful discussion of the weaknesses of negotiated private pension plans, see Clark Kerr, "Social and Economic Implications of Private Pension Plans," *Commercial and Financial Chronicle*, Vol. CLXX (December 1, 1949), pp. 21 and 26.

<sup>26</sup> Social security legislation is discussed in Chapter 18.

## CHAPTER NINE

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### POLICIES ON HOURS, WAGES, AND TECHNOLOGICAL CHANGE

The treatment of union policies is continued and concluded in this chapter. Following the discussions of policies regarding hours of work, wages, scientific management, and industrial change, an attempt will be made to evaluate the economic consequences of the collective-bargaining programs of unions.

In considering union policies on wages and hours, one should bear in mind that unions pursue group goals and common benefits rather than individual differentiation and merit rewards. In seeking union security and convenience, job security and pleasant job conditions, better living standards and higher lifetime earnings, unions have multiple aims and use expedient means to attain them. Their policies may seem somewhat contradictory and may be subject to sudden reversal with changes in the product market, in the extent of non-union competition, in the union's internal political situation, or in union leadership. In short, circumstances may alter policies.

#### HOURS OF WORK

The relationship between working hours and labor productivity was considered in the subsection on hours and output in Chapter 5. As was explained there, the length of the workday and the workweek cannot be automatically and satisfactorily solved by the market mechanism. Hours of work are well suited to settlement through collective bargaining.

For the past hundred and thirty years, union policy has been to press for reduction in the normal workday and workweek.<sup>1</sup> First the goal was the ten-hour day, then the eight-hour day, and then the five-day week. Union policy has undoubtedly been an important factor in the gradual decrease in both normal and actual working hours during the past century. Actual hours worked did increase during World War II but not the standard workday or workweek, beyond which any hours worked are "overtime."

Organized labor's arguments for shorter working hours have shifted some-

<sup>1</sup> For a historical survey for work hours, see H. A. Millis and R. E. Montgomery, *Labor's Progress and Some Basic Labor Problems*, McGraw-Hill, New York, 1938, Chapter 9, pp. 463-536.

what in emphasis as the normal workday and workweek have been reduced. When the workweek exceeded 50 hours, stress was placed on the adverse effects of long hours upon workers' health and safety and the length of their working lives. Long hours also, it was emphasized, stunt the worker's growth as a citizen by failing to permit him sufficient time for social, cultural, and civic activities. Increased leisure and intellectual improvement should be part of a higher standard of living.

In recent decades, organized labor, especially the AFL, has advocated the 30-hour week as an employment device during depression periods. As early as its 1919 convention the AFL suggested that particular means for meeting the problem of unemployment resulting from demobilization after World War I. The same remedy was proposed repeatedly in the depression of the 1930's and again in 1945 and 1949.

**Shorter hours and wages.** Reduction in the normal workweek either through collective bargaining or legislation differs from work sharing in that (a) it reduces the total hours of work available for sale at regular rates, (b) it is designed to force firms to hire additional workers, (c) it is intended as a permanent rather than a temporary reduction, and (d) it is frequently combined with an increase in hourly rates of pay so that weekly earnings do not decline in direct proportion with hours' reductions. Thus, the shorter workweek is supported on the grounds that it would increase hourly wages and total payrolls, and hence workers' purchasing power. But costs too would be affected.<sup>2</sup>

From the union point of view what are the advantages of using the reduced workweek as a means of obtaining increased wage rates? There is a famous trade-union couplet: "Whether you work by the piece or the day, reducing the hours increases the pay." Time and time again it has worked that way. Shortening the workweek reduces the supply of labor. Especially is it effective in making skilled labor relatively scarce. Consequently, a wage increase obtained through a shortened workweek is less likely to be undermined by the pressure of unemployed labor.

Not only do reduced hours absorb excess labor but they serve to restrict the displacement of men by machines as the cost of labor rises. With a single shift, shorter normal hours tend to increase capital costs per unit of output, because equipment is less fully used during a year when it is operated fewer hours each day. Increasing capital costs along with labor costs discourage the substitution of machinery for labor. John L. Lewis' enforcement of the three-day week in bituminous coal during December, 1949, and January, 1950, caused the cancellation of orders for labor-saving equipment for the coal mines.

<sup>2</sup> Relationships between wages and employment were discussed in Chapter 5. The subject is examined from the business-cycle viewpoint in Chapter 20.

If a shorter workday causes a change from single-shift to double-shift operations so that the equipment is operated more hours a day, the capital costs per unit of output are likely to decrease, which may offset the increased labor costs. The change to a double shift would mean less capital equipment and more employees for a certain volume of output. In the absence of any substitution effect, the demand for labor would rise relative to the demand for productive equipment.

The method of enforcement of the shortened work period may also affect hourly earnings. Some unions seek to prevent all work on Sundays and holidays and have clauses in their negotiated agreements that prohibit such work except in emergencies. Usually, however, agreements permit work during hours outside the normal schedule if paid for at punitive overtime rates. Such overtime pay is generally one and a half or two times the "regular" or "straight-time" rates, thus serving as a penalty for hours beyond the standard day or week. Where operations cannot be adjusted to avoid considerable overtime, it has been charged that union demands for a shorter "basic" day were really a scheme for obtaining a wage increase.

**Group versus individual interests.** Often it may be in the interest of a group of workers to shorten hours in order to raise hourly earnings through labor scarcity and punitive overtime. Frequently an inverse relationship exists between the income of a whole group of workers in a special occupation and their total hours of work or their total output.<sup>3</sup> A group that works longer, thereby adding more to the country's total product, may receive less of the nation's output than it would have with shorter hours and less production. And a group that reduces its total hours and output, hence diminishing the nation's total of goods and services, may receive thereby an enhanced share of that total. If the income of the group is increased by a common restrictive policy, each worker in the group would lose if all were to abandon the restriction, yet each would gain if he alone could succeed in evading it. The union serves to prevent individuals from jeopardizing the common or group interests. As individuals they may protest against the policy, but as members of the group they may appreciate its advantages. It is such conflicts of interest between the individual, the group, and society as a whole that make agreement on social policy so difficult to achieve.

## WAGES

Wages have both a price and a quantity dimension. Hours worked represent the quantity aspect. Wages are both an income and a cost of production. As income they are supposed to serve as an incentive to work and to the achieve-

<sup>3</sup> For a further discussion of this point see Lionel Robbins, "The Economic Effects of Variations in the Hours of Labour," *Economic Journal*, Vol. XXXIX (March, 1929), pp. 25-40.

ment of greater output. As cost they are a stimulus to management to utilize labor efficiently. Presumably wages also perform an allocative function, aiding in the proper distribution of labor between occupations, firms, industries, and localities. Their deficiencies in this respect, largely because of ignorance and the importance of non-financial aspects of jobs, were explained in Chapter 3. The final section of this chapter, which deals with the economic consequences of union policies, contains additional comment on the allocation issue.

Bargaining collectively on wages presents certain problems. Before plants are organized their wage structures generally are somewhat haphazard and unsystematic, containing unjustified personal differences and other peculiarities that may have only historical explanations. More order and uniformity in wage scales facilitates inter-company wage comparisons and comparisons of output and pay, reduces grievances over alleged wage inequities, and helps to provide a base from which general wage increases can be made without being complicated by conflicts over wage differentials. Such considerations influence union wage policies.

**Wage objectives.** The general wage aims of unions include: (1) systematization and stabilization of the wage structure, (2) competitive parity in wages and labor costs, and (3) rising living standards through negotiated wage increases.<sup>4</sup> Unions do, of course, differ in the tactics and techniques used to achieve those purposes.

Stabilizing and depersonalizing the wage structure involves fixing wages for a period of time to avoid the disturbance of frequent negotiations or repeated changes, establishing specific wage classifications with set differentials in order to achieve common interest of the membership in negotiations, and, if a wage class has a range of rates, providing perhaps for automatic progression within the range according to length of service rather than by "merit increases." Unions seek to curtail wage discretion by management, particularly if they are not secure.

The problem of competitive parity, or "taking labor out of competition," varies with the method of wage payment. Under the time method, wage uniformity may mean a standard hourly rate for a particular occupation or craft, with the development of rough standards of normal output per day or week. Under payment per piece of output, it may mean uniform piece-rate scales between firms, adjusted for alterations in product or equipment. Competitive equality may also mean inter-firm uniformity of total labor cost for the finished product, which, if working conditions and efficiency are not identical, may involve some inequality in hourly rates, piece rates, and weekly earnings. Competitive equality may be conceived in terms of minimum rather than

<sup>4</sup> See Solomon Barkin, "Industrial Union Wage Policies," *Plan Age*, Vol. VI (January, 1940), pp. 1-14.

uniform standards. Much will depend on which of these objectives is considered most important at the time for the union.<sup>5</sup>

Improvement in real wages through negotiated increases for members is one of the primary functions of labor organization. It is an important part of the "more" that Samuel Gompers stated as organized labor's objective. Some argue that negotiated wage increases tend to be self-defeating in real terms because they increase costs and, therefore, prices. However, union members may, through money wage increases, gain in purchasing power either by improvements in productivity or at the expense of other elements in the economy (other workers, farmers, and profit, rent, or interest recipients). That was explained by John Mitchell in 1903 when, as president of the United Mine Workers, he wrote:

There are, however, some theorists who claim that this increase in wages is merely apparent and of no real benefit to the workmen, since if all wages rise, all prices must rise in proportion, and the workingman who receives an advance in his wages must pay it all out because of the consequent increased cost of the necessities of life. It is thus urged that a general increase in wages is nothing but a wearisome march around a circle, ceaseless and leading to nowhere. There are several reasons, however, why this objection is not valid. In the first place, wages do not always increase the cost of production, since the workingman becomes more efficient when he is better paid, better fed, better clothed, and better housed. In many industries prices have nothing at all to do with wages, but are arbitrarily fixed at a monopoly figure and remain the same whether wages are high or low. Moreover, when wages actually raise prices, the resulting increase is never in proportion to the rise in wages, since the cost of many of the materials, the ground rent, the interest on capital, taxes, the cost of supervision, and the profits of employers are not necessarily affected by an increase in wages. Finally, workingmen do not consume all, or even nearly all, of the articles which they produce; and an increase in the wages of diamond cutters, of makers of grand pianos, of weavers of fine carpets, as well as of men engaged in performing personal services for the rich, does not in any way affect the purchasing power of the money in the ordinary workingman's envelope.<sup>6</sup>

Of significance is the fact that a single union or negotiation covers only a small fraction of the nation's workers, that the union represents its members as producers not consumers, and that the point where it can best attack the problem of higher income for them is through the wage bargain.

**Importance of institutional and political factors.** In specific situations, general wage objectives are modified by and adjusted to the needs of the union to survive and succeed. Success is usually measured in tangible terms—expansion in membership, amount of wage increase, and benefit amounts.

<sup>5</sup> For a discussion of the different types of wage uniformity and their economic consequences, see Thomas Kennedy, *The Significance of Wage Uniformity*, Industry-Wide Collective Bargaining Series, University of Pennsylvania Press, 1949.

<sup>6</sup> *Organized Labor*, American Book and Bible House, Philadelphia, 1903, pp. 111–112.

Unlike many parts of agreements, wage rates and earnings are easy to compare. The prestige of union leaders may be greatly influenced by the size and timing of wage increases in related industries such as steel and coal, or automobiles and electrical equipment. On the other hand, unions in industries like textiles, clothing, hosiery, and shoes do not need to follow wage patterns in heavy industries. Adverse conditions in the market for soft goods or the threat of non-union competition may cause unions in such industries to forego demands for wage increases as was the case from 1947 to 1950. Non-union competition threatens union security through displacement of the union.

In deciding wage policy, union leaders seem generally to be influenced more by considerations of union security and strength than by the volume of employment for the membership.<sup>7</sup> Usually, of course, union strength and membership employment coincide, so that the distinction seems unimportant. It appears, however, in some instances. For example, a wage increase may be necessary for prestige purposes in organizing new territory even though the increase may cause some shift of production away from union areas. The distinction may also arise when viewpoints differ at various levels in the union organization. Under a national agreement, a local union may seek a relative reduction in wages for a plant in order to stimulate local employment, but in such cases the national policy has generally been to insist on uniformity despite adverse effects on employment for members of the local. Often in steel and other industries, the "wage policy" of the national union has not been subject to modification according to local employment conditions. Of course, rank-and-file willingness to undergo the hardships of a strike and the probable effects of a strike on union finances and politics can exert considerable influence on union wage demands and the determination with which they are pursued.

In the preservation and progress of the union, political considerations are important. Indeed, management often considers political factors to be the dominant ones in union policies in general and in wage policy in particular. Policy concerning general wage changes is, of course, formulated by union leaders, who take account of political realities in developing demands and negotiating with respect to them. Conflicting interests within the membership must be reconciled to avoid factionalism and to preserve the union's solidarity and strength. Inter-union rivalry and dual unionism generate external political pressures that may threaten the integrity and unity of the organization.

<sup>7</sup> For a statement stressing union security and growth as the important factor in union wage policies see Arthur M. Ross, *Union Wage Policies*, University of California Press, Berkeley, 1948. Members' employment prospects as an element in union wage policy are emphasized in G. P. Schultz and C. A. Myers, "Union Wage Decisions and Employment," *American Economic Review*, Vol. XL (June, 1950), pp. 362-80.

How internal and external political pressures modify a union's general wage aims can be illustrated by examples. Although conventions of the United Automobile, Aircraft, and Agricultural Implement Workers (CIO) have approved the principle of competitive wage uniformity as a general objective, Ford workers have prevented elimination of their favorable differentials. In the same union, the threat of withdrawal of the skilled tool and die makers in the Detroit shops in the 1940's caused the union to favor a wage increase for that group relative to the rest of the membership. The Textile Workers Union (CIO) has favored relatively large increases for cotton-mill truck drivers in localities where some likelihood existed that the AFL Teamsters might attempt to organize them.

Factors influencing the formulation of union wage policy should be differentiated from the arguments the union uses to try to convince the workers, management, and the public that its demands are reasonable. One should not be deceived into thinking that the statements and evidence offered in support of union wage requests actually determine how much the union demands. They simply indicate how the union seeks to justify its demand.

The set of arguments employed by the union will vary with the circumstances. When prices are rising, stress will be placed on the cost of living. When the cost of living is falling, increased labor productivity may be the prominent factor or criterion in the union's case. If profits are high, the firm's ability to pay and the employees' right to a share in prosperity are given considerable emphasis. If the firm or industry is suffering from slack demand and low profits, the union's argument may shift to insistence on wages as high as those paid by certain other firms or industries. Always the case is made in economic terms although the important considerations may be institutional and political.

In following negotiations, it is interesting to observe the shifts in position on the part of unions and managements as the cost of living, profits, output per worker, and the wage status of the industry change. One year the union will stress the cost of living or profits, and management will contend that productivity or wage scales in comparable firms is the significant criterion. The next year in all seriousness they may reverse their positions.

Such inconsistency is not surprising or pointless. In the absence of any accepted criterion of fairness for governing wage changes, proof that a wage increase is reasonable may serve a useful purpose, even if it only rationalizes a figure arrived at on other grounds. Where mutual acceptability and bargaining strength are important in wage determination, economic explanations may aid in selling a certain rate to the workers or to the management, thus achieving an agreement. They may also help in gaining public acceptance and support for union wage demands. In short, wage criteria can serve as useful

tools for settling wage disputes whether by negotiation, mediation, or arbitration.

**The standard rate.** Under time or hourly rates of pay unions, particularly craft organizations, have a standard rate for a given type of work or occupation. It is usually known as the "union scale," and is a uniform minimum rate for all journeymen on the job regardless of individual differences in ability or industry. There may also be a standard rate for helpers and another for common labor.

The standard or union rate of hourly wages furnishes a focal point for collective bargaining. The earnings of all union members performing that class of work depend upon that common rate, so it serves to concentrate the interests of the union's membership.

One difficulty with payment by the hour is that, although output is really part of the bargain, it is not specified in the agreement. Unions do not want to grade their members by ability and efficiency and set individual rates, but they are willing to let employers pay workers above the union scale for superior skill or competency. Unions do object, however, to higher pay for pace-setting or the speed-up of output, because extra output without a proportional increase in pay would mean selling services cheaper, not to mention other objections to increased speed of operation. To prevent in effect an undercutting of the union scale through greater output, collective action on hourly rates has to be supplemented by some form of collective action on work performance. Only in that way can the union, under the "timework" system of payment, maintain some semblance of uniform pay for equal labor services throughout the area of competitive production.

The standard rate serves to reduce somewhat the diversity in individual rates of pay and tends to lead to a narrowing in the range of individual output. Whether the average weekly output is lower than it would be with unilateral wage determination under non-union conditions is an open question. Reference was made in the preceding chapter to the tendency for workers in non-union plants to resist the speed-up and to try to standardize their output. Wage differentiation can adversely affect production if it leads to complaints of wage inequities and low morale in the workforce.

**Piece rates.**<sup>8</sup> A system of payment by the number of pieces or units produced has the advantage that both price and output are stated in the wage

<sup>8</sup> A study covering 55,000 plants employing seven million workers in 1945 or 1946 showed that then 29 per cent of the workers were in plants where the piece-rate system was "the predominant" method of payment, 5 per cent were in plants where premium or bonus systems predominated, and the other 66 per cent were in plants where timework was the method of payment for more than three-quarters of the plant's workers. Of the seven million employees, it was estimated that 30 per cent were paid on an incentive (piece-rate or bonus) basis. See *Supplementary Wage Practices in American Industry, 1945-46*, U.S. Department of Labor, Bulletin No. 939, 1948, pp. 5-8.

contract. For unions, however, that still leaves many problems unsolved. How difficult those problems are in any particular case depends upon such factors as (a) the measurability of the unit of output or accomplishment, (b) the frequency of product change, (c) the type and frequency of change in production techniques, (d) the difficulty of maintaining standard working conditions, and (e) the protection that can be afforded to workers against rate cutting and non-union competition. Consequently, the attitudes of unions toward piecework vary widely. Some unions prefer piecework or accept it willingly; other unions strongly oppose it.

Piece rates generally are acceptable to unions where (1) a standard scale of rates can be applied to many shops in the industry so that employers cannot cut rates by separate action, (2) impartial machinery exists to fix remuneration in terms of output in case the parties cannot agree on a new piece rate, and (3) marked changes in technique and product are infrequent but minor improvements, which do not alter the rates, accumulate to raise workers' earnings.

Historically, rate cutting has been the outstanding cause of worker antagonism toward the piece-rate method of payment. Where piece rates are embodied in a national agreement covering competing firms (as in the pottery, flint glass, hosiery, and stove industries),<sup>9</sup> alteration in rates becomes a matter of negotiation between the union and the employers' association in the industry. Piecework facilitates the making of such agreements because uniform piece scales automatically provide inter-firm equality of direct labor costs per unit of output. National agreements covering many competing companies have, for the union, the advantage of greater union security and the administrative convenience of a single negotiation. Opportunity for rate cutting is minimized where the number of rates is small, conditions in the industry are fairly uniform, and changes in jobs and products are infrequent. If there are many rates that are constantly changing, as in ladies' suits and dresses, the union may insist on appeal to some impartial machinery to prevent concealed rate cuts with change in the style of the garment. In the agreements in the men's and ladies' garment and the hosiery industries, piece rates that cannot be determined by joint negotiation are submitted to an impartial umpire. Where employers cannot be prevented from cutting rates, there will be collective attempts to restrict output whether under union or non-union conditions.

Where arbitrary cuts in piece rates can be prevented, workers may gain automatically from minor improvements that are made in methods of production, equipment, or materials. Occurring piecemeal and at different times in

<sup>9</sup> For a discussion of the operation of piecework under national agreements in those industries see R. A. Lester and E. A. Robie, *Wages under National and Regional Collective Bargaining*, Industrial Relations Section, Princeton University, 1946.

different plants, such small changes often do not occasion or warrant changes in the agreement-stipulated rates. Better methods at unaltered rates increase workers' earnings possibilities.<sup>10</sup> On the other hand, management inefficiency and poor working conditions serve to reduce employees' earning capacity and tend to become grievances. Pieceworkers cannot earn so much if they are delayed or made idle by machine breakdowns, lack of materials, poor materials, or other obstacles to production. Agreements in piecework plants usually protect workers against such shortcomings, if only by a guaranteed hourly minimum wage somewhat under their normal piecework earnings.

Unions may oppose piecework and formal wage incentives where they stimulate excessive work speeds, excessive grievances, and dissension within the shop and rivalry between shops that is upsetting to union solidarity. That may be the case even though the workers prefer the freedom from minute supervision and the automatic adjustment of hourly earnings to output that piecework provides.

**Premium or bonus systems.** Formal incentive systems may combine time payment and payment by output in various ways. The worker may receive extra pay above a guaranteed base rate for output in excess of a production quota. Or he may be paid according to standard times assigned to tasks rather than by the time it actually takes him to accomplish them. Production in excess of the quota or performance in less than standard time may be paid for according to various formulas or "earnings curves." The increase in pay may be proportional to the increase in output or saving in time, in which case it operates the same as piecework. Sometimes, however, the increase in pay is less than the increase in output or performance, so that fast workers are compelled automatically to cut their pay per unit of production. Unions generally oppose any incentive system of payment that fails to compensate workers in proportion to their additional output or performance.

Unions often object to formal incentive systems on the same grounds as piecework: they shift many management responsibilities and risks to the workforce, cause numerous grievances with respect to conditions and standards,<sup>11</sup> create rivalry and jealousy among the employees, and lead to a speed-up of operations, which may injure the worker's health, reduce the length of his working life, and decrease the volume of employment available to him.

Wage incentive systems are said to be unnecessary where jobs are machine-paced. The more automatic industrial operations are, the less are workers

<sup>10</sup> For examples see Sumner H. Slichter, *Union Policies and Industrial Management*, 1941, pp. 293-294. Chapters 10 and 11 in that book contain an extended discussion of the factors conditioning union attitudes toward piecework and experience under that method of payment.

<sup>11</sup> Complicated incentive systems that are difficult for workers to understand may arouse suspicion and be especially productive of grievances.

responsible for output and the more production varies with numerous factors uncontrollable by a particular employee or group of employees. For assembly-line and similar operations, the claim is made that wage incentives are a device for shifting management risks to workers who, during a breakdown, are paid at base rates, which average perhaps 20 or 25 per cent under normal earnings. Thus, time rates provide workers more wage security and also a greater incentive for management to keep the plant operating properly.

An important issue in incentive systems is the determination of standard performance or standard production and the adjustment of such standards with changes in methods, equipment, or products. Production standards are the basis from which premium or bonus pay is calculated. The union cannot leave the determination of such standards solely to management without giving it the power to determine workers' earnings and to cut pay in terms of effort or performance with each adjustment of the standard. The use of time-and-motion study for the setting of production standards is discussed in the next section. Many agreements contain provisions with respect to work tasks or standards under which grievances can even be carried to arbitration for final settlement of the standard.

The attitudes of unions and workers toward incentive systems vary widely. The differences arise from such factors as production techniques in the industry, past experience with incentives, previous history of union-management relations, and current level of earnings. Some national unions, such as the United Steelworkers, the Federation of Glass Workers, and the Flint Glass Workers, do not oppose incentive wage arrangements and may even favor their extension to maintenance and other indirect labor. Other national unions, including the Automobile Workers, the Rubber Workers, and the Machinists, strongly oppose wage incentives and favor their elimination.<sup>12</sup> Nevertheless some locals of nationals whose constitutions or convention resolutions condemn wage incentives, operate with satisfaction under incentive programs and refuse to eliminate them despite the opposition of the national.<sup>13</sup>

## SCIENTIFIC MANAGEMENT

Through time-and-motion study and analysis of jobs, industrial engineers have sought objective means for establishing production standards and for evaluating jobs, as well as ways of improving plant efficiency. An analysis of job functions may lead to work simplification and to improvements in employee selection, placement, training, and promotion.

<sup>12</sup> For a study of union positions with respect to incentives, see Van Dusen Kennedy, *Union Policy and Incentive Wage Methods*, Columbia University Press, New York, 1945.

<sup>13</sup> The Studebaker local is a good illustration. See Frederick H. Harbison and R. Dubin, *United Automobile Workers (CIO) General Motors, Studebaker*, Science Research Associates, Chicago, 1947, pp. 136-40.

Unfortunately no “scientific” formula exists for determining what are proper prices and profits, or for establishing how the gains from increased productivity should be shared between lower prices, higher wages, and greater returns to capital. Yet such issues arise in setting and revising production standards. The speed of operations may also affect the length of working life, but no “scientific” means exists for deciding whether a pace that most workers cannot meet after age 60 is better than one that they generally can maintain until 65. Nor can “scientific” analysis determine how much voice in the operation of industry wage-earners should enjoy. Employees may be more efficient under a discipline that they help to impose upon themselves than under one handed down from on high. Although so-called scientific management cannot settle many human problems in industry that involve personal judgment and social values, it can aid in providing more accurate means of work measurement and better methods of production.

**Time-and-motion study.** As in the case of wage incentives, union attitudes and policies toward the time-study method of setting production standards varies widely. Some unions use time-study data as a basis for establishing and revising standards of output. They may agree with management on the time allowances for fatigue and other factors and may even engage in joint time study with management technicians. Other unions may tolerate but not accept time study, allowing management to set rates and standards by that method, but reserving the right to challenge management determinations on any grounds under the grievance procedure.

Some unions completely reject time-study techniques as a means of establishing work tasks or workloads.<sup>14</sup> They criticize the assumptions and methods employed, pointing out that judgments and errors enter at various stages in the procedure: the selection of the workers to be timed, the decision as to “normal” conditions, the discarding of “abnormally” high or low readings, the allowances for fatigue and delays, and the statistical measure used to summarize the data.<sup>15</sup> The notion of a normal operator under normal conditions giving a normal performance is considered to be highly subjective. The complaint may also be made that time study cannot accurately allocate responsibility for increases in output, but strictly followed it captures for management all improvements in productivity that do not arise from greater effort or skill on the part of workers. Craft unions have the added objection that time-and-motion study leads to subdivision of the work into simpler operations, thus

<sup>14</sup> For a discussion of union views on time study see William Gomberg, “Union Attitudes on the Application of Industrial Engineering Techniques to Collective Bargaining,” *Personnel*, Vol. XXIV (May, 1948), pp. 443-454.

<sup>15</sup> For a discussion of these and other deficiencies in time-study methods see William Gomberg, *A Trade Union Analysis of Time Study*, Science Research Associates, Chicago, 1948; and also S. B. Littauer and A. Abruzzi, “Experimental Criteria for Evaluating Workers and Operations,” *Industrial and Labor Relations Review*, Vol. II (July, 1949), pp. 502-26.

encouraging use of less skilled workers and reducing the demand for craft skills.

**Job evaluation.** Systematic arrangements for placing and adjusting price tags on jobs by rating them according to their requirements are known as job evaluation. For such evaluation, the functions and properties of each job are fully described. Then an analysis is made of certain factors or characteristics of the job—the education, experience, mental and visual efforts, and physical strength required; the responsibility for equipment, processes, and product that is involved; the physical conditions and hazards under which the job is performed; and so forth.

Under the point and factor-comparison methods, evaluation is performed by the selection of certain key factors and the ranking or weighting of each job in terms of those factors—how much skill and experience are required, the degree of responsibility involved, and so forth. A summation for each job in terms of all key factors gives the total score and relative position in the evaluation scale. Under point systems, each key factor is allotted a maximum possible weight as, for example, skill and experience up to 100 points, education 80, responsibility 100, physical effort 50, working conditions 50. Obviously judgment enters not only into the selection of key factors and their maximum weights, but also in the decision as to what value between zero and the maximum, a particular job will be given for each factor. The above example is heavily weighted in favor of skill, responsibility, and mental requirements, whose total maxima are almost three times the combined maximum for physical exertion and working conditions. Thus, when all the jobs in the plant are finally ranked or listed by total points, light jobs with even moderate skill requirements will far outrank heavy jobs performed under dirty and hazardous conditions. Strong emphasis on skill and mental requirement relative to physical effort and working conditions is characteristic of most systems of job evaluation.<sup>16</sup> It has been argued that the system of weighting should vary from plant to plant and even from job to job, but that is not the general practice.

The last step is pricing. The jobs ranked by final score are grouped into a limited number of labor grades or job classes, and a wage rate (or rate range) is given to each labor grade. One way of establishing the wage for a labor grade is to make a survey of wage scales paid for comparable jobs in the locality. Community averages for common or key jobs may serve as peg points for working out a continuous schedule of job or occupational rates for the plant. Industrial engineers seek to have the schedule of rates from the top

<sup>16</sup> The difficulties that can be caused by overvaluing skill relative to factors of job disutility (physical application and work conditions) are well illustrated by the experience in the West Coast aircraft industry explained in Clark Kerr and Lloyd H. Fisher, "Effect of Environment and Administration on Job Evaluation," *Harvard Business Review*, Vol. XXVIII (May, 1950), pp. 88-91 and 93.

category to the bottom one conform to a straight line or a convex curve on regular graph paper. That may be possible, without doing violence to the community averages, if only the extreme occupations (common labor and journeymen mechanics) are used as peg points; community averages for intermediate occupations may, however, fail to conform to such graphic requirements. Once jobs have been priced, wage increases are restricted to general advances unless a change in job content necessitates a rerating of that particular job.

From an engineering standpoint, job evaluation yields a logical structure of wage differentials and a system for revaluating changed jobs. Its logic is, however, based on narrow premises and arbitrary assumptions. By making relative job content the only consideration, it neglects such other attributes of jobs as promotional prospects, irregularity of employment, traditional relationships, group rivalries, and channels of temporary transfers under seniority. Thus, job evaluation systems disregard the workers' own opinions or evaluations of jobs, although worker acceptance of any scheme is essential. Union leaders point out that industry does not seek to establish other prices by such artificial and rigid means, which indicates, of course, the complex and peculiar problems involved in pricing human services.

A real weakness of job evaluation plans from the point of view of administration and continued operation is their failure to allow for shifts in market forces that bring about local changes in occupational differentials. Scarcity of a certain type of labor may force management to choose between making that occupation an exception to the plan or having to operate with an inadequate workforce because of inability to hire and retain suitable workers. Inflexible adherence to job evaluation principles in the face of conflicting external changes is one of the reasons that many job evaluation programs have broken down over a period of years.<sup>17</sup>

Union officials point out that it is not possible to freeze relationships between jobs in a dynamic economy with changing social values. They also question the use of complex systems that workers cannot understand and that would require expensive technical staffs for servicing by the union. Establishment of a new set of wage relationships in a plant by a mechanistic procedure means a reduction in the relative status of some jobs, even though incumbent employees are exempt from any reduction in their wages. Unions have been able to organize plants because of employee discontent with "job devaluation."

Union leaders object to job evaluation for other reasons. It encourages management to make wage savings by subdividing the work and diluting

<sup>17</sup> For studies of the experience with administration of job evaluation plans, see Helen Baker and John M. True, *The Operation of Job Evaluation Plans*, Industrial Relations Section, Princeton University, 1947; and Clark Kerr and Lloyd H. Fisher, "Effect of Environment and Administration on Job Evaluation," *Harvard Business Review*, Vol. XXVIII (May, 1950), pp. 77-96.

skills, thus reducing job values. Using job evaluation to set base rates under wage incentives, like fixing production standards by time study, tends to prevent workers from achieving through higher wages any of the gains of increased productivity on their jobs except when there has been an increase in skill or other job requirements. Otherwise any improvements in wages must come through general increases. As improvements in production methods tend to make work simpler and easier, jobs are more likely to be rerated downwards than upwards if the scheme is rigidly followed.

A basic union objection to job evaluation is that it negates collective bargaining. If it is rigidly administered, no room is left for negotiation, and, therefore, no allowance is made for the union's internal political needs. The importance of bargaining power in wage scales is indicated by the fact that the rates for skilled craftsmen often exceed those that job evaluation would provide. An industrial union may need to maneuver to meet the threat of capture of part of its membership by the skilled crafts or the teamsters in the AFL. Political considerations also make it unlikely that a union could agree to upsetting established job relationships by a reduction in the relative status of a significant element in the union. The "boarders" in the hosiery industry, discussed in Chapter 4, illustrate this point. As one of the first occupations in the industry to organize, they have been part of the backbone of the union. It simply could not agree to rating the boarding job at 117 points, or 16 per cent below topping and seaming, as specified in the job evaluation made by the manufacturers' association in 1945,<sup>18</sup> when boarders' hourly earnings average at least 20 per cent above those for seaming and topping in the member firms.

The importance of political considerations to the union may be one of the reasons that the employer needs job evaluation or classification as a guide in negotiations and as protection against whipsawing—the union raising one rate as "out of line" and then claiming that other rates need to be brought up into line with it. In the absence of some means of maintaining order and balance in the wage structure, the union itself may be inconvenienced and embarrassed by a flood of "wage inequity" grievances. "Beating the rates up" may tend to disorganize the union.

As with wage incentives and time study, union attitudes toward job evaluation vary between national unions, between locals of the same national, and between local and national headquarters of the same union.<sup>19</sup> Many local unions accepted evaluation plans as a means of obtaining wage increases for

<sup>18</sup> See *Job Evaluation*, Full Fashioned Hosiery Manufacturers Association of America, Inc., Philadelphia, June, 1945, p. 21.

<sup>19</sup> For a survey of union attitudes see Helen Baker and John M. True, *op cit.*, Chapter 7. See also William Gomberg, "Union Attitudes on the Application of Industrial Engineering Techniques to Collective Bargaining," *Personnel*, Vol. XXIV (May, 1948), pp. 443-54.

their members during World War II when general increases were precluded under wage stabilization. Generally speaking, national officials seem to be more hostile than local officials, who may be influenced more by expediency and local circumstances. Systematic arrangements for determining job differentials may not be viewed unfavorably by a local union if management administers the plan flexibly so as not to eliminate or unduly restrict collective bargaining.

Although most unions prefer not to participate in job evaluation plans or to assume any responsibility for their results, several national unions have done so. The Paper Makers (AFL) and Pulp, Sulphite, and Paper Mill Workers (AFL) have, for example, engaged in the establishment and administration of a joint job analysis and evaluation scheme with the West Coast mills in that industry since 1934.<sup>20</sup> And a joint program of job classification (note the avoidance of the term "evaluation"), which was developed by the United Steelworkers (CIO) and the basic steel companies, has been in operation in that industry since 1947.<sup>21</sup> For collective bargaining purposes, unions have sought adequate job descriptions, elimination of personal rates, and a simple rate structure with regular 2.5- to 5-cent rate intervals. A simple ranking or classification of jobs, without factor weights and rigid formulas, seems better adapted to wage determination under joint bargaining.<sup>22</sup>

### NEW MACHINERY AND METHODS

Union policy with respect to changes in the methods of production seems to depend in considerable measure upon the character of union, the nature of competition in the industry, and the extent to which the new machine dispenses with need for the services of union members. Therefore, in the following discussion, craft and industrial unions are treated separately, a distinction is drawn between local-market and national-market industries, and major and minor changes in production methods are differentiated.

**Craft unions and technological change.** Craft unions have frequently sought to limit or prevent the introduction of labor-saving methods. They naturally resist industrial changes that reduce the demand for craft skill and narrow their jurisdictions. Such changes include: (a) subdivision of the journeyman's job so that part of it can be performed by lower paid and less

<sup>20</sup> For a discussion of the program see R. A. Lester and E. A. Robie, *Wages under National and Regional Collective Bargaining*, Industrial Relations Section, Princeton University, 1946, pp. 84-85, and Roger Randall, *Labor Relations in the Pulp and Paper Industry of the Pacific Northwest*, Northwest Regional Council, Portland, 1942, pp. 89-90.

<sup>21</sup> For a discussion of the steel program, see Robert Tilove, *Collective Bargaining in the Steel Industry*, Industry-Wide Collective Bargaining Series, University of Pennsylvania Press, 1948, pp. 18-26.

<sup>22</sup> For a unionist's criticism of job evaluation techniques that are rigidly applied, see Solomon Barkin, "Wage Determination: Trick or Technique," *Labor and Nation*, Vol. I (June-July, 1946), pp. 24-26 and 48.

skilled workers, and (b) minor labor-saving devices, which require less skill on the job, which reduce the number of hours of work required to complete a task, and which shift part of the craftsman's work to the factory.

The AFL building trades have supplied some of the most notorious examples of union insistence upon craftsmen performing relatively unskilled work and union prevention of the use of minor labor-saving devices. Some locals of the Structural Iron Workers may demand that steel reinforcement bars for concrete structures be placed only by their members; Carpenters' locals may require that all stripping of wooden forms from newly poured concrete be done by carpenters only, and Bricklayers' locals may insist that only bricklayers wash down and point brick. In some localities, the Painters' union has forbidden the use of paint spray machines or oil brushes wider than four or four and a half inches, the Carpenters' union has prohibited the use of portable power saws, and the Plumbers' union has resisted the use of pipe-cutting and threading machines on the job. Some building trades locals have also prevented the installation of prefabricated units, the electricians refusing to handle factory-wired switchboards and the plumbers, factory-assembled fixtures.

Building unions are in an especially good position to enforce such policies because the skill of their members is needed, they cooperate in strikes to enforce each other's rules, and the market is local. The building contractor cannot insist on the use of wide brushes or power saws because he is still dependent upon the services of the members of the Painters' and Carpenters' unions; he cannot put common labor to work stripping forms and placing reinforcing bars because to do so would bring on a strike, with all members of the building trades unions refusing to work on the building. He is still dependent on their skill. As yet few buildings are shipped into a locality ready-made and erected without the aid of skilled tradesmen. Consequently, building operations in one locality may be inefficient and construction costly, with little threat of outside low-cost competition. Illustrations of insistence upon skilled workers performing semiskilled or common labor have also been supplied by the railroads, which have 20-odd craft jurisdictions, which are a regulated monopoly with fixed roadbeds, and which have experienced contracting employment.

Major technological changes (new machinery or processes) often threaten a sharp reduction in both the skill and the total employment required to make the product. Union members may refuse to work on the new machine in an attempt to exclude it from the industry, or the union may attempt to control its introduction and assure the transfer of members to jobs on the new machines at acceptable rates of pay and working conditions. The policy of the union will depend in part on the extent to which it can really restrict the use of the new machine and how attractive jobs on it can be.

A policy of obstruction can only be successful if the union controls the area of competitive production and can prevent employers from operating non-union. The greater the savings in cost and the less the employer is dependent on the skill of the union's members, the more incentive he has to escape the union's control. Attempts at exclusion generally fail, partly because the machine becomes more and more superior with new improvements and competition defeats the union's program. Such factors also tend to wreck a union program of trying to compete with the new machine by offering concessions in wages and working rules for operations on the old equipment. An additional difficulty is that the latter policy runs counter to union traditions.<sup>23</sup>

The success of a policy of control of the introduction of a new technique and of the jobs on it depends on such factors as (a) the usefulness of the skill and experience of the union members for operation of the new technique, (b) the union's willingness to accept semiskilled machine-tenders as members, (c) the disposition of union members to adjust to the new technique, (d) the control the union can exert in and over the industry, and (e) management's attitude toward and opinion of the union. When the linotype machine producing printing type by lines was first introduced, employers tried to use stenographers to run it, but they soon discovered that the training of the printer—his knowledge of spacing, composition, and so forth—was so necessary for efficient operation that even non-union shops found it profitable to employ printers. Eventually, linotypers were receiving higher wage rates than hand compositors.

Where the new machine is such, however, that its operation requires none of the skill of the workers under the old technique, the union has little chance to control the new machinery and has little interest in doing so if its employment requirements are quite small. Glass-bottle blowing by hand—really by lungs—was at one time one of the most skilled and highly paid crafts in the country. However, an Owens bottle-blowing machine was developed which was so automatic that the only labor necessary for its operation was that of a few unskilled machine tenders. In such a case, the craft union that wishes to maintain its craft character is practically powerless to prevent the new technique from eliminating many of the jobs of its members.

**Job modifications under industrial unionism.**<sup>24</sup> The wider base of the industrial union enables it to absorb major changes in technique without being forced, either by the membership or by threat to its existence, to follow a policy of obstruction or competition with the new technique. Particularly in mass-production industries, most of the members of the union are not skilled

<sup>23</sup> For a discussion of experience with different policies, see Sumner H. Slichter, *Union Policies and Industrial Management*, Brookings Institution, Washington, 1941, Chapters 7, 8, and 9.

<sup>24</sup> This subsection draws heavily from R. A. Lester and R. L. Aronson, *Job Modifications under Collective Bargaining*, Industrial Relations Section, Princeton University, 1950.

craftsmen, skilled jobs are likely to be peculiar to the industry rather than of the inter-industry craft type, and technological changes in such industries now seem, by and large, to create almost as much demand for skill as they destroy. Above all, the union's membership totals are not so likely to be adversely affected because workers displaced from jobs by the new method can usually find another job in the plant or the industry within the jurisdiction of the union. Not being hampered by narrow craft boundaries, industrial unions usually have room for absorption and maneuvering, except during business depressions.

If a major change in technique eliminates the need for skilled workers, replacing them by semiskilled or unskilled employees, the problem from the union's viewpoint is (a) to obtain jobs for the displaced employees that will have earnings possibilities equivalent to those on their former jobs and (b) to obtain rates of pay and production standards on the new technique that will be satisfactory to the workers and at least as favorable as those for comparable jobs in the plant. Some unions seek to obtain, for workers on the jobs affected, a special share of the gains resulting from the new method. It is difficult to argue for that policy, however, if the workers were transferred to or recruited for the new technique and are, therefore, completely new to the operation or process. The attitude of employees who continue on the job after its productivity has been increased by a methods change differs significantly from that of employees who start fresh on the operation at the time the new output-increasing technique is introduced.

It is the small-scale, frequent changes in production methods which alter only a part of the job and which affect but a fraction of the workforce that seem to cause the most trouble under collective bargaining. Such minor changes give rise to psychological problems that are of immediate and daily concern to the local union because the individual workers remain stationary while the job is modified. Work habits and routines are upset, usually production standards<sup>25</sup> are revised, and the status of the job may decline by downgrading under job evaluation. Because methods' changes that modify jobs are usually labor-saving and output-increasing and frequently skill-reducing, they raise problems of work assignment and speed and of possible earnings on the altered job.

Policies with respect to operational changes in jobs vary considerably from union to union and from situation to situation in the same union. Circumstances seem to alter attitudes and policies, with unions seeking to protect their members, to avoid tactical disadvantage, and to adjust to the character of labor relations in the particular case. Usually the policy to be followed in each case is left to local option, and, even if officials of the national union

<sup>25</sup> Production standards often apply under time as well as incentive methods of payment.

have declared themselves in favor of a certain policy, it may be disregarded in particular plants.

As representatives of the workers, unions generally insist that employees should suffer no reduction in wages on a particular job as a result of improvements in production methods. They seek to prevent any lessening of the employees' earnings in terms of effort expended, fatigue, or physical strain. Employees must be protected from a concealed cut in pay or a speed-up. Under an incentive method of payment such a policy means that on-the-job changes shall not lead to tightened production standards (or reduced piece rates) so that the workers' average earnings are reduced. Under a system of job evaluation, it means contending against any lowering of the rating or classification of the job that would lower the hourly pay or the base rates.

Whether an altered standard actually requires the employee "to provide more for the money" is often difficult to determine, and is frequently complicated by the development of looseness in a standard as a result of failure to adjust for small improvements. Where administration of an incentive system is lax, workers on the job gain some of the benefit from small improvements in work methods, materials, or equipment. Their earnings increase without any additional effort or skill on their part. A revision in the production standard with a significant change in job content often includes adjustment to correct for the accumulation of looseness in the past. Worker and union resistance to such sudden and marked alteration is to be expected.

Some unions demand that the employees on the job receive a share of the savings resulting from changes in equipment, processes, materials, and organization of the work. They point out that such changes are not only psychologically disturbing but also involve readjustments for which workers deserve some compensation. In addition, the employees affected have continued evidence of the increased output per work-hour on the job. Added output, especially for persons accustomed to pay according to measured performance, seems to warrant some increase in earnings. Any such union demand is, of course, complicated by the difficulties of calculating such savings and assessing responsibility for them. And, since the distribution of operating improvements among jobs is generally uneven and rather fortuitous, it would result in inequitable production standards and an unbalanced wage structure, leading to numerous grievances and requests by senior employees for the "juicy" or "gravy" jobs.

Less theoretical is the practice of "sweetening" a change in methods by a slight increase in earnings possibilities, i.e., a relatively loose standard, in order to enable the new method to be introduced with a minimum of worker resistance. Such a policy emphasizes human factors and worker incentives, and recognizes that cooperative workers are needed for accurate time study

and effective operations. A survey and four case studies of practices in 24 companies in 1948 and 1949 <sup>26</sup> revealed that many managements subordinate engineering principles for practical solutions, and, after union protests, accept compromises in individual cases in order to facilitate the change and avoid resort to outside arbitration. Some of the compromises were for a temporary period while standards were restudied or workers became accustomed to the new methods; others were of indefinite duration and took the form of 5 or 10 per cent lower standards than the time study and test runs indicated, or a higher labor grade than the one in which the modified job was first placed under job evaluation. Even so, in one case the affected workers struck twice, for two weeks each time, against a compromise workload accepted by the union, and thereafter continued their refusal to accept a spindle assignment 10 per cent below that judged equitable by time-study methods.

Variation in union policies and practices with respect to methods' changes arises in part from a desire for latitude to meet the psychological problems in particular situations. Unions generally seek some freedom for negotiation, sufficient flexibility to allow for historical and environmental factors, the type and magnitude of the change, human aspects of the readjustment, and union political considerations. As a minimum, they insist on the maintenance of past pay-effort relationships on the job, with added pay in direct proportion to any increase in the level of work effort. Usually industrial unions also attempt to cushion the effects of methods' changes by such means as protection of workers' jobs and earnings during any trial period, temporary guarantees and protections to workers transferred to new jobs in the company, advance planning and staggering of changes in order to minimize displacement, and preferential hiring rights or separation pay for workers laid off as the result of technological change.<sup>27</sup>

### EFFECTS OF UNION POLICIES AND PRACTICES

Union policies vary so much from union to union, from industry to industry, and from plant to plant, that it is difficult to generalize concerning their net effects upon the economy as a whole. Also the economic consequences of union policies and practices have been changing somewhat as industry has shifted from hand operations to machine-paced or assembly-line jobs and as union power has become more heavily concentrated in mass-production industries.

Craft unions in local-market industries have provided the classical cases of effective and continued restriction (on entrance to the trade or union and on technological improvements) and of make-work policies (performance of

<sup>26</sup> See Lester and Aronson, *op. cit.*

<sup>27</sup> For an explanation of a union program in the cotton-textile industry, see Solomon Barkin, "Handling Work Assignment Changes", *Harvard Business Review*, Vol. XXV (Summer, 1947), pp. 473-82.

unnecessary work, employment of unneeded workers, or enforcement of a low daily stint). With the passage of time, the extent and effectiveness of some of those restrictions, particularly apprenticeship and exclusion of new equipment, have decreased. On the other hand, the expansion of industrial unionism has been accompanied by such developments as widespread use of seniority and of pension-health-welfare plans negotiated through collective bargaining.

An attempt to assess the effects of union policies and practices raises a number of interesting and difficult issues. One of them is the assessment of responsibility for waste and inefficiency in American industry. On the positive side, there is the question of the factors or practices that promote efficiency, which leads to large and unfathomed areas of worker psychology and industrial management. Evaluation of the consequences of union policies also raises the issue of the proper mobility of labor and the factors that really influence its distribution between jobs. Goals also enter the problem. Should the benefits and disadvantages of unionism be measured only in terms of output of goods and services or should human development, personal satisfactions, and ethical considerations be taken into account in judging the effects of the policies discussed in this and the preceding chapter? Partly it may be a matter of perspective, whether one is focusing on maximum output in the immediate future or is trying to figure out which policies and practices will prove the most rewarding from a long-run viewpoint. Because we have no accepted answers to these broad issues, the following discussion is necessarily somewhat indefinite and equivocal.

**Management and union policies.** Management itself may be mainly responsible for undue restrictions by unions. Widespread provision for the union shop and seniority in union-management agreements is peculiar to the United States and arose largely from employer resistance and opposition to unions. As already indicated, union-inspired restrictions seem to be related to lack of management acceptance of provisions for union security.

Poor handling of pay-output relationships and technological change has perhaps been management's greatest contribution to output restriction by labor. Workers are naturally inclined to resist changes that are psychologically upsetting and that threaten them with reduced earnings and other adverse consequences. Managements can minimize tension and alleviate fear by early explanations and safeguarding arrangements for the affected employees. Resistance is heightened, union or no union, if management tries to use changes in production methods as a means of achieving a concealed wage cut or of correcting for past laxity in the administration of production standards.

Economists and engineers have been too prone to insist that the only answer to job modifications resulting from methods' improvements is to maintain production standards and let the savings take the form of reduced prices to

consumers. They tend to overlook the fact that our economy rests on the willing cooperation of workers, so that psychological factors on the job have significant economic consequences. To ease the transition it is often necessary to take account of the diversity of personal feelings and of worker incentives, to recognize the need for overcoming worker resistance to change, and to achieve the active cooperation of the employees affected.

Oftentimes unions may be instrumental in improving managerial efficiency. They expose management weaknesses, which may even result in changes in management personnel. Under the grievance procedure, management actions can be made subject to impartial review, so that they need to be based on accurate information. Union criticism and challenge also tend to force consistency in management policy and the elimination of inequities and anomalies in the wage structure which adversely affect worker morale. The result of unionization and collective bargaining may be not only better selection and training of management personnel but also, under the influence of seniority, improved selection and training of factory employees. Such considerations led Professor Sumner H. Slichter, a close student of union and management practices, to conclude that "collective bargaining has stimulated more alert and dynamic management and better managerial practices more frequently than it has hampered management and interfered unduly with managerial discretion," and that consequently, in most industries, collective bargaining "yields a larger net output than would have resulted from individual bargaining."<sup>28</sup>

**Labor-force distribution and use.** Some union policies, such as seniority and negotiated company benefits, serve to tie workers to individual firms or plants and, thus, create artificial barriers to labor mobility. The desirable amount of labor mobility to facilitate shifts in industry and to distribute workers properly according to their abilities and desires is not known. Union policies that create labor reserves on a company-by-company basis do compartmentalize the nation's labor force. Main reliance for labor-force adjustments must, in any event, rest upon new entrants and upon young workers with few work attachments and dependents.

Union wage policies are alleged to create "wage distortion unemployment." Unfortunately economists using that term have not given it specific content or indicated how to identify particular cases. Often unions, through grievances and demands for simplification, have made wage structures more rational and less distorted in terms of either job-evaluation standards or the consensus of workers. Greater uniformity of wage scales between firms and localities may have adverse effects on employment and business investment at some stages in the business cycle. On the other hand, wage scales adjusted to company

<sup>28</sup> Sumner H. Slichter, *The Challenge of Industrial Relations*, Cornell University Press, Ithaca, 1947, pp. 69 and 72-73.

ability to pay might be even more discouraging to industrial expansion. Discussion of this issue is reserved for Chapter 20; it can be more appropriately treated after an analysis of management objectives and policies in the next two chapters. The question of union influences on differences in wage scales between industries is considered in Chapter 14. Here it is only necessary to state that other factors seem to have been more significant than unionism in explaining inter-industry wage variation during the past two decades.

**Social goals and union policies.** Union policies stress the human and social costs of industrial change. In determining technological improvements, for example, management calculations are not likely, in the absence of union influences, to allow sufficiently for costs to the workers and to the community. Of course, union methods frequently are not, from a public standpoint, the most intelligent and satisfactory way to handle the human and social aspects of industrial change. Nevertheless, they permit workers some measure of participation in decisions affecting jobs, which is helpful in developing “workable” compromises and in avoiding violent reactions and radical changes.

Union policies of seniority and prevention of speed-up help to prolong the working lives of older people, which may mean greater output in the long run at the expense perhaps of short-run productivity. As the higher-age categories constitute a larger and larger proportion of the population so that those above 55 years of age increase in political strength, public and union policies may, however, become too concerned with the needs of older workers in industry. The issue of ethical considerations *versus* industrial efficiency and cost can be seen in the trend toward wider seniority units for long-service employees, who gain in employment security at the cost of more transfers. Despite added inconvenience and cost, management itself has at times favored wider seniority units on grounds of justice to long-service employees and community relations.

The policies of unions cannot be judged in terms of output alone. Collective bargaining has educational and other non-market values. Unions stress rules rather than submission to arbitrary authority, conviction by persuasion rather than by fear. The result is, except perhaps for unions with highly centralized authority, the development of a more independent and self-respecting type of worker in industry, a distinct advantage from the point of view of political health in a free society. Even in economic terms, accumulating evidence indicates that employees are likely to be more effective and efficient where they share in work decisions and are subject to self-imposed discipline. Arrangements for worker participation in union-management cooperation to increase efficiency and reduce costs are discussed in Chapter 13.<sup>29</sup>

<sup>29</sup> Reference has already been made in Chapter 2 to some of the programs developed under the guidance of Joseph Scanlon. See footnote 12, Chapter 2.

## **CHAPTER TEN**

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### **MANAGEMENT IN THEORY AND PRACTICE**

For most problems in industrial relations, an understanding of the objectives and operations of business management is essential. Only by an adequate theory of the behavior of business enterprises is it possible to draw correct conclusions concerning the effects of union policies on management, prices, employment, and investment. The traditional doctrine of the firm, long accepted in academic circles, has proved too narrow and abstract; as explained subsequently, it leads to incorrect answers to questions concerning the economic consequences of a wage increase resulting from collective bargaining or minimum-wage legislation.

An analysis of management is also necessary to appreciate the employee policies and personnel activities of companies, to understand the scope and functions of industrial relations departments, to comprehend the rationale of the industrial relations programs. And, without some examination of the essentials of management, it is difficult to judge whether certain union demands would impair the effective operation of business enterprise, or whether efforts should be made to have union leaders share in business management.

#### **THE NATURE OF BUSINESS MANAGEMENT**

The function of management in a manufacturing concern or a large store is to accomplish the objectives of the enterprise by the coordinated use of economic resources.

**Internal and external functions.** Within the firm such coordination involves giving direction to its activities, organizing the economical production of goods or services, and maintaining the unity and integrity of the enterprise in the face of divisive tendencies. Cooperation may be achieved by leadership, incentives, budget and expenditure control, discipline, or other means. Economical operation requires that weaknesses be corrected and that the various departments (sales, engineering, industrial relations, etc.) which compete for shares in the company's budget be kept within bounds and in balance.

Management not only governs the internal affairs of the firm but also plans

for the preservation and enhancement of its market position and general reputation. The enterprise is a living, competing unit. To avoid loss of position or its extinction, the management must maintain and develop the firm's external relations with customers, suppliers, stockholders and creditors, and the community. Top management must be sensitive to new developments so as to foresee and prepare the proper future balance for its type of operations. These external aspects of the enterprise, although vitally affecting its internal operation, are generally foreign territory to the employees, whereas the internal government is part of their daily experience.

The distribution of various functions among the different levels of management depends upon the type of business and the problems of major significance to the enterprise. The top executives are generally concerned with overall planning, company-wide policies, and decisions that involve relatively large sums and long-range commitments, such as rates of expansion or contraction, direction of investment, research, advertising, financing, and perhaps price policy. The operating executives, such as plant managers and superintendents, carry out the policies and orders of their supervisors, using the various tools and techniques of management to accomplish the requisite tasks. The foreman, whose role will be discussed in more detail subsequently, represents the first-line of management, its point of contact with the workers in the plant. The line of authority is from the top down.

The functions of management establish the rational foundation for the industrial relations policies of business concerns. They are designed to gain and retain the willing cooperation of employees, to induce them to collaborate in achieving the firm's goals, to make them cost- and market-conscious, to minimize conflicting loyalties and objectives within the workforce that tend to disrupt the unity of the enterprise and hinder obedience to its policies and achievement of its purposes. Stress on mutual interests, teamwork, and the management attitude toward efficiency and markets is aimed at improving employee morale and easing the management problem of achieving coordination and unity.

**Crux of the management-labor problem.** The difficulties that confront management in the industrial relations sphere grow out of the fact that the men at the workbench have little to say about the goals and major policies of the enterprise, and that its primary purpose is not their welfare. They accept employment in order to gain a livelihood and not because they approve the objectives of the firm, or desire to improve the quality and price of its products for the customers, or wish to help in obtaining large profits for the stockholders. Frictions, if not antagonism, are bound to develop between the employer-managers, who make the plans, decide on changes, and exercise discipline, and the hired workers who are affected by the plans and changes, are managed,

and are subject to the discipline. The conflict is sharpened by the fact that the management does not govern in the interest of the employees alone or even primarily. It cannot put their welfare above that of the enterprise itself. In any real conflict of interests, the preservation of the firm's position and standing, and presumably at least some minimum of profits for the owners, will take precedence. Unions perform the function of protecting the employees as claimants whose interests and welfare must generally be subordinate to other purposes. The labor policies of business concerns are treated in detail in the next chapter. It is sufficient here to indicate how various industrial relations techniques used by firms contribute to the aims of management.

In order to foster a constructive attitude on the part of workers toward their jobs and the company, the management may have (a) an orientation or indoctrination course for new employees, (b) a program of employee training on the job, which may include education in business economics and in the affairs of the company, (c) written or oral communications from the officers, sometimes over a plant broadcasting system, and (d) arrangements for employee consultation or a suggestion system to give workers a sense of participation in management decisions. To help reduce in-plant frictions and employee insecurity, the management may (a) institute a program of foreman training, including courses in human relations and responsible leadership, (b) a communications program that will provide early and accurate information to employees about job changes and thus reduce uncertainty and rumor, and (c) a program of employee security, such as group insurance, sickness and displacement benefits, and pensions. To encourage the worker and his family to identify themselves more completely with the company and to minimize conflicting loyalties, the management may (a) promote employee ownership of company stock or a profit-sharing arrangement, (b) sponsor recreational and social activities, which mix management and workers for common purposes (such as a winning team), (c) spread the company's benefit plans to cover the worker's family, (d) develop credit unions and consumer purchasing arrangements for employees, and (e) have "open house" days or evenings at the plant for relatives of the workforce.

By providing for the participation of workers in the administration of the programs, much of the paternalism of the old "welfare" approach may be avoided. Too complete identification with and dependence on a single firm, socially as well as economically, may, however, be unwise and unhealthy, lacking the balance and safeguards of pluralism. And, although it may be possible by such means to blur somewhat the conflicts of interest generated by the position of manual employees in the enterprise, the fundamental fact of the priority of non-employee purposes in the firm cannot be eradicated by industrial relations techniques or programs.

## THEORY OF THE FIRM

In our economy, employment, production, investment, and price decisions are made by individual firms. The motivation and behavior of business management is, therefore, an important part of any study of industrial relations.

The theory of business enterprise developed here, although in line with business thinking and recent developments in economic analysis, differs from the traditional doctrine of the firm, which has been popular among academic economists. According to that doctrine, management decisions are governed by (1) the single principle of maximum (greatest possible) profits and (2) marginal calculations based on schedules representing price-quantity relationships. Both assumptions are unrealistic.

As explained in the discussion of management motivation in Chapter 2, business executives do not relentlessly pursue a single goal of optimum profits, but instead are influenced by many considerations and objectives, such as preserving the firm's reputation and market position, maintaining secure financial control, and promoting the convenience and prestige of management.

The assumption that the essence of management is the making of marginal calculations on a price-quantity plane is a distorted view, which neglects important management functions mentioned in the preceding section. In the midst of rapid changes and large areas of uncertainty and within the limitations of current accounting practices, it is not possible for management in large firms manufacturing diverse products to know the additional income from, and cost of, each and every unit of either employment or output of the company. Consequently, management cannot maximize profits by continually adjusting the firm's operations by means of small additions or subtractions in employment or output, so that the last dollar spent on production will just yield a dollar or a little more than a dollar of revenue.<sup>1</sup>

Where knowledge is imperfect and problems involve a host of variables, the human mind can hardly arrive at a unique best decision that will maximize profits. To assume that business executives make decisions with perfect rationality and considerable mathematical skill is certainly visionary. To quote a British economist, "It is quite inconceivable that he [a business executive] should do what many writers imply, and form for each course of action his

<sup>1</sup> For recent criticisms of marginal analysis as applied to the firm, see R. A. Alchian, "Uncertainty, Evolution, and Economic Theory," *Journal of Political Economy*, Vol. LVIII (June, 1950), pp. 211-21; R. A. Gordon, "Short-Period Price Determination," *American Economic Review*, Vol. XXXVIII (June, 1948), pp. 265-88; L. G. Reynolds, "Toward a Short-Run Theory of Wages," *ibid.*, pp. 289-308; M. W. Reder, "A Reconsideration of the Marginal Productivity Theory," *Journal of Political Economy*, Vol. LV (October, 1947), pp. 450-58; H. M. Oliver, Jr., "Marginal Theory and Business Behavior," *American Economic Review*, Vol. XXXVII (June, 1947), pp. 375-83; and R. A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," "Marginalism, Minimum Wages, and Labor Markets," and "Equilibrium of the Firm," *American Economic Review*, Vol. XXXVI (March, 1946), pp. 63-82, Vol. XXXVII (March, 1947), pp. 135-48, and Vol. XXXIX (March, 1949), pp. 478-84.

mathematical expectation of gain, choosing that course for which the mathematical expectation is highest. . . . The idea that an entrepreneur performs multiplication and addition or integration in his head, using two functions, neither of which possesses any objective numerical scale—or indeed, any scale consciously present in his mind at all—will not stand looking at. Such a process could hardly be subconscious, nor is it sufficient to suppose it purely accidental. It may or may not be rational, but, being impossible, it is profoundly uninteresting."<sup>2</sup>

Instead of a single purpose of maximum profits and a single method of arriving at decisions by marginal calculations and adjustments, business management usually has a number of objectives and decision-making criteria.

**Management objectives.** The goals, which managements may pursue simultaneously or successively, include: (1) maximum possible profits, (2) "satisfactory" or relatively stable profits, (3) maintenance or improvement in the firm's market position (share of total sales of the products it makes or sells), (4) maintenance or development of a leadership position for initiating changes and improvements, (5) preservation or enhancement of the firm's reputation in terms of ethical standards and of employee or community goodwill, (6) sufficient liquid resources to assure the firm's financial independence and power, (7) convenience and well-being of the existing management or groups within it, and (8) the reputation of the top management in management circles and with the general public.

At times a number of these goals may converge, but frequently they may conflict. For example, sufficient liquidity (cash and cash equivalents) may be at the continued expense of greater possible profits. The convenience of management may involve added cost and less profits. The management may strive to maintain the firm's position and prestige in an industry even though the dropping of some unprofitable lines would promise an indefinite increase in the rate of profit on stockholders' equity. American business managements, particularly in larger companies, are prone to lay considerable stress on the maintenance or improvement of the firm's share of the market. Expansion of the firm, either absolutely or relative to competitors, may be at the expense of a higher rate of profit per dollar of investment. Nevertheless, additional investment and volume may be chosen for such reasons as that management salaries, prestige, and power vary more with the size of the company than with the rate of profit per dollar invested; that, in consumers' goods, dealers and distributors seek expanding lines; that once a company begins to lose customers it is difficult to recoup such losses; and that market sales, as an objective test of customer satisfaction and good-will, are considered a good

<sup>2</sup> C. F. Carter, "Expectation in Economics," *Economic Journal*, Vol. LX (March, 1950), pp. 101-102. Quoted with the permission of the author and the publisher.

measure of the business ability of the management and the success of the enterprise.<sup>3</sup>

Stress should be placed on maintenance of the firm's market position as a motivating factor in investment (both replacement and expansion) in consumer-product lines like automobiles and rubber tires. In order to preserve its competitive position, an established firm must, even though its current operations are profitless or at a loss, invest in better methods, improved products, more advertising, and larger plant facilities, if its competitors do so. Such a firm is not likely to fail to expand and thus contract relatively. That fact is significant in analyzing the effects of wage increases on management's investment decisions.

Which goal or goals a company's management is pursuing at any one time will depend upon the circumstances confronting it. The order of priority among those listed above presumably varies from time to time in a firm, so that new balances have to be drawn between goals that tend to conflict. It is well to bear in mind that management in large companies is not a single individual. Consequently, group psychology and compromise between conflicting viewpoints are often significant in management decisions. A management's strength of desire to follow any particular objective may be influenced by such factors as (a) the age and degree of maturity of the management, the firm, and the industry; (b) the size of the firm and its position in the industry; (c) the extent to which high profits might result in adverse publicity, lead to government investigation and prosecution of the management, or encourage organized labor to use the firm as a wage leader; (d) the extent and kinds of pressure from stockholders, creditors, and labor; and (e) the attitudes of the community, customers, suppliers, employees, and competitors toward the firm and its management. Attitudes, supported by organizational pressures, may be especially influential, particularly where the management is sensitive to public opinion and seeks to avoid difficulties for itself.

This view of business management and behavior of the firm is eclectic. It lacks the neat and simple answers achieved by blind adherence to a single principle. By being doctrinaire one can attain mathematical precision but the results, though subject to mathematical manipulation, contribute little toward an understanding of what actually happens. A pluralist explanation may be indefinite, lacking elegance and refinement. But it is better to be approximately and inexactly right than to be perfectly and precisely wrong.

**Criteria or methods for decision-making.** Management utilizes a number of guides and techniques to assist in making decisions with respect to the

<sup>3</sup> For a discussion of the importance of maintaining or improving the firm's market position, even at the expense of profit rates, see Clare E. Griffin, *Enterprise in a Free Society*, Richard D. Irwin, Chicago, 1949, especially p. 162. See also the author's "Equilibrium of the Firm," *American Economic Review*, Vol. XXXIX (March, 1949), pp. 480-84.

operations of the firm. They include: (a) customary practices and rules that have proved valuable in the past, (b) patterns of action that seem to have been successful in other firms, (c) calculations of the effect of an action on cost, (d) a planning budget of the firm, containing projected income and expense which can be checked monthly or quarterly with actual experience, (e) advice of experts, and (f) professional systems of thought and practice—legal, engineering, financial, and psychological. Unfortunately, there is no single standard, and choice often is difficult because of the numerous differences between firms, the dynamic character of industry, the multiplicity and complexity of the significant factors, the uncertainty of the effects of each factor, and the inability to obtain reliable answers by means of an experiment on a small scale.

Reliance is placed primarily on relative rather than absolute tests. Companies try various things, compare results, and copy or adapt the practices associated with success in terms of sales, profits, or costs. A sort of process of natural selection occurs, spurred by competition and based on observed success as a criterion rather than some theoretical optimum point derived from marginal calculations.<sup>4</sup> Consequently, most firms are not operating at maximum conceivable efficiency.

Some opportunity for cost reduction is usually present. As the quotations<sup>5</sup> in Chapter 2 indicate, management does not continuously and ruthlessly pursue the point of least cost in every operation. In most companies there are "crutches" (supports built around weak members of management or the workforce) and "fat" (too luxurious or unbalanced expansion, too elaborate procedures, wasteful expenditures, and wastes of other sorts), which it is economical to eliminate. From a survey of operations, outside experts can generally suggest reductions in costs per unit of output by such means as improvement in the flow of materials and in the scheduling of production, better use and control of inventory, development of improved techniques of production, reduction in material costs of products through content changes, decrease in defective output and wasted scrap, and simplification of paper work. Competition and budget forecasts of income and expense show the extent to which cost-cutting should or must occur, and may indicate where it ought to take place. Personalities, internal politics, past commitments, and questions of strategy may determine how much "fat," if any, is squeezed out in each department or operation.

Because the actual tests of efficiency are competition and comparisons with

<sup>4</sup> For an elaboration of this point of view see A. A. Alchian, "Uncertainty, Evolution, and Economic Theory," *Journal of Political Economy*, Vol. LVIII (June, 1950), pp. 211-21.

<sup>5</sup> From Oswald Knauth, Chester Barnard, and Marshall Dimock and Howard Hyde. See pp. 30 and 33-34 *supra*.

other firms rather than some ideal optimum, the consequences of a relative increase in wage rates for a company may be sufficient cost reductions and product improvements so that its sales, employment, and even profits actually increase. Union leaders are prone to cite case after case in which the management of a company predicted that a certain increase in wage scales in that company relative to competitors would put the company in the red, force it to reduce employment, and even necessitate its liquidation, only to find a year or two later that, after the adoption of various efficiency measures (including perhaps changes within the management personnel), the company actually experienced no reduction in profit or employment either absolutely or relative to competitors. That room for cost reductions exists in most firms seems to be indicated by the replies of executives of 43 southern companies in mid-1945 to the question, how their firm would be likely to adjust to permanent elimination of half the North-South wage differential in their industry.<sup>6</sup> Of the various possible adjustments, the one most frequently mentioned and given greatest emphasis was "improve efficiency through better production, methods, organization, supervision, incentives, workloads, etc." Five-sixths of the firms (36 out of 43) stated that they would respond to such a worsening of their competitive position by increasing their efficiency.<sup>7</sup> Surprisingly, there was little difference in the answers by size of firm; the eight smallest companies with 25 to 75 employees stressed increasing efficiency as much as did the six largest companies with between 1,250 and 3,200 employees.<sup>8</sup>

In seeking solutions to its problems, business management can also utilize established systems of professional thought and practice, represented by law, industrial engineering, accounting and finance, and psychology. Each has its rules, biases, and systems of logic for arriving at answers. The law, engineering, and accounting and finance are older, are better established, and enjoy a higher status than industrial psychology. Generally, answers can be given with more assurance and are received with more respect than is the case with the industrial relations expert. Top executives, for example, usually accept lawyers' decisions as to what is legal, industrial engineers' conclusions on

<sup>6</sup> For the 43 firms, that would have meant an average increase of 11 per cent in their wage scales, assuming no change in the wage levels of their northern competitors.

<sup>7</sup> See R. A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *American Economic Review*, Vol. XXXVI (March, 1946), pp. 77-80.

<sup>8</sup> The frequency of mention and the average stress (100% would mean entire adjustment through improved efficiency) is given by size categories in the following table:

| <i>Size of Firm</i>             | <i>Frequency of Mention</i> | <i>Average Weight When Mentioned</i> |
|---------------------------------|-----------------------------|--------------------------------------|
| 6 firms (1,250-3,200 employees) | 100%                        | 38%                                  |
| 7 firms (350-900 employees)     | 86                          | 31                                   |
| 22 firms (100-300 employees)    | 77                          | 22                                   |
| 8 firms (25-75 employees)       | 88                          | 41                                   |

For a more complete explanation of the methods used and meaning of terms, see *ibid.*, pp. 77-78.

machine design and production standards, or accountants' opinions on cost accounting procedures, but assume that they themselves are competent to judge human relations or industrial relations questions.

The legal, financial, and engineering approaches may conflict with the industrial relations approach to satisfactory and efficient operations. In labor relations, the lawyer often favors a legal point of view—arm's length dealing, carefully constructed agreements in proper legal terminology, strict conformance to the minimum requirements of the law, and legal enforcement of rights. With respect to personnel programs, the financier-accountant may take a short-run, dollar-and-cents attitude, thinking of labor largely in narrow, commodity terms. The industrial engineer usually insists on the absolute correctness of his production standards, his evaluation of jobs, and his incentive-wage arrangements, regardless of any adverse effects on employee morale. Because of employee psychology, the technically most efficient methods for performing work may not actually result in greatest production at lowest cost.

For its convenience and peace of mind, top management seeks and needs definite rules and policies that can be applied objectively and uniformly, that will provide answers to questions at the lower levels of management and keep subordinates all "singing the same tune." Usually it is easier for the legal, engineering, and finance-accounting staffs to supply such policies and standards than it is for the industrial relations expert. His duties range from minor job grievances to the effective human organization of the large company, beset by centrifugal forces which the devices of contract, time study, and financial incentive cannot overcome.

## THE INDUSTRIAL RELATIONS FUNCTION

The need for personnel administration or industrial relations departments within business management grows out of the employment relationship and the fact that workers, managers, and owners of enterprises do not have identical interests and goals. The long chain of command and impersonal relationships that tend to be characteristic of large-scale enterprise serve to accentuate the problem of management in governing workers as members of an organization that does not have as its primary purpose their welfare.

**Philosophy and purposes.** The function of personnel or industrial relations activities is to minimize human difficulties and cleavages at all levels of the firm, so that the workforce will cooperate to achieve the goals of the enterprise. Since groups in the firm do not have identical interests and since employee welfare does not enjoy top priority among company objectives, complete integration is utopian. (Parenthetically, absolute collaboration or unquestioning loyalty throughout industry would be dangerous in a democracy, which needs the safeguards and balance that pluralism affords.) The only prac-

tical goal, in a world of diverse interests and loyalties, is effective accommodation, the development of satisfactory relations and teamwork among those in the enterprise.

An employee relations program deals with the psychological and social aspects of work—individual and group needs in the plant. It is designed to reduce frictions and misunderstandings, to improve worker satisfaction and morale, and to demonstrate management's interest in employees' welfare. The justification for personnel activities is that they pay off in the long run in terms of more efficient operations. A personnel program should, of course, be tailored to fit the requirements of the particular firm, including the nature of the work and the character of the workforce. In most situations, continued cooperation must be based on persuasion and good-will rather than threats and fear. That explains recent emphasis in personnel administration upon improving the employee's understanding of his contribution and of the reasons for management policies and decisions, upon reducing employee uncertainty and fear by advance information concerning prospective changes and by employee benefit plans for such risks as sickness or death, and upon increasing job satisfaction by getting employee viewpoints and participation through management consultation with the workers. In short, personnel programs attempt to meet the job desires and dissatisfactions discussed in Chapter 2, and must be justified on the grounds that they ultimately save money through increased production and lower costs per unit of output.

Effective human organization includes all aspects of the development and utilization of the firm's workforce. Consequently, personnel management is concerned with employee selection, training, promotion, discipline, health and safety, and employment stabilization, as well as wage and salary administration, work rules, plant grievances, employee publications, employee benefits, company recreational activities, and union relations. The personnel department may itself be in charge of some of these activities, such as employee magazines and recreational programs. Generally, however, the industrial relations expert, as a staff consultant to operating executives, is principally engaged in developing plans, making surveys, suggesting policies, and expressing the human viewpoint, rather than engaging in actual line operations or union negotiations.

**Effects of unions on personnel management.** Widespread unionization and collective bargaining have resulted in significant changes within business management.<sup>9</sup> They have tended to raise both the level at which employee policies are finally decided and the status of the industrial relations specialist in the management group. Dealing with a union has necessitated that manage-

<sup>9</sup> This paragraph draws heavily on Helen Baker, *Management Procedures in the Determination of Industrial Relations Policies*, Industrial Relations Section, Princeton University, 1948.

ment clarify and standardize employee policies and practices throughout the firm in order to maintain consistency and prevent "whipsawing." Existence of a union requires internal communication and records systems that will provide reliable information, so that management actions are based on accurate data that cannot be refuted in grievance cases or in negotiations. The rise in the level of policy determination, and the need for uniformity in policy application to avoid inconsistencies, have fostered greater central control of personnel and labor relations matters. Such centralization of control has often tended to reduce participation of middle and lower levels of management in the formulation and administration of company labor policies.

The marked changes that unionism has caused in industrial management are reflected in the reduced responsibility and authority of the foreman or gang boss. In many large companies he no longer has the power to hire or fire workers under his supervision or to settle employee grievances that arise in his jurisdiction. The union steward in the same shop may seem to have more authority or decision-making power than the foreman. Many companies are troubled by the problem of how to maintain both company-wide uniformity in personnel policies and participation in industrial relations decisions by first-line management.

The types of labor policy that firms follow and the effects of unions on specific policies of management are considered in the next chapter.

## CHAPTER ELEVEN

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### MANAGEMENT'S LABOR POLICIES

The labor policies of business management stem from its objectives. Some managements seek to prevent unionization and are willing to pay a high price in order to maintain unilateral control of labor matters. For firms already organized that, however, is no longer a feasible goal. Managements in unionized plants must decide which policies are preferable in dealing with the union—which ones promise the lowest unit costs, the least inconvenience to management, the desired worker morale and community attitudes.

For large concerns the human relations problem is particularly serious. Top management is remote; the firm is impersonal and even incomprehensible to the specialized manual employee; and his work may seem to differ little from that of a machine. To gain his willing cooperation and some measure of loyalty to the company, the management must develop the notion that it is concerned with human problems in the plant, that it gives workers fair and decent treatment, and that it is interested in their personal welfare. Those aims may be achieved by explaining management policies and decisions to employees, stressing mutual interests, assuring proper placement and adjustment of men in jobs, eliminating causes of misunderstanding and resentment, and emphasizing individual treatment rather than mass or wholesale methods of dealing with workers.

The job of personnel management in modern industry is to make top and line management aware of the human aspects of their actions so that management will be more successful in achieving the firm's objectives. Because management in large corporations tends to be specialized and often unaware of worker viewpoints, it is the function of the industrial relations department to see that management planning and activities take proper account of the individual and group needs of workers. That is a broad assignment, covering all aspects of employment and development of human resources in the company. It means that the personnel specialist is really a practitioner of industrial psychology who must understand the attitudes and motives of workers and appreciate their personal and social needs in the total work situation. Always in presenting employee viewpoints he does so, of course, in terms of the company's own good, the achievement of its goals.

In practicing the art of industrial psychology, some companies seek to establish and maintain a leadership position not only in product markets but also in industrial relations. The management strives to give employees the impression that the company will be in the forefront in taking action for their welfare. The individual firm trades on the differential advantages that its employees enjoy above the average for the industry or community. In the past such companies as Standard Oil of New Jersey, International Harvester, du Pont, and Forstmann Woolen, have sought thus to distinguish and differentiate themselves in order to gain in terms of employee morale and efficiency. Of course, not all firms can be above the average; it is a case where some can follow a policy that all cannot pursue at the same time.

One psychological danger that sophisticated personnel administration seeks to avoid is paternalism. Certain companies have at times tried to do too much for workers, attempting to manage their social and recreational activities as well as their industrial lives. The unfavorable employee response comes as a sudden shock to a management that failed to realize that educated workers resent being treated as children for whom a father company provides all the answers. Workers wish to do things for themselves and to gain the credit and social prestige derived from accomplishment.

### TYPES OF POLICY TOWARD UNIONS

A company's labor policies are influenced by many factors, including the past history of the concern, the age and experience of top management, the geographic location and industrial affiliations of the firm, the locus of policy control, and the character of the unions with which it deals. As the period of union dealings lengthens and men too young to have participated in the early conflicts are promoted to top positions, a management's policies tend to shift from hostility to accommodation. However, there is no pattern of inevitable evolution. A management may revert to arm's length dealing with the union after a period of limited cooperation. However, some consistency of policy is desirable at critical times, for strikes have been started and prolonged because one side misunderstood or misjudged the position and policies of the other.

The varied management positions and policies can be classified in different ways. For purposes of explanation, four types will be distinguished. They do not, of course, include all the possibilities, and as abstractions they neglect gradations of difference between firms and even within them, for some foremen may fail to change their attitude toward the union as rapidly as top management shifts its position.

The first type of policy is that of union exclusion. Management seeks by various means to discourage organization among its employees. With the sweep

of unionization in the 1930's and early 1940's, the non-union plants in manufacturing are confined mainly to the South, to areas outside cities, and to a few large firms that have, since the 1920's, practiced good personnel policies and have been among the leaders in industrial relations in their industries.

After being forced to recognize the union, a management may pursue a policy of containment. The union is considered an alien or outside agency, with whom the company deals "at arm's length" only because it is required to do so by law. Management's position is legalistic. In negotiations or grievance cases, it holds to the precise limits of legal obligation, insists on strict construction and disciplined observance of the carefully drafted provisions of the agreement, and attempts to confine the scope of collective bargaining as severely as possible. Through direct communication with the employees, the management may seek to circumvent and undermine the union, carrying on a contest with it for the loyalty of the employees. Such a policy, of course, threatens the union's security and encourages a militant reaction.

A third type of policy is that of acceptance and accommodation. Instead of threatening its security, the management endeavors to live with the union and to make collective bargaining a constructive force. The union is used as a two-way channel of communication, for educating workers in management's problems and for improving management's understanding of workers' problems and viewpoints. Instead of standing on "principles" and legalisms, management stresses problems and seeks the aid of the union in speedy settlement of grievances, in joint safety programs, and perhaps in joint time study or job evaluation.

Union-management cooperation is the fourth type. Joint cooperation is extended to include improving production and cutting costs, with workers sharing in the gains by such means as steadier employment, larger earnings, better working conditions, and bonuses. Labor cooperation to enhance productive efficiency does not mean that the union ceases to be a bargaining agent and becomes a part of management. Rather it rests on a recognition that interests, though not identical, are interdependent and that both parties can gain from full sharing of information and unrestricted participation in solving production problems. Cases of such complete cooperation are relatively rare, consisting chiefly of small concerns whose continued existence was threatened by competition so that management adopted such a cooperative program as a necessity. Union-management cooperation is discussed more fully in Chapter 13.

The policy of the company toward unions is part of the general framework within which the personnel manager operates. Inside such limits, he can, of course, influence management practices and attitudes. In the course of time he may even help to alter the company's type of labor policy.

## PROTECTION OF MANAGEMENT FUNCTIONS

Management often takes a restrictive position in collective bargaining because of a fear that expansion of union influence and control threatens to undermine management authority, to hamper management with circumscribing restrictions, and to prevent efficient operation of the enterprise. The management-regulating provisions of agreements reduce the area of management discretion and unilateral control. Some clauses, including the grievance procedure, curtail the authority and disciplinary powers of the foreman. Seniority and other union policies tend to reduce the effectiveness of management's incentives for stimulating workers on the job. Provisions of agreements may also hamper or delay management in making technological improvements and eliminating obsolete practices.

In an attempt to protect themselves from embarrassing restrictions and delays, some managements have insisted that a "management prerogatives" clause be included in the forepart of the agreement. Such a clause may specify that management has exclusive or absolute right to decide the locations of plants, the products to be manufactured, and the materials and equipment to be used. In addition, it may state that, subject to qualifications contained in subsequent provisions of the agreement, the management has the right to schedule and assign work, hire and promote employees, discipline and lay off employees, and enforce rules governing personal conduct in the plant. Subsequent provisions of the agreement or legal obligations to bargain may, however, render such "management prerogatives" clauses largely ineffective.

A conflict may seem to exist between the management's security (maintenance of the company's integrity and unified authority) and the union's program of protecting members from arbitrary actions and of regulating management in the interest of the workers. That, however, need not be the case. Normally agreements permit management the "administrative initiative," <sup>1</sup> the right to make and introduce immediate decisions, so that operations are not stymied by union opposition. Some labor contracts do, in one or more respects, restrict action until "mutual agreement" is reached. For the most part, however, such hamstringing provisions have been eliminated by substituting arrangements under the grievance procedure that permit the union to protest management action, to appeal management decisions to arbitration if necessary, and to obtain retroactive compensation or adjustment in case the action was unwarranted under the agreement. The important thing is that management is free to make the change on a temporary basis while the issue is being reviewed and settled. Should a provision of the agreement itself be unduly restrictive, correction can be sought at the next negotiations.

<sup>1</sup> For a discussion of this concept as it applies in the hosiery industry, see Thomas Kennedy, *Effective Labor Arbitration*, University of Pennsylvania Press, Philadelphia, 1948, pp. 97-111.

Unions do not normally desire to "take over" the functions of management in the sense of directing or operating the enterprise. As a protest or opposition organization, it would be suicidal for union leaders to assume responsibility for setting workers' wages, hours, and working conditions. The union would lose its separate identity and the ability to serve as a bargaining agency.<sup>2</sup> In bargaining, labor representatives are, however, prone to insist that management must prove their demands unjustified or that the company demonstrate it cannot stand a wage increase. Hence the demand to see the company's "books" or criticisms of the management's competency. Such complaints are understandable. Labor also pays for the mistakes of management; employees have a stake in the enterprise and, therefore, an interest in its success. By putting the blame on management in negotiations, union officials may demonstrate their leadership abilities and gain support and prestige among the rank and file. But union tactics should be evaluated as such. Although they may injure the feelings and respect of management, they do not represent a desire on the part of labor leaders to take part in the management of the enterprise themselves.<sup>3</sup>

Fear of the ultimate consequences of expanding union control and power lies behind the management demand for limits on the scope of collective bargaining. Unions challenge management's right to govern in industry in ways that could undermine its position in the plant. To unions, collective bargaining is an all-purpose tool, with no recognized limits to its application. The subjects and area of collective bargaining have been expanding, along with the increasing economic and political power of organized labor. Unions have an interest in the whole industry; their national viewpoint may neglect the firm's more specialized interests. At times, the Steelworkers and Automobile Workers have sought to influence the pricing of the products of those industries, the Mine Workers have tried to control the industry's output, and the Ladies' Garment Workers have helped to regulate the marketing of women's clothing.

Most American unions profess no long-run objectives. Their policies and programs have been pragmatic. Even left-wing leaders of unions, including followers of the Communist Party line, have evidenced no special desires to "capture," via collective agreements, the management of industry, to move into the driver's seat of business enterprise. The CIO has, however, repeatedly gone on record in convention resolutions as favoring nationwide industrial planning

<sup>2</sup> Failure to recognize the essential characteristics of unions is the weakness in Neil W. Chamberlain's proposal of "functional integration," under which union officials would "become part of the line of authority" in the company. See his *The Union Challenge to Management Control*, Harper, New York, 1948, especially p. 230.

<sup>3</sup> For a survey of labor attitudes indicating that typically labor representatives do not want any share in management, see Leo C. Brown, "The Shifting Distribution of the Rights to Manage," *Proceedings of the First Annual Meeting of the Industrial Relations Research Association*, December, 1948, edited by Milton Derber, 1949, pp. 132-44.

under a system of Industry Councils. For each basic industry there would be a council composed of labor, management, consumer, and government representatives, and one overall national board with general representation from the same groups plus the farmers. The Industry "Councils" should extend through the entire industrial structure, functioning at all levels, national, regional, local, and in the individual factory and mill."<sup>4</sup> According to CIO statements, the Councils would decide for each industry such matters as production levels, investment levels, nature and quality of product, employment levels, mechanization and technological change, price ceilings, minimum wages, hours of work, the policies of American corporations abroad, plant size and location, and labor-management relations.<sup>5</sup> Any such system involving labor and government control over an industry's production, investment, employment, and prices would seem to American management to be industrial syndicalism or the corporate state.<sup>6</sup> Although fathered by Philip Murray in 1940 and proposed for the steel and automobile industries during World War II, the Industry Council Plan has, so to speak, remained on the reserve shelf during recent years.

### TECHNIQUES OF PERSONNEL ADMINISTRATION

As the scope of collective bargaining has expanded, more and more of the services that personnel administration performs have become subject to negotiation and the provisions of collective agreements. That has meant adjustments in personnel policies and their application rather than a reduction in the volume of activities of industrial relations departments. Some unit must still formulate policies, develop procedures, and perform personnel services for the company. In the meantime, the psychological tools and insights that can be applied by personnel administrators have been improving.

Important areas of personnel management will be considered briefly, along with an explanation of union influences and the techniques used. The next section contains a rather extended treatment of company wage policies and of profit sharing and employee stock ownership.

a. SELECTION AND PLACEMENT. Centralized hiring facilitates the use of uniform methods and avoids the embarrassment of concurrent lay-offs and hires of the same type of labor. In selecting new production employees, management seeks not only certain skills, intelligence, education, experience, and physical abilities, but also less measurable characteristics such as character,

<sup>4</sup> Quoted from a resolution passed at the 1949 CIO convention. See *Proceedings of the Eleventh Constitutional Convention of the Congress of Industrial Organizations*, October, 1949, p. 412.

<sup>5</sup> See *ibid.*, pp. 415-16. For an early discussion of the Industry Council Plan see Clinton S. Golden and Harold J. Ruttenberg, *The Dynamics of Industrial Democracy*, Harper, New York, 1942, Chapter 11 and Appendix.

<sup>6</sup> See the remarks of Carroll E. French on this subject in the *Proceedings of the First Annual Meeting of the Industrial Relations Research Association*, pp. 156-59.

personality, and social adaptability to the company's existing workforce.<sup>7</sup> As indicated in Chapter 3, managements prefer "the kind of man who will fit into our organization," who will become an accepted member of the work group. For psychological traits, reliance generally is placed on interviews and references rather than on formal psychological tests. A fairly high proportion of employers use physical and medical examinations and some use aptitude and performance tests.<sup>8</sup> In the absence of a union-shop agreement or hiring through a union employment center, a labor organization may scrutinize and protest methods of selection that seem to it to be anti-union. A careful analysis of the requirements of particular jobs aids in proper selection and placement. Workers are more satisfied with their work if placed on jobs for which they are suited.

b. EMPLOYEE RATING AND PROMOTION. Many managements carry on a program of systematic rating of employee performance by their supervisors. The advantages of such periodic "merit rating" of production workers are that it enables management to be more objective in judgments, it provides a record of progress and deficiencies so that workers know where they stand, and it may serve as a stimulus to improvement and greater work efficiency. With a rating record that has been reviewed with the employee, management has factual support for decisions with respect to discharge, lay-off, transfer, or promotion, where seniority is qualified by ability and performance.

Unions generally object to merit rating and prefer automatic increases according to length of service. Organized labor criticizes employee rating schemes, because they may create disrupting rivalry within work groups and because they are essentially subjective and therefore open to bias. The "performance factors" or traits on which employees are evaluated on the chart may number as high as eight or a dozen. In addition to quantity and quality of output and attendance, they may include such impressionistic items as cooperation, dependability, initiative, judgment, personality, versatility, and leadership. Although rating systems may be helpful to management in justifying lay-offs or promotions out of order of seniority, most unionized companies follow seniority in lay-off and in perhaps as high as nine-tenths of the promotions to non-supervisory jobs.<sup>9</sup> In promotion to the position of foreman,

<sup>7</sup> See E. William Noland and E. Wight Bakke, *Workers Wanted, A Study of Employers' Hiring Policies, Preferences, and Practices in New Haven and Charlotte*, Harper, New York, 1949, pp. 7-11. See also Alexander R. Heron, *Beyond Collective Bargaining*, Stanford University Press, Stanford University, 1948, Chapters 10 and 11.

<sup>8</sup> *Ibid.*, pp. 95-103. For a discussion of various types of employment tests, see Joseph Tiffin, *Industrial Psychology*, Prentice-Hall, New York, second edition, 1947, Chapters 3 to 7.

<sup>9</sup> For example, in the Crown Zellerbach Corporation where the agreement provides for promotion according to seniority "other things being equal," the company is reported to make over 95 per cent of the promotions in accordance with seniority. See Clark Kerr and Roger Randall, *Crown Zellerbach and the Pacific Coast Pulp and Paper Industry*, Case Study No. 1, National Planning Association, Washington, September, 1948, p. 24. Similar conditions exist at the Libbey-Owens-Ford Glass Company.

ability in human relations and leadership are important qualifications, both for employee satisfaction and for effective dealing with shop grievances. Emphasis on such qualities has resulted in some companies in the recruitment of a significant proportion of the foremen and supervisors from employees who were former officials of the local union.<sup>10</sup>

c. TRAINING AND INDOCTRINATION. Programs of induction, training, and economic education aim to develop a constructive attitude on the part of the employee toward his job and the company. Orienting new employees so that they know the company organization and policies and instructing them in the performance of their jobs, eases the initial strain and makes them feel more "at home." On-the-job and off-the-job training are designed to make the worker more proficient and may include broad information so that the worker understands the significance of his task, its relationships to other jobs, and the company's production program. Preparatory training should be closely tied up with promotion.

The training of foremen may include instruction in all kinds of techniques—employee rating, job evaluation, time study, and wage administration—as well as human relations, job relations, the handling of grievances, and the provisions of the agreement. As the foreman's job has become more complex and technical, more preparation is required.

Some companies give employees simple courses in business economics. Such programs of employee indoctrination may not be too successful with manual workers who lack the managerial interest and experience on which to build. Workers have their own distinct beliefs, values, needs, and goals, which need to be recognized in management programs.

d. ATTITUDE SURVEYS, INTERVIEWING, AND COUNSELING. Opinion polls or questionnaires, exit and undirected interviews, and employee counseling may be used to keep management informed of workers' morale and thinking, to discover sources of employee unrest and misunderstanding, and to reduce personal tensions and dissatisfaction. Attitude surveys can be used to check on the success of company programs and policies and, by revealing causes of employee irritation and difficulty, can aid in planning the future activities of the industrial relations department. Interviews at the time a worker quits the company or some weeks later may reveal deficiencies that need to be remedied to improve worker morale and efficiency. Unguided interviews and specialized counseling services enable the employees, often women, to talk over personal problems with someone besides their immediate supervisor. In addition to providing information to management, counseling may help to solve employee problems and serve as a form of psychotherapy.

<sup>10</sup> See, for example, the discussion of the Brown Instrument Company in R. A. Lester and E. A. Robie, *Constructive Labor Relations*, Industrial Relations Section, Princeton University, 1948, p. 48.

Unions may consider worker counseling to be part of their function, and they may object to direct discussion of employee grievances with management, preferring to have the worker take them up with and through the union.

e. CONSULTATION AND SUGGESTION SYSTEMS. To provide employees with a sense of participation in solving production problems and to afford them a channel through which to submit constructive ideas, management may follow the practice of consulting with workers about their jobs or may have a formal suggestion system. Under the latter, employee suggestions for improving production methods and cutting costs are submitted in writing, are reviewed, and, if used, are rewarded by extra compensation. If employees are really stimulated to make suggestions either informally or formally the result may be improved morale and efficiency. Much depends on the spirit with which foremen invite and accept consultation and on the administration of the suggestion system. Many go to seed rapidly.

f. COMMUNICATIONS. Top management needs to keep lower level supervision and workers informed if the firm is to operate as an integrated organization. By freely sharing information, the management takes the employees into its confidence, prepares them for changes, avoids the spread of misunderstanding and rumors, and makes them more intelligent on the problems and policies of the enterprise. By such means as dramatizing the uses of its products and customer reactions, non-financial incentives to high output can be utilized. Providing early and accurate information to line management for transmission to employees also helps to develop the prestige of the foreman.

Management controlled channels for disseminating information to production workers include employee handbooks, employee magazines or newspapers, letters from top officials, in-plant public address systems, bulletin boards, talks to assembled groups, and supervision's conversations with employees. The company may also use the union as a channel of communication. Some of the advantages of doing so are that workers are more ready to receive and believe information from union sources, the company thereby demonstrates that it is not trying to undermine the union by driving a wedge between it and the employees, the union cooperates with management in the constructive building of better understanding, and union spokesmen can provide a gauge of employee reaction to management's informational efforts.<sup>11</sup> Attempts by management to circumvent the union and deny it information may arouse a suspicion among employees that the management's material will not bear examination and may stimulate the union to compete with management in supplying employees with information about company affairs.

Studies indicate that, where good labor relations prevail, workers prefer to

<sup>11</sup> For a discussion of the use of unions in management informational activities, see Alexander R. Heron, *Sharing Information with Employees*, Stanford University Press, 1942, Chapter 21, and *Beyond Collective Bargaining*, Stanford University Press, 1948, Chapter 14.

receive much information either jointly presented or at least approved by both parties. That seems to represent a desire to reduce duplication and confusion and to reconcile employees' dual loyalty to the company and the union, and not a wish to have the union assimilated into a single channel of communication with management in a way that would jeopardize the union's independence or collective bargaining.<sup>12</sup>

g. EMPLOYMENT PLANNING. Advance information and advance planning to minimize lay-offs increase employment security. Personnel management may help to arrange the transfer of employees displaced by labor-saving equipment, so that they suffer no loss of employment or earnings. Firms with seasonal or intermittent dips in sales may regularize their employment by changing customers' buying habits or by producing for inventory in off seasons. Such methods, of course, apply better to standard items than to those subject to model or fashion changes. The difficulty of stabilizing operations in industries sensitive to swings in the business cycle was indicated in the discussion of guaranteed employment and wages in Chapter 8.

h. BENEFIT PROGRAMS. Companies may contribute all or part of the cost of a company pension plan, group life insurance for employees, insurance against wage loss from sickness, and insurance against the costs of hospitalization and medical care. Up to a certain point such costs may be supported on the grounds that they pay for themselves by offsetting savings in labor cost. It is claimed that such programs reduce labor turnover, attract a desirable grade of labor, eliminate causes of employee unrest, improve employee morale and contentment, and help to create a greater area of identity of interest between management and the employees. A pension plan permits the company to retire elderly workers without adverse publicity when they become a liability to the company. In addition to being "good public relations," benefit plans have served to discourage unionization or strikes that might jeopardize eligibility for benefits. That is one of the reasons that unions have sought to convert unilateral company plans into negotiated plans embodied in a collective agreement.

i. RECREATION AND INFORMAL GROUP ACTIVITY. Sport teams, picnics, clubs, "open house" days, and other social activities serve to increase the identification of the employee and his family with the company and to blur lines of authority by mixing manual workers and management for common purposes. Social and recreational activities may help to dissipate antagonisms and frustrations on the job.

✓ Viewed broadly these nine areas of personnel activity may be seen to rest on modern psychology. The techniques used are aimed at reducing employee

<sup>12</sup> See Helen Baker and John M. True, *Transmitting Information through Management and Union Channels, Two Case Studies*, Industrial Relations Section, Princeton University, 1949.

frustration and tensions, building up confidence in the management, developing good employee morale and good-will toward the firm, and reducing the conflicts of interest between groups that threaten disintegration of the enterprise.

## COMPANY WAGE POLICIES AND PROFIT SHARING

Industrial relations programs need to be tailor-made to fit local conditions. Often a plan that works well in one plant or set of circumstances proves inappropriate and unsuccessful in other plants and circumstances. That is likely to be true of company wage policies and of profit-sharing schemes, which are discussed in this section.

**Company wage policies.**<sup>13</sup> Factors influencing a firm's wage policies under non-union conditions were outlined in Chapter 4 in connection with the discussion of local wage diversity. The discussion here will include consideration of the effects of union policies upon company wage programs and patterns.

Employer wage policies and practices are much more human and diverse than conventional economic theory postulates. Divergent views arise from differences in experience and objectives. And multiple purposes, which can at times conflict, may make it extremely difficult for a company to pursue consistently a single wage principle or criterion.

a. AIMS. Among the wage objectives expressed by different managements are: (1) maintain or achieve wage leadership for the firm, (2) preserve or enhance its prestige, (3) comply with community or industry patterns, (4) conform to ethical notions of fairness, (5) achieve employee contentment and good morale, (6) influence the quality of the company's labor supply, and (7) achieve company-wide uniformity.

Some companies seek to be wage leaders in their industry. As one management expressed it, "The Company has been a leader and the respectable elements in the industry look to it to set wage policy and patterns." Paying relatively high wage scales and being among the first to make wage increases may give the company such advantages as avoidance of labor organization, improved employee morale, better labor relations, lower labor turnover, and a high-quality labor force. However, a number of firms that formerly used to pay wages above the general industry level and were wage leaders believe that unionism has eliminated most of the advantages of such a policy. Such firms have become convinced that, with labor unions in their plants, the differential benefits of wage leadership tend to disappear and a leadership policy carries with it the risk that the union will contest each new demand with such a leader first in order to use it as a pattern-setter for the industry.

<sup>13</sup> This subsection draws heavily on the author's report, *Company Wage Policy*, Industrial Relations Section, Princeton University, 1948.

Closely related to the leadership objective is the use of wage policy for the purpose of preserving and enhancing the company's prestige. The management may desire to enjoy respect in the community, to be regarded as a "progressive" concern. Hence it will seek to maintain wage parity with other "outstanding" or "respected" employers. Although this prestige objective is frequently supported by reference to labor supply and morale, some managements seem to consider it (and also ethical notions and employee contentment) an additional, semi-independent influence.

Compliance with the wage scales generally paid in the locality or the industry is the most common practice. In well-defined industries like oil, automobile assembly, airframe manufacture, basic steel, rubber tires, meatpacking, glass, marine transportation, and railroads, the practice is to follow the industry pattern. Otherwise companies orient plant wage scales to prevailing levels in the community. Conformity with community or industry scales has the following advantages: management has something definite to tie to; it is certain not to be at a competitive wage disadvantage compared with most other firms; it does not irritate or antagonize other companies in the locality by upsetting community rates; such a policy is generally considered "fair"; and it provides a good defense in union negotiations. In short, the policy of not getting out of line is "safe" and raises fewer questions or difficulties. Nevertheless most companies find it impossible to adhere persistently or consistently to prevailing market rates as a wage criterion, because other considerations affect management's wage decisions, such as wage leadership, company-wide uniformity, conformity to job evaluation, special recruitment needs, or ethical concepts.

Managements as well as workers have notions about fair and equitable wages. That explains why cost of living plays a role in the determination of wage scales. Some firms have indicated that it is part of "management's social responsibility" to compensate employees fairly so that they may enjoy "a decent and secure living"; industrial executives have stated that they would prefer "to discontinue a business rather than ask employees to accept substandard wages."<sup>14</sup> Professor W. Rupert Maclaurin found from a study of wages and profits in 95 pulp and paper companies between 1929 and 1939 that some companies refused to reduce wage scales during depression years, even at the expense of marked reduction in their surplus from previous earnings, apparently because of "a considerable sense of responsibility toward the community and a realization of what wage cuts would mean."<sup>15</sup>

In a study of the wage policies of some one hundred firms, two-fifths mentioned the intangible factor of employee "morale," "satisfaction," "loyalty,"

<sup>14</sup> See *ibid.*, pp. 28-29 and 32.

<sup>15</sup> W. Rupert Maclaurin, "Wages and Profits in the Paper Industry," *Quarterly Journal of Economics*, Vol. LVIII (February, 1944), p. 208.

or "cooperation," among the principal objectives of company wage policy.<sup>16</sup> Those managements expressed a desire "to maintain a high standard of employee cooperation and morale," "to take account of employee feeling which we carefully check on," and "to keep our employees content and able to enjoy a decent standard of living."<sup>17</sup> Both for ease of management and for their own psychological well-being, executives may wish to supervise satisfied employees. From his study of the paper industry in the 1930's Professor MacLaurin found that "In many cases the maintenance of a contented working force appeared to be an objective in itself, regardless of whether it might also maximize profits," and that "The small companies, in which the top officers were close to the workers, tended to be slower in cutting wages than the large companies."<sup>18</sup> Such evidence concerning wage policy confirms statements in the preceding chapter and in Chapter 2 regarding the multiple motives of business management.

One purpose in company wage programs is, of course, to influence its labor supply, to obtain and retain qualified employees. Managements, however, recognize that wages are only one factor, and perhaps not the most important one, influencing the quality of job applicants and labor turnover. Executives in a number of high-wage firms have expressed the opinion that, with unionization, wages above the general industry or community level are not necessary for recruiting the quality of labor they have been obtaining when pursuing such a policy.<sup>19</sup>

Some multi-plant firms desire company-wide uniformity in wage scales and in wage changes for such reasons as the transfer of personnel between plants, the maintenance of uniform job evaluation standards, company-wide negotiations with a single union, and the notion that it is only fair to pay identical rates for identical jobs in the same company. Company-wide uniformity for such firms tends to conflict with the principle of paying according to community levels. Uniform wage scales regardless of plant location are characteristic of such industries as glass, pottery, aircraft, and steel. Some multi-plant firms, operating in a number of well-defined industries, have found it necessary to have a separate wage policy for each industry.

b. **TECHNIQUES.** Use of periodic wage surveys as a basis for establishing and adjusting wage scales is a widespread company practice. Many companies make their own surveys; others utilize wage surveys compiled by other companies (General Electric or the Telephone Company) or by employer organizations such as trade associations, chambers of commerce, or special industrial relations groups. During the past two decades, interchange of wage information has greatly increased both within industries (such as pulp and

<sup>16</sup> R. A. Lester, *Company Wage Policy*, Princeton University, 1948 p. 31.

<sup>17</sup> Lester, *op. cit.*, p. 29.

<sup>18</sup> MacLaurin, *op. cit.*, p. 226.

<sup>19</sup> Lester, *op. cit.*, p. 36.

paper, cotton textiles, and machine tools) and among local firms in many cities (such as Chicago, Cleveland, Philadelphia, and Bridgeport). Up-to-date wage information aids management in negotiating on union requests for wage increases, facilitates the operation of a policy of wage leadership, is basic for a policy of adjusting company scales to prevailing levels, and is helpful in establishing and administering job evaluation.

Many companies dealing with the same union or operating in the same industry cooperate informally in making wage changes. In the past, oil companies have tended to arrange the announcement of wage increases on the same day. Two companies, which control over three-fourths of the output in their line of production and which deal with more than half a dozen unions, have at times agreed in advance on the maximum increase that would be granted in any one of their numerous plants scattered all over the country. Collective bargaining seems to have greatly stimulated such company cooperation.

As indicated in Chapter 9, industrial management has adopted job evaluation widely in order to have a definite and orderly means for determining occupational differentials.<sup>20</sup> The tendency for union wage policies to be influenced by political considerations and for unions to use piecemeal increases as leverage has stimulated management to adopt job evaluation as a guide in negotiations and in settling wage grievances.

Wage incentive systems may have a number of advantages to management. Under successful operation, they lower overhead costs per unit of output, avoid the need for close supervision of workers, reward individual merit, increase workers' earnings, and afford more adequate labor cost data for prediction and cost control. Their success, however, depends on employee cooperation. If worker reaction is unfavorable, either individual or group incentives will fail to stimulate a high level of output. The views and criticisms of unorganized labor and unions regarding wage incentives were explained in Chapter 9. Because of differences in experience and labor relations history, the same incentive system may work successfully in one plant and be a failure under identical physical conditions elsewhere.

c. UNION INFLUENCES. Increased labor organization during the 1930's and 1940's has caused many companies to adopt clear definitions and consistent applications of policies and has led some to abandon the policy of seeking to pay rates above community or industry levels or of attempting to lead in general wage increases. Unions have stimulated greater use of wage surveys, more

<sup>20</sup> How widely formal or systematic job evaluation is employed is unknown. A study of wage structures by the U. S. Bureau of Labor Statistics revealed that three out of four manufacturing establishments in 1945-46 had formal or stipulated occupational rates in contrast to personal rates. Among the plants with formal rate structures, three-fifths had single rates and two-fifths had rate ranges. See "Manufacturing Industries: Wage Rate Structure, 1945-46," *Monthly Labor Review*, Vol. LXVI (March, 1948), pp. 281-82.

uniform company-wide increases (which apparently is now the practice in a majority of the multi-plant firms), and a tendency toward industry orientation of company wage policy. Some managements state that under union organization they can have no single policy on wages, that they frankly follow a program of opportunism and strategy to counter union moves.

**Profit sharing.**<sup>21</sup> The urge to find some "solution" to labor-management conflict often leads to proposals for some sort of profit sharing or employee ownership of shares of the company's stock. By such means it is hoped to develop a greater identity of interest between managers and managed and to make the latter business-minded. Because their success or failure largely rests on employee response, these two types of programs for wage-earners need to be examined from the workers' viewpoint. Often attempts to make manual workers think like management by having them assume additional risks have had unfavorable results.

Profit sharing strictly defined is a plan whereby the employees receive a proportion of the company's net earnings during a specified period, the proportion to be fixed in advance. In other words, the sum that the employees receive under the plan is definitely related to total profits and is usually a pre-determined percentage of company earnings after specified deductions. Two questions that may arise from this definition are: Should employees have access to the company's books to consider the correctness of deductions for depreciation, contingency reserves, interest and financing charges, and so forth? What logic can be used for determining the exact percentage of total profits that wage-earners share? The first question seldom arises publicly because profit sharing has generally been installed unilaterally by management, which has been free to change or discontinue the plan at any time. Logic unfortunately can supply no answer to the second question.

a. ALLEGED ADVANTAGES. Management's purposes in instituting profit sharing are many and vary from company to company. They include: to improve employee morale and efficiency in order to increase production, to improve employee relations, to avoid labor organization, to prevent strikes, to increase the common interests of management and labor, to make employees profit-minded and pro-capitalism, to encourage employee savings, and to have part of labor's compensation flexible in order to avoid raising basic wages in prosperous times to levels that cannot be sustained in depressions.

b. EXPERIENCE. Profit sharing seems to work better for executives than for wage-earners. Despite experience for three-quarters of a century in this country and over a century in Great Britain, such programs now cover only

<sup>21</sup> For this subsection, use has been made of Bryce M. Stewart and Walter J. Couper, *Profit Sharing and Stock Ownership for Wage Earners and Executives*, Industrial Relations Counselors, Inc., 1945; and Kenneth M. Thompson, *Profit Sharing, Democratic Capitalism in American Industry*, Harper, New York, 1949.

an insignificant proportion of all production employees—apparently less than 1 per cent.

Their mortality rate has been high. They spring up in prosperity only to die in depression. Of the 193 American plans and the 679 British plans known to have been established during the hundred years prior to 1936, 60 per cent in each country had been discontinued by that year.<sup>22</sup> Of 51 plans covering all employees that were started between 1935 and 1944, as many as ten had already been dropped by the beginning of 1945.<sup>23</sup>

The chief reasons for abandonment of profit-sharing plans have been: (1) unfavorable reaction of employees, (2) management dissatisfaction with the results, and (3) union opposition. In many cases, profit-sharing arrangements failed to cause any appreciable increase in worker incentive or interest in output. Company profits are largely determined by factors outside the control of the individual worker—markets, management, advertising, etc. Workers could not relate their efforts or loyalty to changes in the firm's total profits. Some workers resented the uncertainty and reductions in their incomes with wide fluctuations in the company's net income. It seemed to offend the principle that workers should receive a certain price for their services and not be put in a position of obligation or gratitude to a paternalistic management for a fluctuating income. Some felt that they were assuming extra risks, without any control through participation in the management of the company. Where profit sharing resulted in employee indifference or dissatisfaction, the plans were robbed of their purpose and managements discontinued them.

Organized labor has generally proposed profit-sharing plans that have been unilaterally conceived and installed and are controlled by management. With full discretion in management's hands, such plans have at times been used as anti-union and anti-strike devices. Workers may hesitate to join a union or to go on strike for fear that the management will withdraw the plan and thereby reduce their income. Furthermore, profit sharing has sometimes been used as a means of inducing workers to accept basic rates under the union scale in the hope that the difference will be more than made up by their share of profits. Unions have accepted profit sharing, where it has resulted from collective bargaining and is therefore embodied in a collective agreement, where no undercutting of union wage scales is involved, and where real joint participation and responsibility are provided.

Profit-sharing plans covering wage-earners seem to have been most successful in small, single-plant firms and in companies where net income is fairly steady and certain, such as banking, publishing, soap, and flour milling concerns. To date, profit sharing has not made a substantial contribution to the improvement of employer-employee relations. There are, however, a few ex-

<sup>22</sup> Stewart and Couper, *op. cit.*, p. 8.

<sup>23</sup> *Ibid.*, p. 22.

amples of marked success, like the Avondale Mills in the South, the Adamson Company in East Palestine, Ohio, and Eric A. Johnston's four West Coast companies (Brown-Johnston Co., Washington Brick and Lime Co., and the twin Columbia Electric and Manufacturing Companies). In those cases, the last two under collective bargaining, the plans appear to have won the enthusiasm and genuine participation of the workers.

**Employee stock ownership.** Much that has been said about profit sharing also applies to employee stock-purchase plans, under which the company sells its stock to employees, usually at a price below the current market quotation and sometimes under installment arrangements and with some company contribution toward the cost of the stock.

The attempt to make workers part owners of the business, and thus cause them to be management-minded, violates the insurance principle of spreading one's risk. It concentrates the worker's job and his invested earnings in the same firm, which may be a fluctuating business. With all his eggs in one company basket, his attitude toward the company is likely to turn to one of resentment if and when that basket breaks. That is exactly what happened in the 1930's, after employee stock ownership had mushroomed in the 1920's in characteristically American fashion. The median price of 35 common and preferred stocks, sold to employees under stock purchase plans established prior to 1929, dropped from 115 in July, 1929, to 15 in July, 1932, or about 87 per cent.<sup>24</sup> Embittered employees tended to blame the management for encouraging investment in stocks that fluctuate so widely in price. Little wonder that over nine-tenths of the plans established in the 1920's had been discontinued by the end of the 1930's.<sup>25</sup>

Like profit sharing, plans for employee purchase of company stock are better adapted for executives than wage-earners. Stock-purchase plans have, with few exceptions, proved harmful to employer-employee relationships, because they are based on unsound investment principles. Organized labor has generally opposed special management plans for employee purchase of their company's stock, partly because in the 1920's some employers considered it a means for combatting unionism.

## EMPLOYERS' ASSOCIATIONS

Labor unions have been met by combinations or associations of employers formed to provide collective action in the handling of labor problems. As early

<sup>24</sup> See Eleanor Davis, *Employee Stock Ownership and the Depression*, Industrial Relations Section, Princeton University, 1933.

<sup>25</sup> Based on data in the files of the Industrial Relations Section of Princeton University. A study of 86 stock-purchase plans, established prior to September, 1944, and including wage-earners, showed that by that date 86 per cent had been discontinued, which meant no further offerings were planned or that the plans were not continued as long as had been expected. See Stewart and Couper, *op. cit.*, p. 75.

as 1798, employer-shoemakers in Philadelphia developed employers' organizations in opposition to labor unions, "to break them up altogether, root and branch."<sup>26</sup>

The policies and practices of employers' associations have reflected the attitudes of their constituents. Designed for mutual protection and concerted action, most employer organizations were belligerent, anti-union institutions prior to the mid-1930's. The exceptions were in industries where unions had become well established before the 1930's, such as printing, railroads, pottery, glass, coal, and stoves.

The "united front" tactics of hostile employers' associations in the 1920's and 1930's prior to enactment of the Wagner Act included: engaging in labor espionage to destroy unions, maintaining employment bureaus and black lists of unionists, supplying strikebreakers, reimbursing members for strike losses out of defense funds accumulated from members' dues, boycotting employers dealing with unions, and levying financial penalties on members for non-compliance with the association's principles and rules.<sup>27</sup> The extreme practices that some hostile associations pursued prior to their exposure by the La Follette Subcommittee of the U.S. Senate in the mid-1930's, are illustrated by the National Metal Trades Association. Its membership included some 950 plants of machinery, iron, and automobile concerns, and it had established some 26 distinct branches "for the purpose of providing concerted local action." To ensure uniformity of labor policies amongst members, the pre-1937 constitution of the National Metal Trades Association required that a member, faced with a strike, surrender to the Association full control over the conduct of the strike and over the methods to be used. In other words, an outside organization was to run the firm's business as it saw fit during such a period. Furthermore, no member could "make any settlement or adjustment with its employees or their representatives or committee, or with any labor union or representative of such union, without the full knowledge and written assent of the Administrative Council of the Association acting through its Commissioner."<sup>28</sup>

Since the full enforcement of the Wagner Act commencing in 1937, most employers' associations have followed a policy of negotiating with unions. A study by the U.S. Bureau of Labor Statistics indicates that early in 1947 more than four million workers, or approximately a fourth of all workers covered by union agreements in manufacturing and a third of such workers in

<sup>26</sup> J. R. Commons *et al.*, *History of Labour in the United States*, Macmillan, New York, Vol. I, 1918, p. 133.

<sup>27</sup> For illustrations, see R. A. Lester, *Economics of Labor*, Macmillan, New York, 1941, pp. 130-38 and 637-57.

<sup>28</sup> See *Labor Policies of Employers' Associations, Part 1, The National Metal Trades Association*, Senate Report No. 6, Part 4, 76th Congress, 1st Session, 1939, pp. 41-43, 70-72, 122-23, and 126-27.

non-manufacturing industries, were working under agreements negotiated by employers' associations or by informal committees or groups representing a number of employees.<sup>29</sup> Industries in which negotiations are predominantly by multi-employer organizations include men's and women's clothing, railroads, coal mining, maritime, longshoring, building construction, pottery, glass, trucking, printing, canning, dyeing and finishing textiles, laundry and dry cleaning, and baking.<sup>30</sup>

Some employers' associations not only negotiate agreements but also settle or administer the grievances arising under them. That, for example, is the customary pattern in the San Francisco Bay Area<sup>31</sup> and also in England. However, most agreements negotiated by employers' associations in this country are administered by the member firms. Central administration by an association prevents the union from obtaining a favorable grievance settlement in one shop and then automatically extending it to others. Nevertheless most managements desire to deal directly with their own employees on grievances concerning the application and interpretation of the agreement. The formality of association administration of an agreement would, it is believed, have unfavorable effects on management-employee relations and would curtail the functions of a company's personnel department.

Association negotiations and collective action improve the bargaining strength of employers. They prevent the union from bargaining first with the weakest firm from which the most favorable concessions can be wrung and then spreading those concessions to competing companies by picking on them one at a time. With most rival firms joined in a single negotiation, a strike against one will be a strike against all. Thus, a strike becomes more costly to a union, and a company is relieved of the fear that a strike involving it will mean that its chief competitors gain at its expense. The union cannot play one company against another if they operate with unity through the association. Also the union loses the opportunity to negotiate agreements on the basis of each firm's ability to pay.

The individual firm, of course, loses the right to determine its own labor policy. It can no longer be a wage leader or trade on differential benefits offered to employees. But, by the time association bargaining has been established, the member firms have learned from bitter experience the disadvantages of bargaining separately with a strong union which employs pattern-setting tactics. It is the need to overcome the weaknesses of individual bargaining

<sup>29</sup> *Collective Bargaining with Associations and Groups of Employers*, Bulletin No. 897, U.S. Bureau of Labor Statistics, 1947, p. 2.

<sup>30</sup> *Ibid.*, p. 3.

<sup>31</sup> For a detailed consideration of the West Coast experience with master agreements administered by employers' associations, see Clark Kerr and Lloyd H. Fisher, "Multiple-Employer Bargaining: The San Francisco Experience," in *Insights into Labor Issues* (R. A. Lester and Joseph Shister, eds.), Macmillan, New York, 1948, pp. 25-61.

that causes companies to resort to multiple-employer negotiations. Usually the negotiating committee of the association (typically 5 to 15 selected persons) enjoys exclusive bargaining power and the power to make agreements which are binding upon all members. Each member firm or mill may have one vote and, although unanimity is sought, majority decision generally commits all members.<sup>32</sup> Where an association covers only part of an industry, some firms may believe that joining it would involve too many disadvantages, because the association firms have to bear the cost and burden of negotiating the wage pattern for the industry and, in addition, are likely to be struck first in case negotiations break down.

Unions, with few exceptions, favor multiple-employer or association bargaining even though it strengthens the employers' position and power. Dealing with employers' associations rather than individual companies separately is more convenient for the union and greatly increases its security from loss of bargaining rights to rival unions. A competing union would, under the National Labor Relations Board rulings that an employers' organization having the power to bind members is a single bargaining unit, have to win a majority in all the member plants in a single election. That would, of course, be exceedingly difficult to do. Under association bargaining unions lose the possibility of basing wages on the ability of each individual firm to pay. Most unions, however, prefer inter-firm uniformity in wages, even though the standardization is on a group or industry basis, with the ability of marginal firms taken into account.

<sup>32</sup> For illustrations of employer-association arrangements, see R. A. Lester and E. A. Robie, *Wages under National and Regional Collective Bargaining*, Industrial Relations Section, Princeton University, 1946, pp. 13, 46, and 82.

## CHAPTER TWELVE

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### COLLECTIVE BARGAINING EXPERIENCE

This chapter surveys experience with collective bargaining in four sections of American industry: the railroads, bituminous coal, men's and women's clothing, and automobiles. The railroads, coal, and clothing have a long history of collective bargaining experience, whereas the story for autos begins with the upsurge of industrial unionism in the mid-1930's.

**The industry in industrial relations.** Experience with labor relations and collective bargaining differs from industry to industry. As explained in the preceding four chapters, union and employer policies are influenced not only by past history of labor relations in the industry but particularly by the problems that face the industry and the union.

The nature of competition in the industry and the expanse of markets are factors of prime significance to labor relations. In industries characterized by numerous small firms and easy entrance, employers have, at times, needed the union to "stabilize" the industry in order to prevent wage- and price-cutting. Unions have found it necessary to help regulate competition in the industry to obtain high wages and stable labor relations. That has been particularly true in coal and clothing and also building construction. The problem of non-union competition has been especially troublesome in industries with national or regional markets (as in clothing or coal) rather than local markets (as in building). By contrast, the mass-production industries, like steel and automobiles, are dominated by a few large concerns, and managements do not need a union as a stabilizing force in the industry. The railroads are a special case. Government regulation has eliminated any threat of price competition, and entry of new firms is rare. Railroad roadbeds, like coal mines, are fixed, so that the industry cannot migrate as clothing firms have done in the past.

Job conditions and location of the industry tend to determine the character of its workforce as well as the attitudes of management and workers toward one another. Clothing manufacture does not attract the same type of worker as coal mining; steel-plant employees differ, say, from building tradesmen. Heads of clothing and building concerns are generally closer to their workers socially and psychologically than is true of top management in steel or autos.

Clothing workers are located mostly in large cities, coal miners in out-of-the-way mining communities. Automobile workers are heavily concentrated in centers of automobile production in and around Michigan; railroad workers are scattered all over the country and do not tend to dominate whole communities as do auto and mine workers. The social and psychological aspects of life in coal mining communities undoubtedly help to explain the relatively high proportion of days lost by strikes in coal mining not only in this country but in others like Canada, England, and Australia.

**Patterns of collective bargaining.** Widely varying industrial conditions and experience result in contrasting patterns of collective bargaining. By pattern of collective bargaining is meant (1) the coverage of a single negotiation, both the geographical area and the occupations included; (2) the extent or coverage of the threat of combined action by the parties, which may exceed the boundaries of a single negotiation; and (3) the scope or subject matter of collective bargaining. Negotiations in the clothing, railroad, coal, and building industries have generally been conducted by employers' associations in contrast to company-by-company bargaining in steel and autos. In building, negotiations are usually craft by craft, and on the railroads they have generally been by one or two crafts alone or by two or three groupings of crafts separately, although in both cases all crafts may be involved in any threat of combined action in support of a strike by one or two of the 20-odd crafts.

The scope of bargaining is influenced by the type of problems confronting the parties and the industry's need for the union for stabilization purposes. Industries with contracting employment (like railroads and coal) or with a low rate of technological change (like clothing) have different problems from those of expanding industries with a high rate of technological change (like automobiles). The type of product, the processes of production, and the stability of employment in the industry affect union policies toward such matters as piece-rate and incentive methods of payment, seniority and work sharing, and guaranteed employment. And union policies and demands largely determine the subjects discussed in bargaining sessions.

## THE RAILROADS

**Nature of the industry.** The railroads do not need labor unions to "stabilize" competition. The federal government does that. The Interstate Commerce Commission fixes passenger and freight rates, so that price competition is non-existent, except with other forms of transportation (air, bus, and truck), whose rates and operations between states are also regulated by the federal government. Having been subject to federal control for many decades, the railroads are especially sensitive to congressional action. Railroad labor, which is located in every state and congressional district, has been

strong politically and able to secure special retirement, unemployment, sickness benefit, and labor-relations legislation for the railroads.

Trains operate all hours of the day and night on a strict schedule. Individual communities and the economic life of the country are highly dependent on them. Consequently, the federal government is bound to intervene soon in any strike cutting off railroad traffic in a large section of the country. It was in the great railroad strikes of 1877 that the federal troops were first used in a labor dispute. They were used again in the Pullman strike of 1894.

**The unions.** Railway workers were among the first wage-earners to form lasting trade unions. Craft organizations were formed by the locomotive engineers in 1863, by the conductors in 1868, the locomotive firemen in 1873, and the trainmen in 1883. These "Big Four Brotherhoods" in the engine-and-train service have always been in a strong position for collective bargaining because their services are required to operate the trains safely and on schedule.

The four brotherhoods, the seven "shop-craft" unions, and the ten "miscellaneous" craft unions make up the 21 "standard" railroad unions. Although railroad workers abroad have generally shown a preference for industrial unions, attempts to establish industrial unionism on American railroads in 1893 and 1911 failed. The shop-craft unions, which are mostly AFL metal trades, have generally acted together in bargaining. The miscellaneous crafts include the unions of such workers as the switchmen, telegraphers, signalmen, train dispatchers, clerks, and maintenance-of-way employees who work on the rails and roadbed. In addition to the 21 standard unions, there are a number of others such as the unions of train porters or "red caps," sleeping-car porters, and waiters. In 1926 the presidents of the 21 standard railway unions formed the Railway Labor Executives' Association for cooperative action on legislation and in negotiating agreements. In some cases, this association has been effective in handling negotiations on a national scale.

**Employers' associations.** The carriers do not have a national organization dealing exclusively with labor problems. In the past, the Association of American Railroads, representing 96 per cent of the railroad mileage, has at times carried on negotiations with regard to labor legislation and labor conditions, but the collective agreements are always signed by the individual companies. Before World War I, some of the bargaining was on a regional basis between the four brotherhoods and the three territorial organizations (northeastern, western, and southeastern), established originally by the railroads for the classification of freight and similar problems.

**Pattern of bargaining prior to 1917.<sup>1</sup>** During the decade before 1917, collective bargaining in the four "running" trades had, on important issues,

<sup>1</sup> For a more detailed treatment covering the period up to 1941, see Harry D. Wolf, "Railroads," Chapter 7 in H. A. Millis (ed.), *How Collective Bargaining Works*, Twentieth Century Fund, New York, 1942, pp. 318-80.

been on the regional basis of the three "territories." The terms reached in such regional negotiations were incorporated in agreements with the roads in the region. By 1917 the "Big Four" had enrolled roughly 80 per cent of the railroad employees in the engine-and-train service, whereas it is estimated that less than 30 per cent of the employees in other service branches were members of unions.

Railroad unions had become increasingly dissatisfied with the results of mediation and voluntary arbitration under the Erdman Act (1898) and the Newlands Act (1913). In 1916 the federal machinery for settling disputes on the railroads proved inadequate, when collective bargaining broke down in the controversy over the eight-hour day demanded by the Big Four. The unions had rejected arbitration of the issue and had called a general strike, which was averted only by the passage of special legislation (the Adamson Act) granting the eight-hour day to railroad workers by law.

**National dealing under federal operation (1917-1920).** The railroads were taken over by the federal government in 1917 when this country entered World War I. The Federal Railroad Administration, as a single employer, dealt with all the railroad unions on a national basis, whether the unions were weak or strong. This meant that wage increases, working rules, and other conditions were standardized nationally through "national agreements," and that grievances under such agreements were handled by bipartisan adjustment boards, also on a national basis. Furthermore, the Federal Railroad Administration removed all the former obstacles to membership in labor unions, so that from 1910 to 1920 the combined memberships of all railroad unions nearly tripled. In 1920, union membership was estimated to include over 90 per cent of the employees operating trains and perhaps 80 per cent of the employees in the other railroad occupations.

**Experience under the 1920 Act.** In returning the railroads to their private owners in 1920, the question of the governmental machinery for settling labor disputes arose. At that time the unions favored government operation and ownership. The prewar disputes machinery had proved inadequate to solve the issue of the eight-hour day. The shippers were requesting compulsory arbitration. As a compromise, which the unions did not favor, the Transportation Act of 1920 provided for a tripartite Railway Labor Board to mediate and to engage in compulsory investigation of both primary disputes over the contents of new agreements and the settlement of grievances or secondary disputes. The Board, however, had no power to halt a strike or to enforce its findings or recommendations.

Any permanent board would have had troubles under the circumstances, because the railroads were determined to return to prewar conditions with regard both to working rules and the area of collective bargaining. The unions,

on the other hand, wanted national bargaining because it gave them a strategic advantage, reducing the influence of particular roads and causing railroad workers throughout the country to be interested in any change in wages or rules.

Both sides rapidly became dissatisfied with the Board. Its second decision in 1920 granted wage increases ranging from 12.5 to 26 per cent. When prices fell in the latter part of 1920 and in 1921, the railroads appealed to the Board for wage decreases instead of attempting to negotiate with the unions on a national basis. After obtaining a general wage reduction averaging 12 per cent in 1921, the railroads soon appealed in the depression of 1921-22 for another reduction that would wipe out all the 1920 increases. The Big Four threatened a strike. The Board, explaining that it was swamped with cases, postponed the wage case involving the running trades but awarded another decrease, effective July 1, 1921, for the other railroad workers. This second wage decrease brought on the shop-crafts strike in 1922 and resulted in a split of the united front of railway labor. Thereafter the Big Four disregarded the Board and negotiated directly with the railroads, sometimes on a regional basis as they had before the war. The miscellaneous crafts accepted the second wage cut without a strike. The strike of 400,000 shop craftsmen failed, partly because the federal government obtained a sweeping injunction which forbade practically all the traditional strike activities of unions. After that, all the railway unions began to deal directly with the roads and to disregard the Board.

**The Railway Labor Act of 1926.** Some new machinery for the settlement of railroad labor disputes was needed if the carriers and the unions were to avoid compulsory arbitration by law. In 1925, official conferences were held by the executives of certain railroad unions and a committee of the Association of Railroad Executives (merged into the American Association of Railroads in 1934). As a result of those conferences, a bill was drafted, approved by the parties, and passed by Congress in substantially the same form as originally drafted. This Railway Labor Act of 1926 specifically placed a "duty" on both sides "to exert every reasonable effort to make and maintain agreements" and to settle all disputes.<sup>2</sup> For the purpose of making and maintaining agreements, three steps were to be followed: (1) direct negotiation, (2) mediation by the National Mediation Board established by the Act, and (3) voluntary arbitration if the parties could be induced to accept it. That was the pre-World War I pattern. If the controversy remained unsettled, the President was empowered to appoint a fact finding or emergency board, a new one for each dispute, consisting only of public representatives. There can be

<sup>2</sup> The disputes-settlement and other provisions of this 1926 Act are more fully discussed in Chapters 16 and 17.

no change in terms of employment and no strike until thirty days after a board's recommendations are made public. In short, it provided for a compulsory waiting period, compulsory investigation, and recommendations for settlement, but the "decision" was not binding. It could be enforced only by the pressure of public opinion or, as developed later, intervention by the President.

The Act was not clear-cut with respect to machinery for settling grievances, and the parties were unable to agree on that. The carriers wanted a separate arrangement for each system so that discipline cases would not be taken "off that particular road." The unions wanted national bipartisan boards, which would emphasize the importance of national unions and let other roads in on the case. In the absence of agreement by the parties, a National Adjustment Board (really four boards) was established by law as the unions wished under the 1934 amendments to the Act.

**Experience with national bargaining (1931-40).** Before long the managements were negotiating on a national basis with the 21 standard unions represented in the Railway Labor Executives Association. From 1926 to 1938, the emergency board provisions of the Act were only used in about a dozen minor disputes.

By 1931, railroad revenues had declined so much that the carriers proposed a joint conference on wages to obtain a reduction more rapidly than would have been possible under the procedures of the Act. Not wishing to have their base rates and working rules disturbed and fearing a permanent reduction, the unions readily accepted and a national agreement was negotiated, which provided for a 10 per cent wage "deduction," effective February 1, 1932, for one year. By national bargaining between the unions and the roads, this horizontal reduction was continued each year until 1935.

In 1936 a committee of the American Association of Railroads negotiated with the 21 standard unions through the Railway Labor Executives' Association a national agreement, which provided for "separation" and "coordination" allowances for workers displaced or disadvantaged by consolidation of railroad facilities. Similar protection had been embodied in the Emergency Railroad Transportation Act of 1933, and the national agreement was designed by the railroads to avoid extension of that legislation.

In 1937, wage negotiations were again on a national basis, with the five "operating" unions (including the switchmen) negotiating separately from the "non-ops." A 5 per cent wage increase was negotiated by both labor groups. In 1938, the roads requested a 15 per cent wage reduction because revenues had declined with the "recession" in business. The negotiations, which were on a national basis, resulted in no agreement. The emergency board appointed under the Railway Labor Act recommended late in 1938,

after business had picked up, that the carriers drop their proposal for a wage reduction, which they did.

**Disregard of emergency boards' recommendations during World War II.** With increased railroad earnings, higher living costs, and wage rises averaging about 10 cents in manufacturing, the railroad unions demanded wage increases in 1941. The issue eventually went to an emergency board, which recommended *temporary* increases of 7.5 per cent for the five operating unions and 9 cents an hour for the non-ops. The unions rejected the recommendations and the operating unions scheduled a strike for December 7, 1941—Pearl Harbor day. President Roosevelt finally took the unprecedented action of reconvening the emergency board, which, after additional hearings, served as a board of mediation. Pressure was put on the managements, and, to avoid the strike, they finally granted permanent increases of 9.5 cents an hour for the operating employees and 10 cents an hour plus paid vacations for the non-operating workers.

Despite these increases, the wage position of the railroad workers continued to decline relatively. Straight-time average hourly earnings on the railroads shifted from 17 to 13 per cent above the average for all manufacturing in 1935 and 1939 respectively, to 5 per cent below in 1942 and 10 to 12 per cent below in 1943, 1944, and 1945. Also, overtime was expanding relatively in manufacturing. Such a comparative decline was hard for the railroad brotherhoods, the "aristocrats of labor," to take.

The unfortunate way that the unions' 1943 wage demands were handled by the Office of Economic Stabilization also helped to encourage disregard for emergency board recommendations under the Railway Labor Act. In May, 1943, an emergency board recommended a wage increase of 8 cents an hour for the non-operating unions. Just before the award was to take effect the Director of Economic Stabilization issued a directive disapproving it as contrary to the government's wartime wage stabilization policy, which permitted general increases of no more than 15 per cent after January, 1941. Under his war powers, the President appointed a new emergency board, which, following principles laid down by the Director of Economic Stabilization recommended for the non-ops increases ranging from 4 to 10 cents an hour and averaging about 8 cents. This recommendation the unions declined and a strike threatened.

In the meantime, another emergency board was appointed to handle the operating unions' wage demands. Recognizing the wage-stabilization limitations, this board recommended in September a general increase of 4 cents an hour, which was also refused by the five operating unions. Threatened with a strike, President Roosevelt asked the parties to permit him to arbitrate the issue. That was done following seizure of the railroads by the government be-

cause three operating unions had rejected the President's offer to arbitrate and a strike was imminent. On the grounds that overtime on the railroads was calculated from a 48- rather than a 40-hour week, President Roosevelt granted wage increases ranging from 9 to 11 cents per hour to the non-operating unions and an increase of 9 cents an hour plus an additional week of paid vacation to the operating unions. His award settled the dispute, and the railroads were returned to private ownership.<sup>3</sup>

**Post-war wage disputes.** During the war a pattern had become established of union disregard of emergency board recommendations and the achievement of larger increases through political pressure and Presidential intervention.

In 1946, all standard unions except the Engineers and the Trainmen agreed to arbitrate their wage demands under a binding decision, which avoided the appointment of an emergency board for them. The arbitration award was a general increase of 16 cents an hour. Two weeks thereafter an emergency board recommended for the Engineers and Trainmen the same increase and suggested the negotiation of work-rule changes. Not bound by that recommendation, the two unions called a strike thirty days later, on May 18. President Truman intervened, seized the railroads, and, during a five-day postponement for further negotiation, proposed the pattern of 18.5 cents per hour (which had become established in oil, steel, and automobiles as the first post-war "round") with a moratorium for one year on wage and work-rule changes. The officials of the Engineers and Trainmen rejected the President's proposal, insisting on some rule changes. The other unions, of course, readily accepted 2.5 cents more than they had obtained under a binding award. After two days of railroad shutdown by the strike, President Truman recommended to a joint session of Congress that temporary legislation be enacted which would permit, where workers continue on strike against government-seized plants, depriving them of their seniority rights and drafting them into the armed services. The two striking unions accepted the 18.5-cent increase and called off the strike while the President was making his proposals to the Congress.

The second "round" of wage increases in manufacturing found the railroad unions pressing new demands. The non-operating unions again accepting arbitration, were awarded an increase of 15.5 cents an hour in September, 1947, by a tripartite board. That conformed to the current pattern in mass-production industries. The Trainmen and Conductors in November negotiated with the carriers the same 15.5-cent increase and four work-rule changes.

<sup>3</sup> For a more extended discussion of these and other wartime cases on the railroads, see Herbert R. Northrup, "The Railway Labor Act and Railway Disputes in Wartime," *American Economic Review*, Vol. XXXVI (June, 1946), pp. 324-43.

The case of the other three unions (Engineers, Firemen, and Switchmen) was handled by an emergency board, which, in March, 1948, recommended a wage increase of 15.5 cents and some 15 work-rule changes (13 requested by the unions and 2 by the carriers). The three unions rejected the board's recommendations and set a strike date. Again President Truman seized the railroads, a federal court injunction was obtained against the strike, and the Army operated the railroads for two months. Finally, in July the three unions, after negotiating four more work-rule changes, accepted the 15.5-cent increase, and the roads were returned to the private owners.

In the third "round" of post-war wage increases, the five operating unions negotiated a 10-cent wage increase with the carriers in November, 1948. In December, an emergency board for the non-operating unions recommended a general increase of 7 cents an hour and also, effective September, 1949, a 40-hour week with a 20 per cent increase in basic pay to provide the same earnings for 40 as for 48 hours. Though expressing some disappointment, the unions accepted the recommendations.

In the latter part of 1949 and the first half of 1950, average hourly earnings on the railroads exceeded the average for manufacturing as a whole by about 10 per cent. The 20 per cent increase for non-operating personnel in September, 1949, was largely responsible for bringing the railroad average from around 3 per cent below to 10 per cent above that for manufacturing. Railroad employees had gained slightly relative to those in manufacturing during the first four post-war years, because they had received the full three "rounds" of increases whereas that had not been true for a number of manufacturing firms and industries.

The pattern of rejecting emergency board recommendations and gaining more through White House intervention and striking was repeated in 1950. The federal government seized the railroads in August, when the Trainmen and Conductors' unions threatened a strike after declining to accept an emergency board recommendation. The recommendation granted a wage increase of 18 cents an hour for yardmen in conjunction with a reduced schedule to a 40-hour week and denied changes in working rules to increase the pay of trainmen and conductors in the road service. In December, 1950, when the railroads were still under government operation, a three-day wildcat strike by yardmen of the Trainmen's union occurred in some cities. The government obtained injunctions ordering the union and its members acting in concert to cease participation in the strike and to resume their normal employment. The strikers, however, disregarded the injunctions and contempt proceedings were started. The strikes only ceased when President Truman appealed to the workers to return to work in his speech of December 15, in which he declared a national emergency.

On December 21 under the guidance of White House assistant John R. Steelman, the spokesmen for the Big Four unions and the carriers negotiated a tentative agreement. The agreement, to run for three years, provided: a wage increase of 23 cents an hour for yardmen beginning October 1, 1950, plus 2 cents an hour more effective January 1, 1951, the 40-hour week for yardmen to be set aside until at least January 1, 1952, and 4 cents an hour more to be paid if and when it went into effect; the road service workers of the four operating brotherhoods to receive 7 rules changes that were rejected by the emergency board, plus 5 cents per hour wage increase effective October 1, 1950, and an additional 5 cents an hour effective January 1, 1951; wages in the operating trades to be adjusted on a cost-of-living basis, with a 1 cent increase or decrease in hourly pay for each rise or fall of 1 point in the U.S. Bureau of Labor Statistics index of consumers' prices; and a moratorium on general wage and rules demands to be maintained by the four operating brotherhoods until October 1, 1953.

That negotiated settlement was rejected by the ratifying groups of the four unions, thus presenting the White House again with the problem of how to satisfy the competing railroad unions once they found it easy and profitable to disregard emergency board recommendations and even White House settlements. Early in February, 1951, the yardmen of the Trainmen's union engaged in another wildcat strike that spread over the country and partially paralyzed passenger, shipping, and mail services for about a week. The 2-year-old dispute, however, remained unsettled, and the Trainmen's union was fined a total of \$100,000 in two cases for contempt of court in the December and the February wildcat strikes.

**Appraisal.** This brief story of wage bargaining in the railroad industry is rather disappointing and disturbing. A system of collective bargaining that seemed to work well from 1926 to 1941 was upset during World War II by presidential intervention, by mistakes on the part of emergency boards and the Director of Economic Stabilization, and by the development of a pattern of getting higher wages by union rejection of emergency board recommendations and threats to strike.

By 1947, however, the end of presidential appeasement had been clearly demonstrated, and the railroad unions were again negotiating wage agreements, utilizing voluntary arbitration, and accepting emergency board recommendations. Some unions had shifted their tactics to calling strikes against only a few roads, without, however, any real gain. The Firemen's strike in May, 1950, against four railroads to obtain two firemen on multiple-unit diesel locomotives, a demand rejected by an emergency board, was called off soon without success. The Switchmen's strike in June, 1950, against five western railroads in support of a demand for a 40-hour week at 48 hours' pay, was called

off upon President Truman's insistence that it could not continue in view of the Korean War.<sup>4</sup>

Collective bargaining on the railroads has been hampered by the existence of 21 standard craft unions, with inter-union jealousies, and by elaborate working rules in the engine-and-train service, some of which stem from a mileage (piecework) method of payment, under which the rapid increase in the speed of trains in recent decades has made the production standards obsolete and inequitable. An additional source of friction leading to strikes has been the National Adjustment Board's backlog of grievances reaching to three and a half years in the running trades in May, 1949, when two new supplementary sections were added to the Board to help reduce the accumulated cases.

The experience with collective bargaining on the railroads raises the question whether compulsory arbitration of labor disputes can be avoided in a public utility so vital to the community and so subject to political pressures as well as federal rate regulation. In answering that question, one has to judge whether the emergency board procedure was permanently damaged in World War II, so that it can no longer function properly, and whether in the years to come the President will be forced to offer additional concessions beyond the recommendations of emergency boards to avoid threatened strikes. Much will depend upon the relationship between railway wages and those in manufacturing in the near future. There is also the question whether *ad hoc* emergency boards should properly be expected, within 30 to 60 days, to decide if and how elaborate work rules should be modified. Collective bargaining can be discouraged and encumbered not only by government intervention and settlement but also by complicated and exhaustive rules.

## BITUMINOUS COAL

**Nature of the industry.** In peacetime, soft coal tends to be a "sick" industry, suffering from a declining market and overcapacity. For a number of decades oil, gas, and hydroelectric power have gradually been displacing coal as a source of fuel and power. Mines once opened cannot be left idle without rapid deterioration; any investment in them is really "sunk."

The bituminous-coal industry well exemplifies the conditions under which employers are most likely to welcome a labor union as stabilizing influence: a large number of firms in the industry, labor costs representing a high proportion of the total costs of production, and a declining industry with overcapacity. Soft coal is mined in some 27 states by 5,000 firms, no one of which accounts for more than 5 per cent of the total output. Some of the largest

<sup>4</sup> The union tried to continue the strike on one road, but the President seized it and got an injunction against the strike.

producers are so-called captive mines (because they are owned by coal consumers, such as steel and railroad companies), which mine approximately one-fifth of the total tonnage. Labor costs are three-fifths of the cost of mining coal, and, since three-quarters of all soft coal is transported interstate, shipping costs to consumers average more than mining costs.

Working and job conditions are determined more by nature than by management. Mines, unlike factories, cannot be made uniform. The thickness and character of coal veins (slant, impurities, and depth) as well as the distance of their location from markets are determined by nature. Consequently, although the union has standardized time wages, the piece or tonnage rates for underground miners vary.<sup>5</sup> Under collective bargaining a system of vein, machine, and freight differentials in wages per ton was worked out, according to a principle of "competitive equality." That, of course, helped to keep marginal mines in operation and partly explained why it became normal for the industry to average less than 200 days of work in a year.

Many coal miners live in isolated mining communities, in which the houses, stores, and the land are company-owned. About half of the miners work in essentially one-industry counties. As late as 1910 around half of them were foreign born. Coal miners are used to working at their own pace with little supervision. Their work is relatively hazardous.

**Employers' associations.** For purposes of bargaining collectively with the union, the operators have been organized into a number of state, regional, and local employers' associations. However, the interests of the operators in different areas have been too diverse and competitive to permit them to organize into a national association as the workers have done. The union has frequently played one employer group against another—North, South, captive mines, small operators, and so forth.

**The union.** The United Mine Workers has a membership of some 600,000, of which around 400,000 are in soft coal. Nine-tenths of the workers in the industry are in the union. An industrial organization, it includes skilled mechanics as well as common labor. As explained in Chapter 7, the union used to be highly democratic but since the 1920's has been under complete one-man domination. President Lewis has succeeded in shifting union policies and tactics at will. The miners have remained loyal to him and the union because of the gains achieved for them.

**The Central Competitive Field system (1898–1927).**<sup>6</sup> The amalgamation of two rival unions to form the United Mine Workers in 1890 was soon

<sup>5</sup> In 1945 approximately 17 per cent of all workers in and around the mines were paid on a piece-rate or tonnage basis. See *Bituminous Coal Mines, 1945*, Wage Structure, Series 2, No. 12, Wage Analysis Branch, U.S. Bureau of Labor Statistics, 1946, pp. 7 and 12 (mimeographed).

<sup>6</sup> For a more detailed history of the union and of collective bargaining up to 1941, see Waldo E. Fisher, "Bituminous Coal," Chapter 5 in *How Collective Bargaining Works*, (H. A. Millis, ed.), Twentieth Century Fund, New York, 1942, pp. 229–79.

followed by years of depression, resulting in extreme price- and wage-cutting in bituminous coal between 1895 and 1897. Confronted with marked deterioration in labor standards, the 1897 convention of the union called a strike, which lasted 12 weeks. The union refused to settle the strike except by joint conference with the operators in the entire Central Competitive Field, consisting of Illinois, Indiana, Ohio, and Western Pennsylvania. At such a joint conference an agreement was reached increasing wages and laying the foundations for a system of regional collective bargaining that continued almost thirty years.

The Central Competitive Field Agreement of 1898 covered mines producing about one-third of the total output of soft coal at that time. In addition to wage increases, it granted union recognition and the eight-hour day. The union, in turn, agreed to give the employers signing the agreement all possible protection "against unfair competition resulting from a failure to maintain scale rates" of wages as specified in the agreement. To place the union in a financial position to call strikes against operators refusing to pay the wage scale, it was understood that the operators would "check off" union dues when authorized to do so by individual miners.

Except for three minor interruptions, the Central Competitive Field agreements were renewed throughout the period from 1898 to 1927. In 1904 the union even agreed to a wage cut. Tonnage rates of wages were fixed at basing points on the principle of "competitive equality," and day rates were established on the basis of uniformity for all mines. The interstate joint conferences were followed by state and district conferences, which attempted to apply the terms of the general agreement to component areas in line with the change in the rate for the basing point in the district. Widely varying natural and competitive conditions made it impossible to fix wage rates for each mine in a general, interstate conference. During the two-year periods (1906-1908, 1910-1912, and 1914-1916) when the joint conference for the whole Central Competitive Field failed to reach an agreement, settlements were made by state and district conferences.

In the 1917 convention of the union, the delegates from states outside the Central Competitive Field threatened to break up the Interstate Joint Conference. They objected to the system of regional bargaining by which operators and miners in the Central Competitive Field states established the basic rates that were then applied nationally to other regions in the North, South, and West. A compromise was worked out whereby union representatives of outlying districts were permitted to attend the Interstate Joint Conference and to speak on questions affecting their districts. However, the operators in the Central Competitive Field steadfastly refused throughout the whole period of Interstate Joint Conferences to permit operators outside the Central Com-

petitive Field to participate in the collective bargaining which fixed the basic rates. The Central Competitive Field operators wished to make the changes in basic rates, which would then be forced upon their competitors in other regions by the union.

World War I resulted in a 50 per cent increase in the number of commercial mines in operation. Early in 1918, following a joint meeting under the auspices of the Federal Fuel Administration which fixed wartime coal prices, the union accepted an agreement to run for the duration of the war. That "Washington Agreement" gave the miners a wage increase and contained an "automatic penalty clause" providing that a dollar a day be deducted from the miners' wages for violations of the agreement. Such a penalty clause continued in coal agreements until the 1940's. During the war, prices and wages were fixed by the Fuel Administration for both union and non-union fields.

In 1919 the federal government got an injunction directing the union's officers to call off a soft-coal strike scheduled for November 1. Although Acting President Lewis complied with the injunction, many miners continued on strike and a considerable number of union representatives were cited for contempt of court for disobeying parts of the injunction. In December, the union accepted a temporary wage increase and the appointment of a Presidential Commission to arbitrate the matter. That Commission granted the miners wage increases which were embodied in a new agreement. Those "high" 1920 rates were maintained in union agreements negotiated in 1922 and 1924.

Competition from non-union operators in states outside the Central Competitive Field destroyed that system of bargaining in the 1920's. Until 1921, the Central Competitive Field states (Pennsylvania, Ohio, Illinois, and Indiana) continued to produce about 70 per cent of the nation's total output of soft coal. During the war the southern mines were about 50 per cent organized, but the union was unable to complete the organization after the war because of yellow-dog contracts,<sup>7</sup> injunctions, opposition by employers' associations, and violations of civil liberties. With the depression of 1921, the demand for bituminous coal began to fall off, leaving the industry with a large volume of excess capacity. The result was resort to price- and wage-cutting, especially in the non-union coal fields of Kentucky, West Virginia, and Virginia. In general, these southern mines, which competed to supply the Great Lakes region, were newer, had better seams, and were more mechanized. By the late 1920's they were producing more tons of bituminous coal than the four states in the Central Competitive Field.

<sup>7</sup> Employment contracts under which, as a condition of employment, the worker agreed not to join the union. Enforcement of such contracts in the federal courts ceased with the Norris-LaGuardia Act of 1932.

In 1922 the operators in the Central Competitive Field, hoping to achieve a wage reduction, refused to meet to negotiate a new agreement. The result was a strike of four and a half months before a new agreement was signed continuing the 1920 wage level. At the Jacksonville conference in 1924 the union was able to induce all the districts of the Central Competitive Field to sign an agreement, renewing the 1920 scale for a three-year period. However, this last agreement was broken by most operators before it expired. Non-union competition made it practically impossible to maintain union standards. In 1924 and 1925 a number of large captive mines repudiated the Jacksonville agreement and abandoned its wage scale. Several railroad companies shut down their own captive mines to purchase coal from southern producers and even threatened to buy permanently in the South, expecting thereby to force northern operators and miners to accept non-union working conditions. Despite President Lewis' insistence on "no backward step," all but 1 per cent of the coal companies in central Pennsylvania broke the Jacksonville agreement before it expired.

**Local collective bargaining (1927-1933).** The termination of the interstate agreement in 1927 was followed by a strike. However, the flood of non-union coal from the South and from non-union northern mines, together with some extreme injunctions, rendered the strike ineffective. After a stubborn struggle for 16 months, the union admitted defeat, permitting each district to negotiate agreements as best it could. The abandonment of regional bargaining meant a rapid decline in the union's effectiveness.

From the middle of 1928 to the middle of 1933, the only important areas under union agreement east of the Mississippi River were Illinois and part of Indiana. According to estimates, no more than 15 per cent of the total output in 1933 was produced under union agreements. In 1930 and 1931 the union's dues-paying membership in soft coal was only about 100,000, compared with over three times that number in the early 1920's. From 1928 to 1933 there was open revolt against the leadership of John L. Lewis, which led to revocation of the charter of the Illinois district and to the formation of the Progressive Miners of America in addition to the National Miners' Union organized by the Communists. In 1931 and 1932 the miners joined rival and radical unions to such an extent that some companies are alleged to have signed agreements with the United Mine Workers in order to counteract "left-wing" tendencies among the miners. By then, mine owners who had gone non-union in the 1920's were admitting that the situation was much worse than when the union was strong enough to enforce some wage stability in the industry. Operators who had sworn in the 1920's that they would never deal with the union were ready by 1933 to welcome the union organizers and to sign a new interstate agreement.

**The Appalachian region agreements under government intervention (1933–1941).** No union took more advantage of the National Industrial Recovery Act of 1933 than did the United Mine Workers. Many of the former non-union mines in the South were organized under the legal protection of Section 7(a) of the Act, which stated the right of employees to organize and bargain collectively through their representatives without interference, restraint, or coercion by employers. Within a few months after the passage of that law, the United Mine Workers had tripled its membership and had organized 90 per cent of the workers in the industry.

In drafting the NRA code for the industry, it was recognized that the Central Competitive Field was no longer the competitive area and that stabilization of the industry required joint solution of North-South competitive relationships. With the signing of the bituminous-coal code in September, 1933, the Appalachian Mountain area, extending from Pennsylvania to Alabama, became the bargaining unit in the industry. Including also Michigan, Ohio, Maryland, West Virginia, and parts of Kentucky and Tennessee, the Appalachian region accounted for more than 70 per cent of the nation's output of soft coal.

Under the code, wage rates and prices were fixed, and government support was given to the wage scales established by collective bargaining, so that non-union operators enjoyed no wage advantages. When the National Industrial Recovery Act was declared unconstitutional in 1935, the Bituminous Coal Conservation Act of 1935 was passed, empowering boards to fix prices and giving legal authority for the extension of the hours and wages provisions in collective agreements to all operators. After the Bituminous Coal Conservation Act was declared unconstitutional, a Bituminous Coal Act was passed in 1937, which provided for the fixing of coal prices and which continued until it expired in 1943. In short, beginning in 1933 the federal government helped to enforce price stabilization, and, from 1933 to 1936, by fixing minimum wages in coal, it enabled the Appalachian operators to conclude union agreements granting higher wage scales. Presumably such federal action was necessary because the union and collective bargaining alone were not sufficient to "stabilize" the industry by preventing wage- and price-cutting.

The first four Appalachian Agreements each granted wage increases.<sup>8</sup> The fifth 1939 agreement, which was signed after a strike of four to six weeks and intervention by the President contained a closed-shop clause. The sixth Appalachian agreement was signed separately by northern and southern operators. The southern territory had, since 1933, enjoyed a day rate 40 cents

<sup>8</sup> For the details of the wage changes negotiated, see "Wage Chronology No. 4: Bituminous-Coal Mines, 1933–48," *Monthly Labor Review*, Vol. LXVIII (March, 1949), pp. 303–307.

under that for the North.<sup>9</sup> The union, in demanding the elimination of that differential, caused the Southerners to bolt the joint conference, a strike resulted, and the southern operators only agreed to accept the new two-year agreement after the tripartite National Defense Mediation Board (a new war agency) had held hearings and recommended elimination of the differential. Six months later a break-up of the National Defense Mediation Board occurred when it ruled against the Mine Workers' demand for a closed shop in the captive mines; that demand was granted by special arbitration on December 7, 1941.

Under the first Appalachian agreements, the wages of the miners rose somewhat faster than for manufacturing as a whole, but not thereafter. The average straight-time hourly earnings in soft-coal mining were about 17 per cent above the average for all manufacturing in 1932, 35 per cent above in 1935, 36 per cent in 1941, and 24 per cent in 1942.

**Bargaining under government controls (1943, 1945, 1946).** The union's maneuvers and the strikes in soft coal during World War II are too complicated to outline. From January, 1943, through June, 1949, there were four separate government seizures of the mines and eleven strikes representing a combined total of some 200 days.<sup>10</sup>

In the 1943 negotiations the union requested pay increases and pay for travel time (between the mine portal and underground operations) as a means of circumventing wartime restrictions on wage increases. The negotiations broke down and, to end the strike, the federal government seized the mines on May 1. The National War Labor Board, before which the union refused to appear, approved an increased vacation allowance but denied a wage increase based on travel time in the mine. Despite sporadic conferences and strikes, no general agreement was signed. The mines were gradually returned to the private operators by October and work stoppages began again in November. Once more the federal government seized the mines. This time a two-year agreement was negotiated by Secretary of the Interior Ickes and John L. Lewis. It increased wages about \$1.50 a day, including 45 minutes of pay for travel time at two-thirds of the regular rate of pay. The War Labor Board approved the government-negotiated agreement and the mines were returned to private operation.

The 1945 negotiations also deadlocked, with the union seeking such increases as a rise in vacation pay, full regular pay for travel time, pay for lunch time, a reduction of an hour in the normal workday, and premium pay for the

<sup>9</sup> About four-fifths of all bituminous-coal workers were on day rates in 1945, although the proportion varied widely from district to district. See footnote 5 in this chapter.

<sup>10</sup> See *Economic Power of Labor Organizations*, Hearings before the Committee on Banking and Currency, U.S. Senate, 1st session, Part 1, July 25–August 2, 1949, p. 285.

second and third shifts. The federal government again seized the mines on April 10. The next day, before any government negotiations were possible, some of the operators' associations agreed to a pay increase of about \$1.50 a day, composed largely of the above items in the union's demand. The agreement was approved by the National War Labor Board.

The big issue in the 1946 negotiations was the union's demand for a royalty on each ton of coal in order to establish a miners' health and welfare fund. The operators were willing to grant a wage increase of 18.5 cents an hour—the pattern of the first post-war wage “round,” but stubbornly refused any welfare-fund royalty. Following a breakdown of negotiations and a strike, the government seized the mines on May 22. Seven days later, Secretary of the Interior Krug and John L. Lewis signed an agreement which provided, in addition to a general wage increase of \$1.85 a day and an increase in vacation pay, a levy of 5 cents a ton on coal mined in order to build up a joint welfare fund to compensate for wage loss from sickness, permanent disability, death, and retirement of miners.

Despite that unprecedented step, five months later President Lewis claimed that the government administration had violated the Krug-Lewis agreement and expressed a desire to reopen it for an improvement in terms. Unsuccessful in obtaining a reopening, Mr. Lewis gave notice of termination of the agreement, although it contained no provisions for termination. The government obtained an injunction, directing a cancellation of the termination notice as in violation of the wartime Smith-Connally Act under which the mines were seized. When the miners struck and Mr. Lewis failed to comply with the injunction, he and the union were held in contempt of court. Ultimately the union was fined \$700,000 and Mr. Lewis personally \$10,000, after which he withdrew his notice of contract termination. The mines had to be returned to the private owners by the end of June, 1947, under the terms of the expired Smith-Connally Act.

**Pattern-setting by steel interests (1947).** Just before the return of the mines to private ownership, an agreement was reached by Mr. Lewis with representatives of the captive mines of the U. S. Steel Corporation and of the Pittsburgh Consolidated Coal Company (the nation's largest coal producer). The steel interests strongly desired to avoid another shutdown in steel for lack of coal. The terms of the agreement, which was soon signed by the rest of the industry, included: an increase of \$1.20 in the daily pay for a workday reduced from 9 to 8 hours and 15 minutes more added to the lunch period, an increase in company payments to the “United Mine Workers of America Welfare and Retirement Fund” from 5 to 10 cents a ton, and a clause that the agreement covered employment “during such time as such men are able and willing to work,” which was designed to escape from the damage-suit-for-

contract-violation provisions of the Taft-Hartley Act. The "able and willing" clause was subsequently used by the union to call work stoppages at will. The price for temporary peace in coal proved high. The southern operators, who had demanded separate negotiations, found pattern-setting both inconvenient and undesirable.

A disagreement over the handling of pensions under the welfare fund led to the resignation of the neutral third trustee of the fund, followed by a 29-day stoppage under the "able and willing" clause. A board of inquiry under the Taft-Hartley law was appointed for the dispute. The union ignored the board's subpoena until forced to do so by a court injunction. A temporary injunction was obtained against continuation of the strike, and, for contempt of court for "procuring a strike by a nod, a wink, or a code," a fine of \$20,000 against Mr. Lewis and \$1,400,000 against the union was levied and later collected.

**Appalachian agreement (1948).** Reversing their position of the preceding year, the southern operators sought to participate in a single negotiating conference. President Lewis refused to permit the Southern Association to participate until required to do so by court order. When negotiations stalled, President Truman appointed a fact-finding board on June 19, 1948. Five days later the parties reached an agreement. It provided for an increase in wages of \$1 a day, a continuation of the union shop pending legal determination, and a doubling of the employer contribution to the welfare Fund to 20 cents a ton, the equivalent of about 15 cents a work hour.

**"1950 Supplement" to Appalachian agreement.** As the date for negotiating a new agreement approached, the southern operators voted to bargain independently, so that there were two separate bargaining conferences. To strengthen its bargaining position in the face of large coal stocks and lagging demand, the union called a two-week memorial stoppage in March and a one-week "brief stabilizing period" in June, two weeks before a ten-day vacation period late in the month. In the negotiations there was talk of an operator proposal for an "industry coordinator" and a union share-the-business scheme through a three-day workweek. However, the existing agreement expired at the end of June without a new one to replace it.

Instead of following the traditional policy of "no contract, no work," President Lewis ordered, for an indefinite period, a workweek of three days—Monday, Tuesday, and Wednesday—east of the Mississippi River. The consequent drop in the Welfare Fund's income (which included refusal of some operators to remit without an agreement), plus the Fund's unsound actuarial basis, caused a suspension of all except emergency payments from it for the period between September 17, 1949, and June, 1950. Suspension of welfare payments led to a strike lasting nine weeks. Then after three weeks of five-day operations, the union again ordered a three-day workweek beginning

December 5. The union's strategy was to break the operators' united front by trying to induce individual firms to sign an agreement increasing wages 95 cents a day and welfare contributions 15 cents a ton, so that the signing firms could receive the union's permission to operate on a five-day week, with the resulting savings in cost. However, only some small firms representing about 3 per cent of the output did so.

The miners grew restive on a three-day week, especially those in the more efficient mines, and for a time union headquarters apparently lost control of them. Wildcat strikes broke out in January and miners refused to follow Mr. Lewis' request to return to work. President Truman proposed the appointment of a board to make recommendations, but the union rejected the proposal. By February 6 most of the miners were out on strike, insisting that they would only return to work on the basis of a five-day week, so that President Truman was forced to appoint a board of inquiry under the Taft-Hartley Act, much as he disliked to do so. Four days later Federal Judge Richmond B. Keech issued an injunction forbidding the union to demand a union shop, or provisions restricting welfare benefits to union members, or clauses permitting union members to suspend work when they are not "able and willing" or during "memorial periods," as being in violation of the Taft-Hartley Act. In addition, the judge issued a temporary injunction requiring the union to order the men back to work. President Lewis did so but the miners failed to comply; the judge found the union itself had not violated the back-to-work injunction.

On March 3, the representatives of the northern, western, and captive mines negotiated with the union a new agreement, increasing wages 70 cents a day and the employers' contribution to the Welfare Fund by 10 cents, for a total of 30 cents a ton. More important, in view of Judge Keech's injunction, were the elimination from the new agreement of the "able and willing" clause, a limit of "memorial periods" to five days a year, provision for the union shop "only to the extent permitted by law," and enlargement of welfare fund payments to include non-union employees. The agreement was to run to July 1, 1952, but either side could reopen it after April 1, 1951.<sup>11</sup> The southern operators again quickly signed a pact negotiated by the northern and western operators, who soon thereafter formed a single Bituminous Operators Association.

Anticipating wage controls, the union in January, 1951, negotiated a wage increase of 20 cents an hour (an increase of about 10 per cent) with the Bituminous Coal Operators Association, representing about one-third of the output, which was formed in mid-1950 and is dominated by the captive mines.

<sup>11</sup> The operators insisted on such a reopening provision when the union offered a firm contract for the full two and a half years. See Harry M. Moses, *Contract Negotiations in the Bituminous Coal Mining Industry*, an address before the Annual Meeting of the American Iron and Steel Institute, May 25, 1950, p. 18.

The new supplementary agreement was readily accepted by the newly established Southern Coal Operators Association and operators' associations in Illinois, Indiana, and other areas. Effective from February 1, 1951, it amended the existing agreement by making it extend to March 31, 1952, and continue in effect thereafter subject to termination on 60-days' notice by either party.

**Appraisal.** Through collective bargaining the miners have achieved some remarkable gains. In the years 1948, 1949, and 1950 their average hourly earnings were about 40 per cent above the average for manufacturing as a whole, compared with a figure of around 25 per cent for 1929 and 1939. Southern competition was under control, especially with the elimination of the North-South wage differential for day workers. In addition, a United Mine Workers Welfare Fund had been established from which, in addition to federal social security benefits, mine workers and their survivors could receive death, sickness, disability, and retirement benefits at age 60. The Fund was receiving around \$140,000,000 a year from employers' contributions of 30 cents a ton.

All this was not, of course, without some adverse effects on the industry. The relatively higher cost of soft coal and the inconvenience to its consumers served to stimulate further the shift to other sources of fuel and power. Nevertheless, bituminous coal's percentage of the total energy supplied by fuels and water power was about the same in the late 1940's as in the late 1930's. The statistics did not strongly support the charge that Mr. Lewis was ruining the industry to further his ambitions for leadership in the labor movement.

Whether the union's tactics were necessary in order to achieve its gains is another question. Despite irritation at the frequent twists and shifts in union policy, the miners remained loyal to the union. But the operators were humiliated and split, and the public had been both exasperated and incensed. The handling of the Welfare Fund had tended to discredit such arrangements. There is no doubt that the drafters of the Taft-Hartley Act had the United Mine Workers in mind in formulating many of that law's restrictions on unions. In the end, the union in its agreements was forced to comply with that legislation.

Collective bargaining has not solved the basic problem of the industry—overcapacity in peacetime. Indeed, the union policy of competitive equality has even helped to aggravate it by keeping some marginal mines in operation. The three-day week, while temporarily reducing supply and investment in new equipment, caused rebellion in the ranks of the miners. The future of the industry depends not so much on collective bargaining as on international relations, in which the union leadership has not been astute. In a defense or war economy, bituminous coal booms. It is then that the union leadership has

been able to take advantage of the loyalty of miners to the union and the isolated and unattractive features of coal mining.

## **MEN'S AND WOMEN'S CLOTHING**

**Nature of the industry.** This discussion will deal with those parts of the clothing industry producing ready-made outer garments—men's suits, coats, and pants and ladies' suits, coats, skirts, and silk and rayon dresses. The industry has many other subdivisions including shirts, blouses, underwear, pajamas, bathrobes, handkerchiefs, neckties, cotton dresses, gloves, and what not. Perhaps 300,000 workers are engaged in the outer-garment branches of the industry covered by this discussion.

To an extreme degree, the industry has the characteristics that foster union regulation and stabilization. It is both small scale and highly competitive. A manufacturer can enter the industry with as little capital as \$4,000 or \$5,000; some move into and out of the industry with the peak seasons in the spring and fall. In men's outer garments, no one of the 2,000 to 3,000 firms is responsible for as much as 5 per cent of the industry's total production. In women's outer garments, no one of the 4,000 to 5,000 producers accounts for even 3 per cent of the total output.

A number of factors explain why clothing manufacturing concerns are small and are typically managed by their owners. Changes in fashion, along with customers' desire for "exclusiveness," tend to operate against mass production. In the making of a man's suit, for example, there are hundreds of separate operations to be performed, which vary with the style and quality of the materials used. Much of the work must be done by hand, especially on higher quality garments. The technique of production of men's and women's suits and coats has not changed much since the beginning of this century. Machine operations are employee-paced, and piece rate is the method of payment for perhaps four-fifths of the workers. Direct labor cost averages about one-third, and materials costs about one-half, of manufacturers' sales income. In the men's branch, the "section system" applies, under which a suit jacket may be divided into 70 or 100 operations performed by as many workers. In the ladies' branch, especially in New York City, the "tailoring system" usually is used, with the entire garment being sewn by one worker, which helps to explain the higher average hourly earnings in ladies' garments.

Seasonal and style factors help to explain the widespread practice, especially in New York City, of farming the cut cloth to specialized "contracting shops" for sewing and pressing. Structurally, financially, and strategically, the contractors have been the weak link in the chain of production and distribution. Before unions regulated the manufacturer-contractor and jobber-contractor relationships, contracting was by competitive bidding, with one contractor

played against another. The contractors' expenses are largely for wages, since the cut material is generally consigned to them. Consequently, before union regulation, contract shops were often unsanitary "sweatshops" in tenement houses, operating for long hours at low wages and subject to sharp changes in employment and to frequent labor troubles. Approximately one-half of the workers in shops making women's outer garments included in this discussion and about one-third of the employees in men's outer clothing have been working in contract establishments. The shifting of firms into and out of the industry and marked seasonal unemployment permitted employers, in the absence of union control, to weed out employees considered undesirable. In order to prevent discrimination against union members in slack periods, the unions came to insist upon equal division of the work wherever feasible.

Men's and women's clothing is made mostly in large cities. One important locational factor is that female workers constitute about one-half of the workforce in men's clothing and almost three-fourths in women's clothing. Many of these female workers are young women who will not remain long in the industry. In women's clothing, where style plays such an important role, about three-fourths of the garments are produced in the New York metropolitan area. In the men's branch, New York City accounts for about one-third of the nation's output, with Philadelphia, Chicago, Baltimore, and Rochester constituting other major producing centers.

**The unions.** The Amalgamated Clothing Workers in men's garments and the International Ladies' Garment Workers in women's clothing each have close to 400,000 members. Over 95 per cent of the workers producing men's and women's outer garments are in one of these two unions. Their experience has been remarkably similar in many respects. Both had a struggle to eliminate Communist influence and control in the 1920's, and both were able to regain and improve their position and strength beginning in 1933 under the National Industrial Recovery Act. The leadership in both unions has been progressive, public spirited, and interested in the welfare of the industry, so that wage demands have not been pressed during years of slack demand for clothing such as 1947 to 1950.

In structure and composition the Amalgamated and the ILGWU closely resemble each other. Both have a number of craft and industrial locals in a city. In each city, the separate locals in a particular branch of the industry are combined into a joint board, to which the locals send delegates. The joint board is the center of authority locally, negotiating agreements, maintaining employment exchanges, and participating jointly in the operation of the impartial chairman system. The New York Boards<sup>12</sup> of the ILGWU are, by location, the dominant units in women's outer garments and tend to negotiate the

<sup>12</sup> One for women's suits, coats, and skirts and one for dresses.

“pattern” for the industry. In the Amalgamated, the power is more widely distributed geographically and the national headquarters has probably enjoyed relatively greater influence during the past decade or so. Partly that has been due to the great influence of Sidney Hillman, president of the Amalgamated from its founding in 1914 until his death in 1946, and partly to the fact that negotiations on wages and other important matters have, in men’s outer garments, been on a national, industry-wide basis since 1936.

Both unions have been unusual and pioneering organizations. The ILGWU was the first union to establish a health center for members’ medical care. It also set up a Management Engineering Department in 1941 and has promoted New York City as a style center. The Amalgamated, in addition to cooperative housing projects, a bank, and an insurance company, developed joint systems of unemployment insurance between 1923 and 1938, first in Chicago and later in New York City and Rochester. They both early established the system of impartial chairmanship for settling grievances. Because their membership has been so largely composed of immigrants, especially Jews and Italians, both unions have engaged in extensive educational and social programs.

As the employers are small and have had divided interests, the unions have provided much of the leadership and unifying force in the industry. Generally speaking, they have brought good personnel practices into men’s and women’s clothing production, for few firms even have personnel staffs. Hiring is usually through the union, and it may share both in training and discipline. The industry’s benefit programs have been union-initiated and largely administered by the unions.<sup>13</sup>

**Employers’ organizations.** The employers in the clothing industry have tended to organize along functional lines in each city. That means a separate local association for “regular” manufacturers with their own plants, for jobbers who contract their manufacturing operations, and for contractors. Such local associations were, in some cases, initially formed to combat union organization. By the 1920’s, however, most employers’ associations were negotiating with the unions. Indeed, the employers and union officials are closer to one another socially and politically than is the case in perhaps any other industry. Employers from the clothing industry even testified against provisions in the bill that later became the Taft-Hartley Act, and in the men’s branch five-year, union-shop agreements were signed after the Act’s passage in order to help the union evade, for that period, the law’s union-shop restrictions.

The division of interests of employers in the industry has prevented them from becoming as centralized as the unions, despite the unions’ desire for and encouragement of strong employer units as counterparts to the labor organiza-

<sup>13</sup> For a recent survey of the history and activities of the Amalgamated Clothing Workers, see H. H. Bookbinder, *To Promote the General Welfare, The Story of the Amalgamated, Amalgamated Clothing Workers of America*, New York, 1950.

tions. Nevertheless, employers' associations do play a significant role in labor-management relations in the industry. In men's clothing, an *ad hoc* committee representing the manufacturers carried on nationwide bargaining in a single negotiation in 1937. Since 1941, the Clothing Manufacturers' Association of the United States (formed in 1933) has served as the national employers' agency in bargaining negotiations. In 1947 it represented some 850 firms manufacturing over 90 per cent of the industry's output in dollar terms. In the women's branch there has been since 1935 a joint management-union association on a national basis for the regulation of labor standards and commercial practices, but no nationwide employers' association for purposes of collective bargaining.

**Pattern of bargaining.** In the ladies' garment branch of the industry, collective bargaining is between the joint board and the employers' association in each city, separately for dresses and for coats, suits, and skirts. The negotiations and agreements in New York City determine the pattern that is spread by subsequent negotiations to other areas.

The bargaining in men's suits, coats, and pants was also on a city-by-city basis until national bargaining began in 1936. Since then the terms accepted in national bargaining, at which nine-tenths of the production is represented, are worked into agreements negotiated by the joint board and the manufacturers' association in the locality. The actual agreement is signed separately for each company. This system permits variation between cities in the provisions of agreements, but all must meet the minimum standards accepted in national negotiations.

The subject matter of collective bargaining in men's and women's clothing has included such items as unemployment compensation, various insurance programs, medical centers, regulation of manufacturer-contractor and jobber-contractor relationships, and even the area within which production can occur. Between 1942 and 1945, for example, the Amalgamated had negotiated with the Clothing Manufacturers' Association an employer contribution of 3 per cent of wages for an industry-wide pension program and a 2 per cent contribution for sickness, medical, and life insurance. During the same period, the ILGWU joint boards in New York had negotiated a 3 per cent employer contribution for retirement pensions and 3½ per cent for a comprehensive health and vacation program. In all cases the programs have enjoyed sound financial arrangements and expert administration provided largely by the unions.

**Wage stabilization.** In clothing, piece rates are the prevalent method of payment. Frequent change and non-standard items complicate the problem. The unions have sought to meet it by classifying the garments into price grades and fixing a uniform wage cost for each grade of garment. In men's

suits, for example, there are 6 retail price grades. In women's clothing the price lines are more numerous than the grade categories in the men's branch.

The problem of competition in wages may take three forms: intra-city and inter-city competition between union employers and competition between union and non-union firms. Since 1939 the Amalgamated has had a wage stabilization program, which started with a guarantee by the Amalgamated to the New York manufacturers that the direct labor cost of making a particular grade of garment would be the same all over the country in union shops. The union has a Wage Stabilization Department to check on piece rates, which are filed with it. The rates, of course, vary with local production methods but they cannot add up to less than a certain minimum cost for the garment.

In the women's branch, the union has also sought to standardize labor costs on a nationwide scale since 1933. From 1933 to 1935 the industry's code under the National Industrial Recovery Act was used for that purpose. Since 1935 the National Coat and Suit Industrial Recovery Board, discussed below, has been the vehicle. The continued decline in New York's share of the nation's output in ladies' garments and the earnings statistics for different cities seem to indicate only limited success for the ILGWU program. Both unions use the impartial chairman in each city to determine piece rates if they are in dispute; the decisions of the chairman, enforcing provisions of the agreement, are binding on the parties and usually are accepted by the courts.

Wages for men's and women's clothing combined rose no faster from 1934 to 1950 than in manufacturing as a whole. Indeed, in men's clothing they did not rise as fast as the combined average for all manufacturing. Hourly earnings in the ladies' branch rose more rapidly than in men's clothing during and after World War II, because the great variation in women's garments made it more difficult for the government to control wages and because the women's branch was more prosperous in the first post-war years. Between the spring of 1947 and late 1950, no general wage increases were negotiated for the men's coat and suit or the women's dress industries, and only one general increase occurred in the ladies' coat, suit, and skirt industry (February, 1948). Because of relative depression in soft goods during that period, they did not follow the pattern of wage increases in industries like steel, automobiles, and electrical equipment. General increases were negotiated in clothing in October and November, 1950.

The clothing unions have to consider the effects of their wage policies on non-union competition, especially in the South. That has been particularly true of the ILGWU, which has recently achieved a more rapid rise in hourly earnings and which has placed restrictions on "section work" (really subdivision of labor) in New York City. Even though non-union firms may represent only 5 to 10 per cent of total output, their competition is a limiting factor,

and a large differential in labor costs between union and non-union firms constitutes an invitation to evade union standards and restrictions.

**Industrial regulation under collective bargaining.**<sup>14</sup> In order to limit competition and prevent wage-cutting, the unions have reorganized the industry's structure. Competitive bidding by contractors has been eliminated. The jobber or manufacturer must designate his contractors and use only them, and, under the agreements, the jobber or manufacturer is responsible for his contractors complying with the terms of the agreement. Restrictions are placed on the shifting of employers from one price grade of garments to another.

In such a small-scale industry with easy entry, enforcement of union standards is difficult. Under the agreements, the impartial chairman has the power to examine employers' books and to levy fines and other penalties against offending parties. In New York City, the ILGWU also uses, for enforcement purposes, records of shipments made in trucks driven by members and the restriction that the key process of cutting the cloth can only be performed by employers in shops of a specified size.

In ladies' coats and suits, the ILGWU and some 15 employers' associations jointly operate the National Coat and Suit Industry Recovery Board, founded in 1935 to maintain labor standards and regulate commercial practices. Employers must, as a condition of signing an agreement with the union, buy and use the label distributed by the Board. The label serves to facilitate the detection of non-union sources of production. The Recovery Board imposes on its members the same restrictions concerning contractor relations as apply in New York City. Under the union's agreements, the impartial chairman in a city is authorized to require use of the label as well as compliance with other provisions of the agreement. In 1941 the Federal Trade Commission filed a complaint alleging that the Recovery Board's activities were in restraint of trade and thus in violation of the Federal Trade Commission Act and other anti-trust laws. The case had not been decided by mid-1950.

**Bargaining experience and appraisal.** Since 1933 the Amalgamated and the ILGWU have negotiated agreements in the men's and women's coat and suit branches without notable or general strikes. In December, 1945, when autos, steel, electrical equipment, and other industries were engaged in widespread work stoppages, the Amalgamated negotiated a 15-cent wage increase, plus six legal holidays and an employer contribution of 3 per cent of payrolls to a Retirement Fund. The clothing unions bargained employer-financed welfare funds on a city-wide or industry-wide basis before the United Mine Workers and with little commotion or employer complaint. Their regulation of the industry far exceeds that of the Mine Workers in bituminous coal.

<sup>14</sup> For a good discussion of this for ladies' garments, see D. E. Robinson, *Collective Bargaining and Market Control in the New York Coat and Suit Industry*, Columbia University Press, New York, 1949.

Why have the employers in clothing been so willing to allow the unions to provide the leadership in the industry and to manage its affairs? Why have they not feared union invasion of management "prerogatives"? Why have the unions been able to negotiate favorable settlements with a minimum of antagonism and a maximum of good-will? The answers to such questions lie partly in the characteristics of the industry. In large measure, however, they rest on the leadership in the unions. Clothing unions have cooperated with the manufacturers to improve efficiency and production in the shop.<sup>15</sup> They have developed expert staffs with whom management could consult about manufacturing and merchandising problems. In bargaining negotiations, the union leaders have assumed responsibility for the welfare of the industry, its progress and its employment possibilities. Instead of insisting on each "round" of post-war wage increases, they negotiated new agreements without increases when conditions in the industry did not seem to warrant a wage rise.

The unions and employers' associations in clothing have not been a bilateral monopoly, negotiating higher and higher wages relative to the rest of industry. Whether the practices of the Recovery Board in ladies' garments violate the anti-trust laws is still an unsettled question. The subject of labor monopoly is considered at length in Chapter 14. Here it is only necessary to point out that collective bargaining has taken into account the best interests of the industry and has stressed efficient production in ways that are beneficial to consumers.

## AUTOMOBILES<sup>16</sup>

**Nature of the industry.** Automobile production is a new and vigorous industry, noted for its rapid expansion, assembly-line methods, fast work pace, high wages and profits, and sharp fluctuations in employment. Three-fifths of the industry's 600,000 workers in 1950 were employed in Michigan. Detroit, crowded with labor drawn from rural areas and the South, alone accounts for half of all workers in automobile manufacture. Nine-tenths of the workers are men; wages represent about one-fifth of total costs in automobile plants.

Three large, integrated firms dominate the industry: General Motors with about 40 per cent of all passenger car and truck production, and Ford and Chrysler with around 20 per cent each. These three companies own most of the assembly and body plants but purchase many of their parts and some tools and dies from smaller firms. Competition for retail sales is on the basis of quality

<sup>15</sup> For a study of the functioning of cooperative relationships in clothing, see Kurt Braun, *Union-Management Cooperation, Experience in the Clothing Industry*, Brookings Institution, Washington, 1947.

<sup>16</sup> This section is based in good part upon Irving Howe and J. A. Widick, *The UAW and Walter Reuther*, Random House, New York, 1949, and F. H. Harbison and R. Dubin, *Patterns of Union-Management Relations: United Automobile Workers (CIO), General Motors, Studebaker*, Science Research Associates, Chicago, 1947.

rather than price. General Motors, with around 400,000 workers and about the same number of stockholders, is the nation's largest company and is reputed to be the lowest-cost producer in the industry.

Automobile production is subject to irregular employment—seasonal variation, model changes, and especially boom-slump fluctuations. Between 1929 and 1932, automobile employment fell 45 per cent; from 1937 to 1938 it dropped 40 per cent. Employment insecurity, speed of operations, and callous management were factors in the unionization of the industry.

**The union.** Like General Motors, the United Automobile, Aircraft and Agricultural Implement Workers of America (CIO) is a multi-industry organization, which claims a million members, only three-fifths of whom are really in automobile production. It has been a militant, faction-ridden organization, subject to considerable rank-and-file control. Indeed, at a number of critical points it was the rank and file that took decisive action without direction from the top officials—for example, in the sit-down strikes of 1936 and 1937 and in the Ford walkout in April, 1941.

The UAW has had a turbulent history. Automobile locals began to be organized by the AFL in 1933. In August, 1935, the AFL combined its locals into a new national union and, relaxing its control, permitted Homer Martin to be elected president in April, 1936. Shortly thereafter the union, formed on an industrial basis with about 30,000 members, affiliated with the CIO. From then on various factions—Socialists, followers of the Communist Party line, Lovestonites, progressives, and what not—vied for control of the union. After suspending parts of his executive board on two occasions and being overruled, as well as being denied more central control by the union's convention, Homer Martin was forced out and led a small group back into the AFL. The second president, R. J. Thomas, remained in office from 1939 to 1946, when he was replaced by Walter Reuther, who had been active in the union since 1935 and director of the union's General Motors Department since 1939. During Thomas' incumbency there was constant friction and jockeying between the Reuther faction and that spearheaded by Secretary-Treasurer George Addes, who tended to follow the Communist Party line. Since the union's 1947 convention, Walter Reuther has been in complete control of the national organization, including the executive board, without significant opposition to his leadership. However, considerable independence and ideological opposition have continued to exist among the union officials in the large Ford local of 65,000 at River Rouge and in some of the Chrysler locals.

To coordinate demands and develop bargaining policies, corporation-wide councils have been established for each of the Big Three. Representatives of the locals in a single company meet with a director appointed by the union's

Executive Board to deal with matters pertaining to that company. Within the union there is, therefore, a General Motors Department, a Ford Department, and a Chrysler Department.

UAW conventions have passed resolutions opposing incentive pay and the speed-up and favoring industry-wide wage equalization and industry-wide bargaining in automobile production. Those official policies have not, however, eliminated incentive systems from some plants nor prevented the union from arguing for wage increases at General Motors on the basis of its ability to pay or for maintenance of Ford differentials above the industry average. Industry-wide bargaining is considered necessary in order to deal, through collective bargaining, with the broad economic problems of the industry such as seasonality, cyclical instability, and wage relationships.

Walter Reuther has sought labor leadership by using UAW demands and negotiations to set patterns and by offering plans for industrial and national economic and social planning. His defense plan included pooling of the industry's machine tools; his post-war housing plan involved use of government plants. To establish wage and benefit patterns, Reuther has followed a policy of operating against one of the Big Three at a time, using the competition of the others to weaken the resistance of the firm under threat of strike or strike-bound. And in negotiations he has sought to spread the scope of bargaining to include economic problems that managements of large firms consider their "prerogatives." Union statements have often been exceedingly critical of managements in the industry.

**Employer policies and organizations.** The automobile companies were traditionally anti-union. General Motors and Chrysler spent large sums for labor espionage prior to 1937, and Ford maintained a Service Department to suppress any incipient labor organization. The bitter battles required to organize and gain union recognition from General Motors, Chrysler, and Ford (including sit-down strikes and physical combat) contributed to strained relations long thereafter.

The attitude and policies of General Motors toward the UAW have perhaps been the most consistent. At least until 1950, that company followed a policy designated as one of "containment" in the preceding chapter. Pursuing "arm's length" bargaining, General Motors has sought to restrict the scope of collective bargaining by confining it to narrow issues of wages, hours, and working conditions. Legalistically, it has insisted on strict adherence to provisions of the agreement and the preservation of management functions and authority. To avoid mistakes and to maintain consistency, the company centralized labor relations, whereas for most other matters it has followed a policy of decentralization. Instead of using the UAW as a channel of communication, General Motors has competed vigorously with the union for employee loyalty.

In 1946 and later, top officials of the company publicly attacked unions as "labor monopolies." In 1946 and again in 1947, General Motors settled first with the left-wing United Electrical Workers in its refrigerator plant, thereby cutting the ground from under the UAW.

The rivalry and differences between the automobile companies have been too great to permit the establishment of any employers' association covering automobile assembly operations. Some firms have followed the policy of "containment"; Ford shifted its policy sharply in 1941 when it signed an agreement with a union shop and other "model" provisions; other companies have tried to live with the union and to accept its aid in solving problems as Studebaker has done. In 1948, General Motors suddenly asserted leadership by agreeing with the union on more generous terms than Chrysler, on strike for two weeks, had been willing to set as a pattern. On the other hand, 20 tool and die producers in the Detroit area joined the Automotive Tool and Die Manufacturers' Association and through it, as early as May, 1937, signed a master agreement with the union.

**Bargaining experience.** The pattern of collective bargaining in the automobile industry, except for the Detroit tool and die shops, consists of company-wide negotiations covering all the production workers in an industrial union. The first company-wide agreements with General Motors and Chrysler were signed in 1939. The union has attempted to pursue the tactics of hitting one of the Big Three at a time in order to establish a pattern. Usually General Motors has been the pattern-setter, although Ford led with pensions in September, 1949. The Ford 1941 union-shop agreement and the Kaiser-Fraser \$5-a-car bonus plan failed to spread to other companies.

Collective bargaining in the automobile industry has been colored by the bitter struggles out of which it grew. In General Motors and Chrysler, union recognition and negotiations were only obtained in 1937 by a series of sit-down strikes, some of which lasted six weeks or more. When Homer Martin moved a fraction of the union's membership into the AFL, Walter Reuther, in July, 1939, struck General Motors tool and die shops working on 1940 models in order to force the company to recognize and deal with UAW (CIO). As a highly integrated operation, automobile production is vulnerable to strikes at many strategic points. Under the early agreements, workers engaged in numerous quickie strikes in violation of agreements as a means of obtaining immediate settlement of grievances and demonstrating their new power. Until 1940 the union's program was rather decentralized, with each local contesting for survival and influence. In the case of Ford, the company fought bitterly against unionization, with a variety of tactics. It contested a National Labor Relations Board order all the way to the U. S. Supreme Court, only to lose in February, 1941. Three months later, Ford workers voted

almost three to one for UAW, and the company made one of the most complete reversals in labor relations history, signing an agreement that contained both the union shop and check-off of union dues. That, however, did not prevent numerous wildcat strikes during the next few years at Ford.

During the war, the skilled tool and die makers and skilled maintenance workers in the industry were granted two special increases, in addition to a general wage increase of four cents under War Labor Board directive in mid-1942. The special one in mid-1942 was 6 cents an hour and the other in October, 1944, was 5 cents an hour. Granted by directive order of the War Labor Board, these special increases for skilled workers were designed to expand their differentials, which had been reduced in percentage terms by previous across-the-board increases which were uniform in cents per hour.

Before the end of World War II, the rank and file were revolting against the no-strike pledge. Further unrest was caused by the post-war decline in weekly earnings as a result of reduced overtime. Walter Reuther took the initiative to demand of General Motors a wage increase of 30 cents an hour with no increase in the price of cars. The resulting General Motors strike lasted 113 days, beginning on November 21, 1945. President Truman appointed a fact-finding board, but the company withdrew from the hearings when the board insisted on including the company's ability to pay as one of the criteria to be considered and investigated. The board in January, 1946, recommended a wage increase of 19.5 cents an hour without a rise in car prices. A month later, after the struck steel industry had signed agreements for a wage increase of 18.5 cents an hour with arrangements for a price increase, General Motors negotiated an agreement with the United Electrical, Radio, and Machine Workers (CIO) for 18.5 cents an hour with no mention of prices of refrigerators or other electrical equipment. The UAW soon had to accept the same terms, which became a national pattern.

In May, 1949, General Motors negotiated an agreement after Chrysler had been on strike for two weeks. The assumption had been that the passage of the Taft-Hartley Act and other evidences of a swing toward conservatism had weakened the union's bargaining position. Also, in the midst of the Chrysler negotiations Walter Reuther was shot by an unknown assailant. The Chrysler strike started on May 12, following rejection of the company's offer of 6 cents an hour increase. On May 25, General Motors signed a new two-year agreement with the union. The agreement granted a wage increase of 11 cents an hour, plus an automatic increase of 3 cents an hour in May, 1949, under an "annual improvement factor" (representing the nation's average increase in productivity) and an escalator clause, under which wages were to be increased or reduced quarterly by 1 cent an hour with every one-point <sup>17</sup> change

<sup>17</sup> The scale was really alternately one point and one and one-tenth points.

in the consumers' price index of the U. S. Bureau of Labor Statistics. Any reduction under the escalator clause was, however, limited to the total increases under it. The company had been willing to sign a five-year agreement, apparently an evidence of its desire for industrial peace. Three days later Chrysler ended its strike by granting a 13-cent increase, and Ford granted the same increase in July.

In 1949 the big drive by the UAW and other CIO unions was for pension-health funds, paid for by the companies. In 1947 the Ford Motor Company had offered its employees a contributory pension plan, but they had rejected it in favor of a larger wage increase. Before the union's welfare-fund drive was in full swing, however, a series of wildcat strikes broke out in protest against alleged speed-ups. The strike at Ford in May, 1949, lasted three weeks and was only ended by an agreement to arbitrate, which resulted in an award largely favoring the union's position. In September, a fact-finding board appointed by the President for the steel dispute, recommended no wage increase but a company contribution of 6 cents an hour for pensions and 4 cents for health and welfare. The steel companies refused to accept the 10-cent, pension-insurance package unless employee contributions were included, and so a nationwide steel strike ensued. Just before the steel strike began, Ford signed, under strike threat, an agreement providing the equivalent of 10 cents an hour to finance both non-contributory pensions, which, with the benefits under federal old-age insurance, would amount to \$100 a month, and hospitalization and medical care.

In 1950, as in 1948, Chrysler endured a strike, whereas General Motors avoided one and established a pattern with a five-year agreement. The Chrysler negotiations began in July, 1949, under a wage-reopening clause in the agreement. After September, the union insisted on the 10-cent package for pension-insurance benefits accepted at Ford and in steel. The company offered the \$100 a month benefits of the Ford plan, but on a pay-as-you-go basis with no funding or stipulated company contribution, which would have meant perhaps a current cost of 3 cents an hour in view of the age distribution of Chrysler's employees. The strike finally occurred on January 25, 1950, and lasted for 100 days. It was settled by a three-year agreement subject to wage reopening, which provided for a funded pension plan and welfare benefits that together amounted to about 10 cents an hour per employee. Three weeks after the end of the Chrysler strike, General Motors and the UAW signed a new five-year agreement, which seems destined to be a landmark in labor relations in this country.

This extraordinary agreement runs until May 29, 1955, and contains no reopening clauses. It carries over from its predecessor the two-way escalator clause, under which a total of 3 cents an hour in cost-of-living increases had

been achieved. The "annual improvement factor" is raised from 3 to 4 cents an hour, representing a yearly increase in wages of about 2.5 per cent. Tied to it is an implied understanding not to restrict production, technological change, and methods' improvements. Skilled workers in some lines received a special wage increase of 5 cents an hour. In addition, General Motors finally agreed to a modified union shop, under which former non-members alone are exempted from joining the union. Pensions, disability benefits, life insurance, and sickness and accident benefits are provided. The pensions amount to a maximum of \$117.50 a month under the 1950 revisions of the Social Security Act. The union estimated that all of the changes, including improved vacation pay, represented the equivalent of 19 cents an hour immediately, with 4 cents additional each year under the "improvement factor."<sup>18</sup> In August and September of 1950, Ford, Packard, and other firms in the industry followed the General Motors pattern by signing five-year agreements with the same provisions for a cost-of-living adjustment and an annual improvement factor. In addition to an immediate increase of 8 cents an hour and 5 cents extra for skilled workers, the new Ford contract raised the company's pensions from \$100 to \$125 a month. Chrysler, on the other hand, granted a 10-cent-an-hour increase late in August. With the increased demand for labor, however, Chrysler in December accepted a 5-year agreement with a pension of \$125 a month, a 1-cent wage increase, and the General Motors escalator and annual improvement provisions. Earlier in the month, General Motors and Ford employees had received an increase of 3 cents an hour under the escalator clause. The result of pattern-spreading was that practically the entire automobile industry was on a General Motors type of agreement by the end of 1950.

**Appraisal.** Union-management relations in the automobile industry have matured considerably since the first company-wide agreements with General Motors and Chrysler in 1939 and Ford in 1941. The union is no longer badly split by factionalism. The national headquarters has gained in actual control over union affairs. With five-year agreements so widespread, the union's problem may be one of preserving some military and union solidarity in the absence of periodic negotiations and crises. The five-year agreement, containing the union shop, may be a turning point in General Motors' labor relations. Apparently that firm has now really accepted the union as a permanent part of the industry.

Between 1935 and mid-1950, average hourly earnings in the automobile industry declined somewhat relative to manufacturing as a whole—from 36 per cent above to around 21 per cent above the all-manufacturing average. Such a relative decline tended to be characteristic of high-wage industries

<sup>18</sup> For an appraisal of this five-year agreement, see F. H. Harbison, "The General Motors-United Automobile Workers Agreement of 1950," *Journal of Political Economy*, Vol. LVIII (October, 1950), pp. 397-411.

during that period. As already noted, however, that was not true of average hourly earnings in soft coal, which, although about the same as hourly earnings in automobiles in 1935, were about 18 per cent above them in mid-1950.

## COMPARISONS AND LIMITATIONS OF COLLECTIVE BARGAINING

In reviewing the experience with collective bargaining in four industries—railroads, coal, clothing, and automobiles—one is struck by the great diversity and marked contrasts. Coal and clothing have needed the unions to help stabilize the industry. Not so on the railroads or in automobile production. In clothing, the companies are agreeable to having the unions play a large role in managing the industry, whereas the large automobile companies jealously guard management's functions and authority from invasion by a union leadership advocating industry and national planning. The 20-odd craft unions on the railroads, by contrast, show little interest in assuming any share in management functions.

In men's clothing, collective bargaining on major issues is on an industry-wide basis. In ladies' garments, the negotiations are between a joint board of the union and an employers' association representing producers in a single city, with New York City tending to set the pattern. The railroads have national bargaining on a craft or multiple-craft basis. In automobiles, company-by-company bargaining prevails, with the union able to play one firm against another in establishing the pattern. Soft coal has been characterized by a complicated variety of bargaining patterns—regional bargaining under the Central Competitive Field and Appalachian agreements, large company pattern-setting in 1947, separate yet concurrent negotiations with southern and northern-western employers' associations in 1950, and industry-wide negotiations with the federal government as temporary possessor of the mines in 1943 and 1946.

In coal, the union has been subject to one-man domination, compared with the high degree of rank-and file participation and influence that has existed in the UAW. The railroad unions have been disturbed by the relative decline in the wage position of their members, whereas the clothing unions do not seem to worry much if some years they forego the wage increases achieved in heavy goods industries, because of the current condition of their industry and the threat of non-union competition. The railroad and automobile unions do not need to worry about non-union competition.

Some writers have suggested that the clothing unions, with their participation in management and wide scope of bargaining, represent a stage of maturity in union-management relations toward which the recently organized mass-production industries will gradually evolve. One would not, however, expect the automobile, or even the coal, industry to duplicate the type of

bargaining relationships and arrangements that exist in men's and women's clothing. The industries are too different.

This survey of experience also indicates some of the limitations to labor achievements via collective bargaining. Collective bargaining attacks economic problems from the facet of wages, hours, and working conditions. It must, therefore, reckon with effects on costs and cost differentials. If the negotiations are on a company basis or a regional basis, the competition of other companies and regions of the country must be considered, except in the case of one-company or local-market industries. Industry-wide bargaining may, as in pottery and glassware, have to take account of foreign competition. The competition of substitute products may be another limiting factor, as in the case of coal. Because it achieves most of its economic gains by placing burdens on payrolls, collective bargaining may also be restricted somewhat by the substitution of labor-saving techniques for labor. An important exception to the payroll-burdening effect is the United Mine Workers royalty of 30 cents a ton on soft coal to finance the Miners Welfare Fund. Because it applies to output rather than to employment, it is really revolutionary and essentially a tax on production. That is why it was so surprising for the federal government to negotiate such terms and why the operators so strongly resisted the precedent.

Management and market forces may largely nullify the attempt to achieve economic gains by means of collective bargaining. Without some control over prices and profits or the power to tax, collective bargaining may have little effect on the distribution of the national income among wage-earners, rent and royalty recipients, and profit and interest receivers. So far the great spread of collective bargaining after 1933 apparently has caused no appreciable change in the percentage of the national income represented by wages. Even in an industry as highly union-regulated as clothing, such economic magnitudes as prices, profits, and employment still remain largely in the hands of management. And the union's enforcing weapon of the strike is self-injurious and stimulates union-restricting legislation.

In stating the economic limitations to collective bargaining one should not, of course, overlook its non-financial aspects. Protection of employees from arbitrary decisions by management, provision of outlets for worker leadership, and promotion of dignity and self-respect among workers are important social values. And to the extent that collective bargaining does, on net balance, increase labor productivity, it enhances the real national income.

The point here is that collective bargaining is not a particularly effective instrument for income redistribution or for overcoming instability in our economy. That explains why many union leaders, like Walter Reuther or the heads of the clothing unions, look to political action and the federal taxing and spending powers for the achievement of such goals.

## CHAPTER THIRTEEN

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### FACTORS IN GOOD LABOR RELATIONS

In recent years, numerous investigations have been made of the factors contributing to satisfactory industrial relations under collective bargaining. Many case studies and surveys have been conducted to uncover the elements in good union-management relationships. Limitations to different research techniques were mentioned in Chapter 1. Some of the conclusions there will be illustrated by the material in this chapter.

The chapters on union and management policies explained the differences in viewpoints and goals of the parties. The purposes of unions are not the same as the objectives of managements. Business management governs workers whose welfare is not the primary aim of the company. Management seeks to develop the enterprise; union leaders strive to build up the union organization. Collective bargaining is a relationship not only between individuals but between organizations. Management thinks chiefly on a company basis, national unions are concerned with inter-company and industry problems. Unions are part of a labor movement with working-class ties and traditions. As such they seek to alter the distribution of rights and benefits, whereas business management generally desires to maintain the status quo or to regain lost ground. Examination of the past policies and programs of the AFL and CIO, on the one hand, and the National Association of Manufacturers and the U. S. Chamber of Commerce, on the other, reveals the marked differences in broad economic and social goals and philosophy between those national representatives of organized labor and organized business.<sup>1</sup>

The preceding chapter indicated the diversity in union-management relations as well as the changing nature of such relations. The questions with which we are concerned in this chapter are: How, given differences in viewpoints and purposes, can the parties develop satisfactory working relations at the plant, company, or industry level? What conditions, policies, and arrangements promote successful collective bargaining? What elements or factors facilitate the adjustment of union-management differences and foster industrial peace?

<sup>1</sup> For a further discussion of differences in management and union views and convictions, see E. Wight Bakke, *Mutual Survival, The Goal of Unions and Management*, Harper, New York, 1946.

## PROBLEMS OF ANALYSIS

In attempting to answer such questions, one is faced with difficult problems of definition, measurement, and analysis. Although for expository purposes, four types of management policy toward unions were developed in Chapter 11, it was explained that they did not exhaust all the possibilities and they disregarded differences of degree. Professor Benjamin Selekman of the Harvard Business School has suggested eight "tentative" patterns or "structures" of joint dealings.<sup>2</sup> However, he recognizes that they overlap, that the boundaries between them are blurred, and that they are not precise enough to be used for purposes of measuring differences and changes. The truth is that such terms as "good" or "successful," when applied to labor relations, lack clear-cut content. No standards or tests exist for determining and grading the comparative success of collective bargaining in particular firms or industries. Uncertainty even exists as to what constitutes union-management relations. Presumably they include attitudes and opinions, statements and tactics, actions and results at all levels of contact between the parties.

**Criteria for gauging success.**<sup>3</sup> From time to time, different bases or tests have been suggested for determining the existence of good union-management relations. They include: absence of strikes or resort to governmental disputes machinery, attitude of the parties toward one another, number of grievances and arbitration cases, efficiency of operations, and extent of participation by the workers and all levels of management in labor relations matters.

The weakness of each of these criteria is evident. Lack of work stoppages may indicate the existence of a one-sided relationship (a weak union and a strong employer, or a strong union and a weak employer), dictatorial control of the union, an excessively generous management, or a situation so static or favorable that no real problems have arisen to test the relationship. Furthermore, students of labor relations can cite numerous cases in which a strike "cleared the air" and had favorable effects on future relations by sobering the parties and teaching the virtues of compromise.

Attitude or sentiment may also be unsatisfactory as a criterion. An "I love you and you love me" type of relationship may be unhealthy because it disregards real problems and genuine conflicts of interest. Furthermore, we lack adequate means of measuring the attitudes of the parties toward their relationship and of comparing the results of some standard attitude test both between firms and over time for the same firm. A satisfactory standard for measuring

<sup>2</sup> "Varieties of Labor Relations," *Harvard Business Review*, Vol. XXVII (March, 1949), pp. 175-99.

<sup>3</sup> Parts of this section draw from a report written by the author and E. A. Robie entitled *Constructive Labor Relations, Experience in Four Firms*, Industrial Relations Section, Princeton University, 1948.

current attitudes of the parties toward each other and their relationship might provide a statistical basis for charting and delineating the psychological aspects of labor-management relations. Although that could aid, by comparisons over time and between companies, in gauging improvements and in determining stages in the development of such relations, a standard attitude measure would not provide a reliable basis for forecasting, in view of the abrupt changes that sometimes occur in union-management attitudes toward one another. Attitudes are exceedingly complex and have many dimensions.

The other criteria mentioned are also inadequate. The number of grievances may be influenced by a host of factors, including the militancy of the union, the number of recent changes in the wording of the agreement, the rate of technological change, variations in employment, the type of seniority clause, the existence of piece-rate or incentive systems, and so forth. Efficiency suffers as a criterion not only because it is usually difficult to assess but also because there apparently have been instances of high efficiency despite "poor" union-management relations.<sup>4</sup> Too much rank-and-file participation in determining union actions may, as illustrated by the UAW during its first decade, result in wildcat strikes and lack of responsibility for agreements, which prevent satisfactory joint relations.

Although each criterion has its limitations and defects, together they may provide some composite picture of relationships. But the result is a subjective impression and not an objective assessment. Certainly one of the tests of successful labor relations is the ability of the parties to resolve serious issues and conflicts of interest without resort to economic warfare. Unfortunately we have no means of measuring either the frequency and intensity of labor relations problems in a firm or the degree of success or failure of the parties in developing workable solutions to their problems.

**Difficulties and methods of discovery.** In trying to identify and assess the factors responsible for good industrial relations, one is faced with a variety of difficulties. Collective bargaining occurs in a complex environment, influenced by many variables. Experimentation, to isolate the significant variables or factors so as to determine their effects under different conditions, is not feasible. Even if it were, awareness of the experiment by the parties would be likely to influence and, therefore, vitiate the results.

Study of experience in order to determine and evaluate the significant factors that contribute to successful relations is confronted with at least four obstacles. The first is that so many variables are usually present that each situation is more or less unique. Generalization from unique conditions is hazardous. The

<sup>4</sup> See Sumner H. Slichter, *The Challenge of Industrial Relations*, Cornell University Press, Ithaca, 1947, p. 48, and John J. Turnbull, *Labor-Management Relations, A Research Planning Memorandum*, Social Science Research Council, 1949, p. 64. General Motors Corporation's pre-1950 experience might be cited as a case in point.

second is the difficulty of separating one factor from an interrelated, dynamic situation and attempting to weigh its effects alone. With interaction of factors, effects are also causes, and cause and effect become confused. The third obstacle is that the same factor may at one time have favorable, and at other times unfavorable, effects. A strike, for example, may improve or embitter relations. Economic adversity or crisis can lead a management either to be hard-boiled with labor or to engage in union-management cooperation to reduce costs as a last resort in averting bankruptcy. Finally, there is the eternal problem of measurement. Systematic measurement of important variables in a particular situation over any length of time is extremely difficult. In its absence, reliance is placed on incidental statistical material, description, observations of the participants, and insights of the investigator. These are pieced together to test their consistency and to arrive at conclusions. In the piecing process, the investigator's "framework of analysis" plays a significant role, for it determines what factors are included, how he arranges the data, and where emphasis is placed.<sup>5</sup>

As a substitute for experimental conditions, the student of influences in industrial relations has to resort to various comparative devices. First, he can compare the situation before and after a change in one factor. Unfortunately a number of changes often occur concurrently or close together, thus reducing the effectiveness of the "before and after" method. Second, he can compare experience in two plants with many identical circumstances, but one or more significant variations. Multi-plant companies lend themselves to such inter-plant comparisons. Unfortunately, again it is not possible to isolate one factor and confine changes to it alone. The third method is to make a series of case studies of union-management relationships considered to be "good" or "successful" and to note their common characteristics. The discussion below rests largely upon a comparison of the key factors in a dozen cases of "constructive" labor relations under collective bargaining.<sup>6</sup> Within an individual case study, the other two methods may, of course, have been used.

<sup>5</sup> For a discussion of analytical frameworks, see C. A. Myers and John G. Turnbull, *Research on Labor-Management Relations, Report of a Conference Held on February 24-25, 1949, at the Industrial Relations Section, Princeton University*, Social Science Research Council, 1949; and John T. Dunlop and W. F. Whyte, "Framework for the Analysis of Industrial Relations: Two Views" and "Comments," *Industrial and Labor Relations Review*, Vol. III (April, 1950), pp. 383-412.

<sup>6</sup> R. A. Lester and E. A. Robie, *Constructive Labor Relations, Experience in Four Firms*, Industrial Relations Section, Princeton University, 1948; the first 7 case studies in the National Planning Association's series on the Causes of Industrial Peace as follows: Clark Kerr and Roger Randall, *Crown Zellerbach and the Pacific Coast Pulp and Paper Industry*, September, 1948; F. H. Harbison and King Carr, *The Libbey-Owens-Ford Glass Company and the Federation of Glass, Ceramic and Silica Sand Workers of America*, October, 1948; D. McGregor and J. N. Scanlon, *The Dewey and Almy Chemical Company and the International Chemical Workers*, December, 1948; D. B. Straus, *Hickey-Freeman Company and the Amalgamated Clothing Workers of America*, January, 1949; J. W. Miller, *Sharon Steel Corporation and United Steelworkers of America*, April, 1949; Clark Kerr and George Halverson, *Lockheed Aircraft Corporation and International Association of Machinists*, November, 1949; C. A. Myers and

## ELEMENTS IN INDUSTRIAL PEACE

Case studies of labor relations reveal no single policy, procedure, or technique that alone can assure harmonious relations. Apparently no magic formula or nostrum exists that will guarantee industrial peace and contentment. It is not even certain that any particular combination of factors will achieve and preserve good industrial relations. In the absence of knowledge that a certain factor or combination of elements will assure a particular result, it is well to avoid any reference to "the cause," or even "the causes," of successful or peaceful relations. Such qualifications need to be borne in mind in examining factors common to cases of good working relationships.

The method of selecting the important elements that are common to most such cases is, of course, qualitative and impressionistic. It does not permit any close assessment of the relative weight to be placed upon particular factors. Consequently, no special significance should be attached to the order of treatment of each factor. As indicated at the end of the preceding section, the analysis is in terms of a cross-comparison of case studies of a dozen companies, made in 1947, 1948, and 1949.

1. Favorable beginnings. Initial and early relationships are often decisive in setting a pattern that persists. In these cases, the managements recognized the unions either without a strike forcing them to do so or without a period of open hostility and bitterness.

2. Union security and stability. Genuine acceptance of the union as the employees' representative by the management, including the lower levels of management, is a prerequisite for good labor relations. In addition, most of the case-study companies share information with their unions and use them as channels of communication with their employees. To permit the rise of responsible leadership and reasonable demands, the union needs considerable strength, stability, and unity, without intense factional cleavages or threats to its existence from a rival union.

3. Mutual trust and will to agree. Confidence in each other's good faith and honesty and a disposition to compromise and cooperate appear to be essential elements in good industrial relations. Compatible personalities on both sides also seem to have been important in many cases.

4. Pragmatic approach. In all cases, top management is practical rather than legalistic and restrictive. It has been more interested in solving problems and settling grievances promptly than in adhering strictly to a principle, a

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G. P. Schultz, *Nashua Gummed and Coated Paper Company and Seven AFL Unions*, February, 1950; and the Studebaker Corporation in F. H. Harbison and Robert Dubin, *Patterns of Union-Management Relations: UAW-CIO, General Motors, Studebaker*, Science Research Associates, Chicago, 1947.

procedure, or an assumed prerogative. Issues are approached with open-mindedness and a willingness to allow flexible adjustments.

5. Operating executives in charge of industrial relations. It is surprising in how many of the cases labor relations are handled by production executives or former line executives, interested in human relations and in settling problems. Use of line executives in industrial relations may help to provide consistency and effective communications on labor matters within management.

6. Understanding of institutional requirements. An ability to understand the needs, problems, and goals of the other party seems to be an important ingredient of successful labor relations. Management especially needs to appreciate the political aspects of the union.

7. Considerable local autonomy. If collective bargaining is to be responsible and develop workable compromises, latitude must be permitted to local unions and plant managements to solve their own problems, as is the situation in most of the cases being compared. Flexible adjustment is hampered if national positions of organized labor and management are permitted to interfere with and color local dealings.

8. Not pattern-setters. The companies included in the case studies were small or medium-sized concerns, which do not serve as national wage leaders. They are in a pattern-following position, so that their relations are spared much of the strife that goes with spearhead drives.

9. Favorable economic circumstances. The ability of the company to offer relatively high wage scales, earnings, and employee benefits appears to have been a contributing factor in most of the cases. In some cases stability of employment and relatively slow rate of expansion and technological change seem to have been conditioning factors.

10. No serious ideological incompatibility. In none of the cases was the union one in which the leadership had been following the Communist Party line. The gradualism and pragmatic philosophy of American unionism is itself an important element in union-management relations in this country.

In examining these dozen cases, selected because they were considered good examples of successful collective bargaining, one is struck by the remarkable resemblance in basic features despite wide diversity in particulars. Management policies and attitudes generally seem to have been dominant influences in setting the tone and climate of labor relations in the company. Often the local union leadership reflects the outlook and desires of the management, so that the company gets the kind of union it encourages. It is interesting to observe that multiple-employer bargaining is the practice in one-third of the cases and that managements in some of the remaining companies have indicated a willingness or desire to negotiate on a group-employer basis. Group or industry-wide bargaining tends to confine to one negotiation any friction

and strife involved in working out a new agreement, eliminates some problems of competition and rivalry, and, by shifting much of the bargaining and blame to the top level, permits more concentration on problem solving at the local or plant level.

Mention of the above ten factors without assigning any weights to each leaves open the question of the relative contribution of psychological, economic, historical, sociological, and political influences in good industrial relations. The psychologist may point out that the personalities of the top officials on both sides were responsible for good relations in many cases. The economist may stress the environmental and financial aspects—size of firm, relatively high wages and profits, stability of employment and technological change, product market conditions, etc. The industrial sociologist is prone to place emphasis on congeniality in the work force, informal plant groupings, day-to-day relations in the shop, social relations in the community, and institutional needs and goals. The political scientist may consider the crucial element to be leadership on both sides and the ability of the parties to work out “political” compromises to conflicts of interests. Actually the academic disciplines overlap, and means do not now exist for separating and weighing independently the influence of psychological, economic, historical, sociological, and political factors. All are intermingled in such complexity that a meaningful analysis cannot be made in each case of the separate elements lifted out of context. Use of interdisciplinary teams in the planning or conduct of case studies does not solve that problem and encounters the difficulty that the conceptual frameworks and abstract theory in the different disciplines may be incompatible.

## UNION-MANAGEMENT COOPERATION

Some writers consider cooperation between unions and managements on production problems to be the ultimate stage in the evolution of collective bargaining. It has been called “mature collective bargaining.” Such an assumption raises again the question of the extent to which unions do and should share in helping management perform its functions.

**Meaning.** The term, union-management cooperation, is used here in a fairly narrow sense. It refers to systematic cooperation between unions and management for the handling of production in the plant—joint assistance in reducing costs, increasing output, and improving the quality of the product. Of course, some cooperation between management and labor occurs in the absence of formal arrangements for union-management cooperation.

Generally, under such programs, separate joint machinery is established to keep union-management dealings on production matters completely apart from regular negotiations and from grievances arising under negotiated agree-

ments. Under formal union-management cooperation, joint production committees are set up to examine employee suggestions for reducing costs by making operations more efficient. Sometimes an expert from the headquarters of the national union or an outside specialist is called in to give advice. Such a joint arrangement differs from a suggestion system installed, administered, and controlled completely by the management. The latter operates with individual rewards. Union-management cooperation provides group rewards and involves joint advice, planning, and usually administration, at least at early steps. In practically all instances, the management retains the power to veto any suggested changes for reasons of expense or managerial policy.

**Objectives.** Cooperation under the joint auspices of union and management is designed to benefit both parties. Although the interests of management, stockholders, and labor are not identical, they are likely to be interdependent. For instance, larger company sales generally mean more employment as well as a larger return on capital investment; lower costs may result in both higher profits and higher wages. Because employees are so dependent for their livelihood upon efficient operation of the firm, especially in a competitive situation, it is only natural that they should be interested in the affairs of the enterprise. Reference was made in Chapter 2 to the improvements in employee efficiency and morale that can result from genuine labor participation in solving production problems in the plant. Joint cooperation may yield many useful suggestions based on the workers' know-how or the experience of union representatives.

Management and union leaders may adopt such a program of cooperation for a variety of purposes. Through it management may hope to improve profits and "to promote good industrial relations."<sup>7</sup> Advocates claim that union-management cooperation narrows the field of disagreement between the parties, educates union leaders in the problems of management, reduces employee resistance to changes in production methods, and eases management's problems of discipline and supervision. Union leaders may accept a cooperative arrangement for such reasons as to gain prestige, to meet non-union competition, to keep the plant from closing, to improve members' income and working conditions, or to obtain more stable employment for them.

**Facilitating conditions.** In most cases, management has turned to cooperation with the union on production methods because it was forced to do so by economic pressure. The cooperating companies have been chiefly high-cost

<sup>7</sup> See Ernest Dale, *Greater Productivity through Labor-Management Cooperation, Analysis of Company and Union Experience*, American Management Association, New York, 1949, p. 14. This report, although based on a broader definition than used here, provides a good survey of experience.

firms faced with serious competitive and financial difficulties.<sup>8</sup> Cooperation arose from economic adversity that left no alternative except bankruptcy.

Union-management cooperation on production problems cannot thrive until the union has security in the plant and the management has confidence in the union leaders. Basic attitudes appear to be more important than actual techniques. Furthermore, in the outstanding cases of union-management cooperation, the employees concerned have faced fairly elastic demand schedules for their services, because of the competitive situation, including non-union competition.

Studies indicate that such cooperative programs operate more successfully in medium-sized and smaller firms (with 100 to 5,000 employees),<sup>9</sup> where employee relations are sufficiently close to facilitate interest of the whole group, where labor policy is flexible and decisions can be made quickly, and where action can be taken without fear of setting precedents elsewhere. In large companies with assembly-line operations, group enthusiasm for solving production problems is more difficult to arouse, and usually less opportunity exists for employee suggestions that will significantly reduce costs without causing workers to complain about a speed-up.

Certain conditions discourage resort to union-management cooperation. It is not likely to develop where the demand for the services of union members is inelastic, so that labor-saving improvements will reduce the total earnings of the union's membership. Craft unions, with a narrow membership base, not only are likely to face inelastic demand schedules but also resist subdivision of the journeyman's job. In skilled occupations one of the most obvious means of cost saving is skill dilution, which substitutes cheaper labor for the demand for craftsmen's services. As the discussion in Chapters 8 and 9 indicated, craft unions are more prone than industrial unions to pursue restrictive policies, which are contrary to cooperation in cost reduction. Also the existence of factionalism within the local union or a serious threat of rival unionism would make it difficult for union leaders to undertake union-management cooperation, for fear that rivals would make capital out of any mistakes or failures under the experiment.

The stimulus for union-management cooperation has been the competitive individualism of capitalism. Companies and unions have resorted to it when they believed that it was in their own self-interest to do so. Only rarely has

<sup>8</sup> Professor Sumner H. Slichter found that to be the case in 16 of the 22 enterprises that agreed to start union-management cooperation during the two years ending early in 1940. See *Union Policies and Industrial Management*, Brookings Institution, Washington, 1941, pp. 560 and 565. See also Harold J. Ruttenberg, "The Fruits of Industrial Peace," *Harvard Business Review*, Vol. XVIII (Spring, 1940), pp. 291-92.

<sup>9</sup> See Dale, *op. cit.*, pp. 19-20.

union-management cooperation arisen from intellectual conversion or moral sentiments.<sup>10</sup>

**Problems.** Systematic joint cooperation in cost reduction encounters four major problems: employee job and earnings security, fair division of the gains, the balance between bargaining and cooperation in the union, and interference with management. A handbook that the Steel Workers Organizing Committee (now the United Steelworkers of America, CIO) put out in 1938 to encourage union-management cooperation in that industry stresses three of these problems in stating the conditions that a cooperative agreement should contain as follows: <sup>11</sup>

1. The union agrees to cooperate with the management in order to reduce costs, enlarge sales, improve quality and in general to advance the interests of the industry.

2. The management agrees to *share equitably with the union any benefits so obtained*, in the form of increased employment, better working conditions, increased wages or decreased hours.

3. *Nobody is to lose his job as a result of any improvement that is installed. If ways are discovered to do more work with less labor, they are to be put in gradually, and then only with the consent of the union. They must be installed in such a way that no discharges are necessary—as for instance at a time when sales and output are increasing.*

4. The research must be truly joint in every respect. All the facts and plans are to be revealed to the union committee, and *its understanding and consent must be obtained at every step.*

The problem of employee security is fundamental in any plan of cooperation between unions and management for the purpose of improving efficiency and eliminating waste. Union members are not likely to “cooperate” themselves out of work or into downgrading with modifications in their jobs. If the savings in workers’ time, effort, and skill result in reduced earnings and employment, the political position of the union officials participating in the cooperative program may be jeopardized. And if employment declines, it may be difficult for the rank and file to discriminate between the effects of cooperative actions and those flowing from other changes. Protection of the job security and earnings of the members is one of the chief functions of unions.

Division of the gains from union-management cooperation involves both measurement of the savings and the distribution of them among workers, stockholders, and management. Usually it is not possible to assess responsibility for all improvements and to determine which ones would have been

<sup>10</sup> For two cases that might qualify as examples of union-management cooperation by mental or spiritual conversion, see H. J. Buchsbaum *et al.*, “From Conflict to Cooperation, a Study of Union-Management Relations,” *Applied Anthropology*, Vol. 5 (Fall, 1946), pp. 1-31; and Russell W. Davenport, “Enterprise for Everyman,” *Fortune*, Vol. XLI (January, 1950), pp. 55-59, 152, 157, 158, and 159.

<sup>11</sup> *Production Problems*, Steel Workers Organizing Committee, Publication No. 2, undated but issued in 1938, p. 5. Italics added.

achieved without the plan. A second difficulty is the discovery of an equitable method of sharing the gains with the groups concerned. That may either be left to management decision or be fixed by collective bargaining. The rewards may assume the form of group increases in pay, increased employment stability, improved benefit and vacation arrangements, or more wholesome working conditions. Apparently, the most usual method is to take the savings into account in collective bargaining negotiations, but specific wage increases are only rarely tied to the results of union-management cooperation.<sup>12</sup> As in the case of profit sharing with which union-management cooperation frequently is associated, the union usually will not permit the program to be used as a means of undercutting the union scale.

In programs of joint cooperation, the union must try to strike some balance between cooperation and bargaining and seek to keep the two separate. Traditionally unions are bargaining agencies to achieve gains by threat of collective action and to protect workers from management decisions that may seem to injure their interests. If the union's leaders become management-minded and interested in cutting costs, they may fail adequately to represent and protect the interests of their constituents and be replaced by others in the next union election. Repudiation of the union leadership has ended some experiments with union-management cooperation. Often it may be difficult for the union to demonstrate and dramatize the gains to workers from a cooperative program.

Joint cooperation may impede and weaken management. If under the program management can act only after "mutual consent" or "joint acceptance," it may be hampered by delays and its authority, prestige, and control over the business may suffer. Foremen especially may oppose a program which seems to shift some of their functions to a joint committee. Furthermore, they may regard employee suggestions for improvements in production methods as reflections upon their foremanship. Also, management may be reluctant to reveal business secrets to the union which would aid it in negotiations. Above all, managements may hesitate to cooperate on production matters with units of a national union that has come out in favor of joint control of the industry. Union-management cooperation locally may seem to be a first step along the road to an Industry Council Plan.

**Experience.** Like profit sharing, union-management cooperation has been highly successful in a few, relatively small concerns. In those cases it has added considerably to the workers' incomes, has reduced grievances, and has stimulated workers and management to discover all kinds of improvements.

In many cases, the program was continued but a short period of time. Its abandonment sometimes occurred because the employees believed that they

<sup>12</sup> See Dale, *op. cit.*, pp. 116-17.

had derived little real benefit from such joint cooperation and their suggestions fell off. That was true, for example, on some railroads.<sup>13</sup> In a few cases, cooperation has suffered a violent death, accompanied by a strike and overthrow of the union leadership.<sup>14</sup> In a number of instances, the program was discontinued after production methods were modernized and costs reduced, or after competing firms were organized. That has, for example, generally been the case in the clothing and coal industries.<sup>15</sup> A union cannot continue to favor one firm at the expense of others with which it deals.

During World War II, some 5,000 "labor-management committees" were organized in industrial plants and installations upon the initiative and under the sponsorship of the War Production Board.<sup>16</sup> They engaged in a variety of wartime activities, including arrangements for workers' transportation, bond rallies, and suggestions for improving output. Only about 500 of them, however, seem to have given considerable attention to production methods. Although some 1,300 committees had indicated an intention of continuing after the war, apparently only around 300 were in existence two and a half years after the termination of hostilities in August, 1945. The others were discontinued for such reasons as "end of war," "ineffective," and "lack of interest." Organized labor generally felt that it was not treated as "a partner in production." Although few of these wartime committees were, strictly speaking, cases of union-management cooperation, their experience illustrates some of the problems and difficulties of a formal program of joint cooperation.

Past experience indicates that a continued program of successful cooperation between unions and management on production costs is difficult to accomplish. Much more is necessary than the mere desire to cooperate. Not only do workers fear that their earnings and security may be endangered by new labor-saving methods and that the union may no longer serve their interests well in collective bargaining, but foremen also are likely to oppose such plans for reasons already explained. Management as well as labor may prevent successful cooperation. Despite strong institutional obstacles and widespread fear of union invasion of management functions, union-management cooperation has operated with remarkable success in a few comparatively small companies.

<sup>13</sup> See Sumner H. Slichter, *Union Policies and Industrial Management*, Brookings Institution, Washington, 1941, Chapter 16, pp. 480-503.

<sup>14</sup> For an illustration, see R. C. Nyman and E. D. Smith, *Union-Management Cooperation in the "Stretch Out,"* Yale University Press, New Haven, 1934.

<sup>15</sup> See my *Economics of Labor*, Macmillan, New York, 1941, pp. 686 and 695, and Slichter, *op. cit.*, p. 561, footnote 1.

<sup>16</sup> This paragraph is based on data in Dorothea de Schweinitz, *Labor and Management in a Common Enterprise*, Harvard University Press, Cambridge, 1949.

**PART III**

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**ISSUES AND GOVERNMENT INTERVENTION**



## CHAPTER FOURTEEN

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### THE LABOR MONOPOLY QUESTION

With the spread and growth of labor organization has come the charge that unions are "labor monopolies," that they possess "dangerous monopoly power," and that they stifle competition and destroy the market mechanism.<sup>1</sup> That charge and legal restrictions proposed as remedies raise fundamental questions concerning collective bargaining and public policy. Adequate analysis of the question necessitates some review of material in a number of the preceding chapters—the market mechanism in industrial relations (Chapter 3), the structure of wages (Chapter 4), union government (Chapter 7), union wage and other policies (Chapters 8 and 9), company wage policies (Chapter 11), and collective bargaining experience in particular industries (Chapter 12).

Because it poses basic issues of public policy, the claim that unions are "monopolistic" and distort wage structures is examined before taking up the provisions of specific labor laws. Systematic consideration of the nature and power of trade unionism provides a good introduction to the general subject of this part of the book, namely, legislation and governmental intervention in the field of industrial relations.

In this chapter, the comprehensive question of "labor monopoly" will be treated under the following headings: meaning of "labor monopoly" and "competitive wages," unions as "monopolistic sellers of labor," market-wide bargaining, effects of unions on wages, and proposed remedies and alternatives. Use of material from preceding chapters for the discussion under these headings makes some repetition unavoidable.

#### MEANING OF "LABOR MONOPOLY" AND "COMPETITIVE WAGES"

Perhaps it should be explained at the outset that the federal anti-trust laws have never been applied to the purchase and sale of labor services. Both employers and workers have been legally free to combine and conspire as they

<sup>1</sup> See, for example, Charles E. Lindblom, *Unions and Capitalism*, Yale University Press, New Haven, 1949; Fritz Machlup, "Monopolistic Wage Determination as a Part of the General Problem of Monopoly," in *Wage Determination and the Economics of Liberalism*, Chamber of Commerce of the United States, January 11, 1947, pp. 49-82; and Henry C. Simons, "Some Reflections on Syndicalism," *Journal of Political Economy*, Vol. LII (March, 1944), pp. 1-25.

wish with respect to labor transactions,<sup>2</sup> so that there have been no legislative or court attempts to define and delineate monopoly or competition in the field of industrial relations.

**“Labor monopoly.”** Unfortunately, those who employ the terms “labor monopoly” and “union monopoly” have not been prone to define them precisely and to develop criteria for determining the existence and extent of such monopoly. Ambiguity exists as to whether the term refers to certain union goals, to the means employed in pursuit of goals, or to the actual effects or results of union actions. Whereas lawyers tend to judge by intent (purpose) and means, economists generally judge by results.

Evidently, “labor monopoly” means different things to different authors and is used to cover a wide variety of phenomena. To some the granting of exclusive bargaining rights to a union winning an election and being certified by the National Labor Relations Board is a monopoly enforced by law.<sup>3</sup> Such certification prevents the employer from having unions compete with one another in terms of offers, and forces the management to negotiate only with the certified union. Economists often stress the restrictive practices of unions which affect the supply of labor, such as the closed shop with a closed union, apprenticeship regulations, limitations on output, and reductions in the hours or days of work. Some authors consider any combined action by individuals and, therefore, collective bargaining or a strike, to be monopolistic regardless of the purpose.<sup>4</sup> Under such a conception, presumably the threat to strike or an actual strike in order to prevent discrimination in wages by race or sex or in order to protest arbitrary discharges, would be “monopolistic.” A collective agreement fixing wage scales for a period of time is considered by some economists as price fixing and consequently “collusive monopoly.”

In the opinion of a number of authors, monopoly in labor really occurs when union activities or collective bargaining cover jointly two or more employers and especially when the bargaining or strike includes a whole industry or a whole national union. Multiple-employer negotiations covering most of the output in an industry have been called “the essence of monopoly in labor relations.”<sup>5</sup> Unilateral nationwide action by a union has also been

<sup>2</sup> As explained in Chapter 16, the Taft-Hartley Act of 1947 outlaws jurisdictional strikes and so-called boycotts, but not labor and employer combinations or strikes and lockouts concerning wages, hours, and working conditions.

<sup>3</sup> See *Economic Power of Labor Organizations*, Hearings before the Committee on Banking and Currency, U.S. Senate, 81st Congress, 1st Session, Part I, July 25–August 2, 1949, p. 228; *Labor Relations Program*, Hearings on S. 55 and S. J. Res. 22 before the Committee on Labor and Public Welfare, U.S. Senate, 80th Congress, 1st session, Part I, January 23–February 7, 1947, p. 100; and H. L. Lutz, “Wages, Profits and Prices,” *Commercial and Financial Chronicle*, Vol. CLXIII (January 3, 1946), pp. 43–44.

<sup>4</sup> See John W. Scoville, *Labor Monopolies—OR Freedom*, Committee for Constitutional Government, Inc., New York, 1946, pp. 20–23; and Hastings Lyon, *Dictatorship of the Proletariat in the United States: A Tract for the Times*, J. Felsberg, New York, 1943, pp. 20–23.

<sup>5</sup> See *Labor Relations Program*, Hearings on S. 55 and S. J. Res. 22, *op. cit.*, Part I, pp. 484

condemned as “clearly monopolistic.” That includes the presentation of the same union demand to all employers, an industry-wide strike, or even pattern-setting by negotiations with a few large concerns whose wage leadership the union forces smaller companies to follow.

The charge of monopoly is also levied against the purchasers of labor. It has generally taken the form of a complaint that labor is “exploited” through the economic power of the buyer or buyers of labor. In a company town, one firm may be the sole purchaser of labor. In other communities, employers may by tacit understandings or implied threats prevent competition for employees and the bidding up of wages.<sup>6</sup> Though frequently and widely used during the past two centuries, the term “exploitation of labor” has, however, remained as undefined or ill-defined as the more recent epithet, “labor monopoly.”

Use of the terms “monopoly” or “exploitation” in connection with employment relationships raises a number of nice questions. Are unions monopolistic if they do not restrict output? If they actually bring about a net increase in the total national product? If they do not cause wages to increase more rapidly than in non-union industries and firms? Are employers exploiting labor if they maintain complete unilateral authority in the plant? If their wage structures contain personal, race, and sex differentials that cannot be justified on economic grounds? If they dominate the community but pay the average of wage scales in unionized concerns?

Apparently many persons use “labor monopoly” as synonymous with labor union and collective bargaining. They apply to labor services the concepts and analysis derived from product markets and assume that labor unions operate like business enterprises. It is, however, the marked differences between labor transactions and commodity purchases and sales that explain why collective action by workers (and employers) with respect to wages, hours, and working conditions has, as a matter of public policy, been permitted and encouraged as an exception to the general rule against collusive activity in commercial transactions.<sup>7</sup>

**“Competitive Wages.”** Attempts have been made to distinguish “competitive wages” from “monopolistic wages” in order to arrive at some standard of comparison. Thus, one economist defines “competitive” wage rates as non-union scales, admitting that they may reflect various monopolistic elements,

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and 540; John V. Van Sickle, *Industry-wide Collective Bargaining and the Public Interest*, American Enterprise Association, Inc., May, 1947, pp. 13-20; and *Congressional Record*, Vol. XCIII, 80th Congress, 1st Session, May 7, 1947, pp. 4792-93 and 5144.

<sup>6</sup> The counterpart to employer wage quotation and agreement is the union tactic of adopting a wage scale unilaterally and having all members insist that employment will be only on those terms.

<sup>7</sup> Other exceptions are to be found in agriculture, foreign trade, and public utilities.

including employer control.<sup>8</sup> Such a definition is, however, not particularly helpful, because it makes all union scales monopolistic and all non-union scales competitive merely by definition and regardless of the circumstances. Other economists suggest as the crucial test of "competitive" or "monopolistic" wages the existence or non-existence of real wage differentials. The real differentials are judged by a labor-supply criterion. If a wage differential exists so that many qualified workers would prefer employment in a higher wage occupation, firm, or industry but cannot obtain the preferred employment for lack of job openings, the wage rates are considered to be "monopolistic"—not the result of a naturally scarce supply but of "monopolistic pricing."<sup>9</sup> Arguing on the basis of commodity-market principles, these authors insist that "equal prices for identical goods, and equal wage rates for identical work, is a fundamental economic principle" and that real wage differentials mean monopolistic discrimination to exploit the market.<sup>10</sup> Such a test is, of course, completely unrealistic, because it neglects not only the factor of unemployment but also company wage and hiring practices, worker attitudes toward and investment in jobs, and the complexity of jobs and the lack of full information about them. By that test, all high-wage firms under non-union conditions would be examples of "monopolistic wage determination," and all low-wage firms would be illustrations of "competitive wages."

Commodity-market reasoning simply cannot be applied by analogy to the continuing employment relationship. As explained in Chapter 3, workers and managements do not behave like buyers and sellers in commodity and security markets or like consumers in retail stores. In the employment relationship, non-wage factors play a prominent role. Jobs have important human and ethical aspects; the job attitudes of workers are, to a considerable extent, non-competitive. The same is true of employer practices with respect to labor. Even when unions are absent, employers have not dismissed regular employees in order to hire others at a cheaper rate. Sellers and purchasers of labor services are not continually shopping around.

In the absence of unions, companies tend to dominate the situation. Without collective bargaining, firms quote the wage on a take-it-or-leave-it basis. Through incorporation, large combinations of capital are facilitated, so that a single company may buy continuously the services of 50,000 to 400,000 workers. However, a worker can only sell his own services. Except possibly

<sup>8</sup> Charles E. Lindblom, "The Union as a Monopoly," *Quarterly Journal of Economics*, Vol. LXII (November, 1948), p. 672. In his book, *Unions and Capitalism*, Yale University Press, New Haven, 1949, from which the article was drawn Professor Lindblom is less definite (p. 23) and admits (p. 27), "It would be an egregious error to assume that nonunion labor markets are a correct standard and that a high wage rate is inevitably a monopoly rate."

<sup>9</sup> Henry C. Simons, *Journal of Political Economy*, Vol. LII (March, 1944), p. 14; Fritz Machlup in *Wage Determination and the Economics of Liberalism*, pp. 70-71.

<sup>10</sup> Machlup, *op. cit.*, pp. 65-66.

under slavery, a seller of labor services cannot buy them up and control them, as is possible with commodities and productive facilities.

Wage studies indicate that it is normal and natural, in the absence of collective bargaining or employer collusion, for different employees (or even the same employer) to continue indefinitely to pay diverse rates for the same grade of labor in the same locality. As was explained in the discussion of local wage differentials under non-union conditions in Chapter 4, economic forces do not bring about a single rate for work of the same grade and quality. It is naïve to talk of a free labor market where different wage rates for the same kind of labor could not long exist. The fact is that under non-union conditions employers have been able to select where, within a band or range of rates, they would establish their occupational levels. Local uniformity in wage rates for the same grade of labor is usually evidence of institutional or monopolistic controls—common or combined action by employers, collective action by employees, joint action by labor and employer groups, or compulsory action by government.<sup>11</sup>

Wage-fixing and considerable inflexibility in wage relationships are characteristic of non-union as well as union conditions. In the absence of collective bargaining, employers do not vary wage scales repeatedly or adjust each occupational rate according to local demand and supply conditions in that occupation. Considerable wage stability is essential for satisfactory manufacturing operations. Flexibility in individual wage rates—with frequent upward and downward movements and numerous changes in occupational differentials within a plant—would have adverse effects upon labor efficiency. As explained in Chapter 3, such flexibility would be incomprehensible and upsetting to workers, would create all kinds of suspicions and undesirable insecurity for employees, and would cause wages to be a constant source of friction and speculation.

Commodity-market reasoning is not adequate to support a charge of "labor monopoly." In the absence of unions, there is no one "market price for labor," no single "competitive wage." Studies in the 1920's and more recently in the South reveal that non-union wage structures usually contain all kinds of diversity, inequity, and irrationality. Collective bargaining does not, therefore, serve to distort a well-balanced wage structure and to cause malallocation of labor resources, which under non-union conditions were correctly distributed between occupations, industries, and areas. Indeed, because of job attitudes and practices, wage scales and labor distribution are not closely bound together by direct relationships. Although money readily moves commodities,

<sup>11</sup> See R. A. Lester, "Wage Diversity and Its Theoretical Implications," *Review of Economic Statistics*, Vol. XXVIII (August, 1946), pp. 152-59. See also Clark Kerr, "Labor Markets: Their Character and Consequences," *Proceedings of the Second Annual Meeting of the Industrial Relations Research Association*, Milton Derber (ed.) 1950, pp. 69-84.

labor is influenced by many non-price factors and by investments in the job.

The conclusions of this section are largely negative. No satisfactory standards exist for determining "labor monopoly" or "competitive wages." Price does not distribute labor services according to any economic optimum; real wage differentials exist and persist. Wage structures are as likely to be "distorted," judged by job evaluation or consensus of employees, under non-union as under union conditions.

### **UNIONS AS "MONOPOLISTIC SELLERS OF LABOR"**

The unsound analogy between employment relationships and commodity transactions is often accompanied by the erroneous assumption that unions operate like business enterprises. As was explained in Chapter 7, labor organizations are multi-purpose institutions. They do not seek to maximize any single economic quantity—the hourly, weekly, or annual earnings of all members of employed members, the figures for total membership, the union's dues income, or even, vague as that is, the welfare of the entire membership or some section of it.

**Unions as political institutions.** Unions are not really sellers of labor services. With slavery illegal, labor organizations are not suppliers of labor in the sense that producers or merchants are suppliers of commodities. Collective agreements normally contain no provisions with respect to the quantity to be sold or purchased. They establish prices, but the wage section is usually only a small fraction of the total agreement, which covers also hours, union security clauses, grievance procedures, non-discrimination provisions, seniority, benefits, plant rules, etc. Union demands are likely to include changes in both wage and non-wage provisions, with the possibility of trading and substituting between them to arrive at a mutually satisfactory compromise.

As a political institution representing workers in negotiations, the union has a life of its own, separate from that of the individual members. In negotiations, possible wage increases may be traded for a union security clause, a different grievance procedure, multiple-employer bargaining, top seniority for union officers, or some other provision or arrangement for the convenience and security of the union. The union's leaders may also have their own special interests which, in addition to remaining in office, may include prestige and promotion within the labor movement. John L. Lewis, in gaining higher wages and benefits for coal miners, may be seeking also to prove his leadership ability to members of other unions and hoping thereby to increase the membership of the Mine Workers in other industries. Hence competition between unions, unlike competition between firms or industries, tends to raise prices rather than to lower them.

Union activities represent a repudiation of the notion that labor is only a

commodity. Unions seek to provide job security and to promote job satisfaction by protecting workers from oppressive management, by giving them a sense of participation in decisions that vitally affect their interests, and by stressing minimum human costs on the job. Wage increases may, at times, be secondary to such considerations as job tenure, fair treatment, correction of wage inequities, and the use of different methods of wage payment. It is a mistake, therefore, to think of union actions and goals in dollar terms alone and to view labor negotiations as "bilateral monopoly." Although it may be convenient for economists to apply to unions well-developed modes of analysis developed from theorizing about business enterprise, the activities of labor unions cannot be adequately explained by such an alien logic.

Union programs and actions are the result of political accommodation. As political leaders, union officials seek to maintain and advance the organization by working out compromises between the interests of the union itself, the self-interest of the officials, and the varied and competing interests of the membership. Differences and changes in union policies, discussed in Chapters 8 and 9, in part grow out of political shifts and adjustments. With such diverse interests and the influence of ethical considerations in wages, it would be difficult for a union to operate as a discriminating monopoly, charging what the traffic would bear. Instead union leaders seek workable compromises and uniform patterns that will be considered satisfactory, and perhaps even proper, to the membership.

**The strike as an instrument of monopoly.** The strike weapon is considered to be the union's method of controlling employers, and it is claimed that "union monopoly regulates the wage rate" by coercing buyers rather than by control of the labor supply.<sup>12</sup> A strike is the concerted withdrawal of labor to force the employer to agree to the negotiating demands of the union, so that the workers can return to work under an agreement embodying those demands.

In evaluating the strike as an instrument of monopolistic gain, a number of considerations must be borne in mind. Some strikes are spontaneous and unplanned. Some arise out of rivalry for union leadership or a struggle of factions for control of the union. Personal incompatibilities and misunderstanding may play a part. The strike may also be a means of gaining and renewing union solidarity or of providing a necessary emotional release. Sometimes a question of union prestige is involved. In other words, although the union's strike arguments may be drawn in economic terms, strikes often serve political, psychological, and institutional purposes. Consequently, calculations of the monetary losses to workers from strikes often miss the point.<sup>13</sup>

<sup>12</sup> Charles E. Lindblom, *Unions and Capitalism*, p. 58.

<sup>13</sup> In addition, time lost during a strike is not a complete loss unless, without the strike, the employees would have worked full time and post-strike employment is not higher as a result of the work stoppage.

Workers and unions may gain their objectives by non-strike activity. Poor morale, employee unrest, and slowdown of output, for example, may cause a management to concede to union requests. As a married person well knows, in close and continued relationships there are means of influencing conduct that may be more effective than withdrawal or striking. Furthermore, some unions advance as far toward their goals by day-to-day negotiations under the grievance procedure and by aiding in solving problems as they do through demands at the expiration of an agreement. Strikes or strike threats may not be necessary for economic gains.

The strike is a two-edged and risky instrument. It can injure, weaken, or even eliminate a union. The meat-packing strike of 1948, for example, weakened the Packinghouse Workers (CIO) for at least the following two years. Even a successful strike lessens the ability of a union to strike again soon. Only the United Mine Workers seems able repeatedly to engage the same workers in large-scale strikes, and that is partly explainable by the unsteady employment in the industry and the nature of work and life in a mining community. On the other hand, a strike is not intended to threaten the life of the firm or even to weaken the company permanently, since the employees hope to return to their jobs. Unlike the workers, management usually continues to draw pay during a strike. On the management side also, matters of prestige and reputation in the community may play an important role in strikes. By arousing and inconveniencing the public, a strike may cause general ill-will toward either or both parties.

Strikes are considered monopolistic because they concentrate great economic power in the hands of union leaders and may cover whole industries. The industrial area covered by a strike may not, however, determine its effectiveness. In a highly interdependent economy, shutdown of a key step or occupation may mean a paralyzing strike. Where workers obey the command of top leaders, as the coal miners have followed the orders of John L. Lewis, it is claimed that one man may dictate the terms of employment that must be met if great industries are to continue to operate. Such concentration of economic power in the hands of individual union officials or groups of officials raises the possibility of its arbitrary and imprudent use and presents real problems for a political democracy with an economy based largely on market control. That is not, however, technically a monopoly problem, and such power is not unlimited. Not only is it subject to competitive checks, such as the use of substitutes, but its abuse may cause workers to revolt, which, as explained in Chapter 12, apparently occurred early in 1950 in such a well-disciplined union as the United Mine Workers. Furthermore, large strikes occur only after approval by a strike vote among the membership and, under the Smith-Connally Act (1943-46) and the emergency-disputes provisions of

the Taft-Hartley Act (1947 to date), after a special secret ballot on the employer's last offer conducted by the federal government. Such votes have failed to confirm the theory that union leaders are all-powerful dictators who do not represent the wishes of the membership.

**Anti-competitive aspects of unions.** Unions are anti-competitive in the sense that they seek to achieve standard wage scales for all competing producers. They approach collective bargaining from the viewpoint of the area of competitive production. Partly for ethical reasons and partly to prevent undercutting of union standards, they try to "take labor out of competition" throughout the entire market area. That, however, is, strictly speaking, difficult to do since uniform time scales would give uniform labor costs per unit of output only where operations and efficiency were identical. Also, unions often tolerate established exceptions to wage uniformity. New exceptions, or too many differentials, may tend to split the union and to undermine its security, especially in highly competitive industries with easy entrance. But internal political considerations may prevent the union from eliminating traditional differentials, as in the tonnage rates in coal or the inter-company and geographic differentials in automobile and rubber-tire production.

In seeking to avoid price competition, unions are following the policies of manufacturers, banks, and other business organizations. For hundreds of industrial products, companies quote uniform delivered prices on a national basis, so that purchasers pay the same price regardless of locality or region. Prices of such items do not vary with local demand and supply, with differences in freight costs from the producing plant, or with differences in local operating costs including retail delivery. It is, of course, extremely difficult to argue that the price of labor should vary from plant to plant and locality to locality when the worker's tools and equipment, the materials he works on, and the products he makes all carry uniform prices regionally or nationally, and many of the goods he purchases (clothes, packaged foods, household equipment, building supplies, etc.) likewise are sold at uniform prices.

Union organization of nine-tenths or more of all the production of an item may enable a national union to advance labor standards by simultaneous and uniform wage demands backed by a strike threat. For most of the non-wage sections of the agreement, uniformity and uniform changes may be difficult to achieve except under a master agreement negotiated with an employers' association. As indicated at the end of Chapter 12, however, collective bargaining is subject to economic limits. Even with a single labor organization covering most of the sources of production of a particular article, union demands may nevertheless be subject to the following competitive checks: any non-union competition, foreign competition, competition of substitute products, substitution of labor-saving techniques, and competitive destruction of

marginal firms in the industry.<sup>1</sup> In competitive industries like clothing, the union may have to consider the effects of its wage policies on unemployment among the membership and inter-firm competition within the industry. Also employer resistance to union demands usually increases as sales decline and unemployment expands. Unions are not so free from economic forces as is sometimes assumed, and, as explained in Chapters 12 and 13, great differences exist in union-management relations and in the industrial conditions facing particular unions.

### MARKET-WIDE BARGAINING

Multiple-employer bargaining, covering all the competing producers for a market is considered "patently monopolistic," because it tends to eliminate some competitive checks and to facilitate collusive action by unions and employers' associations at the expense of consumers. It is also charged with leading to centralized power and one-man control of employment in a whole industry.

**Definitions and distinctions.** Misuse of terms has led to unwarranted claims and arguments at cross purposes with respect to "industry-wide bargaining." Multiple-employer bargaining has frequently been confused with union-wide action under company-by-company bargaining and wage pattern-spreading, by which the union forces employers into line with a pattern established in a single company negotiation. Multiple-employer bargaining has developed to avoid some of the evils and employer weaknesses associated with the one-at-a-time and pattern-spreading tactics of labor organizations.

Distinctions should be drawn between (1) the area of actual bargaining or the geographical coverage of a single negotiation, (2) the area covered by a single agreement, and (3) the area of union or employer action. In the railroad and men's clothing industries, multiple-employer negotiations have frequently occurred on a national or industry-wide basis, but a separate agreement, embodying the negotiated terms, is signed by each company and covers that firm only. Where an employers' association having power of attorney negotiates with a union, one single "master agreement" may be signed by each side. In that case, the area covered by a single agreement and the area of bargaining are identical. The area of unified action by a union or by employers may far exceed the area covered by a single negotiation. In the steel industry, for example, the union has on occasion served identical demands on all employees and conducted a multi-employer strike covering most of the industry, and the large steel companies have at times closely cooperated in labor matters, but negotiations to date have been on a company-by-company basis.

The discussion here will be principally in terms of the area covered by a

single negotiation. The coverage may be oriented toward the area of labor supply or the area of product supply (competing output), depending on whether competition for labor or competition for product sales is the main interest. If the negotiations are labor-supply oriented, they are likely to include only the local commuting area. If they are designed to cover the whole area of competitive production of goods and services, their geographic coverage may depend upon whether the industry in question is a local-market one (like building, retailing, or personal service), a regional-market industry (which is more difficult to distinguish, but is approached by coal, pulp, and other articles having high rail transportation costs relative to their price), or an industry with a nation-wide market (as in clothing, pottery, or glassware). The area of coverage ought to provide sufficient homogeneity of interest on both sides to maintain cohesion.

Multiple-employer bargaining may be local, regional, or national. If the employers represented in a negotiation include practically all the suppliers of an article, the bargaining may be considered "market-wide." Where the article or service has a production-market area confined to a city, county, or metropolitan area, local bargaining that covers (say) at least four-fifths of the output could be considered market-wide. But if the article was also produced and sold within the confines of other localities, market-wide bargaining in a locality could hardly be considered "industry-wide." According to the definition used here, industry-wide bargaining would mean a national negotiation that included four-fifths or more of the nation's output of the article or service. Four-fifths is, of course, a purely arbitrary figure. Defined thus, industry-wide bargaining has been relatively rare in this country, although it is the dominant practice in England and some Scandinavian countries.

**Extent.** Studies indicate that in 1947 about five million workers were covered by agreements negotiated under multi-employer bargaining.<sup>14</sup> That was about one-third of all workers then subject to collective agreements. Industry-wide bargaining as defined here would include perhaps one and a half million workers in anthracite coal, men's clothing, the railroads, flat glass, glassware, general ware in pottery, and elevator installation and repair. As the discussion in Chapter 12 indicates, bituminous coal should probably be classified as regional bargaining. If it is, region-wide bargaining apparently also covered about one and a half million workers in 1947, including such industries as longshoring, full-fashioned hosiery, pulp and paper, textiles, inter-city trucking, and lumber. Multiple-employer agreements negotiated on

<sup>14</sup> "Collective Bargaining with Associations and Groups of Employers," *Monthly Labor Review*, Vol. LXIV (March, 1947), pp. 397-410; and Frank C. Pierson, *Multi-Employer Bargaining, Nature and Scope*, Industry-wide Collective Bargaining Series, University of Pennsylvania, 1948. The figures in the text are adaptations from the table at the end of Professor Pierson's monograph. ✓

a city or local-area basis covered at least two million workers and probably more. Local group-employer bargaining is characteristic of such industries as baking, printing, building construction and service, breweries, ladies' clothing, leather goods, cleaning and dyeing, laundries, trucking, and retail trade.

Certain conditions seem to favor multi-employer bargaining; others hamper its development. Apparently it is likely to occur where the employer units are relatively small, where the industry is especially subject to price competition, and where the market is local. Small firms frequently need a united front and a uniform agreement as protection against the union tactic of one-at-a-time attack and pattern-spreading. Large firms, which tend to set wage patterns, which have personnel departments, and which do not need the union as a price-stabilizing influence, generally avoid group-employer negotiations. Also, large multi-plant companies are likely to cut across industry lines and to deal with a number of different and rival unions, so that their whole operations could hardly be included within a single negotiation. Industries having a significant geographic differential in wages and located in both the North and the South are likely to contain too great a variety of interests and conditions to permit effective bargaining on a broader basis than a region. The existence of different types of management labor policy in an industry also discourages multi-employer negotiations. An employer with good relations hesitates to join hands with other firms still attempting to combat or contain the union.

**Contentions pro and con.** The critics of multiple-employer negotiations that are broad enough to approach industry-wide bargaining make a number of charges against it. They claim that such an arrangement (a) tends to lead to collusive agreements and excessive labor costs at the expense of consumers; (b) centralizes functions and control, vesting undue power in national unions and particularly in the hands of national officials, whose abuse of power affects the welfare of thousands of workers and consumers; (c) leads to industry-wide stoppages of work that result in government intervention into labor relations; (d) restricts the birth of new firms and the development of newer industrial areas, by eliminating lower local and regional wage differentials; (e) disregards special local conditions and raises minor local matters to top levels where they become confused by national influences. Broadly speaking, the opponents claim that multiple-employer bargaining on a large scale undermines the market mechanism and the competitive system.<sup>15</sup>

Supporters of multi-employer negotiations covering most of the market point out that such a system may have a number of advantages. Market-wide bargaining may (a) reduce rivalry and labor disputes; (b) develop greater responsibility and more far-sighted decisions, based on broad considerations;

<sup>15</sup> For arguments against "industry-wide bargaining," see John V. Van Sickle, *Industry-wide Bargaining and the Public Interest*, American Enterprise Association, May, 1947, and Leo Wolman, *Industry-wide Bargaining*, Foundation for Economic Education, 1948.

(c) result in greater wage uniformity and stability in wages; (d) stimulate management efficiency and the distribution of labor according to such efficiency; and (e) increase the bargaining power of small employers and give their needs greater consideration and influence in negotiations than occurs with pattern-spreading. Those who stress the benefits of market-wide bargaining point out the disadvantages of the alternatives and the radical changes that would be required to eliminate it in the industries where that practice is well established.

Conclusions regarding market-wide bargaining can be derived logically or drawn from experience. For the most part, the opponents of the practice rest their case on logic, which assumes that the chief purpose of labor unions is to obtain monopolistic advantages for the membership. Those who favor the practice under certain conditions emphasize that experience to date fails to support the contentions of the opposition.

**Experience.** Group or association negotiations have a long history in this country. National bargaining covering 60 to 90 per cent of the industry in a single negotiation has been characteristic of pressed and blown glassware since 1893 and of table and kitchen ware in pottery since 1900. Since 1929, a group of 35 to 45 of the larger firms manufacturing brand-name women's hosiery have bargained through the Full-Fashioned Hosiery Manufacturers of America, which has represented 20 to 35 per cent of the industry's output, with mills located across the country from Massachusetts to California. Regional bargaining, which soon covered practically the entire West Coast pulp and paper industry, has been carried on there since 1934. As explained in Chapter 12, the suits, coats, and pants branch of the men's clothing industry has, since 1936, been subject to national bargaining, at which approximately 90 per cent of the output has been represented.

Those five cases of association bargaining have been distinguished by stability of relations, reasonable leadership, and industrial peace. In none of those bargaining arrangements have negotiations broken down and resulted in a strike during the entire period of multi-employer bargaining.<sup>16</sup> Of course, the same has not been true of some other group-bargaining arrangements such as anthracite and bituminous coal, West Coast longshoring (in which association bargaining began after a violent strike in 1934), or flat glass, in which, although relations have been better than in most mass-production industries since joint bargaining by the two big companies began in 1940, a strike occurred in 1946 at the time strikes were also taking place in the related steel and automobile industries.

What light does experience with market-wide bargaining shed on the allega-

<sup>16</sup> The experience of the four industries besides men's clothing is discussed in R. A. Lester and E. A. Robie, *Wages under National and Regional Collective Bargaining, Experience in Seven Industries*, Industrial Relations Section, Princeton University, 1946.

tions of those who oppose it? Has it resulted in collusive agreements, excessive wage scales, and maldistribution of labor resources to the detriment of consumers? Has it worked to the disadvantage of small firms and local settlement of problems?

Market-wide bargaining can facilitate collusive action by unions and employers' associations, but apparently has not done so in manufacturing industries here or abroad. Price, production, and marketing policies have not entered into the joint negotiations.<sup>17</sup> On this point Professor David A. McCabe, who has studied the operation of national bargaining in various industries for more than three decades, writes: <sup>18</sup>

The charge has been made that industry-wide bargaining leads to suppression of competition among employers as sellers. I do not believe that this charge can be sustained. Competition among workers in fixing terms of employment and competition among employers as sellers are on different planes; there is no reason why the restriction of the one should lead to the restriction of the other. Nor need group action among employers in negotiating an agreement with the union be accompanied by group action among them on prices. Historically there has been no correlation between the two kinds of group action among employers. The industries in which collective bargaining has been developed on an industry-wide or regional basis have not been the industries conspicuously accused of maintaining price monopolies.

Local-market service industries are not infrequently subject to collusion and other monopolistic practices regardless of the existence or pattern of collective bargaining. Association bargaining has developed locally in its most extreme form in the San Francisco area, where three-fourths of the employees covered by labor contracts work under master agreements administered by employers' associations rather than by the separate companies. Yet a close study of experience there concluded that such bargaining had "not generally resulted in collusive action against the consumer," that "collusive arrangements apparently do exist in San Francisco but they generally antedate the modern master agreement."<sup>19</sup>

A study of wages in seven manufacturing industries, with 10 to 55 years of experience with national and regional bargaining, revealed that wage and earnings levels apparently had not risen more rapidly under multi-employer bargaining than for manufacturing as a whole, and that the wage levels in the seven industries taken as a group were not high compared with similar and

<sup>17</sup> Joint union-management action on such matters would be subject to prohibitions on restraint of trade under the federal anti-trust laws.

<sup>18</sup> *Labor Relations Program*, Hearings before the Committee on Labor and Public Welfare on S. 55 and S. J. Res. 22, U.S. Senate, 80th Congress, 1st session, Part 4, March 4-13, 1947, p. 2252.

<sup>19</sup> Clark Kerr and Lloyd H. Fisher, "Multiple-Employer Bargaining: The San Francisco Experience," in *Insights into Labor Issues* (R. A. Lester and J. Shister, eds.), Macmillan, New York, 1948, pp. 40 and 59.

neighboring industries.<sup>20</sup> The evidence indicated that under national and regional bargaining, wage decisions are likely to be more sensible and far-sighted, taking into consideration the economic interests of the whole industry, than is the case where a wage leader sets a pattern for the industry, or patterns are established by the union playing one firm against another.<sup>21</sup> Relative wages in railroads and coal were reviewed in Chapter 12, where it was explained that, after 1932, railroad wages did not rise compared to the average for manufacturing as a whole but that there was some relative increase in coal. By and large, industry-wide bargaining has not resulted in real wage differentials in favor of workers under such arrangements.<sup>22</sup>

Some other allegations about wages under multi-employer bargaining do not seem to be generally valid. Where a single negotiation covers many employers, unions give up the opportunity to discriminate monopolistically by forcing each company to pay wages according to its ability. Wage differentials on a geographic or industry-branch basis have been permitted under some multi-employer bargaining agreements.<sup>23</sup> Employers' associations have been able in negotiations to achieve wage settlements that take account of the special problems of a branch or some elements in the industry.<sup>24</sup> Flexibility is permitted by such means as agreeing only on minimum rates in the national bargaining, by permitting various wage-incentive systems, or by exempting the occupations not peculiar to the industry and having their rates negotiated locally.<sup>25</sup> And one should bear in mind that uniform patterns of wages and wage change existed in industries like steel and meatpacking long before they became unionized.<sup>26</sup>

The claim that wage equalization under industry-wide bargaining prevents the best distribution of the labor supply assumes that some other form of bargaining or non-union conditions would provide the desired optimum. Such a contention is based on a number of unreal assumptions. It presupposes that wages govern the distribution of the labor supply, that wage scales are more rational in the absence of industry-wide bargaining, that workers' views

<sup>20</sup> See Lester and Robie, *op. cit.*, pp. 93-94.

<sup>21</sup> *Ibid.*, p. 93. Kerr and Fisher conclude from the San Francisco experience that "The bargains, made over a larger area, are based on more careful deliberation, and consideration is given to the effects on larger groups of workers and employers." *Op. cit.*, p. 60.

<sup>22</sup> After 50 years of industry-wide bargaining in glassware, a panel of the National War Labor Board found in 1944 that the hourly rates for skilled maintenance occupations in the national agreement were well below similar rates in neighboring industries. See *War Labor Reports*, Vol. XXVIII, Bureau of National Affairs, Inc., 1945, pp. 60-61. Of course, glassware and pottery are subject to foreign competition.

<sup>23</sup> See Lester and Robie, *op. cit.*, pp. 16, 65. Geographic differentials are common under national bargaining in England and Sweden. See *ibid.*, pp. 96-99.

<sup>24</sup> *Ibid.*, pp. 16, 54, 86-87.

<sup>25</sup> *Ibid.*, pp. 15, 20, 28, 50-51, 95.

<sup>26</sup> In steel, "a high degree of uniformity in timing and amounts of wage changes is apparent as early as 1904, is more firmly established by 1910, and is virtually invariant since 1915." See John T. Dunlop, "Allocation of the Labor Force" in *Proceedings of the Conference on Industry-wide Collective Bargaining*, May 14, 1948, University of Pennsylvania, p. 39.

regarding wage structures have no effect on output, and that products are priced by competitive market forces, varying from locality to locality according to the cost of production at each plant plus transportation to the consumer.<sup>27</sup> Actually, the reduction of inter-firm differentials under multi-employer bargaining may serve to place added stress upon efficiency of management as the most important factor in competition. Wage uniformity may tend to improve the distribution of the labor force of an industry by causing low-efficiency firms to contract and high-efficiency firms to expand.<sup>28</sup>

Experience seems to indicate that multi-employer bargaining improves the position of small firms and does not lead to significant industrial concentration. Indeed, such bargaining has flourished in competitive industries characterized by hundreds of small firms, like men's and women's clothing, hosiery, textile dyeing and finishing, and soft coal. The managements of small firms have argued for association bargaining as the only means whereby they might exercise some influence in wage determinations, which otherwise would be established by a large firm setting the pattern that subsequently is applied to them. The interests of smaller firms are generally well represented in employer associations, with each firm or plant usually having one vote, so that they can have an effective voice in collective bargaining decisions. Under associational bargaining in San Francisco the large firms have not dominated the proceedings or discriminated against small companies, whose interests have received consideration in final decisions.<sup>29</sup>

The danger does exist that bargaining and administration of agreements by employers' associations and national unions may reduce the functions and authority of local unions and concentrate more power and control in the national headquarters. Some tendency toward a decline in vigor and decision-making at the local level seems to have occurred in West Coast pulp and paper. Such a trend is not, however, evident in men's clothing, glassware, pottery, or hosiery, where many functions, including much wage determination, have been left in the locality. As explained in Chapter 7, many forces during the past two decades have tended to concentrate functions and power in the national unions at the expense of their locals. The problem is not one peculiar to multi-employer bargaining, under which a good balance of functions has been worked out in a number of industries.

Experience with multiple-employer and market-wide bargaining in this country has been too varied and too incomplete to draw sweeping conclusions. Much has depended on conditions in the industry. One can say, however, that industry-wide bargaining has not in practice supported the contentions of its

<sup>27</sup> For an elaboration of this point see my article, "Reflections on the 'Labor Monopoly' Issue," *Journal of Political Economy*, Vol. LV (December, 1947), p. 524.

<sup>28</sup> See Dunlop, *op. cit.*, pp. 43-45.

<sup>29</sup> See Kerr and Fisher, *op. cit.*, pp. 34 and 59.

hostile critics who have drawn false conclusions from completely unwarranted assumptions.<sup>30</sup>

## EFFECTS OF UNIONS ON WAGES

A number of attempts have been made to discover statistically the effects of unions on wage scales. They have not been too successful because of the difficulty of isolating union influences in complex and changing situations. Other things do not remain constant while union influences change. Cross-section comparisons fail to allow for the myriad of variation between industries. Union strength can only be represented by membership figures; policy and structural differences are disregarded.

Despite such limitations, studies of the effects of unionism upon the structure of wages in this country have yielded significant results. They indicate that to date other factors have had more influence than union activity on inter-industry wage differentials and on movements of the wage level. They fail to support the contention that unionism has caused significant distortion in the wage structure or much greater increases in the wage level than would have occurred without labor organization.

Union influences on wages were briefly discussed in Chapter 4. As explained there and in subsequent chapters, union policies have tended to increase wage uniformity between firms in a locality and to narrow some regional wage differentials. Unions do not seem to have been much of an independent factor in occupational differentials. Despite marked differences in labor organization between regions, the occupational structure seems to have changed about the same way in each region during the past fifty years.<sup>31</sup>

**Inter-industry differentials.** Three separate studies have recently been made of inter-industry wage variation during the periods of 1923–40 and 1933–46.<sup>32</sup> Based on average hourly earnings for 20, 34, and 48 industry groupings, they attempt to discover the chief factors explaining secular changes in wage differentials between industries.

These three statistical studies seem to indicate that at least three factors have had more influence than labor organization on the decade-to-decade changes in the wages paid by an industry. Those factors are: (1) changes in total employment in the industry, (2) increase in output per man-hour in the industry,

<sup>30</sup> The reader who wishes to pursue the subject further is referred to the 14 monographs in the Industry-wide Collective Bargaining Series, published by the University of Pennsylvania in 1948 and 1949. Some of them have been mentioned in the footnotes in this section.

<sup>31</sup> See Harry Ober, "Occupational Wage Differentials, 1907–47," *Monthly Labor Review*, Vol. LXVII (August, 1948), pp. 127–34.

<sup>32</sup> John T. Dunlop, "Productivity and the Wage Structure," in *Income Employment and Public Policy, Essays in Honor of Alvin H. Hansen*, Norton, New York, 1948, pp. 341–62; Arthur M. Ross and William Goldner, "Forces Affecting the Interindustry Wage Structure," *Quarterly Journal of Economics*, Vol. LXIV (May, 1950), pp. 254–81; and Joseph W. Garbarino, "A Theory of Interindustry Wage Structure Variation," *ibid.*, pp. 282–305.

and (3) the degree of competition or company control over price in the product markets of the industry. Professor John T. Dunlop concluded that the inter-industry wage structure appeared to be more responsive to changes in labor productivity and conditions in product markets than to changes in the degree of unionization.<sup>33</sup> He implies that expansion or contraction in total output of the industry, the changing skill and occupational content of its labor force, and the percentage of labor costs to total costs also may have more significant influence on secular wage changes than unionism.<sup>34</sup> Dr. Garbarino finds that, as "explanations" of inter-industry wage behavior from 1923 to 1940, both output per man-hour and concentration of the industry's production are better than degree of labor organization.<sup>35</sup>

The third study found that hourly earnings increased greater from 1933 to 1946 in industries where employment had expanded more, where product competition was more imperfect, and where union organization was widespread, but the authors lacked statistical means for disentangling the separate effects of each of these three factors or for determining causal relationships.<sup>36</sup> They did conclude, however, as Professor Paul H. Douglas had earlier,<sup>37</sup> that new unionism (the early organizational stage) was a source of relative wage advantage during the 1933-46 period, whereas continuing unionism was not; the group of six industries substantially organized in 1933 and continuing to be so, lagged behind all other groups in increase in hourly earnings, even behind those industries that remained unorganized.<sup>38</sup>

**Change in the wage level.** Collective bargaining stabilizes wage scales for the period of the agreement. That tends to put a brake on upward spirals of wages during periods of labor shortage and to retard wage reductions during business downswings. It may be well to bear in mind, however, that unions have in the past negotiated wage cuts of 15 per cent or more.

The rounds of wage increases after World War II gave the impression that collective bargaining was forcing up wage and price levels in snowball fashion. Actually the threefold expansion in the nation's money supply during the war and the post-war increase in the velocity of money spending were the main factors driving up prices. Accumulated liquid resources and a backlog of pent-up demand provided a sellers' market. Increases in wage scales lagged behind price increases as buyers bid for goods. Conditions were similar to those in the Civil War and other wartime inflations prior to widespread labor organization. In the absence of collective bargaining, wages after World War II would prob-

<sup>33</sup> This conclusion is actually stated in his review of Charles E. Lindblom, *Unions and Capitalism* in the *American Economic Review*, Vol. XL (June, 1950), pp. 465-66, where, however, he refers to his study as supporting it.

<sup>34</sup> See Dunlop, *op. cit.*, p. 360.

<sup>35</sup> *Op. cit.*, p. 302.

<sup>36</sup> See Ross and Goldner, *op. cit.*, p. 280.

<sup>37</sup> *Real Wages in the United States*, Houghton Mifflin, Boston, 1930, p. 562.

<sup>38</sup> Ross and Goldner, *op. cit.*, pp. 267 and 269.

ably have risen just as fast and far in this country as they actually did, if not faster and farther. It is on such grounds that Professor Walter A. Morton concluded that inflation here during the first four years following the termination of wartime price control was probably smaller with our administered prices and negotiated wages than it would have been in a society modeled after perfect competition.<sup>39</sup> The relationships between collective bargaining, full employment, and price inflation are treated more fully in Chapter 20.

### ALTERNATIVES AND PROPOSED REMEDIES

Large unions, like large corporations, represent great concentrations of economic power and, therefore, present problems for a democratic country with a market economy and a federal form of government. We live in a business society, dominated by giant companies, giant unions, and nationally controlled agriculture with government price supports and production restrictions. Logically we can make a choice between adapting large private blocs to our social needs and purposes or attempting to restrain them further by law and even break them up into smaller units.

**Alternatives.** Some students of the subject place faith in the development of greater responsibility and wisdom on the part of large private units which provide leadership and establish patterns. It is believed that public discussion and education, the development of standards for proper pricing and wage-setting, and informal direction from federal agencies handling economic problems will gradually bring about economic decisions that conform closely to the public interest or to a national program. Such a point of view suggests the development of ways for broadening interests and the area covered by single decisions. It tends to favor industry-wide bargaining and a shift of influence and power from national unions to the national federations, which represent labor as a whole and, therefore, have a broad outlook on the problems of the economy.<sup>40</sup>

The opposite point of view seeks to maintain and expand the many competitive checks in our economy and form of government. It relies on competitive pressures, rather than public enlightenment and government influences, to protect the public interest. The moderate representatives of this viewpoint would continue to permit collective bargaining even on a national basis, but they may favor reduction in the power and control at the top of a number of large national unions by such means as developing more democratic checks on individual authority, and they might even try to prevent a single union from

<sup>39</sup> "Trade Unionism, Full Employment and Inflation," *American Economic Review*, Vol. XL (March, 1950), p. 25.

<sup>40</sup> For an expression of this viewpoint, see Sumner H. Slichter, *The Challenge of Industrial Relations*, Cornell University Press, Ithaca, 1947, pp. 170-76; and John T. Dunlop, *American Economic Review*, Vol. XL (July, 1950), p. 468.

expanding to include the employees of an entire industry or a number of industries manufacturing substitute products. The extreme advocates of competitive checks would break up large company and labor units, disband government restrictions on agriculture, and rely on market forces to settle labor issues.

In its labor aspects, the program of the extreme "competitivists" appears to be completely impractical. Increased competition between unions is certainly undesirable; unlike enterprise competition it tends to drive prices up and to injure the public. Dismemberment of national unions into independent locals is not feasible politically. A proposal that in 1947 passed the House of Representatives and lost by only one vote in the Senate would have restricted collective bargaining to a single operating company or to one local-market area and would have enforced independence of union policy and decision on a company or community basis. This type of proposal is discussed below under "restrictions."

Advocates of increased competition with respect to labor make three unfounded assumptions: (a) that the market mechanism can provide answers to the complex issues surrounding jobs, (b) that employment could and should be made similar to the purchase and sale of commodities, and (c) that, compared with bargaining on a broader base, independent local or company bargaining would produce a more equitable and workable wage structure, more appropriate wage levels, and as much industrial peace. Actually, as we have seen, collective bargaining to date has not had the influence on wages that the "limitists," reasoning about unions as though they were monopolistic enterprises, have assumed. Wages under national and regional bargaining have not risen faster or higher than in manufacturing as a whole or, apparently, in industries and areas where bargaining has been on a company or local basis or where non-union conditions have prevailed. In view of employer labor policies and practices, worker attitudes and behavior, and the many facets to jobs, enforced competition in employment is not a practical objective of public policy.<sup>41</sup> The market mechanism, as explained in Chapter 3, does not provide satisfactory answers for many job issues and labor problems.

**Suggested restrictions.** Comment will be made on two proposals that have received considerable attention recently. They are to (a) confine collective bargaining policies and action to a single company or community<sup>42</sup> and

<sup>41</sup> This matter, from the angle of non-union conditions, is discussed in Lloyd G. Reynolds, *Labor Economics and Labor Relations*, Prentice-Hall, New York, 1949, pp. 344-52.

<sup>42</sup> In addition to bills discussed and voted on in Congress in the Spring of 1947 (see especially the *Congressional Record*, Vol. XCIII, May 7, 1947, Senate), the reader is referred to Raleigh W. Stone, "Trade Unionism in a Free Economy," *University of Chicago Law Review*, Vol. XIV (April, 1947), pp. 406-407, and *Economic Power of Labor Organizations*, Hearings before the Committee on Banking and Currency, U.S. Senate, 81st Congress, 1st session, Part II, August, 1949, pp 605 and 664.

(b) apply the anti-trust laws to "labor monopolies" in the same way that they are utilized to curb "industrial monopolies."<sup>43</sup>

The proposal for autonomous company and local unions would involve enforcing complete independence of union activities in each locality or company and forbidding any coordination of wage demands or other cooperation on an inter-locality or inter-company basis. The suggestion is aimed at compartmentalizing national unions and eliminating all national and regional bargaining. Some of the proponents of such a program would apply it also to employers and employers' associations, presumably forbidding any exchange of information or discussion that resulted in two or more companies adopting a particular labor policy that extended beyond a locality. One of the fundamental objectives of labor organization, unity of action on wages over the whole area of competitive production of an article, would be forbidden, but apparently no corresponding restriction is proposed with respect to uniformity of price over the whole competitive area.

This type of recommendation is radical in the extent to which it would alter the character and structure of labor unions as they have existed here and abroad for one hundred and fifty years. National unions would presumably become ineffectual federations, leaving the labor movement top-heavy with loose federations—some 200 national unions in addition to the existing duplicate sets of national, state, and local (AFL and CIO) federations. Craft unions would be most severely affected, since they are organized by occupation rather than employer.

Without a thoroughgoing break-up of industrial combination and large companies, this sort of proposal seems neither logical nor defensible. There may be little more reason for unions to be cut up according to the odd assortment of activities in many multi-plant companies than there would be for companies to be confined to the jurisdiction of individual national or local unions. A union limited to the operations of one employer or a few small employers in a community might be too small or distorted for economical and effective action.

The proposal to compel local or company independence of bargaining and union policy would be practically impossible to enforce. Presumably it would be necessary to make it illegal for national union officials to make statements on union policy or to print suggestions for union demands, if the granting or withholding of the use of the national union's support, insignia, funds, or favors were implied in any way. Consequently, enforcement would seem to require significant curtailments of freedom of speech and the press as well as a

<sup>43</sup> See, for example, Harold W. Metz and Meyer Jacobstein, *A National Labor Policy*, 1947, pp. 91 and 159; *Labor Relations Program*, Hearings on S. 55 and S. J. Res. 22, 80th Congress, 1st session, Parts I and II, January and February, 1947, pp. 541 and 686; and *Economic Power of Labor Organizations*, Parts I and II, pp. 573 and 636.

marked degree of government intervention in the internal affairs of unions. The proposal, it should be emphasized, is to enforce local autonomy within a political organization that is part of a labor movement with its own loyalties, traditions, and codes of conduct.

The proposal that the anti-trust laws be applied to labor unions as well as business enterprises has won support by its superficial plausibility. However, it overlooks the fact that competition and rivalry do not work well in labor relations and that labor and management are not competitors in the sense that producers of the same commodity are competitors.

The anti-trust laws do not define "monopoly" or "restraint of trade," nor does the Sherman Act set forth any definite criteria for determining their existence. Do unions restrain trade when they restrict employers by seniority rules, grievance procedures, definitions of normal working hours and holidays, and all the other non-wage provisions of the typical labor agreement? The restriction is not on consumers who, as pointed out in Chapter 9, may enjoy a larger output as a result of union-inspired improvements in management. Do such practices as wage-fixing, domination of employment in a community by a single employer, or agreement on labor policies by firms, constitute "monopoly," which would subject employers to penalties under the proposed extension of the anti-trust laws? In the past, the courts have held that primary strikes (in contrast to sympathetic strikes or secondary boycotts) are not in restraint of trade. Presumably Senator Robert A. Taft had such questions in mind when he stated: "You would practically have to write an anti-trust law for labor, because I do not think the Sherman Act is really aimed at it, or that the wording is particularly suitable."<sup>44</sup>

The fact is that the anti-trust laws and litigation under them have proved ineffective and ill-adapted for the determination and solution of monopoly problems. Court cases drag on for as long as ten years. Court victories for the government are usually only moral victories; companies adjudged guilty can try other means, and generally there is no follow-up after the court decision. The anti-trust laws have not prevented the growth of large industrial empires and increasing concentration of economic power in American industry.<sup>45</sup> Their extension to the employment of labor, in the face of such an unsuccessful record in the field for which they were designed and in view of the essential differences between labor and commodity markets, would certainly not seem sensible.

Labor unions are already subject to the anti-trust laws if they join with employers to regulate prices, production, or commercial practices in ways that

<sup>44</sup> *Labor Relations Program*, Hearings on S. 55 and S. J. Res. 22. Part IV, p. 1793.

<sup>45</sup> For a good discussion of the weaknesses of our anti-trust laws and machinery see Walton Hamilton and Irene Till, *Antitrust in Action*, Temporary National Economic Committee, Monograph No. 16, Washington, 1940.

restrain trade. They should also be liable under such laws if their actions are primarily designed to control prices in product markets or to restrain commercial competition. Since the *Apex Hosiery* (1940) and *Hutcheson* (1941) cases were decided by the U.S. Supreme Court, unions have enjoyed exemption from prosecution under the anti-trust laws if they act alone in restraining trade in commercial markets. That immunity should be eliminated by legislative action.

As is explained in Chapter 16, the Taft-Hartley Act of 1947 curtails the power of national unions in a number of respects. Its clauses outlawing "boycotts" and sympathetic strikes, together with the provisions for damage suits against labor organizations for violation of collective agreements, can make it difficult for a national union to take immediate action against two or more employers operating together against the union.

The question that this country faces is not so much one of increasing competition with respect to employment as it is the concentration of economic and political power. A democratic society must preserve pluralism and multiple loyalties and avoid too much personal domination and power by private organizations. That is a subject to which we shall return in the concluding chapter after an examination of labor legislation in this country.

## **CHAPTER FIFTEEN**

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### **DEVELOPMENT OF PUBLIC POLICY AND POLITICAL ACTION**

The role of government in labor relations has been a changing and expanding one. This chapter deals with the evolution of public policy toward union activities, including court rulings, statutory legislation, and administrative intervention. Public policy with respect to organized labor has gone through a number of stages and cycles during the past century and a half.

Union policies toward governmental intervention in labor relations have also varied with the actions of the courts, the legislatures, the federal and state administrations, and economic conditions. The role of labor in politics has been an expanding one. An attempt is made in this chapter to relate the political policies and activities of organized labor to environmental factors.

The development of governmental action with respect to industrial relations and of political action by organized labor constitute the subject matter of this chapter. It provides the broad background for the subsequent chapters in Part III. The next two chapters deal with the provisions of the Railway Labor Act and the National Labor Relations Act as amended by the Taft-Hartley Act in 1947. In addition, Chapter 17 discusses the problem of the settlement of labor disputes.

#### **JUDICIAL REGULATION AND PRESIDENTIAL INTERVENTION (1806-1932)**

In the absence of statute law concerning union activities and labor relations during most of the nineteenth century, court cases were based on the common law and federal intervention occurred under the presidential powers set forth in the Constitution. Common law in this country was based primarily on English precedent and influenced not only by previous court decisions but also by current social philosophy and political pressures.

**Conspiracy cases.** Shortly after the formation of the first unions, employers formed hostile associations and began to use the courts against such workers' organizations. As explained in Chapter 6, between 1806 and 1815 shoemakers' unions were prosecuted in six court cases under the English

common-law doctrine of conspiracy. In four of those cases, the journeymen shoemakers were found guilty and were given slight fines. The first decision, in which the shoemakers were held to be "guilty of a combination to raise wages," called forth a vigorous protest. The Jeffersonian democrats attacked both the Federalist judges and the English common law, while the workers complained that other groups had their associations and meetings to affect wages and the prices of goods. In succeeding conspiracy cases, the judges changed the emphasis in their interpretation of the common law, declaring that combinations to raise wages were illegal only when unlawful means, such as coercion or intimidation, were used or when the workers conspired to injure a third person, such as a non-member, by trying to secure a closed shop. Two of these early conspiracy cases involved the closed shop.

Between 1821 and 1842, there were 12 additional prosecutions of unions for conspiracy, five of which resulted in convictions. In 1821 the shoemakers tried unsuccessfully to prosecute employers for conspiring to reduce wages.<sup>1</sup> The famous decision of Chief Justice Shaw of the Massachusetts Supreme Court in *Commonwealth v. Hunt* in 1842 helped to restrict future conspiracy cases. He held that a strike for the closed shop was legal, if conducted in a peaceful manner, and that a union was indictable as a conspiracy only if the goal of concerted action or the means used to attain it were unlawful.<sup>2</sup> From 1842 to 1880, a total of 21 additional conspiracy cases were reported. Between 1869 and 1884, six states enacted laws to nullify the conspiracy doctrine, but they proved to be rather ineffective. In Pennsylvania alone, for example, at least 14 conspiracy cases occurred in the 1880's, following the passage of a series of laws legalizing unions in 1869, 1872, and 1876.<sup>3</sup>

**Injunctions.** In the 1880's, the first court injunctions were issued in labor disputes, and thereafter the labor injunction practically displaced criminal prosecutions of unions under the conspiracy doctrine. Injunctions are orders issued by courts of equity directing that a person or persons do, or refrain from doing, certain acts. The theory behind injunctions is that they are necessary relief in certain instances to prevent irreparable damage—injury to property that could or would not be fully repaired by the payment of compensation following a damage suit. As the courts broadened the concept of property to include market relationships and opportunities, labor injunctions were generally designed to protect the business relationships and expected profits of employers by enjoining strikes, boycotts, and picketing, which might cause irreparable injury to the employer's position and established relations with customers and employees.

<sup>1</sup> J. R. Commons *et al.*, *History of Labour in the United States*, Macmillan, New York. Vol. III, p. 163.

<sup>2</sup> *Ibid.*, p. 412.

<sup>3</sup> See E. E. Witte, "Early American Labor Cases," *Yale Law Journal*, Vol. XXXV (May, 1926), pp. 830-31.

For employers, the injunction has many advantages over a legal suit. It can be obtained quickly. It forestalls injuries so that damage suits, with the accompanying bad effects on relations, are avoided. An injunction gives the public the impression that the strikers are running afoul of the law, and any failure to comply with it is punishable as contempt of court. Consequently, the number of injunctions increased rapidly each decade from the 1880's until the passage of the Norris-LaGuardia Act of 1932 and similar state acts, limiting court issuance of such restraining orders in labor disputes. Up to May, 1931, a total of 1,845 labor injunctions are known to have been issued at the request of employers, compared with 43 issued at labor's instance.<sup>4</sup>

Labor's objections to the use of court injunctions in industrial disputes have been directed primarily against (a) the procedure in issuing temporary injunctions without a fair hearing of both sides or an opportunity for prompt appeal, (b) the sweeping character of such "judge-made" orders or law, and (c) the denial of a fair trial for those accused of violating the injunction. In almost half of the labor-injunction cases prior to 1932, temporary restraining orders were issued *ex parte*, simply on the basis of the employer's complaint without an opportunity for the workers to present their side of the case.<sup>5</sup> Such temporary injunctions often forbade action that was perfectly lawful, including discussions and meetings. Many labor injunctions issued before enactment of the Norris-LaGuardia Anti-Injunction Act were dragnet decrees with "blanket" clauses extending broad and vague prohibitions to "all persons whomsoever." Failure to obey such an injunction constituted contempt of court, and the accused violator was usually tried before the judge who had issued the injunction and without the benefit of a jury. Thus, many labor injunctions were, in effect, judicial legislation enacted, interpreted, and enforced by a single judge.

One result of experience with labor injunctions was a strong union reaction against the courts. Organized labor sought, through political activity, both to obtain legislation curbing the power of the courts in labor disputes and to influence the election or selection of judges. The Clayton Act of 1914 and nine state laws patterned after it were designed to remedy abuses in the issuance of injunctions in labor cases, but subsequent court interpretation or condemnation of these acts robbed them of any real effectiveness.

The Norris-LaGuardia Anti-Injunction Act, passed in 1932 and signed by President Hoover, does severely limit the granting of labor injunctions by the federal courts. In the 1930's some 16 states also enacted anti-injunction laws of the Norris-LaGuardia type, curbing the power of state courts to issue injunctions in labor disputes. Like the federal act, they made unenforceable in their

<sup>4</sup> See E. E. Witte, *The Government in Labor Disputes*, McGraw-Hill, New York, 1932, pp. 84 and 234.

<sup>5</sup> *Ibid.*, p. 90.

courts any "yellow-dog" contract, under which employees agree not to join a union as a condition of continued employment.

Commencing with a statement of public policy affirming the right of workers to engage in collective bargaining through unions of their own choosing, the Norris-LaGuardia Act prohibits the federal courts from issuing injunctions against paying strike benefits or giving publicity to the facts of a labor dispute. Except in unusual circumstances, when temporary restraining orders may be issued for five days upon sufficient testimony under oath, the federal courts are forbidden to issue temporary or permanent injunctions in labor disputes without a hearing and an opportunity for cross-examination in open court. Before requesting an injunction an employer must make every reasonable effort to settle the dispute. Prompt appeal to higher courts is provided in labor injunction cases, as well as a public trial by jury before another judge in cases of contempt of court occurring outside the courtroom. The Act's restrictions have made it virtually impossible for private employers to obtain labor injunctions except in instances of violence or fraud.

**Anti-trust cases.** Although it is questionable whether Congress in enacting the Sherman Anti-Trust Act of 1890 intended to have it apply to labor organizations,<sup>6</sup> some of the most important cases against unions in this country have been prosecutions under the federal anti-trust laws.

The first case in which the U.S. Supreme Court ruled that unions could be declared combinations in restraint of interstate commerce under the Sherman Act was the Danbury Hatters case. The United Hatters (AFL), enjoying closed-shop agreements with 70 out of 82 hat manufacturers, called a strike in 1902 against a hat manufacturing firm in Danbury, Connecticut, that had refused to accept such a union demand. In support of the strike, the national hatters union promoted a widely publicized boycott of the company's product at retail shops throughout the country. The union's members and their friends sought, as consumers, to bring pressure on firms not to handle hats produced by the Danbury firm against which the union was striking. The company brought suit for triple the actual damages, as provided in the Sherman Act. The U.S. Supreme Court in 1908 declared this "secondary boycott" a conspiracy to restrain the company's interstate trade and concluded that 250 members of the union were all liable and could each be sued for damages.<sup>7</sup> The company finally collected approximately \$234,000, most of which was raised by the AFL. In another boycott case, the Supreme Court in 1911 upheld an injunction against the AFL in connection with a nationwide boycott of

<sup>6</sup> See Edward Berman, *Labor and the Sherman Act*, Harper, New York, 1930, for an investigation concluding that the Sherman Act was not intended to apply to labor organizations. For the opposite view, see A. T. Mason, *Organized Labor and the Law*, Duke University Press, Durham, 1925.

<sup>7</sup> *Loewe v. Lawlor*, 208 U.S. 274 (1908) and 235 U.S. 522 (1915).

stoves produced by the Bucks Stove and Range Company.<sup>8</sup> The Federation had placed the company on its "We Don't Patronize List," following a strike caused by the discharge of leaders of a movement for shorter hours. When some of the Federation's officers continued to give publicity to the boycott in defiance of the injunction, they were given jail sentences for contempt, but the sentences were never served.

The consternation that these cases caused in labor circles led to a campaign by organized labor to obtain relief from the Sherman Act. The Clayton Act, passed in 1914, provided "that the labor of a human being is not a commodity or article of commerce," and that labor organizations shall not "be held or construed to be illegal combinations or conspiracies in restraint of trade under the anti-trust laws." Although the Clayton Act was hailed as "Labor's Magna Charta," and some labor leaders contended that it excluded unions from the anti-trust laws, succeeding court decisions showed that the judges were unable to perceive that this Act made necessary any change in the application of the anti-trust laws to labor.

In three cases in the 1920's, the U.S. Supreme Court upheld continued application of the federal anti-trust laws to labor disputes. In 1921, the Court granted an injunction against the Machinists' union, restraining its New York City members from carrying on a boycott to stop the sale and installation of newspaper printing presses produced by the Duplex Company in Michigan.<sup>9</sup> In this case the "boycott" consisted primarily of a concerted refusal to work on the company's presses. It was in support of a strike called by the union because the company had refused to meet terms of employment accepted by the other three unionized producers. In another case decided in 1925, the Supreme Court held that members of the United Mine Workers in Arkansas had intentionally interfered with interstate commerce and had thus violated the Sherman Act in destroying mining properties and coal destined for interstate shipment during a clash with detective-agency guards and strikebreakers, following company breach of the union agreement.<sup>10</sup> The coal company finally collected \$27,000 from the union in a compromise settlement out of court. In the third case, the Court in 1927 upheld an injunction against the Stone Cutters' union for a concerted refusal to work on the products of some quarries in the Bedford-Bloomington District of Indiana that had gone on a company-union basis after refusing to renew agreements with the Stone Cutters' union.<sup>11</sup> The union was declared guilty of violating the Sherman Act, when its members in other states, in line with the union's constitutional requirement not to

<sup>8</sup> *Gompers v. Bucks Stove and Range Co.*, 221 U.S. 418 (1911).

<sup>9</sup> *Duplex Printing Co. v. Deering*, 254 U.S. 443 (1921).

<sup>10</sup> *Coronado Coal Co. v. United Mine Workers*, 268 U.S. 295 (1925).

<sup>11</sup> *Bedford Cut Stone Co. et al., v. Journeyman Stone Cutters' Association*, 274 U.S. 37 (1927).

work on stone cut by non-members, refused to handle the Bedford stone in construction work.

In the 1940's the Supreme Court reversed its earlier decisions under the Sherman and Clayton Acts, granting labor unions wide immunity from the anti-trust laws. The Court did so by reasoning that the Norris-LaGuardia and Clayton Acts together showed a Congressional intent to change the statutory law and to make labor-union conduct as described in the Clayton Act not only non-enjoinable but absolutely lawful under the Sherman Act. That position was set forth in the Court's decision in 1941 in the *Hutcheson* case.<sup>12</sup> Like the *Danbury Hatters* case, it involved a nationwide boycott of Anheuser-Busch beer in support of a strike at the company's St. Louis plant over a jurisdictional dispute with the Machinists union. Subsequently in the *Musicians and Allen Bradley* cases in 1943 and 1945,<sup>13</sup> the doctrine was extended to permit unions to restrain interstate trade as long as they did not combine with non-labor groups in doing so. Reaction to the Supreme Court's rulings that boycotts by labor unions without employer connivance were immune from the anti-trust laws explains the new restrictions on boycotts by labor unions embodied in the Taft-Hartley Act of 1947. The decisions came at a time when unions had grown much stronger and when refusal to work on or transport certain non-union materials or goods produced by rival-union members was being used as an organizing device, thus interfering with workers' freedom to have unions of their own choosing.

**Presidential intervention.** The President of the United States and governors of the states have frequently intervened in labor disputes. In the great railroad strikes of 1877, President Hayes sent federal troops into ten states to stop strike disorders and the interruption of railroad operations, and, in the Pullman strike of 1894, President Cleveland dispatched federal troops into a number of states in support of court injunctions obtained by the federal government to suppress violence and obstruction of mail transportation. Between 1894 and 1923, presidents of the country entered personally into 30 different strike situations,<sup>14</sup> and President Franklin D. Roosevelt during his four terms of office intervened personally, sometimes decisively, in over 100 labor disputes.<sup>15</sup>

The effects of such intervention by the chief executive have varied with his political philosophy and the times. Prior to 1933, except for the World War I

<sup>12</sup> *United States v. Hutcheson*, 312 U.S. 219 (1941).

<sup>13</sup> *United States v. American Federation of Musicians*, 318 U.S. 741 (1943), and *Allen Bradley v. Local No. 3, International Brotherhood of Electrical Workers*, 325 U.S. 797 (1945).

<sup>14</sup> See Edward Berman, *Labor Disputes and the President of the United States*, Longmans Green, New York, 1924.

<sup>15</sup> Robert B. Dishman, *The President and Labor Disputes: A Case History of Executive Intervention in Railway Labor Relations*, 1947, p. ii (an unpublished Ph.D thesis in the Library of Princeton University).

period,<sup>16</sup> presidential intervention generally operated to the benefit of management. The consequences of presidential action are, however, unpredictable. And, despite reluctance to do so, presidents cannot avoid intervening in strikes that threaten to close vital sections of the national economy.

### LABOR LEGISLATION PRIOR TO 1933

The development of labor legislation in this country has been influenced by the attitude of the courts, the philosophy of organized labor, executive leadership in government, economic conditions, and public opinion. Often labor legislation has developed in spurts, with the federal government leading the way and the states following the federal pattern.

From the unfavorable experience of labor with political activities in the nineteenth century, the American Federation of Labor developed a philosophy of non-partisan political action and of preference for economic gains and protective benefits through collective bargaining rather than via legislation. Because women and children were largely unorganized, however, the Federation supported protective legislation on their behalf as well as laws to safeguard the health and physical safety of male workers.

**Protective legislation.** States began in the 1840's to enact child-labor laws and legislation limiting the hours of work for women in the 1840's. Much of that early legislation, however, was limited in applicability or failed to provide for effective enforcement. Gradually loopholes were closed and enforcement made effective. Big advances in protective labor legislation were made from 1907 to 1917.

Most states enacted their first hours-of-work laws for women during that period. By 1908 the U.S. Supreme Court had upheld the validity of state legislation stipulating an eight-hour day for women. In 1916 to avert a threatened railroad strike, Congress passed the Adamson Act providing for an eight-hour day for train operatives on the railroads.

State minimum-wage legislation for women was enacted by 12 states during the years 1912 to 1917. In a case in 1917, the constitutionality of such legislation was barely upheld by an evenly divided Supreme Court. In 1923, however, the Court held a District of Columbia law unconstitutional, and during the ensuing decade other state laws were either invalidated by the courts or remained unenforced. The depression following 1929 gave a new impetus to such laws, and seven states enacted new minimum-wage legislation in 1933, only to be jeopardized by a Supreme Court decision in 1936 invalidating the

<sup>16</sup> The labor boards and other federal programs during World War I favored union organization, but such wartime advantages ceased in 1919.

New York law. The next year, however, the Court reversed its 1923 and 1936 decisions, declaring a Washington State law constitutional, following which a new wave of such state legislation occurred.

By his vigorous messages to Congress urging laws requiring compensation to workers for accidents sustained on the job, President Theodore Roosevelt was instrumental in the enactment of such "workmen's compensation" laws by Congress for federal employment in 1908 and by 30 states from 1910 to 1915. The first laws compelling employers to provide insurance covering industrial accidents were declared unconstitutional by the state supreme courts, but were upheld as constitutional by the U.S. Supreme Court in 1917.

**Labor Relations Acts.** Between 1870 and 1925, the legislatures of some 20-odd states adopted laws which outlawed the use by union members of force or intimidation, and, in some states, boycotts or even peaceful picketing were legally banned. Such laws were, however, of little practical significance as long as the federal and state courts afforded employers injunctive relief and levied civil penalties based on the common law. From 1890 to 1925, a total of 33 states enacted legislation designed to accomplish one or more of the following: limit the issuance of injunctions in labor disputes, exempt unions from state anti-trust laws, legalize picketing, outlaw yellow-dog contracts or make them unenforceable in state courts, and forbid the blacklisting of workers. These early state laws favorable to labor were also largely ineffective, because they were either declared unconstitutional or were made innocuous by court interpretation.<sup>17</sup>

Before World War I, Congress passed a series of laws providing for mediation and voluntary arbitration of labor disputes in the railroad industry—the Act of 1888, the Erdman Act of 1898, and the Newlands Act of 1913. The Erdman Act also prohibited yellow-dog contracts on the railroads, but that part of the law was declared unconstitutional. Such labor relations legislation was not, however, capable of resolving the controversy over the eight-hour day, so that Congress had to pass the Adamson Act in 1916. The labor-disputes provisions of the Transportation Act of 1920 and the Railway Labor Act of 1926 were discussed in Chapter 12, and the latter is examined in detail in the next two chapters.

The Norris-LaGuardia Anti-Injunction Act of 1932 marked the beginning of a series of federal laws in the field of labor legislation, covering interstate industry other than the railroads and airlines. As previously indicated, it provided a pattern after which many state laws were modeled during the succeeding decade.

<sup>17</sup> See Charles C. Killingsworth, *State Labor Relations Acts, A Study of Public Policy*, University of Chicago Press, Chicago, 1948, pp. 10–11.

### THE NEW DEAL PERIOD (1933–40)

During the first two administrations of Franklin D. Roosevelt, organized labor expanded greatly in numerical strength and political influence. Severe depression had reduced the prestige of business leadership. Public opinion supported government intervention to improve economic conditions, and the attitude of organized labor shifted accordingly. Union leaders seized the opportunity to obtain favored legislation. The U.S. Supreme Court, although hostile toward much New Deal legislation prior to the President's court-packing proposal in 1936, thereafter became more liberal in its interpretations of the Constitution and upheld the new labor legislation.

**Section 7(a) of the National Industrial Recovery Act.** In June, 1933, Congress enacted a broad recovery measure containing provisions for codes of fair competition and a public works program. The codes, developed by an industry, often with the assistance of organized labor, provided for minimum wages and maximum hours of work for men as well as women in the industry. The Act, in addition, included a section, largely borrowed from the Norris-LaGuardia Act, stating that employees "shall have the right to organize and bargain collectively through representatives of their own choosing," "free from the interference, restraint or coercion of employers of labor or their agents," and that no worker "shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing."

Although this Section 7(a) was subject to varying interpretations, it implied that yellow-dog contracts were prohibited, that the use of labor spies and discrimination in employment to discourage unionism were illegal, and that employer attempts to promote company unions were unlawful if they interfered with the workers' rights of self-organization. Nevertheless, the number of employees covered by company unions apparently almost doubled during the year following passage of the Act.

To interpret Section 7(a) and to settle disputes arising under it, a number of labor boards were established. In line with the application of the Railway Labor Act, the National Labor Board established by the President and its successor, the National Labor Relations Board established by Public Resolution No. 44, gradually came to interpret Section 7(a) to mean that the employer had to negotiate in good faith with the representatives of the majority of his employees as determined by elections held by the Board. However, employer resistance to the conduct of elections and enforcement of Board decisions presented problems. Without statutory authority, the Board had to rely upon its prestige, or upon the Recovery Administration and the Department of Justice, for enforcement of its orders. Some firms brought successful

injunction suits against the Board's attempts to hold elections or to enforce its orders.

At the time the whole National Industrial Recovery Act was declared unconstitutional in May, 1935, a bill was pending in Congress to incorporate Section 7(a) and the Board interpretations into a permanent statute. In July, 1935, that bill, based on experience with interpreting and enforcing Section 7(a), was enacted by Congress as the National Labor Relations Act, commonly known as the Wagner Act.

**National Labor Relations Act.** It is important to bear in mind the experience with employer resistance to Section 7(a), out of which the Wagner Act developed. That determined the provisions of the new law. Significant also is the fact that the split in the labor movement and the formation of the CIO occurred after its enactment by Congress. As the labor movement grew in strength and the AFL-CIO conflict became more intense, amendment of the Act to provide some machinery for the settlement of strikes and to prevent strikes or boycotts against Board certifications was needed. Nevertheless, the law remained unchanged for 12 years—until amended by the Taft-Hartley Act.

That the Wagner Act was designed especially for the early stages of labor organization is indicated by its preamble, setting forth the economic philosophy on which it was based. The preamble states that "The denial by employers of the right of employees to organize and the refusal by employers to accept the procedure of collective bargaining lead to strikes and other forms of industrial strife or unrest," and explains that "The inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract, and employers who are organized in the corporate or other forms of ownership association substantially burdens and effects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry and by preventing the stabilization of competitive wage rates and working conditions within and between industries."

Provisions of the Act dealing with unfair labor practices, elections, and enforcement are discussed in the next chapter. Employers generally refused to obey the Board's orders or the Act until it was declared constitutional by the U.S. Supreme Court in March, 1937.

The federal law was followed, and complemented for intrastate commerce, by a number of state acts, modeled more or less after the National Labor Relations Act. In 1937, New York, Massachusetts, Pennsylvania, Utah, and Wisconsin passed "little Wagner Acts," prohibiting the same unfair labor practices as the Federal law, but Massachusetts declared the sit-down strike also an unfair labor practice.

TABLE II:

## WORK STOPPAGES IN THE UNITED STATES, 1916-50

| Year | Work stoppages |                                     | Workers involved      |  | Man-days idle         |  |
|------|----------------|-------------------------------------|-----------------------|--|-----------------------|--|
|      | Number         | Average duration (in calendar days) | Number (in thousands) | Percent of total employed industrial workers | Number (in thousands) | Percent of total working time of employed industrial workers |
| 1916 | 3,789          | ....                                | 1,600                 | 8.4  | ....                  | ....   |
| 1917 | 4,450          | ....                                | 1,230                 | 6.3  | ....                  | ....   |
| 1918 | 3,353          | ....                                | 1,240                 | 6.2  | ....                  | ....   |
| 1919 | 3,630          | ....                                | 4,160                 | 20.8   | ....                  | ....   |
| 1920 | 3,411          | ....                                | 1,460                 | 7.2  | ....                  | ....   |
| 1921 | 2,385          | ....                                | 1,100                 | 6.4  | ....                  | ....   |
| 1922 | 1,112          | ....                                | 1,610                 | 8.7  | ....                  | ....   |
| 1923 | 1,553          | ....                                | 757                   | 3.5  | ....                  | ....   |
| 1924 | 1,249          | ....                                | 655                   | 3.1  | ....                  | ....   |
| 1925 | 1,301          | ....                                | 428                   | 2.0  | ....                  | ....   |
| 1926 | 1,035          | ....                                | 330                   | 1.5  | ....                  | ....   |
| 1927 | 707            | 26.5                                | 330                   | 1.4  | 26,200                | .37  |
| 1928 | 604            | 27.6                                | 314                   | 1.3  | 12,600                | .17  |
| 1929 | 921            | 22.6                                | 289                   | 1.2  | 5,350                 | .07  |
| 1930 | 637            | 22.3                                | 183                   | .8   | 3,320                 | .05  |
| 1931 | 810            | 18.8                                | 342                   | 1.6  | 6,890                 | .11  |
| 1932 | 841            | 19.6                                | 324                   | 1.8  | 10,500                | .23  |
| 1933 | 1,695          | 16.9                                | 1,170                 | 6.3  | 16,900                | .36  |
| 1934 | 1,856          | 19.5                                | 1,470                 | 7.2  | 19,600                | .38  |
| 1935 | 2,014          | 23.8                                | 1,120                 | 5.2  | 15,500                | .29  |
| 1936 | 2,172          | 23.3                                | 789                   | 3.1  | 13,900                | .21  |
| 1937 | 4,740          | 20.3                                | 1,860                 | 7.2  | 28,400                | .43  |
| 1938 | 2,772          | 23.6                                | 688                   | 2.8  | 9,150                 | .15  |
| 1939 | 2,613          | 23.4                                | 1,170                 | 4.7  | 17,800                | .28  |
| 1940 | 2,508          | 20.9                                | 577                   | 2.3  | 6,700                 | .10  |
| 1941 | 4,288          | 18.3                                | 2,360                 | 8.4  | 23,000                | .32  |
| 1942 | 2,968          | 11.7                                | 840                   | 2.8  | 4,180                 | .05  |
| 1943 | 3,752          | 5.0                                 | 1,980                 | 6.9  | 13,500                | .15  |
| 1944 | 4,956          | 5.6                                 | 2,120                 | 7.0  | 8,720                 | .09  |
| 1945 | 4,750          | 9.9                                 | 3,470                 | 12.2   | 38,000                | .47  |
| 1946 | 4,985          | 24.2                                | 4,600                 | 14.5   | 116,000               | 1.43   |
| 1947 | 3,693          | 25.6                                | 2,170                 | 6.5  | 34,600                | .41  |
| 1948 | 3,419          | 21.8                                | 1,960                 | 5.5  | 34,100                | .37  |
| 1949 | 3,606          | 22.5                                | 3,030                 | 9.0  | 50,500                | .59  |
| 1950 | 4,700          |                                     | 2,300                 | 6.6  | 38,500                | .44  |

SOURCES: *Analysis of Work Stoppages during 1949*, U.S. Bureau of Labor Statistics, Bulletin No. 1003, 1950, p. 1, and current issues of the *Monthly Labor Review*.

By 1939, strong reaction had developed against the policy of protecting and fostering labor organization and collective bargaining. As indicated in Table II, the number of strikes reached an all-time high in 1937. The sit-down strikes of that year, the rival-union disputes and boycotts, and the "radicalism" of the new unions, caused rural, small-town, and middle-class opinion to become increasingly critical of organized labor and to demand restrictive legislation.<sup>18</sup> The result was that after 1937 only Rhode Island in 1941 and Connecticut in 1945 passed little Wagner Acts and that a number of states enacted legislation restricting the activities of labor unions and setting up machinery for the settlement of labor disputes. In 1939, for example, the Pennsylvania Act was amended to contain three unfair labor practices by employees, the Wisconsin Act was repealed and replaced by an act which also declared a whole series of employee actions to be unfair labor practices, and Minnesota and Michigan enacted new labor relations laws restricting union practices and emphasizing disputes' settlement.

**Protective legislation.** The mid-1930's also marked the entrance of the federal government into the field of social insurance and of wage-and-hour legislation covering employees in interstate commerce. As a result of union pressure, a railroad retirement act was passed in 1934, providing taxes to pay annuities to retired railroad employees. When it was declared unconstitutional, a new act was passed in 1935, and amended in 1937, to establish a special old-age insurance system for the railroads.

In 1935, the Social Security Act was passed, providing a federal old-age insurance system, tax compulsion for the establishment of state unemployment-compensation laws, and a program of old-age assistance. This far-reaching legislation is discussed in Chapter 18.

The Fair Labor Standards Act of 1938 established in statutory form the minimum-wage and maximum-hours notions developed in the codes of fair competition under the National Industrial Recovery Act. Before that, the AFL had not favored such legislation for men. Chapter 19 examines the economic significance and implications of this law as amended in 1949.

## WARTIME RESTRICTIONS AND POSTWAR REACTION (1941-50)

During and after World War II, public reaction against the power and practices of organized labor grew. Strikes during the war, which as Table II shows ranged from 3,000 to 5,000 annually,<sup>19</sup> were viewed as unpatriotic.

<sup>18</sup> See Charles C. Killingsworth, *State Labor Relations Acts, A Study of Public Policy*, University of Chicago Press, Chicago, 1948, pp. 16-23.

<sup>19</sup> Note in Table II that work stoppages during the war averaged about seven days in duration, so that the man-days of idleness from such stoppages each year of the war averaged less than one-fifth of 1 per cent of all work time for the whole country. Note also that strikes during

The post-war strikes were considered inflationary and, in a few cases, seemed to be directed against the federal administration. The wartime and post-war tactics of the United Mine Workers particularly aroused public resentment. In the great wave of post-war strikes, those on the railroads and in bituminous coal were the most alarming, because they threatened to demonstrate the inadequacy of the federal government to deal with such emergencies. While the unions were losing public good-will, business leadership was gaining in prestige as the result of the astounding war output and business reconversion to peacetime production with relatively little unemployment. Continuous prosperity during the 1940's dulled public interest in progressive legislation. In addition, the post-war tension between the United States and Russia caused public concern with Communist influences in organized labor, especially in a number of CIO unions.

Organized labor in the war and post-war years learned that what government can give by legislation it can also take away by the same means. During the first two terms of President Roosevelt, labor's gains had been achieved largely with the aid of government, with the courts finally modifying their position to uphold such governmental intervention in industrial relations. The war and post-war periods saw a growing anti-union sentiment in the states and Congress, which insisted on curbing unions. Throughout the 1940's, organized labor continued to benefit from a generally favorable attitude by Presidents Roosevelt and Truman. That was, for example, a real advantage in strikes. Industry opposition to fact-finding boards in labor disputes undoubtedly arose more from expectations with respect to the personnel the President would appoint to them than to hostility toward the principle as such.

**The war period.** Because the Wagner Act contained no provisions for the settlement of labor disputes, it was necessary to establish a National Defense Mediation Board early in 1941 by executive order. As indicated in Chapter 12, that Board was dealt a severe blow by the resignation of its CIO members over the Board's decision regarding the United Mine Workers' demand for a closed shop in the captive mines.

After the Pearl Harbor attack, the President called a labor and industry conference, at which it was agreed to eliminate strikes and lockouts for the duration of the war by the peaceful settlement of all labor disputes, with decision by a newly formed National War Labor Board if necessary. The Board developed a number of policies, the chief ones being the inclusion of a maintenance-of-membership clause in agreements with responsible unions and the "Little Steel" formula limiting general wage increases to 15 per cent

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World War I affected at least as high a proportion of the total employed workers, although a smaller percentage of the work force was unionized. The first post-war year, 1919, saw an increase in the severity of strikes as was also true of 1946, the first year following World War II.

on a January, 1941, base. Exceptions to that ceiling were permitted in order to bring "substandard wages" up to a minimum, or to iron out "wage inequities" within a plant, or to bring a plant's occupational rates up to the minimum of a range of local rates for the occupation, or to permit special wage adjustments necessary for the critical needs of war production.<sup>20</sup>

The lessons of the wartime experience with wage controls and disputes' settlement are discussed more fully in Chapter 20. On the whole, the War Labor Board was successful in minimizing time lost as a result of labor disputes.<sup>21</sup> In some 38 cases, it was necessary for the President to seize the properties of firms refusing to comply with the Board's "directive orders." The tripartite character of the Board—four public, four labor, and four industry members—helped to gain acceptance for its decisions. As the war progressed, restlessness in labor ranks under wage ceilings caused the Board to grant more and more in the way of "fringe" benefits—shift differentials, vacation pay, paid holidays, etc.

Stoppages of work by the United Mine Workers in 1943 helped to bring about enactment, over the President's veto, of the War Labor Disputes Act in June of that year. Its passage marked the end of a decade of federal legislation favorable to labor. The Smith-Connally Act, as it was called, aimed to prevent the interruption of war production by (a) requiring a 30-day notice and a majority vote in a secret strike ballot before a strike could be called, (b) authorizing the President to take possession of a plant or facility necessary for prosecution of war when operations were disrupted by labor trouble, (c) forbidding any person to promote a work stoppage or other interruption of production after the federal government took possession, and (d) prohibiting contributions by labor organizations in elections of federal officials. The Act apparently did not reduce labor stoppages, and violations of its work-stoppage provisions were not prosecuted. The provision for a strike vote was not only incompatible with labor's no-strike pledge at the labor and industry conference, but proved so unsuccessful as a strike-reducing measure that Congress stopped such votes by refusing to appropriate funds for that purpose.

The year 1943 also saw six southern and northwestern states adopt union-regulating and "anti-violence" laws, some of questionable constitutionality. Between 1944 and 1946, five non-industrial states adopted constitutional amendments banning the closed shop.<sup>22</sup> The reaction against unions was growing.

<sup>20</sup> For further discussion of the policies of the National War Labor Board, see *The Termination Report of the National War Labor Board, Industrial Disputes and Wage Stabilization in Wartime*, January 12, 1942–December 31, 1945, Vol. 1.

<sup>21</sup> See Table II, p. 308.

<sup>22</sup> See Harry A. Millis and E. C. Brown, *From the Wagner Act to Taft-Hartley, A Study of National Labor Policy and Labor Relations*, University of Chicago Press, Chicago, 1950, pp. 322–27.

**The post-war period.** Legislation passed by a Democratic Congress in 1946 revealed the changing attitude toward organized labor. That year saw the enactment of the Lea Act prohibiting royalty payments to the Musicians' union in making phonograph records and the Hobbs Act, directed at the Teamsters' union, removing labor-union exemption from the Federal Anti-racketeering Act. Congress also approved, but failed to pass over the President's veto, the Case bill which had many features similar to the Taft-Hartley Act.<sup>23</sup>

The large-scale strikes in 1946 set the stage for the enactment of a flood of union-restricting laws in the states in early 1947. Campaigns by the National Association of Manufacturers and the U. S. Chamber of Commerce resulted in such legislation being passed by at least 30 states in that year. Most numerous were laws prohibiting union-security clauses, limiting picketing or other strike activity, and outlawing secondary boycotts.<sup>24</sup> Although predominantly agricultural states accounted for most of this legislation, three industrial states (New York, Pennsylvania, and Michigan) enacted laws outlawing strikes by public employees.

In the 1946 elections the Republicans for the first time in 20 years gained control of both houses of Congress. The new 80th Congress proceeded to enact, over President Truman's veto, the Labor Management Relations Act of 1947, commonly known as the Taft-Hartley Act. Its provisions are discussed in detail in the next two chapters. A proposal to outlaw multiple-employer bargaining, except for small firms in a single locality, passed the House and lost in the Senate by only one vote.

The Democratic platform in the 1948 election favored repeal of the Taft-Hartley Act, and that has continued to be the position of the Truman administration. Although the 81st Congress was under Democratic control, it soon became evident that Democratic senators and representatives from rural and southern states were generally not in favor of repeal. In May, 1949, the House passed and subsequently returned to committee the Wood bill, which was a restrictive law essentially similar to the Taft-Hartley Act. Senator Taft had suggested some 20-odd changes as a result of experience under the Act. The bill that passed the Senate at the end of June, 1949, contained most of those changes, but retained the basic features of the original Act. After those two defeats, the Truman administration made no further attempts to repeal the Taft-Hartley Act during the 81st Congress and it continued throughout 1950 and early 1951 without amendment despite proved defects and administrative difficulties.

<sup>23</sup> See Harry A. Millis and E. C. Brown, *op. cit.*, pp. 360-62.

<sup>24</sup> *Ibid.*, pp. 328-29.

## LABOR'S POLITICAL POLICIES AND ACTIVITIES

As indicated in Chapter 6, the American labor movement developed a short-lived labor party, the "Workingmen's Party," over 120 years ago. Between 1828 and 1834, workers organized for independent political action in a dozen states and many cities. But this world's first labor party soon petered out and, although labor for the rest of the nineteenth century oscillated between economic and political action, its political ventures were combined with farmers and small business rather than attempts to form an independent labor party.

In most countries with a large labor movement, a special political party, based on union support, has developed. That is true, for example, in England, in Australia and New Zealand, and in the Scandinavian countries, where in the past two decades labor parties have been in control of the government during much of the time. For a number of reasons, our political pattern has been different. Unlike the Prime Minister-Parliamentary system, the chief political aim here is to win the Presidency, and to do so requires a wide political base, including rural and middle-class support. Consequently, we have had two dominant political parties, with neither party the instrument of a particular social or economic class. Two heterogeneous parties, with shifting ideological and economic bases, help to avoid the rigidity and tension that develop with political parties resting on a class base.

**Labor's non-partisan policy.** Early in the history of the AFL, President Samuel Gompers developed a non-partisan political policy, under which labor would avoid definitely aligning itself with either political party and would play pressure-group tactics by favoring its friends and punishing its enemies in political campaigns. In developing this policy, Gompers sought to stress collective bargaining rather than political action and to dissociate the labor movement from the political movement of socialism.

The only time that the AFL really abandoned its non-partisan policy was in the campaign of 1924. Neither of the presidential nominees of the two major parties was friendly toward labor, and the Executive Council of the Federation was finally induced to endorse the La Follette-Wheeler ticket. But the results were highly disappointing, and even the labor popularity of Franklin D. Roosevelt did not produce another exception to the AFL tradition against official endorsement of presidential candidates. The CIO and the railroad brotherhoods have also followed a policy of avoiding exclusive and permanent attachment to any existing political party and of not attempting to form a party of their own.

A number of factors caused the AFL to modify the Gompers policy of

reliance on collective bargaining for labor's economic benefits and distrust of political action as a means of achieving gains for fear of political control of unions. The growing use of the injunction in labor disputes during the first three decades of this century forced labor to seek a legislative remedy for that abuse. The depression of the 1930's compelled the AFL to abandon its stand against legislation for unemployment compensation, old-age pensions, and wages and hours laws for men, and to recognize that action by Congress was necessary for the rapid and effective achievement of other aims like elimination of child labor, maintenance of high-level employment, provision for adequate housing, and social insurance for medical care. Two additional factors were the change in the Supreme Court's attitude toward governmental intervention in industrial relations and widespread organization of the unskilled and semiskilled workers. The craft unions, especially the building trades, strongly favored emphasizing economic, and minimizing political, action. The new unionists and the new unions of the 1930's recognized their dependence on government, and the competition of the CIO in political affairs stimulated the AFL to become more active politically.

The railroad unions have probably made the most effective use of labor's non-partisan policy. Their combined membership of a million and a half, located in every congressional district and especially in many rural areas, has given them a strategic political position, which they have utilized by marshalling votes and confining their objectives to the railroad industry. With coordination under the Railway Labor Executives Association, they have applied the test of voting correctly on railway labor issues, regardless of the legislator's general record. Thus, conservative congressmen may receive the support of a strategic labor bloc while voting against legislation favored by the AFL or CIO. As a result, the railway unions have had the most effective labor lobby in Washington and have been able to obtain a favored status under special legislation for unemployment compensation, old-age insurance, sickness insurance, and collective bargaining on the railroads.

The non-partisan policy, with a split labor movement, has reduced the political potentiality of organized labor. The CIO and the AFL have frequently supported opposing candidates and different legislative provisions. Although the Taft-Hartley Act brought about greater political coordination nationally among union groups, the AFL, CIO, and railroad brotherhoods did not conduct a common campaign in 1948. The railroad unions, not covered by the Taft-Hartley Act, were inclined to apply different tests from those of the AFL and CIO in deciding whether or not to endorse a candidate.

**Agencies for political action.** Operating within the non-partisan policy, organized labor has developed special affiliates for political activity. In this respect, it differs from business and agriculture, which have relied upon their

regular associations and lobbying activities.<sup>25</sup> Restrictions on the political use of union funds and the need for common action by national unions with varied views and affiliations, have caused organized labor to establish special political units, financed by voluntary contributions from union members.

To mobilize the labor vote for President Roosevelt's reelection, Labor's Non-Partisan League was established in April, 1936. Although John L. Lewis was chairman and Sidney Hillman was treasurer, AFL as well as CIO unions participated in the League's formation and activities. The League did not constitute a third-party movement, although in New York State it operated through the American Labor Party, which functioned as a third party after its capture by Communist elements in the mid-1940's.

Labor's Non-Partisan League operated through its affiliated labor organizations. During the 1936 campaign it spent approximately a million dollars, and was undoubtedly of some real influence. But with the growing split in labor's ranks, its effectiveness was reduced. In April, 1938, President Green of the AFL condemned it as a CIO agency and urged all AFL groups to abandon it. The weakened League continued through the 1940 campaign supporting Roosevelt's reelection without, however, AFL assistance or that of John L. Lewis, who urged the election of Wendell Willkie.

A combination of factors led to the establishment of a new CIO subsidiary, the Political Action Committee, in July, 1943. The New Deal forces suffered a setback in the 1942 elections. The new Congress had just enacted, over the President's veto, the Smith-Connally Act, which prohibited contributions from union treasuries to party campaign funds in national elections. Political dissensions in the CIO were reduced with Hitler's attack on Russia and the United Mine Workers' withdrawal from the CIO.

Led by Sidney Hillman, the Political Action Committee operated with considerable skill and effectiveness in the 1944 campaign. Using the field organization of the CIO unions and units, PAC made every effort to "get out the vote." Up-to-date public relations techniques were used in preparing and distributing some 57 million copies of its 14 pamphlets. The voting records of the candidates were given widespread publicity, and union officers in CIO unions began to lay the groundwork for permanent political organization.

Enactment of the Taft-Hartley Act caused the AFL to establish in 1948 a similar political arm, Labor's League for Political Education. That Act outlawed political expenditures by trade unions, so that arrangements had to be made both for voluntary contributions by union members and the expenditure of funds for political purposes through a separate agency. In the 1948 elections, the LLPE concentrated particularly on congressional contests, seeking to retire those who had voted for passage of the Act over the President's veto.

<sup>25</sup> Labor accounts for only about one-tenth of all funds spent on lobbying at the national level.

It spent \$319,000 in the campaign, using in addition the services of the Federation's affiliated unions, representing 40,000 locals and some 400 weekly and monthly publications. In the 1950 elections, the LLPE spent some \$550,000 but without defeating the principal candidates it opposed, including Senator Robert A. Taft.

Organized labor has reacted to union-restricting legislation by establishing permanent political agencies, which utilize the existing union field organization. Performing a variety of political and semi-political services for union members, they may seem to some to represent a threat of too much control of unions over the lives of workers and of partisan involvement of the labor movement. Labor's agencies for political action are still, however, a far cry from an independent labor party and, as yet, no well-known labor leader has become a Congressman or a holder of high political office. Repeatedly, most strikingly in the 1950 elections, the returns reveal that labor leaders cannot control the votes of union members. Apparently many union members and their wives voted in November, 1950 in Ohio for the reelection of the co-sponsor of the Labor Management Relations Act of 1947, Senator Robert A. Taft.

## CHAPTER SIXTEEN

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### UNFAIR LABOR PRACTICES

This and the next chapter deal with the Railway Labor Act, the Wagner Act, and the Taft-Hartley Act. The aim is to explain the main provisions of those laws, to indicate how they have been applied, and to comment critically regarding their effects on industrial relations. Management and labor practices that are legally banned constitute the subject matter of this chapter. Requirements and procedures with respect to labor disputes and their settlement are discussed in Chapter 17.

In considering clauses of federal legislation proscribing certain "unfair labor practices," it is important to bear in mind that they are not designed to cover all unfair, oppressive, or illegal conduct by managements, unions, or workers. The parties are subject to the whole body of criminal and civil law applying to individuals and corporations. Reliance must be placed on collective bargaining and local pressures to provide machinery and protection against many possible abuses in industrial relations.

#### RAILWAY LABOR ACT<sup>1</sup>

As amended in 1934, the Railway Labor Act proscribes certain activities and practices by employers and unions. It states that "neither party shall in any way interfere with, influence, or coerce the other in its choice of representatives," that the representatives chosen by a majority of any craft or class of employees shall enjoy exclusive bargaining rights, and that the employer is obligated to negotiate with the representative certified by the National Mediation Board, which is authorized to conduct elections by secret ballot. Under the Act it is unlawful for a railroad or airline company to interfere with the organization of its employees or to use its funds to assist any labor organization. Before 1951 it was also unlawful for such a company "to influence or coerce employees in an effort to induce them to join or remain or not to join or remain members of any labor organization," or "to deduct from the wages of employees any dues, fees, assessments, or other contributions payable to labor organizations." In short, it is an unfair labor practice for an employer

<sup>1</sup> This section draws on Herbert R. Northrup, "Unfair Labor Practice Prevention under the Railway Labor Act," *Industrial and Labor Relations Review*, Vol. III (April, 1950), pp. 323-40.

under the Act to interfere with the workers' right to self-organization, to assist a company-dominated union or a national union, or to refuse to bargain with a certified union, and for a union to interfere with the employers' choice of representatives. Until the 1951 amendment it was also an unfair labor practice for a union to demand a union-security clause or the check-off. Under the law, both parties have a positive duty "to exert every reasonable effort to make and maintain agreements."

The balanced language of the Act and the pre-1951 prohibition of union-security clauses have historical explanations. As explained in Chapter 12, the original Act of 1926 grew out of an agreement between the railroads and the standard railway unions with respect to its main provisions. At that time, the non-operating unions were interested in eliminating company unions from the industry, and employer support had promoted such rival organizations. Having virtually eliminated company unions from the railroads by 1940, the non-operating unions began to favor amending the Act to permit union-security clauses, and legislation for that purpose was enacted in January, 1951.

The 1951 amendment permits the unions to ask rail and airline carriers for union-shop and check-off clauses. Unlike the Taft-Hartley Act, no majority vote is required in order for the union to request a union-security clause, and state laws restricting union security can be disregarded. Union-shop agreements under the amended Railway Labor Act cannot require union membership as a condition of employment "with respect to employees to whom membership is not available upon the same terms and conditions as are generally applicable to any other member or with respect to employees to whom membership was denied or terminated for any reason other than the failure of the employee to tender the periodic dues, initiation fees, and other assessments. . . ." Under such an agreement, the membership requirement is satisfied for any operating employee if he is a member of any one of the national unions in the engine and train service, between which he is free to change his membership.

The unfair-practice provisions of the Railway Labor Act have been enforced chiefly by the unions appealing for court injunctions ordering a carrier to cease interfering with the self-organization of its employees or to bargain exclusively with a duly certified union. Cases of employee discharge for union activity or other violations of an agreement containing provisions of the Act can be handled under the grievance procedure, with final appeal to and decision by the National Railroad Adjustment Board.<sup>2</sup> Enforcement through direct court action upon the initiative of the affected union has not given rise to many

<sup>2</sup> A bipartisan board with arrangements for the selection of a third party to break any deadlock and render a majority decision that is binding.

cases, partly because the railroads since 1926 have been much more willing to recognize and bargain with unions than has been true for industry generally.

## THE WAGNER ACT

The circumstances under which the National Labor Relations Act was passed in 1935 were explained in the preceding chapter. Most of the larger firms in manufacturing were trying to prevent organization of their employees and were refusing to bargain with unions. The Act aimed to remove employer obstructions that were hampering labor organization and collective bargaining. It simply attempted to assure some "equality of bargaining power" by protecting employee self-organization and to encourage collective bargaining by requiring employers to negotiate with the authorized representatives of the employees. Thus, it limited government intervention to the preliminaries of collective bargaining.<sup>3</sup> The Act was silent with respect to the contents of collective agreements or a procedure in case the parties could not agree. The parties were left free to negotiate what they wished and to strike or lockout when they wanted, even in violation of an agreement.

**Employer unfair labor practices.** The Wagner Act stated it to be an unfair labor practice for an employer:

1. To interfere with, restrain, or coerce employees in the exercise of their rights of self-organization and collective bargaining.
2. To dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it.
3. To encourage or discourage union membership by discrimination in regard to hire or tenure of employment or condition of work, except such discrimination as may be involved in a closed-shop agreement with a bona fide union enjoying majority status.
4. To discharge or otherwise discriminate against an employee for filing charges or testifying under the Act.
5. To refuse to bargain collectively with the representatives of his employees, certified by the National Labor Relations Board as representing the majority and having exclusive bargaining rights.

Obviously a variety of employer activities could be considered in violation of these broad provisions. Among those judged to contravene the Act were: spying on union activities, discriminating against unionists in transfer or discharge, favoring one union against a rival union, and making anti-union statements designed to discourage employee organization. The employer's duty to bargain only with the certified union was interpreted to mean that he must negotiate "in good faith," which includes meeting at reasonable times, discussing union proposals, giving reasons for refusal to accept them, making

<sup>3</sup> For a discussion of the philosophy of limiting governmental intervention to the organizational stage and the prerequisites for collective bargaining, see George W. Taylor, *Government Regulation of Industrial Relations*, Prentice-Hall, New York, 1948, especially pp. 3-7 and 330-35.

counter-proposals, reducing any agreement to writing, and refraining from unilateral changes in wages and other conditions of employment in order to avoid the union.

*procedure*  
*Wagner*  
*Act.*  
**Enforcement procedure.** Unlike the Railway Labor Act, a special National Labor Relations Board was established under the Wagner Act to decide cases and to issue orders against violations of the law. Like the procedure used by the Federal Trade Commission, the Interstate Commerce Commission, and the Securities Exchange Commission, such a special arrangement means that the government (not a union) investigates and prosecutes the case before a trial examiner and the Board, both of whom are selected by the government. Such a procedure utilizes the services of experts for screening, evidence collecting, prosecution, and initial decision, thus saving unions considerable legal expense and the courts from being cluttered up with numerous cases, most of which can be settled out of court. During the first five years of the Act, for example, over 95 per cent of all complaints filed were eliminated by withdrawal, dismissal, settlement, or compliance, and never reached the courts.

The courts, however, retain final authority. They may adopt, modify, or reject orders of the National Labor Relations Board. If a preliminary investigation by the field staff seems to indicate that an unfair labor practice has been committed, a formal hearing is scheduled before a trial examiner. After the hearing, the evidence, together with the trial examiner's recommendations, is forwarded to the Board, which may review the case. If the Board so decides, it may issue an order to the employer to cease violating the Act and to make amends for violations already committed. There is no punishment for contempt of the Board's orders before they are validated in whole or in part by a federal court. If the employer agrees to cease the alleged unfair labor practices before a court makes part or all of the Board's order the court's decree, no penalties occur for violation of the Act, except such compensation as reinstatement in their former jobs with lost-time pay for workers discharged because of union activity. In addition to reinstatement with back pay, the Board may order employers to disestablish company unions or to negotiate in good faith with a certified union. Refusal to obey the court's order is contempt of court.

**Weaknesses.** The National Labor Relations Act suffered from a number of defects, which became increasingly serious as the AFL-CIO split widened, the power of unions increased, and national emergency strikes developed. Some of these defects could have been remedied if certain provisions of the Railway Labor Act had been written into the Wagner Act, namely, placing on unions as well as employers a positive duty to bargain in good faith, forbidding union interference with employer self-organization, and providing for strike notification and settlement procedures. Some strong unions, such as the Steelworkers, drafted a whole set of demands at national headquarters and

presented them to employers on the basis of complete acceptance without modification or shutdown of the plant by a strike. Others, like the United Mine Workers, refused to state their full demands until one demand was settled, or sought to determine the employer representatives by specifying the persons with whom they would or would not negotiate.

Two other shortcomings under the Act were failure to protect Board certifications from economic action by rival unions and long delays before conducting elections or deciding cases. Rival unions were free to strike or boycott an employer or his products, because he complied with the Act by dealing with a certified union. Delay was partly due to the time-consuming procedure for processing complaints of unfair labor practices, but it also resulted, especially in the case of elections, from insufficient staff because Congress curtailed the Board's appropriations.

### THE TAFT-HARTLEY ACT

In proposing to remedy the deficiencies of the Wagner Act, Congress did not simply add matching restraints on unions or balancing provisions of the Railway Labor Act type. Instead of confining government intervention to the preliminary stages of organization and duty to bargain, along with emergency disputes, the Taft-Hartley Act seeks to restrict economic action by unions and to regulate the contents of agreements. It did so on the grounds that unions had become too strong.

Technically the Taft-Hartley Act, or the Labor Management Relations Act of 1947, consists of amendments to the Wagner Act. Actually, except for leaving the employer unfair labor practices of the Wagner Act largely unchanged, the Taft-Hartley Act considerably alters the language of its predecessor and adds many new provisions. The Wagner Act was a simple law of nine pages; the Taft-Hartley Act is a complex piece of legislation, 30 pages in length.

**Underlying notions.** Several ideas and beliefs influenced the new provisions of the Taft-Hartley Act. Unions were assumed to have grown too strong, so that there was need to protect the workers from union power and to prevent employers from agreeing to certain arrangements, such as the closed shop, the automatic check-off, exactions for services not performed, and union-controlled welfare funds. Great reliance was placed on votes by secret ballot on the grounds that union leaders often fail to represent the real wishes of the workers. The Act provides for six new types of elections, including votes on the union shop, on decertification of unions, and on the employer's last offer. In 1948 alone, the Board conducted three-fifths as many elections as in the previous 13 years and over five times the number held in the previous peak year.

Two other notions shaping the contents of the Taft-Hartley Act were that some union practices could not be tolerated and that restrictions on strikes in essential industries were necessary. The union practices outlawed by the legislation include jurisdictional disputes and boycotts by unions. For protection of the public from national emergency strikes, chief reliance was placed on government-initiated injunctions and a vote on the employer's last offer.

Those were some of the grounds on which the following were included in the Taft-Hartley Act: unfair labor practices by unions, unlawful union activities, restrictions on the contents of agreements, clauses facilitating damage suits for violation of agreements, proscription of political contributions or expenditures from union dues in a primary or election for federal office, requirement of non-Communist affidavits for union officers and distribution of a union financial report to all members in order for the union to use the Act, and prohibition of strikes by employees of the federal government or of federally owned corporations.

**Employer unfair labor practices.** The Taft-Hartley Act retains the five unfair labor practices for employers listed in the preceding section. However, it modifies the third one forbidding discrimination to encourage or discourage union membership, by specifying that such discrimination can only occur under a union-shop agreement, following an election in which a majority of the employees eligible to vote authorize the certified union to make such an agreement. This union-shop provision is discussed more fully below. In addition, the Act specifies that the duty to bargain includes (a) a mutual obligation on both parties to meet at reasonable times and to confer in good faith, (b) to incorporate any agreement in writing if either party so desires, and (c) to give 60-days' notice of a desire to modify or terminate an agreement, and, within the next 30 days, notify the Federal Mediation and Conciliation Service and any state service if no agreement has been reached by them. This requirement with respect to notice applies to both employers and unions.

**Representation.** The Wagner Act had permitted the National Labor Relations Board to decide the unit for purposes of election and representation—whether “employer unit, craft unit, plant unit, or subdivision thereof.” The Taft-Hartley Act restricts the occupational or employment coverage permitted in a single electoral unit. It forbids the Board to (1) include in the same unit professional and non-professional employees unless a majority of the professional employees vote for inclusion in such a combined unit, (2) “decide that any craft unit is inappropriate on the ground that a different unit has been established by a prior Board determination, unless a majority of the employees in the proposed craft unit vote against separate representation,” and (3) include plant guards and other employees in the same unit or certify a union that admits plant guards to membership. Foremen and supervisors

are completely excluded from the Act. Use of the term "appropriate bargaining unit" in the legislation to mean appropriate electoral unit tends to cause misunderstanding. A certified bargaining agent usually represents a number of electoral units and the actual area of bargaining may include many such units.

The Taft-Hartley Act made other changes with respect to elections and certification of bargaining agents. The Board can only certify unions after an election, and the certification holds good for at least a year. An employer is permitted to petition for an employee-representation election. Upon petition of an employee or group of employees, the Board, if it has reasonable cause to believe a question of representation exists, can hold a decertification election. If a union does not receive a majority of the ballots cast in such an election its certification is withdrawn. Unions can only participate in elections and be certified under the Act if they comply with its provisions with respect to financial reporting and non-Communist affidavits.

**Union-shop provisions.** The Wagner Act had stated that nothing in it should preclude an employer from making a closed-shop agreement with a certified union. Under the Taft-Hartley Act, both the employer and the union commit an unfair labor practice if discrimination in employment against a non-union worker occurs as a result of a union-security provision in an agreement, unless a valid union-shop prevails and the agreement complies with the union-shop provisions of the Act. To have a valid union shop, the union must be certified as the employee representative, a majority of the employees eligible to vote must have cast a secret ballot authorizing the union shop, the union shop must not require a worker to join the union until 30 days after he commences employment in the plant, and the employer cannot discriminate against an employee for non-membership in the union if the employer has reasonable grounds for believing (a) that membership was not available to the employee on the same terms and conditions generally applicable to other members, or (b) that the employee was denied membership or expelled from the union for any other reason than failure to pay the union's regular dues and initiation fees. It sounds complicated and is complicated. The aim is to prevent the union from using exclusion or expulsion from membership as a job penalty.

Furthermore, a valid union-shop agreement is not possible in a state that has a law forbidding such an agreement. That is the situation in some 16 states. Where the state law is more restrictive, the National Labor Relations Board does not hold union-shop elections even though the state law may not be enforced.

For some industries, the union-shop provisions of the Taft-Hartley law are impractical. That is true, for example, in industries with short employment like longshoring and building construction. Where a single job is often of less

than 30 days' duration, it is difficult to determine the employees in an employer unit who are eligible to vote, and compulsory membership after 30 days on the job is meaningless. After attempting unsuccessfully to hold elections in the building industry in Pittsburgh, the Board gave it up as impossible and ceased to grant any requests for such elections in that industry. The result of difficulties in holding union-shop elections in some industries, of Board refusal to hold them in states with anti-union-shop legislation, and of the weak and restricted union shop permissible under the Act, has been widespread violation of those provisions of the law. Unwritten understandings or "bootleg" union shops abound.

**Union unfair labor practices.** A large number of union actions are unfair labor practices under the Taft-Hartley Act. Some of them parallel the employer ones, but most are new and different. To summarize, it is declared an unfair labor practice for a union or its agents:

1. To restrain or coerce employees in their right to join or assist labor organizations or to refrain from joining or assisting a union.
2. To restrain or coerce an employer in the selection of his representatives for purposes of collective bargaining or adjustment of grievances.
3. To cause or attempt to cause an employer to discriminate against an employee in violation of the union-shop provisions of the Act.
4. To require, under a valid union shop, an initiation fee for new members that "the Board finds excessive or discriminatory under all circumstances."
5. To refuse to bargain collectively with an employer where the union involved is the certified bargaining agent.
6. To cause or attempt to cause an employer to pay a sum, "in the nature of an exaction, for services which are not performed or not to be performed."
7. To engage in, or encourage employees to engage in, a strike or concerted refusal, in the course of employment, to use or otherwise handle or work on any goods or commodities or to perform any services, where the object is to force or require:

- a. any employer or self-employed person to join any labor or employer organization,
- b. any employer or other person to cease using or dealing in the products of another person or to cease doing business with any other person,
- c. another employer to recognize an uncertified union,
- d. any employer to violate a Board certification,
- e. any employer to assign particular work to employees in a particular union or trade unless that employer is failing to conform to an order or certification of the Board.

A large number of court decisions will be required before one can be certain of the exact meaning of some of those provisions. Presumably the first one makes mass picketing, picketing with show of force or threat of force, threats for not joining a union, or physical violence against a non-member, all an

*Handwritten notes:*  
 These provisions  
 are  
 subject to  
 Board  
 certification

unfair labor practice. Such offences are, however, already punishable by the local authorities, and there is some doubt whether the federal government should attempt to take over local police functions. The sixth has been unimportant; possibly it outlaws dismissal compensation, but who will raise the issue? The Act assumes that employers and affected employees will lodge formal complaints with the Board that a union has committed an unfair labor practice.

Probably the most significant of the unfair labor practices by unions are the anti-boycott and anti-strike provisions under 7, especially item b. The Act's prohibitions on billiard shots—attempts to influence one employer through another—restrict unions more severely than they were under the Supreme Court's interpretation of the anti-trust laws from 1908 to 1927. All secondary boycotts by unions were made subject to injunctions and damage suits, after a number of years of practically complete court immunity. And no restrictions are placed on the common action by employers to break a strike. A firm whose employees are on strike could subcontract its work to another independent firm, even in the same locality and employing members of the same local union, yet they might commit an unfair labor practice if they refused to work on that subcontract. Thus, the law could force a union to contribute to its own destruction. In practice, the Board and some courts have been prone to hold that an employer who takes over the production of a struck firm is not an independent or neutral third party but really an instrument or confederate of the struck employer and that, consequently, union activity leading to refusal to work on such "struck work" may not be an unfair labor practice. That reasoning does not, of course, apply to non-union materials purchased in normal markets. Also, picketing to implement a "boycott" that is an unfair labor practice has been held not to be protected under the "free speech" provisions of the Act.

The anti-boycott and anti-strike provisions under 7 are strengthened and made more severe by subsequent sections of the law. All the items listed under 7, from a to e, are made "unlawful" as well as unfair labor practices, and "whocver shall be injured in his business or property by reason" of a violation of those provisions may sue and "shall recover the damages by him sustained and the cost of the suit." Moreover, the Board is required to give complaints of unfair labor practices a to d listed under 7, priority of handling over all other cases. With respect to e, work jurisdiction disputes, the parties have ten days after the charge is filed to settle it or arrange for voluntary settlement, but if they fail to do so the Board is directed to hear and decide the dispute, which is equivalent to compulsory arbitration. Finally, the attorneys for the Board are obliged to petition for a court injunction before the case is heard, if there is reasonable cause for belief that violation of a, b, c, or d under 7 has

occurred, or if such relief is appropriate in a work jurisdiction case. Such mandatory injunctions only apply to those unfair labor practices by unions. During the first two years of the Act, 47 injunctions were sought under the mandatory provisions of the law and 27 were granted by the courts.

**Enforcement and damage suits.** The enforcement procedure in the Wagner Act for unfair labor practices was retained but strengthened, particularly against unions. The provisions for priority of handling and mandatory injunctions for certain union unfair labor practices have just been explained. In addition, the Board is empowered to petition for a court injunction against any unfair labor practice.

On the grounds that the National Labor Relations Board under the Wagner Act had served as both prosecutor and judge, the General Counsel of the Board was made independent of the Board and given supervision over all attorneys and employees in the regional offices. Consequently, he holds the authority to initiate all investigations and actions with respect to unfair labor practices. He can dismiss a complaint or prosecute it; there is no appeal to the Board from his refusal to prosecute. Not only does that concentrate considerable power of discretion in the hands of one man, but the Board and the first General Counsel appointed under the Act differed on many cases and interpretations of the Act. Their disagreements, which were aired in the press, became notorious. The separation of the Counsel from the Board seems to have been a mistake.

Damage suits against boycotts and strikes under item 7 in the unfair labor practices listed above have already been discussed. The Act also made it easier for managements and unions to bring damage suits in federal courts against violation of an agreement, with the parties liable for acts of their agents even though they were not actually authorized or subsequently ratified. Recognizing that damage suits are not a wise way to conduct industrial relations, many managements accepted agreements with clauses designed to exclude the threat of such suits. The union might, for example, be exempt from financial liability in case of a wildcat strike, if the union officers did not contribute to it and they requested the strikers to return to work. Some unions simply refused to include "no strike clauses" in agreements on the grounds that their responsibility had been weakened by the Act, particularly its union-shop provisions.

**Strike hazards to workers and unions.** Under the Taft-Hartley Act, strikers place their seniority and jobs in jeopardy and the union risks its position as bargaining agent. Strikers are no longer considered to be employees, and thus have no seniority or other employee rights, if they (a) strike within the 60-day notice period; (b) commit an illegal act during the strike, such as mass picketing, injury to property, a sit-down strike, or a criminal act; (c) are discharged for cause, which presumably includes the unfair labor practice of

restraining or coercing employees in their right to refrain from joining or assisting a labor union; (d) strike in violation of an agreement; or (e) are legally striking but have been replaced by others hired as permanent employees. Loss of employee status means that the strikers have no vote in any representation election.

The Act thus discourages use of the strike where a rival union is in the picture and encourages strike-breaking as a method of eliminating a union. Under the Wagner Act, the Board had permitted both the strikers and their replacements to vote in elections. According to interpretations and decisions, a person is hired as a permanent replacement if he lives in the area, has previously engaged in similar work, was offered permanent employment, and takes a job which the strikers were notified would be filled if they did not return to work by a certain date.

**Evaluation.** The Taft-Hartley Act contains a number of provisions that were obviously needed. On the other hand, it includes many unfortunate requirements. Above all, it represents a type of philosophy of governmental intervention that may have deleterious effects on industrial relations in this country. Its consequences will depend partly on court interpretation of the Act and partly on business conditions, for its injurious potentialities would be most likely to be realized in a marked business depression. *Evaluation*

The desirable features of the Act include the balancing unfair labor practices by unions and prohibition of certain abuses. The paralleling unfair practices are: placing a duty on unions to bargain in good faith, forbidding them to interfere with the employer's free choice of representatives, and requiring them to respect Board certifications. In connection with Board certifications, a need existed for compulsory settlement of jurisdictional disputes. Among the abuses that needed correction were: the closed shop where a union had an exclusive or discriminatory membership policy, the assumed grant of the same legal bargaining rights to foremen as to the men under them, and the widespread use of secondary boycotts and sympathetic strikes, particularly with a divided labor movement and broad immunity granted unions by the Supreme Court under the anti-trust laws.

The mistakes that were made in the Act grew in part out of a refusal of organized labor to cooperate in any way with the drafting of the legislation. Senator Taft, co-sponsor of the Act, submitted in May, 1949, a list of 28 changes that he and his Republican colleagues proposed. They included: elimination of the separation of the General Counsel from the Board, abolition of votes to authorize the union shop, permission for an employer to hire through a union, authorization of a union requirement that discharge follow expulsion from the union because of Communist activity or striking in violation of the agreement, provision that employees on strike are eligible to vote

*labor's own fault*  
*Taft 1949*  
*compromise*  
*proposed*

in representation elections even if they are not entitled to reinstatement in their jobs, elimination of the restriction on featherbedding, repeal of the section making it mandatory for the Board to seek injunctions and to give complete priority to cases involving certain unfair labor practices by unions, and authorization of secondary boycotts or sympathetic strikes where they occur against work that is transferred from a struck plant.<sup>4</sup>

Such changes would have modified or eliminated some of the main objections to the Act, namely that its union-shop provisions were impractical and that it placed too much faith in voting as a means of revealing differences between union leaders and the membership. The Act would, however, still continue to be patently overbalanced against organized labor and based on a philosophy of government control of the detailed contents of collective agreements and the use of damage suits.

Illustrations will indicate the apparent one-sidedness that would still remain. Employers can commit five unfair labor practices; unions are subject to double that number. Five unfair labor practices by unions (a to e under 7 in the list above) are grounds for damage suits, whereas none of the employer unfair practices is.<sup>5</sup> In the case of union security only, would more restrictive state laws be controlling over the Federal Act. Exemption of "struck work" from the secondary-boycott and sympathetic-strike ban of the Act would still permit employers to engage in common action and economic pressure through purchases, while forcing worker organizations, in using their economic power, to treat employers separately and to refrain from following their community of interests to the point of seeking to influence one employer's purchases from another. Unions would remain greatly handicapped in seeking to maintain standards against non-union competition. In a matter with such a long and complicated court history much would, however, depend on how the courts construed the legislation. In recent cases under the Taft-Hartley Act, some federal courts have tended to emphasize community of interests on both sides in approving what might technically be considered a secondary boycott by a union.<sup>6</sup>

Undesirable consequences accompany attempts to control by law the details of collective agreements or to stress what is legal rather than what is best to

<sup>4</sup> See *Congressional Record*, 81st Congress, 1st session, Vol. XCIV (May, 1949), pp. 5689-90. Also included was a proposal to permit boards of inquiry in national emergency disputes to make definite recommendations for settlement of the dispute.

<sup>5</sup> Actually in the first two years of the Act, over three times as many unfair practice charges were filed against employers as were filed against unions.

<sup>6</sup> Although not specified in the Act, the Board and some courts are, as previously indicated, taking into account such questions as whether the boycott or sympathetic strike is really against "struck work," whether the employers involved are completely separate and independent (for example, the main contractor and subcontractors on a single building project or the producer and distributors of his products), and whether the workers are members of the same local or national union or normally operate together in economic action in a single industry as the building trades do.

meet the particular situation. Legislation lays down blanket rules. It cannot be tailor-made to fit varying backgrounds and conditions, which are so important in industrial relations. Also, it substitutes political and legal decisions for economic considerations and self-settlement, thereby causing politics and the courts to play a larger and larger role in industrial relations. The result is uncertainty, peculiar court decisions, and legal contests. In government, the pendulum swings from left to right and back again, which is upsetting where the government specifies the contents of agreements and regulates the internal affairs of unions.

Industrial relations cannot be improved by legal means. The fundamentals of a relationship usually consist of the day-to-day interpretation and application of the agreement, the settlement of grievances in ways best suited to the individual circumstances. The advantage of collective bargaining is its adaptability to the needs of the parties. If the objective is good relations under collective bargaining, the parties ought to be left relatively free to work out their own solutions unhampered by legislative restrictions and court decisions, so long as their settlements do not unduly discriminate against others, curtail personal liberties, or injure the general public. Of course, such a standard is subject to considerable difference of personal opinion and judgment.

It is highly desirable to have most of the contents of labor relations legislation acceptable to both management and organized labor, as was true of the Railway Labor Act of 1926. Then neither party considers it punitive. Unfortunately, the question of national labor relations legislation has become involved in bitter and partisan politics. Labor, management, and politicians in 1949 and 1950 took extreme and inflexible positions, with the result that the Taft-Hartley Act remained unchanged, although there was widespread agreement that it contained a number of defects which needed to be remedied.

## CHAPTER SEVENTEEN

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### INTERVENTION IN LABOR DISPUTES

The function of a strike or lockout of employees is to induce compromise, reasonableness, and agreement. The threat of financial loss or an actual loss forces the parties to accept responsibility for the consequences of their decisions. Thus, strikes and lockouts are instruments of persuasion, which teach the value of understanding the position of the other party and of reaching negotiated settlements.

Although work stoppages may be part of the price for responsible labor relations and self-government in industry, it has become increasingly difficult to permit strikes to perform their function in some sections of the economy. As industry has become more interdependent, as unions and firms have grown in size, and as diplomatic and military considerations have become more pressing in economic affairs, labor disputes have caused greater public inconvenience and concern. With our society increasingly vulnerable to strikes, the government has been forced to intervene more often in labor disputes, to stop strikes from performing their function, and to relieve the parties of responsibility for working out their own terms and conditions of employment.

Governmental intervention in labor disputes poses many problems and difficulties. Resort to governmental solution of labor disagreements tends to discourage voluntary agreement, particularly if one of the parties believes it can gain more through political action than through collective bargaining. Once the government attempts to provide answers to labor disputes, it becomes necessary to decide not only wage issues but questions with respect to the numerous other provisions of collective agreements. Consequently, governmental determination of the terms and conditions of industrial employment tends to spread in scope and increase in intensity. If the government supplies answers, the question of enforcement arises. Suppose one party (or even both of them) refuses to accept the government's solution, and the strike or lockout continues? What sanctions or penalties can and should the government impose?

Our economy depends on the willing cooperation and voluntary efforts of management and workers. Free enterprise cannot operate effectively if government forces companies to continue to operate their plants and employees to

work under conditions that they consider unfair or oppressive. Enforced operations are not efficient. Prohibition of strikes by law may merely result in bad morale, slowdowns, excessive waste, and even sabotage on the job. The issues in labor disputes are seldom simple and one-sided, and public opinion plays an important role. Attempts to enforce legal penalties while a strike is in progress may increase the workers' sense of injustice and their bitterness and divide public opinion more sharply, so that settlement of the dispute—the desired end—becomes more difficult. And after a dispute is amicably adjusted, the employer and the public usually desire to work toward better future relations rather than to stress past difficulties. The goal is high productivity, which cannot be achieved by placing large numbers of employees in jail or by fining a majority of them for engaging in the strike.

The relative impotence of the government in strike situations arises from the fact that government orders do not themselves manufacture products, operate trains, or mine coal. Government intervention in labor disputes is an art that must have as its prime objectives the resumption of operations as soon as possible and an early solution to the dispute that is mutually acceptable. Government seizure of the plant or court injunctions, although perhaps successful in getting the employees to come to work, do not provide satisfactory answers to the issues in dispute.

These introductory comments do not mean that strike penalties are impossible or that the right to strike cannot be restricted. They do indicate, however, that sanctions need to be used cautiously and with widespread approval. Penalties connected with the job, such as discharge, demotion, suspension, or loss of seniority or other job rights, may be preferable to court fines or jail sentences. But their enforcement must be administered by the employer, and managements may be reluctant to carry out a government edict if it would have adverse consequences on their plant operations. If the employees generally consider a penalty to be really unjust, it may be a continuing source of irritation and disturbance to industrial relations in the plant.

In considering various methods of governmental intervention in industrial disputes, it is necessary to bear in mind the industrial relations aspects of the problem. They point to the desirability of voluntary settlements which the parties themselves work out and accept. These preliminary remarks may seem to indicate that, under our economic system, employees and their bargaining agents enjoy a strategic advantage, especially in a dispute in a vital industry. The need to achieve willing cooperation in industry may favor the employees in negotiations if they are determined to insist on their position and business is prosperous. The usual requirement of ratification of a negotiated agreement by a majority vote of the union membership covered by its terms is symbolic of the differences in union and management behavior patterns. The possibility

of membership rejection and, thus, of a need to negotiate another agreement more favorable to the employees in order to gain their acceptance may, under some conditions, give them a practical advantage in negotiations.

## METHODS OF INTERVENTION

Various types of government intervention have been tried from time to time by different countries. Our federal government has used a variety of practices and procedures, and the same is true of the states. A general explanation and comparison of the different methods will precede the examination of the disputes provisions of the Railway Labor Act, the Taft-Hartley Act, and state laws. The final section of this chapter will attempt to evaluate the various approaches to labor disputes that create a national emergency, so that the normal function of the strike cannot be permitted.

**Mediation and conciliation.** To aid in the settlement of labor disputes, a governmental unit may establish an agency to mediate or conciliate in such disputes. The terms are commonly used synonymously. Mediation is a form of industrial diplomacy without resort to public pressure. A neutral party, without the use of force or authority, seeks to narrow the issues and to find some middle ground for an agreement that will be acceptable to both sides. To function effectively, a mediator must have the confidence and trust of the parties, so that he may serve as a counselor and know the concessions that they are willing to make and take. To enjoy confidence and respect, he must be strictly impartial and be experienced in negotiations. A mediator should never take sides or argue the merits of a dispute. He cannot let considerations of equity or justice prejudice his position or the prime objective of finding a solution acceptable to the parties.

Obviously, mediation is better suited for disputes over the terms of a new agreement than it is for grievances arising out of the interpretation and application of an existing agreement. The function of grievance settlement through resort to an outside party is generally judicial in nature.<sup>1</sup> Mediation, on the other hand, is simply an aid to continued collective bargaining. The parties still arrive at their own settlement. The resulting agreement is theirs. They sign it and accept full responsibility for it.

To aid in the settlement of industrial disputes threatening to have a significant effect on interstate commerce, the Federal Mediation and Conciliation Service, an independent agency of the federal government, has a staff of about 240 conciliators distributed throughout the country.<sup>2</sup> States with active mediation agencies and full-time staffs include New York, Massachusetts,

<sup>1</sup> That may not be so true under an impartial chairman or permanent umpire arrangement where the neutral third party establishes a practice of seeking to mediate grievances before handing down an arbitration award.

<sup>2</sup> For further data on the Federal Mediation and Conciliation Service, see its annual reports.

Connecticut, New Jersey, Pennsylvania, Michigan, Wisconsin, Minnesota, and California. In addition, some cities (New York, Toledo, Ohio, and Louisville, Kentucky) maintain such mediation agencies.

**Voluntary arbitration.** Where the parties themselves agree to submit their differences to the decision of a third person or board and to accept the resulting award as final and binding on them, the procedure is known as voluntary arbitration. It is voluntary in that the parties are free to resort to it or not as they see fit. In agreeing to abide by the decision of an outside person or board, arbitration is substituted for collective bargaining, but it is important to observe that the arbitration is the result of free collective bargaining and not a government requirement. In contrast to mediation, arbitration implies an award involving some judgment on the merits of the issue or issues in the case of arbitration of the terms of a new agreement. It is true that some arbitrators before making an award may try to mediate the dispute to see whether the parties themselves can agree on a settlement and thus avoid an award that may be objectionable to one or both sides.

The difficulty with arbitration of the terms of a new agreement is that no accepted principles exist for deciding the proper provisions with respect to wage scales, methods of wage payment, union security, workload and production standards, etc. So vital may such matters be to the continued operations of the company or the union that it may refuse even to permit arbitration of them, preferring the risk of a strike to the risk of an adverse award under arbitration. On the other hand, some parties stand ready to arbitrate all differences with respect to a new agreement. That, for example, is true of the Pressmen's Union (AFL) and most of the newspaper publishers with which it has agreements and the Amalgamated Association of Street, Electric Railway and Motor Coach Employees (AFL).

**Fact finding with recommendations.** Instead of arbitration, the parties may consent to the appointment of a board to investigate a dispute over the terms of a new agreement and to make recommendations that are not binding. That procedure permits the parties either to adopt the recommendations or to bargain further in case the recommendations are not acceptable. In a sense, such fact finding stands between mediation and arbitration, involving a decision but not a binding one. It is particularly suited for new-contract disputes in vital parts of the economy—an essential service like electric power and transportation or a basic material such as coal, oil, or steel.

Certain conditions appear to be necessary for the success of fact finding with recommendations. It should be used sparingly because it usually depends for effectiveness upon the marshalling of public opinion behind the recommendations. For the same reason, it should be employed only in disputes that threaten to injure the national interest and welfare. As no legal provision

exists nationally for fact-finding boards except in rail and air transportation, the parties must give assurance that they will maintain the status quo for a sufficient period of time for the board to conduct hearings and to make a report with recommendations. Both parties and the public need to have confidence in the impartiality and ability of the board members. A new board for each dispute avoids the charge of partiality on the basis of past decisions. Perhaps the chief reason for employer opposition to fact finding in labor disputes after 1945 was the fear that board members selected by President Truman would have a New Deal or Fair Deal bias. Like arbitration, fact finding may serve to save the face or prestige of one side or the other that has become prisoner of an extreme position or a particular tactic. Fact finding has the advantage that it avoids the compulsion inherent in injunction decrees and seizure orders or even in voluntary arbitration. Since 1907, Canada has had legal provisions for compulsory fact finding by a special board to investigate a particular dispute if it occurs in specified industries. The parties are compelled to comply with the procedures but need not accept the board's findings or recommendations.

It has been alleged that President Truman's use of fact finding since the passage of the Taft-Hartley Act "circumvents" that law and is "extra-legal." Such a contention assumes that the emergency-dispute procedures of the Taft-Hartley Act, involving a government request for an injunction and forbidding the boards of inquiry to make recommendations, are the only permissible method for handling disputes that vitally affect the public interest. That is incorrect. The executive branch of the federal government is not, and should not be, compelled to confine its intervention to one exclusive method, whether or not it is suited to the circumstances of a particular dispute.

**Injunction and seizure.** In case of an impasse in negotiations in a vital industry, court injunctions prohibiting action by the union or the employer and seizure of the production facilities by the government are ways of attempting to prevent a strike or lockout. Injunctions are usually used against union action. They tend to be offensive to labor because of their rather indiscriminate use prior to 1932, but actually they are employed, as indicated in the preceding chapter, to enforce the orders of the National Labor Relations Board against unfair labor practices. The injunction may tend to encourage management to delay settlement because it usually involves maintenance of the status quo, thereby representing a temporary denial of the union's demands with no promise of retroactive application of any settlement. Its use is more valid in public utilities and transportation, where the employer cannot resort to a lockout without losing his franchise and is unable to build up stock in anticipation of a strike.

Seizure is preferred by unions because it places no compulsions on them

and tends to weaken the employer's position so that he has an incentive to seek an early settlement. That is especially true if there is a possibility of direct government negotiation with the union concerning new terms of employment (as was twice the case in bituminous coal) or a threat of appointment of some board to hand down a decision in the dispute. Whether the delay or stay of action brought about by an injunction or seizure contributes to a settlement by collective bargaining depends on the effect of such governmental intervention on the attitudes of the parties.

**Compulsory arbitration.** Under compulsory arbitration, the parties are required to submit an unsettled dispute to an outside person or board for a final and binding decision. Strikes and lockouts are illegal. One might assume that the threat of compulsory compliance with a decision by a third party would serve as an incentive to the disputants to settle their differences themselves through collective bargaining. Actually the existence of compulsory arbitration discourages collective bargaining. The negotiating parties often hesitate to make reasonable demands or offers or to agree to any concessions during negotiations for fear that the other side will be able to use counteroffers as a springboard for securing a still better settlement under compulsory arbitration. Consequently, unions tend to make numerous and extreme demands under compulsory arbitration and the managements generally offer little or nothing. With the parties relieved of the responsibility for reaching agreement and arbitration rather than a strike as the last step, negotiating tactics are adjusted accordingly. The weaker side, assuming that it can gain more through arbitration than by collective bargaining, conducts negotiations with the preparation of its case before the arbitration tribunal in mind.

Compulsory arbitration has not prevented strikes nor have illegal strikers and their leaders generally been prosecuted. Between 1927 and 1950, strikes caused a loss of workdays per 1,000 persons employed in mining, manufacturing, and transportation that was greater in Australia with compulsory arbitration than in the United States and Great Britain without compulsory arbitration. In New Zealand, where all strikes are illegal and the strike record is better than for Australia, 12 to 154 strikes have occurred each year during the past three decades, and the relative loss of work owing to strikes during that period is apparently about equal to Great Britain's if allowance is made for incomplete reporting in New Zealand.<sup>3</sup> Violation of New Zealand's anti-strike laws carries a penalty of fine and imprisonment, but prison sentences against several hundred strikers have not been enforced. Indeed, in New Zealand and Australia, conservative as well as labor governments have refrained

<sup>3</sup> See Morris Weisz, "Conciliation and Arbitration in Australia and New Zealand: An Analysis of Results," *Industrial and Labor Relations Review*, Vol. II (October, 1948), p. 106.

from enforcing the laws against illegal strikes, just as the Republican administrations in New Jersey have declined to enforce the jail and heavy fine provisions against strikes in that state's original 1947 statute providing compulsory arbitration for public utilities, or the milder monetary penalties in the revised law, despite numerous violations.

During World War II, this country virtually had compulsory arbitration even though the courts held that the "directive orders" of the National War Labor Board were "advisory."<sup>4</sup> Compliance with Board orders was obtained largely by threat of sanctions. The chief sanction was seizure of the facilities and their operation by the federal government, which occurred in 50-odd cases by presidential order. To employers, such seizure was more troublesome than costly, for the government turned the profits over to the owners and was responsible for losses. Also, while under government operation the Board's orders were put into effect. In addition, the sanction of denial of priorities was used against one non-complying employer, and in cases of labor non-compliance there was the threat to refuse the union maintenance of membership, and local draft boards in a few cases took steps to cancel the draft deferment of strikers. That numerous strikes did occur during World War II is indicated by Table II (p. 308). Some of them were designed to obtain attention and prompt action on the case by the Board and some were aimed to enforce employer compliance with Board orders.

The difficulties and disadvantages of compulsory arbitration by an established board became evident under the War Labor Board, although they were less apparent because of the patriotism and compulsions of the war period and the Board's procedures and tripartite structure. Dispute cases multiplied, and the number of issues per case increased, as the parties sought to obtain a quick decision by the Board to the neglect of collective bargaining and mediation. In the three and a half years of its existence, the Board decided some 21,000 dispute cases. In the later months, the National Board alone was averaging over 100 decisions a week,<sup>5</sup> to say nothing of the 12 regional boards and the dozen or so industry commissions under the National Board. Some cases had as many as 20 or 30 separate issues, involving all kinds of questions ranging from methods of pay to physical conditions in the plant. In a few instances, representatives of the Board had to draft the entire agreement and make it the directive order. As time passed, the large and expanding enterprise began to be plagued by its own precedents and internal problems. As soon as Germany and Japan surrendered, the public members of the Board were anxious

<sup>4</sup> For a discussion of the issue of "compulsory arbitration" under the National War Labor Board and of the Board's experience, see Edwin E. Witte, "Wartime Handling of Labor Disputes," *Harvard Business Review*, Vol. XXV (Winter, 1947), pp. 169-89.

<sup>5</sup> See Dexter M. Keezer, "Observations on the Operations of the National War Labor Board," *American Economic Review*, Vol. XXXVI (June, 1946), p. 239.

to force the parties to return to settlement by collective bargaining and to abandon decisions on labor disputes by a government agency.

## THE RAILWAY LABOR ACT

An elaborate procedure for the handling of labor disputes was established in the Railway Labor Act of 1926. As amended in 1934, it placed a positive duty on the parties "to exert every reasonable effort to make and maintain agreements and to settle all disputes." For grievances arising out of the interpretation and application of existing agreements, a bipartisan National Adjustment Board was established, composed of 18 carrier representatives and 18 union representatives, distributed among four separate divisions covering different railroad operations. Provision was made for the appointment of a neutral third party in case of deadlock at this last step in the grievance procedure. A majority decision by a division of the Board is "final and binding upon both parties" and enforceable through suit in a federal court. Although the law as initially passed resulted from an agreement between the unions and the railroads, the 1934 amendments were enacted over the objections of the railroads and did establish compulsory arbitration of grievances in that industry.

**Provisions.** For disputes involving the terms of new agreements, the Railway Labor Act, as indicated in Chapter 12, provides three steps after direct negotiations prove unsuccessful. They are: (1) mediation by the National Mediation Board of three public members, (2) voluntary arbitration if the parties can be induced to accept it, and (3) compulsory investigation with recommendations, if the President decides to appoint an emergency board. In more detail, the procedure is as follows: The parties are required to give at least 30 days' notice of an intended change in an agreement. Thereafter the National Mediation Board may enter the dispute at the request of either party or on the Board's own initiative. If its efforts to bring about an amicable settlement by mediation are unsuccessful, the Board "shall endeavor to induce the parties to submit the controversy to arbitration." Should voluntary arbitration be refused, the Board notifies the parties that its mediatory efforts have failed and they, in turn, are required, in the absence of mutual agreement, not to make a change in wages, rules, or working conditions during the next 30 days. If a dispute still remains unsettled and the National Mediation Board thinks that it threatens to deprive any section of the country of essential transportation service, the Board notifies the President who may, at his own discretion, appoint an emergency board to investigate the facts and report on the dispute. Such an emergency board has 30 days in which to make its investigation and report, unless the period is extended. In order to allow time for public opinion to rally behind the board's report and to permit further bar-

gaining if necessary, the parties are forbidden to make any change, except by mutual consent, in the conditions out of which the dispute arose during the 30 days following the board's report to the President.

It is apparent that the Railway Labor Act's procedures for new-contract disputes place considerable reliance upon collective bargaining and make the parties responsible for their own agreements. Without the use of injunctions, it requires both sides to maintain the status quo while attempts are being made to settle the dispute. Usually at least four months elapse from the time of notification of a desired change until strike action is permissible under the law. After the necessary procedures are complied with, the employees are free to strike; neither party is compelled to accept any proposed settlement of a dispute involving the terms of a new agreement.

**Experience.** As explained in Chapter 12, experience under the disputes procedure of the Railway Labor Act was satisfactory prior to World War II. Then interference with the procedure led the unions to try to obtain more than the recommendations of emergency boards by means of government intervention to avoid a threatened strike. Since World War II, the problem has been to restore the prestige or "magic" of the Act's procedures. The difficulty in doing so supports the conclusion that government intervention in labor disputes is an art and that successful intervention depends more on the circumstances and skillful handling than on a particular set of procedures. Despite the rather unfavorable experience with disputes settlement on the railroads since 1940, including the need to resort to government seizure on four occasions, the Truman administration has proposed fact finding with recommendations (the Railroad Labor Act pattern) in place of the Taft-Hartley Act's procedure of injunction and investigation without recommendation.

### **THE LABOR-MANAGEMENT RELATIONS ACT OF 1947**

The Taft-Hartley Act procedures for emergency disputes are open to a number of serious objections. They would be especially unsatisfactory during a period of mobilization or semi-mobilization, when unions had given a no-strike pledge.

**Provisions.** Under that Act, the parties are obliged, as part of their duty to bargain in good faith, to give 60 days' advance notice of a proposed termination or modification of an agreement and, within 30 days thereafter, to notify the Federal Mediation and Conciliation Service and any state service. The Federal Service may enter a dispute at the request of either or both parties or on its own initiative. Whenever in the President's opinion a threatened or actual strike or lockout will, by affecting all or a substantial part of an industry, imperil the national health or safety, he may appoint a board of inquiry. Such a board is to report the facts with respect to the dispute without any

recommendations. Upon receipt of the report, the President may direct the Attorney General to seek a court injunction to enjoin such strike or lockout. If the court finds that the dispute does threaten to imperil the national health or safety and issues an injunction, the board of inquiry is reconvened and, if the dispute continues, must report again to the President at the end of 60 days with respect to the dispute, including a statement of each employer's last offer of settlement. That report is made public by the President. Within the succeeding 20 days, a secret ballot on the employer's last offer is taken and the results certified to the Attorney General. Thereupon the injunction must be dissolved and a strike is legal. The President then submits a full report to Congress together with such recommendations as he may see fit to make.

**Experience.** During the first year and a half, five injunctions were issued under the emergency-disputes provisions of the Taft-Hartley Act. Two were in bituminous coal, one in atomic energy, one in marine shipping on all coasts and long-shoring on the West Coast, and one in the longshore industry on the Atlantic Coast. In the two longshore cases, strikes lasted 17 and 95 days following the 80-day injunction period, and in the atomic energy dispute a settlement was reached four days after the injunction had expired. During the next two years (November, 1948, to November, 1950), the emergency provisions of the Act were used only once—in the 1950 coal dispute. In the 1949 steel dispute, President Truman resorted to fact finding with recommendations instead.

Reviewing the first year and a half of experience under the Act, the Director of the Federal Mediation and Conciliation Service concluded that the emergency-disputes provisions of the Act were deficient in a number of respects.<sup>6</sup> The 80-day injunction period tends to postpone collective bargaining and to delay settlement of the dispute, because in most cases efforts of the Service to encourage the parties to bargain during that period have been ineffective. Provision for a ballot on the employer's last offer does not promote adjustment of the dispute but, in fact, places additional obstacles and difficulties in the way of settlement. When rejection occurs, as is probable since workers are not likely to repudiate their representatives in the course of contract negotiations, the union's negotiators naturally consider that a mandate from the rank and file and insist on more favorable terms than those rejected in the ballot. Anticipating such a situation, the employers tend to keep in reserve the concessions that may result in a settlement.

**Further criticism.** Besides any hampering effect of the injunction period on collective bargaining and the tendency for the vote on the employer's "last

<sup>6</sup> See the *First Annual Report of the Director of the Federal Mediation and Conciliation Service for the Year Ended June 30, 1948*, Washington, 1949, pp. 56-57.

offer" to make settlement more difficult, the Taft-Hartley Act's procedure seems unfair. The 80-day injunction following a 60-day notice period means a total of four and a half months during which the employer is free to make preparations for a strike, whereas the union is restrained from striking. Unlike the practice under the Railway Labor Act, there is no assurance that the terms finally agreed upon will be retroactive to the time that the old agreement expired. Consequently, during the injunction period the employees must work in private industry at terms of employment which the government insists upon but which the government itself did not fix and has no legal authority to alter.

### STATE LEGISLATION

Space does not permit a detailed discussion of all the state laws restricting strikes in essential industries and the experience under those laws. Comments on the features and results of such legislation will be confined to Minnesota, New Jersey, and Massachusetts, which represent the different approaches to the problem.

**Minnesota.** The Minnesota Labor Relations Act of 1939 provides for fact finding in labor disputes in industries affected with the public interest, which has been broadly interpreted to include even hotels, restaurants, and retail establishments. Under the law, the parties are required to give at least ten days' notice of intention to strike or lock out, during which period such actions are illegal. Upon receipt of such a notice, the state agency attempts to mediate the dispute. In public-interest disputes, the governor may appoint a tripartite commission "to conduct a hearing and make a report on the issues involved and the merits of the respective contentions of the parties to the dispute." The status quo must be maintained for 30 days after the appointment of a commission, which is to make its report and recommendations within 25 days, unless the period is extended by mutual consent. The parties are free to strike or lock out after the 30-day period has expired.

During the first eight years of the Act, fact-finding commissions were appointed in 260 cases. Many of these disputes were settled by conciliation before or during the hearings. In at least 30 of them, however, strikes followed rejection of the commission's recommendations. Various governors have intervened, on occasion, to arrange compromise settlements without too much regard for the rejected recommendations of the fact-finding commission. Such executive intervention, as in the railroads, tends to weaken the influence of fact-finding recommendations, which the governor can decline to make public. From a detailed study of experience under the Minnesota Act, Dr. Jack W. Stieber has concluded that considerable evidence exists that fact finding has

often delayed or hampered free collective bargaining.<sup>7</sup> Some unions and managements tend to hold back during negotiations because experience has indicated to seasoned bargainers that commission recommendations usually fall between the company's highest offer and the union's lowest demand.

**New Jersey.** Since April, 1947, New Jersey has had legislation providing for government seizure and compulsory arbitration of labor disputes in utilities operating under government franchise, if a strike or work stoppage will, in the governor's opinion, prevent continued operation and threaten the public interest, health, and welfare. After seizure, the employees are considered employees of the state, and it is unlawful for them to engage in any strike or work stoppage.

By October, 1950, a total of 26 boards of arbitration had been appointed under the Public Utilities Disputes Act of New Jersey, the boards consisting of three public members and a representative of the company and of the union.<sup>8</sup> In 15 cases, seizure was not necessary, since the parties stipulated arbitration under the Act. In three instances, strikes continued for a number of days following seizure. In seven of the 26 cases, the parties reached agreement before the board of arbitration had handed down a decision. The others—in telephones, gas, water, electric, and bus transportation—were settled by binding decisions of the arbitration boards.

The New Jersey Act seems to have tended to discourage collective bargaining, especially in the case of weak unions, which seek to resort to arbitration under the statute. In industries subject to the law, some managements and unions have been reluctant to move toward a compromise settlement from their original positions for fear of the effects such action would have on their case if it should go to a board of arbitration. Also, the Act has relieved management and labor leaders of the responsibility of making decisions that might have unpleasant repercussions. Its adverse effects on collective bargaining, however, have not been as great as might have been expected, partly because arbitration of terms of employment has been a widespread practice in public utilities (especially bus and street-car transportation) in the absence of legal compulsions, and partly because some uncertainty exists as to whether seizure will occur since the governor has declined to seize some of the smaller companies despite strikes. A decision by the New Jersey Supreme Court in October, 1950, in a telephone case setting aside an Arbitration Board's award of the union shop on the grounds that "the statute does not contemplate com-

<sup>7</sup> *Ten Years of the Minnesota Labor Relations Act*, Industrial Relations Center, University of Minnesota, 1949, p. 23. See also Jack W. Stieber, "Minnesota Labor Relations Act—An Opinion Survey," *Harvard Business Review*, Vol. XXXVII (November, 1949), pp. 665-77.

<sup>8</sup> Such a tripartite board with a majority of public members has a number of advantages, including avoidance of a public member being forced to side with one of the parties to obtain a majority and the training of a supply of arbitrators.

pulsory arbitration of the union security question" caused uncertainty concerning the issues that the court would consider arbitrable under the statute.

**Massachusetts.** Following a report by the Governor's Labor-Management Committee headed by Professor Sumner H. Slichter, a law was enacted in Massachusetts in June, 1947, which establishes flexible arrangements for handling a dispute that threatens "a substantial interruption in the production or distribution of essential goods or services." In such a case the governor may invoke either or both of the following procedures: (1) Require the parties to appear before a skilled moderator to show cause why they should not submit the dispute to arbitration. The moderator has 15 days to investigate, hold public or private hearings, and make public the reasons for either party's refusal to arbitrate. In the meantime, no interruption in the production or distribution of essential goods or services is to occur. (2) Request the parties to submit the dispute to a fact-finding board under a procedure similar to that for emergency boards under the Railway Labor Act, with unilateral changes prohibited during the 30 days of the board's investigation and 30 days after its report and with the recommendations not binding on the parties.

If the preceding steps do not and cannot settle the dispute, the governor shall declare that an emergency exists and may either (a) enter into arrangements with either or both parties to the dispute for the production or distribution of enough goods or services to safeguard the public health and safety, or (b) seize the facilities and have the state operate them. During the period of the emergency, it is unlawful to strike or encourage striking, and the state may secure a court injunction to enforce this prohibition or to enjoin any other violation of the Act. Under seizure, the terms of employment may remain unchanged or the governor may institute the recommendations of a previously appointed fact-finding board or one subsequently appointed during the period of seizure. The governor may terminate the emergency and return the facilities to the owners when the parties notify him that they have settled the dispute.

The Massachusetts law has the advantage of flexibility and uncertainty. The governor is free to move in any one of a number of directions and he can fit his actions to the circumstances. The parties tend to be discouraged from relying on governmental intervention, because they cannot tell what turn it may take.

Only two cases had arisen under the Massachusetts Act during the first three years of its operation and they both occurred in 1948. The first was a Boston truck strike, for which a moderator was appointed. The union refused to arbitrate but the governor took no further action because the union permitted at least 1,500 of its 6,000 members to continue delivering food and other essential goods. The partial strike continued for 35 days and was finally settled by collective bargaining. In the other case, a moderator was also ap-

pointed for a threatened strike over wages in a large gas plant serving most of metropolitan Boston. The union refused to arbitrate and the governor declared an emergency and seized the plant. An injunction was obtained and the employees remained at work. After 18 days of state operation, the dispute was settled by conciliation and collective bargaining, and the plant was returned to the owners. Note that in both cases the solution was arrived at by collective bargaining rather than decision by a government board.

An interesting provision to discourage resort to government intervention is contained in a Virginia law, passed in 1947, which prohibits strikes in public utilities and authorizes the governor to seize the property of the utility if a serious menace to health, safety, or welfare would result from a strike. Under the Virginia statute, terms of employment remain unchanged during the period of seizure, the check-off is prohibited, and the state takes 15 per cent of the net revenues of the business during state operation for its services. In other words, direct economic pressure is put upon both parties to arrive at an agreement. During the first three years of operation under the law, the state seized four transit companies and two telephone companies.

### TREATMENT OF PUBLIC EMERGENCY DISPUTES

Developments in international relations and in our economy make it necessary to place some restriction on the right to strike in certain industries.<sup>9</sup> And with the passage of time, the number of industries belonging in the strike-restricted category seems to be increasing. Presumably it would include government-regulated industries like electric, gas, transportation, and communication utilities, along with basic fuels and materials like oil, coal, and perhaps steel and copper, as well as munitions and aircraft manufacture and governmental activities. Of course, the length of time that a strike could continue in such industries without creating a national emergency by endangering the public health or safety would depend on the extent and completeness of the work stoppage, the inventory of stocks on hand, and the international situation. It is not possible to list in advance all the industries in which any strike would cause a public emergency and exert more pressure on the government than upon the parties. For instance, the nationwide telephone strike in 1947 and the meatpacking strike in 1948 failed to cause the interruption of service or the scarcity of meat products that had been generally anticipated, so that no government restriction on those strikes was necessary.

The executive branch of the government should have discretion and alternative means of handling labor disputes, including those that create a national emergency. It should not be hamstrung by a particular procedure. Flexibility

<sup>9</sup> In addition to public emergency strikes, the Taft-Hartley Act practically prohibits jurisdictional strikes, strikes against certification, and strikes against non-union materials, in industries covered by that law.

is necessary both in timing and in method of intervention, particularly if the goal is the preservation of collective bargaining. Whether a particular strike constitutes or threatens to cause a national emergency will depend on the circumstances and will vary even from day to day. Furthermore, strike situations are usually complex, and a procedure that facilitates settlement in one case may delay it in another. The important factors in some strikes are rivalries within the union, between unions, or between managements. The art of government intervention involves an appreciation of the particular factors in each dispute and the adjustment of tactics to meet the requirements of the situation.

**Uncertainty and variety.** Settlement of labor disputes by agreement of the parties is highly desirable in an economy based on willing cooperation in daily relationships. Consequently, government intervention in labor disputes should avoid weakening the incentive or will to negotiate new agreements and to adjust grievances by self-government. Flexible governmental machinery for the settlement of labor disputes, as in Massachusetts, tends to discourage resort to government intervention and decision. The parties are uncertain as to the outcome and fear the disadvantages and costs of failure to agree. The Virginia statute makes the disadvantages and costs fairly specific. On the other hand, a single procedure and a fixed timetable enable the parties to know what to expect and, thus, lack the factor of uncertainty operating to force a negotiated settlement.

Flexibility in approach through a variety of possible procedures permits the executive branch of the government to use methods of intervention tailored to suit the specific case at hand. Public pressure can be used in instances where it will foster settlement. Also, the attitude of management and organized labor toward the procedure is important. A governmental procedure considered punitive by either side is less likely to operate satisfactorily than one which management and labor help to work out and accept, as was the case with the Railway Labor Act. It seems desirable, therefore, to develop and experiment with a variety of approaches and procedures.

**Stand-by vs. special legislation.** In a crisis that seriously threatens public health and safety, the government must be able and ready to act. Some writers favor specific authority for action—seizure, injunction, and other sanctions or penalties—in a stand-by statute for use when needed. Others contend that it is better strategy for the government not to show its hand but to seek congressional action on an *ad hoc* basis when a crisis impends.<sup>10</sup> Stand-by powers avoid the embarrassment of legislative delays because of a congressional recess, filibuster, or temporary political circumstances, and the likelihood of

<sup>10</sup> For comments on this issue, see Peter Seitz, "Group Thinking and Emergency Disputes," *Labor Law Journal*, Vol. I (August, 1950), pp. 869-75; and John W. Gibson, "Labor Disputes in Basic Industries," *ibid.*, pp. 855-60.

hasty, ill-advised action under the pressure of a crisis. On the other hand, it is claimed that sanctions should not be prescribed in permanent legislation, that the uncertainty created by lack of specific statutory provisions serves as an incentive to the parties to conclude agreements on their own initiative.

In the kind of partially mobilized world in which we may live for many years, the federal government should have definite and adequate powers to deal with strike emergencies. The problem of national-emergency disputes is, however, one for which there is no one neat and logical solution. But, if the enabling statute is flexible, as is true in Massachusetts, it should be possible to provide the President with sufficient disputes machinery, without adversely affecting the normal processes of collective bargaining.

## CHAPTER EIGHTEEN

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### SOCIAL SECURITY MEASURES

Since the depression of the 1930's, organized labor has strongly supported legislative measures to protect workers and their families from wage losses arising from unemployment, sickness, accident, old age, or death of the breadwinner. Prior to 1932, however, the American Federation of Labor was not in favor of unemployment compensation or old-age insurance by legislative action. Influenced by President Gompers' philosophy, the Federation preferred to achieve such protection by the method of trade-union benefit plans. Before World War I, the AFL did support legislation to establish systems of compensation to workers for wage loss and medical costs involved in industrial injuries and occupational diseases, and some of its affiliated unions and state federations had endorsed health insurance as early as World War I.<sup>1</sup> However, the AFL itself first gave official blessing to health insurance legislation in 1935.<sup>2</sup>

Since the mid-1930's, the AFL and the CIO have strongly supported extension and improvement of social insurance measures. As explained in Chapter 8, an argument offered in the union drive for negotiated pension and welfare plans after World War II was that thereby employers would be induced to support a more liberal and complete public program for social security. Expansion of the public plan, it was explained, would reduce the firm's costs under the negotiated plans because increase in the public benefit would lower the company benefit by a corresponding amount. That, at least, was the alleged strategy.

#### INSECURITY IN A DYNAMIC ECONOMY

In our modern industrial society, four out of five income receivers rely on a pay envelope for their livelihood. The family income depends on job earnings. But such earnings usually cease when the worker is laid off, is sick or injured, is retired, or dies. Although age is definite, death is unpredictable, and the incidence of unemployment and illness is uncertain and uneven, falling most

<sup>1</sup> See H. A. Millis and R. E. Montgomery, *Labor's Risks and Social Insurance*, McGraw-Hill, New York, 1938, p. 323.

<sup>2</sup> *Ibid.*, pp. 340-41.

heavily on the lowest-income groups who are least able to bear the burden or to prepare for it.

**Risks.** As our economy has become more specialized, more mechanized, and more fluctuating, workers' job risks have tended to grow. A dynamic, mass-production economy increases the dangers of injury, the pressures for early retirement, and the seriousness of unemployment.

Unemployment may arise either from economic frictions or a deficiency in demand. With rapid changes in production techniques and shifts in consumer purchases, workers are laid off in one occupation, industry, and locality while others are being hired elsewhere. But lay-offs and hires are not likely to be exactly matched for each skill and locality, so that some transfer unemployment occurs. In addition, workers may be on temporary lay-off due to seasonal variations, bottlenecks in production, or other frictional factors. Such "normal unemployment" for our economy has been placed at an average of two to three million during a year. The more serious type is cyclical unemployment, arising from curtailed spending. In 1933, for instance, total unemployment reached a yearly average of 12.5 million, not to mention part-time employment or underemployment.

The problem of superannuation has increased with the widening gap between industrial retirement and death. The pace of modern industry and the greater life span have combined to lengthen the period of "economic old age," when people are "too old to work, too young to die." The average age of our population has been increasing and will continue to do so. In 1870 only one out of every 35 persons was 65 or over; by 1950 one out of 13 had attained the sixty-fifth year; and in 1980 it is estimated that one out of every 7 persons will be 65 or over. Persons reaching 65 have an average life expectancy of 12 or 14 years. Yet many firms have hiring age limits at around 45 years of age, and wish to retire most workers by 65. Consequently, a middle-aged worker who loses his job with a change in industry, a decline in demand, or a business failure, may experience great difficulty in locating another.

Employee accidents on the job resulting in some loss of work total about two million a year and represent an estimated wage loss of three quarters of a billion dollars, plus perhaps a quarter of a billion for medical expense. The risk of industrial accident or disease is particularly high in some occupations like coal mining. The incidence of non-occupational illness and off-the-job accidents combined is, however, over ten times as great as that of work-connected disabilities, and it is two to three times higher in low-income families than in workers' families with relatively high incomes. The burden of wage loss from sickness is very uneven in distribution, and the cost of medical care may be a heavy financial strain for workers' families afflicted by severe illness.

Death of the breadwinner or his complete disability for life is particularly serious when his dependents are mostly young children. The resulting loss of earnings and cost of dependency is, from the individual viewpoint, appalling.

These hazards to workers' income vary considerably in their predictability en masse. Unemployment is difficult to forecast from year to year either in total amount or average duration. Age distribution of the population can be estimated for future years but not the distribution of the aged by states, including California and Florida. Accidents, sickness, permanent disability, and death lend themselves to application of the law of averages, so that a high degree of predictability of total incidence for a group is possible, if it includes a sufficiently large sample.

**Methods of protection.** How are the wage losses and costs resulting from these risks, partly inherent in our economic system, to be met? And how will the arrangements for handling them affect the attitudes of workers toward their work and toward the capitalistic system?

Until the Social Security Act was passed in 1935, planned protection was provided by law only for workers suffering from industrial accidents or work-connected disease. The wage losses arising from unemployment, old age, and non-industrial accidents, illnesses, or death fell in the first instance upon the family, supplemented by private charity and public relief. Purchase of private insurance against unemployment was not possible. Prohibitively high would have been the cost of providing for the surviving dependents of a deceased worker through insurance policies or of purchasing an annuity providing even half of the worker's pre-retirement earnings, payable each month from age 65 until both his and his wife's death. Even the cost of insuring for full hospitalization and medical care costs and for wage loss from non-industrial accidents and illnesses would require a sizable fraction of a wage-earner's income, particularly in the case of lower-income groups where the incidence and severity of those hazards is especially great.

Prior to enactment of the Social Security Act, some companies and trade unions had established plans for pension, sickness, disability, and unemployment benefits, but they never covered as much as one-tenth of the working population. The chief obstacle was the cost and competition. Generally speaking, only large firms in special positions, like the oil companies, could afford to finance such an independent benefit program. Problems of cost and competition explain the need for governmental intervention, especially through use of the taxing power.

Governmental programs of protection against economic insecurity have consisted of two contrasting types—public assistance or relief and social insurance. The chief distinction between them rests on the use of a test of the individual's means and actual need as the criterion of eligibility in the case of

relief, whereas social insurance benefits are paid automatically, according to specific provisions in the legislation, when the worker experiences the risk.

Applicants for public welfare or assistance may receive cash relief provided a home investigation demonstrates that their economic resources and income will not cover the family's minimum needs for existence. The worker is eligible for relief only when he is down and out, after he has used up any savings and is destitute. The amount of relief received varies not only with his income deficiency to meet bare needs but also with the financial condition of the city or county and the attitudes of the local relief administrators, who may interject their own ideas of worthy behavior. Consequently, relief tends to be degrading and demoralizing.

Social insurance is a provident method that preserves the self-respect of the "claimants." Normally, special taxes are levied as contributions, earmarked in special funds, which are reserved exclusively for social insurance benefits. Consequently, the benefits do not vary with the current condition of public budgets or appropriations. Eligibility for benefits and the amount and duration of benefit payments are defined in the law so that they are predictable. Usually a worker's benefits are related to his employment and contribution record. Thus, the worker can determine his benefit rights in advance and can bank on them in planning for the future. Like private insurance benefits, he receives them automatically as a matter of right whenever he experiences the risk and wage loss. Insurance payments carry no stigma of "charity." Compared with relief, social insurance is a more responsible method and provides greater security.

Automatic provision as a matter of right makes the social insurance method popular with workers exposed to the risks of wage loss and unpredictable financial burdens. It also has advantages from the point of view of public administration and worker incentives. Avoidance of home investigations in each individual case reduces overhead cost and eliminates many administrative "headaches." The favorable effects on worker incentives arise from a number of factors. Savings are encouraged because they do not prevent benefits. Benefits differentiated according to past wages and employment may serve as an added stimulus to regular employment at high earnings. Social attitudes toward insurance support self-respect and self-reliance. Limiting cash benefits for wage loss to one-half or two-thirds of the worker's normal weekly earnings reduces the incentive to malingering. For unemployment compensation or sickness and accident benefits other safeguards include: a short waiting period before the payment of benefits begins, the requirement of regular reporting at an employment service as an indication of job-seeking and non-refusal of an offer of suitable employment, medical certification of incapacity, proof that the

worker did not incur the loss in order to get the benefit, and limits on the total amount and duration of benefits.

Some writers have questioned whether the values of social insurance, in terms of self-respect, incentive, and security, are worth the added cash outlay incurred where a means test is not applied.<sup>3</sup> The added outlay is, however, offset to the extent that tax contributions really rest on the covered workers and other costs are reduced by social insurance payments. Desire to avoid the social stigma of relief may have injurious effects on the health of workers and their families. The influence of proper medical care on productivity and capacities, for example, was revealed by Selective Service in World War II, when over five million youths were rejected as unfit for military service because of defects, most of which could have been prevented or corrected with timely treatment. Under social insurance much of the wage loss still rests on those experiencing the risk. Workers are not generally responsible for the risks to earnings that are largely inherent in our highly mechanized and specialized economy, from which society benefits. Relief, however, tends to be tainted with the blame concept, mitigating rather than preventing dependency and destitution. Discouraged by economic misfortune that is largely beyond his control, the worker, without some social protection, may take an adverse view toward the enterprise system. For that reason, Bismarck considered social insurance a safeguard against socialism.

Social insurance is primarily for the benefit of wage-earners whose incomes are not sufficient for them to finance their own protection against the major economic hazards of industrial employment. Governmental intervention is necessary in social insurance in order to compel payment of tax contributions by employers and workers, to assure adequate coverage, and to avoid adverse selection of risks.

### DEVELOPMENTS AND FEATURES OF LAWS <sup>4</sup>

In the development of social insurance, the United States has lagged behind most other industrial countries. Because employers had some legal liability for work accidents, workmen's compensation to insure against industrial casualties preceded unemployment compensation and old-age insurance in this country by two decades. Although abroad health insurance has been one of the earliest and most prevalent forms of social insurance, it has yet to be established in this country. In the 1940's, social insurance against the wage loss resulting from

<sup>3</sup> See, for example, Lewis Meriam, *Relief and Social Security*, Brookings Institution, Washington, 1946.

<sup>4</sup> For a more detailed discussion of these matters, see Evelyn M. Burns, *The American Social Security System*, Houghton Mifflin, Boston, 1949, and D. Gagliardo, *American Social Insurance*, Harper, New York, 1949. Statistics on social security operations are available in the monthly *Social Security Bulletin* and in issues of the *Social Security Yearbook*, both compiled by the Federal Social Security Administration.

non-industrial sickness and accidents was enacted in four states and by the federal government for the railroad industry. However, opposition from the medical profession has prevented social insurance to cover the cost of medical care. Both wage loss and medical costs are usually included in the same program abroad.

A number of factors retarded the development of the social insurances in this country. Objection to compulsory action through government is part of the economic philosophy of our forefathers, embedded in the federal and state constitutions. Agriculture, where the need for social insurances is not so great, has played an important economic and political role in this country. In addition to philosophical and constitutional difficulties, organized labor was not strong in support of such legislation prior to the 1930's. Also, private insurance is highly developed here, and the insurance interests have either opposed social insurance legislation or sought to limit its applicability. Only the Great Depression of the 1930's overcame some of these obstacles.

**Record of legislative action.** Between 1910 and 1915, thirty states enacted workmen's compensation laws, providing insurance benefits for industrial accidents. The state supreme courts declared the first compulsory laws unconstitutional, but in 1917 they were upheld by the U.S. Supreme Court as within the police power of the state. By 1948, every state had such accident-compensation legislation.

The first compulsory legislation to provide retirement annuities in private industry was enacted by Congress in 1934 for railroad workers. That Railroad Retirement Act was declared unconstitutional, and new legislation for the same purpose was immediately enacted in 1935. Its constitutionality also was challenged and questionable. At a conference between railroad management and labor an agreement was finally reached, modifying the 1935 act. The essence of that agreement was incorporated in a new Railroad Retirement Act of 1937. Benefits under the Act were liberalized considerably by amendments in 1946 and 1948, the former stipulating survivors' benefits in case of death and benefits for permanent disabilities that prevent work in one's regular occupation. The maximum monthly benefit under the 1948 revision is \$144.

In addition to providing federal subsidies to approved state plans of relief assistance to the aged, blind, and dependent children, the Social Security Act of 1935 established a national system of old-age insurance covering about three-fifths of all workers, and encouraged, by imposing a special tax subject to offset by a state unemployment tax, the enactment of state legislation for unemployment compensation. By amendments in 1939, old-age protection was extended to survivors, the benefit formula was changed to provide larger benefits for workers covered only a short time, and the employer-employee tax increases were postponed for three years, which postponement was extended

by annual legislation until the 1950 revision of the Act. Despite the marked rise in living costs during and after World War II, the benefit formula under Federal Old-Age and Survivors Insurance remained unchanged for 12 years—until 1950. The 1950 amendments increased coverage by almost ten million persons,<sup>5</sup> changed the benefit formula so as to raise average benefit payments about 78 per cent<sup>6</sup> with a monthly maximum benefit of \$150,<sup>7</sup> and revised the tax schedule. The first increase in the old-age taxes occurred in 1950.

The first unemployment-compensation law was enacted by Wisconsin in 1932. The fact that it was in operation over a year before the Social Security Act was passed in 1935 helped to condition the unemployment provisions of the Federal Act. It simply provided a special federal tax, subject to credit for state unemployment taxes, and a subsidy for state administration where the state enacts an unemployment-compensation law meeting federal standards. Those standards were designed primarily to safeguard the funds for benefits and to protect union scales, by providing that benefits were not to be denied a worker otherwise eligible if he refused new work where a labor dispute existed or where the wages, hours, or working conditions were substantially less favorable than those prevailing in the locality.

Under the tax stimulus of the Social Security Act, the states soon enacted unemployment compensation laws. Frequent revisions since 1936, along with rising wage levels, have helped to increase benefit payments for total employment from an average of around \$10.75 a week in the 1930's to approximately \$21.00 in 1950. By then over half of the states had weekly maxima of \$25 to \$27, with 11 states providing small additional sums for dependents so that in most of them possible maxima reached \$30 to \$36 a week. Despite considerable variation, the state laws are remarkably similar in their basic features.

In 1939 a special Railroad Unemployment Insurance Act was passed withdrawing such workers from the state laws. Benefit schedules were increased by amendments in 1940 and 1946. The latter also added to the law, effective July, 1947, a system of temporary disability benefits, compensating for wage loss arising from sickness. The maximum rate of benefit is \$5 a day for both unemployment and temporary disability. Four states have also enacted laws providing for programs of cash sickness benefits. They are Rhode Island (1942), California (1946), New Jersey (1948), and New York (1949).

<sup>5</sup> New groups brought under the program include five million self-employed, one million domestic servants, and three-quarters of a million farm workers.

<sup>6</sup> From an average of \$26 to an average of \$46 a month. Unfortunately the 1950 amendments eliminated the benefit increment of 1 per cent for each year of coverage, so that the number of years of contributions has no effect on the size of the benefit. That is unfair and adversely affects incentives.

<sup>7</sup> The maximum for single persons is \$80 and for a couple \$120 a month.

**General characteristics of American programs.** The outstanding features of social insurance measures in this country are their diversity, the imprint of private patterns on many provisions, and rather limited coverage of the laws. Among the factors responsible for those characteristics are: the historical developments here such as prior establishment of workmen's compensation, a federal system of government with strong sentiment for states rights, the pressure of private insurance interests, and the problem of interstate competition in social insurance standards.

Each program has a different administration, separate benefit schedules, varying coverage and taxes, and even some dissimilarity in basic philosophy. A separate plan and administration exist for each type of social insurance, with separate arrangements for the railroad industry. Old-age and Survivors Insurance is a purely federal program; unemployment compensation is a federal-state system; workmen's compensation and cash sickness arrangements are state systems, with private insurance underwriting permitted in most state laws. The states have tended to favor employer taxes differentiated by company experience and the use of private insurance companies, whereas the philosophy of the Federal Social Security Administration and that embodied in railroad security legislation is opposed to such practices, stressing more the *social* aspects of social insurance.

The influence of private practices upon our social insurance legislation is evident in a number of features. In contrast to most foreign legislation, none of our laws provides for government contributions from general funds to aid in financing social insurance benefits. The emphasis on possible prevention of the risk, arising out of workmen's compensation, has resulted in most of the financial burden for social insurance in this country being placed on employers in the form of payroll levies. The tax burden on payrolls, along with notions of prevention, has led to widespread use of company-differentiated taxes adjusted according to experience<sup>8</sup> and also to "contracting out"—arrangements for approved private insurance in lieu of state insurance. As under private plans, benefits are differentiated, largely on the basis of the level of the worker's earnings on which contributions were paid.

## ISSUES IN SOCIAL SECURITY

The broad questions of policy in social security cannot be answered categorically. One's position on such policy issues depends on the social values and objectives that he stresses. Here again the problem arises of drawing some balance between competing and conflicting social goals and economic interests—between security and incentive, between workers' protection and employer

<sup>8</sup> The notion of prevention has not been applied to old-age insurance for obvious reasons.

or insurance-company interests, between workers' needs and cost to consumers, between the more secure and the less secure workers, and between short-run and long-run considerations. The answers involve exercising judgment, weighing alternatives, and forecasting effects and future conditions and attitudes.

Although it is a business-like method of providing for normal and necessary risks connected with jobs, use of the law of averages to protect the individual under social insurance does involve some redistribution of income. The amount of income sharing depends upon the extent to which social considerations, rather than private insurance principles, determine contributions, coverage, and benefits. Furthermore, the fact that workers draw benefits during weeks or months when they are not contributing to production raises a question as to the length of time persons should be permitted to continue on benefit before being forced to make some adjustment, such as a shift into a new occupation, to a new locality, or onto relief. The age at which older workers should be encouraged or forced to retire from their regular employment also presents a nice problem of balancing personal and social considerations.

**Public vs. private administration and principles.** An important issue in social insurance is whether the program should be operated exclusively by government, with a pooling of all risks in a single state or federal fund. The alternative is to have some or all of the program handled by negotiated or employer-initiated private plans on a company or multi-employer basis.

The advantages of a single fund publicly administered are: it provides more average protection for the money by a wider pooling of the risk; it promotes simplicity and lower administrative costs by maintaining uniformity and avoiding duplication and sales commissions under a compulsory law; it permits more complete coverage and avoids the problem of the undesirable risks that private schemes reject; it is more democratic in that low-cost risks are not separated out from high-cost risks such as Negroes and women under sickness insurance; and it avoids creating vested private interests that warp the program for their convenience, make it difficult to revise and consolidate programs, and contest benefit payments when that will increase private profits.

Advantages claimed for "contracting out" all or part of a social insurance program to private companies include: greater emphasis is likely to be placed on preventive measures to reduce the risk; benefit payments may also be reduced because of a different attitude on the part of workers toward private schemes and the possibility of better policing of malingering; the differentiation of premiums or cost according to the degree of risk is facilitated; and the company, union, or both gain employee good-will. By helping to tie employees to a particular firm, differentiated company plans do, of course, restrict labor mobility, sometimes with socially undesirable results.

The pressure for private administration varies with the risk. Private companies are not interested in selling insurance policies covering the risk of unemployment, and the federal requirement of benefit payments through public employment offices practically precludes private administration. Private insurance carriers are, however, extremely interested in handling accident, health, and death benefits. In the case of old-age insurance, private administration would have presented an extremely difficult problem of transfer of records and credits with every change of employer during the worker's lifetime, or the loss of protection with a shift in employment. Also in old-age insurance, the problem of malingering is absent and supplementation of benefits under private arrangements is easy and, indeed, is stimulated by a basic public program. For such reasons, Old-Age and Survivors Insurance is operated exclusively by the federal government with a single, pooled fund.

**Unity vs. diversity.** Another question is whether the level of security should vary with the type of risk, so that the same worker would receive a different benefit depending on whether his wage loss arises from a work accident, unemployment, sickness, permanent disability, retirement, or death. One justification for risk differentiation in social insurance is that life risks, like permanent disability or retirement, involve long contribution periods and less concern about the effects of benefits on incentives to work; because the person is not expected to return to his regular employment, it is not so necessary to maintain a significant spread between the amount of monthly benefits and previous monthly earnings. Should there also be differentiation of benefits by industry, such as we have in the case of the railroads?

Some writers contend that, under compulsory social insurance, persons in the same circumstances should receive the same benefits for wage loss whether it arises from unemployment, temporary or permanent disability from work or off-the-job causes, or death. They explain the advantages of uniformity and unity, pointing out that abroad the trend has been in that direction as experience has increased. In Great Britain, for example, benefits for wage loss do not vary with the risk except for a slightly higher schedule in the case of industrial accidents.

A related problem is the governmental level at which policies should be determined and programs administered. Central determination of broad policies and national pooling of risks is possible with actual administration of benefits at state or local levels. Here again the answer may vary with the risk. Automatic determination, as in Old-Age and Survivors Insurance, may favor national administration, whereas benefit programs involving a significant amount of discretion and judgment, such as unemployment compensation or sickness insurance, should provide for a considerable measure of local administration. The desirable area of pooling of the risk is another factor.

The question of unity or diversity is partly a political issue. During the past half century, the trend abroad has been toward integration of social security measures and national pooling of risks. Such action improves the protection of workers by spreading the risk over a wider area, eliminates duplicate wage records and taxes, and avoids competition between programs and between states or industries for lower tax and benefit levels as a means of favoring industry. In this country the argument against integration and centralization of policy determination has been based largely on a desire to safeguard the federal principle, to avoid concentration of functions and power in Washington and to permit state experimentation and checks on centralization. Unfortunately, even at the state level separate and special arrangements have been established for similar risks, such as work accidents and disease, non-industrial accidents and illness, and unemployment compensation.

**Need vs. incentive.** The proper balance between need and incentive is a fundamental issue in social insurance. Involved are both contributions and benefit schedules. Should workers be permitted to draw social insurance benefits without previous contributions by them or on their behalf? Should benefits vary with the worker's previous earnings in covered employment—both level of earnings and length of employment? Or should benefits be governed by the size of the worker's family?

Actually social insurance programs in this country represent some compromise between the two bases. Benefits are related to the individual's previous earnings, but need plays a role by such means as added benefit amounts for dependents, minimum and maximum benefit limits, benefit formulas weighted in favor of low-paid workers, and uniform duration of benefits. Relating benefits to previous earnings and productive achievement has the following advantages: It sustains earnings differentials and provides an added incentive for workers to advance and establish good employment records; it provides an incentive for a worker to transfer from benefits back to active employment as soon as possible because benefits are only a fraction of his normal earnings; and it permits automatic adjustment to geographic and occupational differences in levels of wages and living. The proponents of uniform benefits adjusted to the number of dependents, on the other hand, contend that such an arrangement would keep down the cost of benefits, would avoid the administrative expense of keeping wage records and calculating benefits, and would confine government intervention to a basic minimum protection for all, leaving the supplementary arrangements to private initiative and enterprise. For those reasons, social workers, insurance executives, and some conservatives tend to favor use of the need principle and flat benefits. Others are more prone to stress the psychological advantages of the contributory principle and differentiated benefits in our type of economy.

**Limited vs. comprehensive coverage.** Social insurances based on previous wage credits run into administrative difficulties with respect to coverage for self-employment, casual work, and employment remunerated partly in kind or by the collection of gratuities. It is argued that the more universal the coverage, the greater is the justification for some government subsidy for a social insurance system.

In addition to administrative problems and political difficulties, extension of coverage to new groups and the inclusion of additional risks raise economic and fiscal issues. What amount of social security can or should the nation afford? What share of our national income ought to be devoted to providing security for workers and their families during periods when they are not producing and may need extra claims on the national output for such items as medical care?

In answering such questions, a distinction should be drawn between larger net burdens on governmental budgets and larger net burdens on the whole economy. Contributory social insurance in this country has placed no additional burdens on public budgets; on the contrary, by being self-financing through special contributions, it has relieved regular budgets of some relief costs. On the other hand, expansion in relief assistance or free public provision of medical care does involve governmental appropriations from general funds. The potential burden on the economy is more difficult to assess, because it involves psychological as well as economic questions. Social insurance can add a burden on the economy as a whole only by decreasing the amount of productive labor available or utilized or by adversely affecting work attitudes and incentives. Such results could come about through the special taxes levied or the particular benefits provided. On the other hand, if the benefits enhance incentives, improve workers' health, strengthen their faith in our economic system, and increase savings and investment, social insurance may serve to increase rather than decrease the total national output of goods and services. The question of savings leads to the subject of reserves under social insurance.

**The problem of reserves.** The accumulation of reserves under social insurance is a means of keeping the system self-financing. Tax contributions and benefit payments vary with business conditions. In an industrial depression, total income from payroll taxes decreases and total benefit payments increase, particularly for unemployment and retirement benefits. With a reserve as a cushion, there is no need to engage in deficit financing, or sudden tax increases, or restrictions on benefits, one or all of which would be necessary under a pure pay-as-you-go arrangement. In old-age insurance, reserves perform the added functions of helping to keep contributions and benefits equitably related between age groups and to permit the system to absorb long-term developments in wage levels, life expectancies, retirement practices, and so forth, at

variance with the assumptions on which the actuarial calculations were based.

Two errors frequently arise in discussions of social insurance reserves. One is that social insurance systems should maintain full reserves as private insurance companies are required to do. That is not necessary, however, because the state compels the payment of contributions by levying taxes, so that there is no need to fear that contributions will cease and reserves will be needed to liquidate outstanding obligations—running for a lifetime in old-age insurance. In the case of unemployment compensation it is not possible to determine the sum required for a full reserve. Use of the taxing power constitutes the important difference between social and private insurance so far as the reserve issue is concerned. Furthermore, social insurance programs are never abandoned, and, unlike private insurance policies, their benefits are adjusted by legislation for increases in the price level and standards of living.

The second error is the assumption that investment of social insurance reserves in bonds of the federal government is financially unsound. The claim is made that investment of the excess of contributions over benefit payments (by mid-1950 about \$7.5 billion under unemployment compensation and \$12.5 under old-age insurance) means the spending of \$20 billion for all sorts of governmental activities, with the result that the government must tax again to pay interest on the reserves and to pay benefits out of the reserves. That is, however, an example of a cramped viewpoint leading to an incorrect conclusion. All that happens when the social insurance reserves increase is an alteration in the distribution of the federal debt, which exceeds \$250 billion. The amount in the hands of the general public, including financial institutions, is reduced by the amount that the social security reserves increase. The persons or firms whose holdings of federal debt are reduced thus have funds released for other investment. The transfer of federal bonds from private hands to social insurance reserves neither increases the national debt nor raises the amount of interest that the federal government has to pay on its debt. And paying benefits out of reserves simply involves shifting more of the federal debt back into private hands.

The basic economic question in connection with social security reserves is their effect on total savings and investment. To perform a real economic function, the accumulation of such reserves should contribute to the nation's future production. That can be done either by causing an increase in the amount of productive equipment above what would otherwise have occurred or perhaps by restraining price inflation.

**The problem of older workers.** Decrease in the amount of productive labor available and utilized was mentioned as one way of increasing the burden of social security on the economy. As the age group 65 and over becomes a larger and larger percentage of our population, retired workers and their

dependents constitute an increasing drain on the total output. In 1950, less than half of the men and less than one out of ten women of 65 years of age or over were engaged in remunerative employment. Since the passage of the Social Security Act in 1935, age 65 has become the typical one for industrial retirement. The question arises whether it is wise public policy to encourage or discourage retirement at that age, and, if the worker does retire from his regular job, should he be encouraged to seek other gainful employment.

The problem is complicated by the number of different interests involved in retirement decisions and by the effect of varying circumstances upon the answer. The individual worker, if in good health, usually wishes to continue in employment after age 65. Often cessation of gainful employment has adverse psychological effects. Actual aging varies considerably from person to person, and jobs in industry also vary in their physical and mental requirements.

Although workers and job requirements vary, industrial firms need rules to follow in retirement, if they are to avoid charges of discrimination and favoritism under the grievance procedure. Age is an easy administrative guide, whereas competency is often subjective and uncertain. To continue in competition, the large manufacturing firm must be unaging, maintaining a vigorous, adaptable, and fast-operating workforce. Seniority, restrictions on transfer, and negotiated wage schedules make it difficult for management to shift aging workers into less arduous and less responsible work, or to adjust their compensation to the true worth of their current services to the company.

From the viewpoint of society as a whole, the best retirement age depends partly on business conditions. With widespread unemployment, early retirement is more desirable than when labor is scarce. Overdue retirements have unfortunate effects not only upon output but also upon the morale of younger workers in the plant. On the other hand, enforced retirement in large numbers will increase the pressure for bigger old-age benefits under government and private plans and possibly for some legal restriction upon industry's freedom to retire workers at will.

**Views of organized labor.** Although it is hazardous to generalize concerning the position of the labor movement on particular issues, resolutions and official statements indicate that the AFL and CIO favor the following: public social insurance as opposed to company arrangements, partly because the worker can take benefit credits with him from job to job and thus avoid discrimination on that score in new hirings; exclusive public operation of social insurance programs with no contracting out; differentiated benefits based on past earnings; elimination of experience rating under unemployment compensation, mainly because such rating causes competition in tax reduction and leads to restrictions on eligibility for benefits so that employers can lower their

taxes; and the federalization of unemployment compensation on the grounds that greater uniformity and more protection for workers would ensue. Plainly organized labor's position conflicts with the interest of employers, particularly large firms with stable employment, at a number of points. Although apparently opposed to employee contributions for workmen's compensation or unemployment compensation, organized labor has not openly objected to them for Old-Age and Survivors Insurance, and its representatives have favored them in cash sickness insurance, as a means of preventing private insurance companies from selecting the most desirable risks under a compulsory law.

The problem of retirement is a difficult one for labor unions, which stress common interests and rights. A union can hardly decide which of its individual members should or should not be retired. Of course, it can protest management's decisions in particular cases of forced retirement, but on what grounds? On the basis of relative competence of the individual? Age would seem to be the only objective criterion upon which to base a union policy with respect to retirement from one's regular job.

## CHAPTER NINETEEN

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### WAGE AND HOUR LEGISLATION

This chapter deals with labor standards by governmental action. Heretofore we have been concerned with standards established by collective bargaining. Protective labor legislation raises a number of interesting economic issues. What are the purposes of such legislation? What is the economic justification for governmental intervention? What have been the economic consequences of wage-hour legislation? Does it hamper the economic progress of a state or a nation? Is the International Labor Organization correct in assuming that improved labor standards by one country will injure it in international trade? Such are the questions for which answers are developed in this chapter.

**Aims and basis of legislation.** Protective labor legislation varies in its purposes and justification with the subject matter of the law. Child labor laws, forbidding the employment of youngsters under a certain age in manufacturing and mining, are designed to safeguard the health and educational development of the child, so that he or she may enjoy an enlightened and long working life. Laws stipulating the hours of work for women are intended to protect the health, safety, and morals of mothers and future mothers. When they also apply to men, hours laws may serve other purposes. Restricted work hours for transport employees help to prevent accidents resulting from fatigue. Union leaders and others have argued for hours legislation as a means of spreading work in periods of unemployment and as a way of providing workers with more time for cultural development, civic and family affairs, and healthful living. Minimum-wage laws may be designed (*a*) to prevent "exploitation" of workers and a vicious spiral of poverty breeding poverty, (*b*) to maintain a floor below which competition cannot depress wages and thus protect "reputable" firms from being undercut by irresponsible competitors, and (*c*) to increase the purchasing power and improve the health of low-income groups.

The economic justification for legislative action largely rests on the unsatisfactory results of market determination and the need for legislative protection where collective bargaining is absent. As explained in Chapters 3 and 5, the market mechanism does not take adequate account of the nation's long-run interests and economic competition is deficient as a means of providing satis-

factory answers to many labor issues. For example, the short-run interest of employers in making profits through temporary employment of child labor may operate to the detriment of the health and development of those children, and thus be injurious to the long-run social interest in an efficient workforce. Before child-labor legislation was passed in England in 1819, children six to eight years of age worked in coal mines and factories 12 to 14 hours a day for six days a week.<sup>1</sup> In this country in the 1830's when a similar work schedule prevailed, two-fifths of all factory workers were children between 7 and 16 years of age, and as many as one-fifth of all employees in cotton-textile mills were children under 12.<sup>2</sup> Such toil tended to impair children's health, deform their bodies, and make them old at 40 years of age.

Experience in the nineteenth century here and in England also clearly demonstrated that competition often fails to lead to the most economical work period or to socially desirable hours of work. Employers were reluctant to experiment with shorter hours for fear that they could not lengthen hours again once a lower standard had become established. It takes time for reduced hours to have their full effects on workers' health and productivity—often a year or more. Employers were not so interested in the long-run effects of hours on workers' health and the length of their working lives, except perhaps in the case of slaves who represented a capital investment. The economists wrongly reasoned that individualism and employer self-interest were bound to result in the correct work hours. Unfortunately, individual variation in the scheduled hours of a plant is not feasible; so far as the workers are concerned, the decision has to be on a group basis.

The economic case for a legal minimum wage is explained more fully in the following section. Briefly it is based on (a) the lack of wage standards under non-union conditions, with wide local variation in pay for comparable work, and (b) the beneficial effects of raising substandard wages on managerial efficiency and on workers' productivity. A differentiated increase for the lowest-paid workers tends to improve their health and work incentives, and thus to break the "vicious cycle of low wages, low planes and standards of living, the grasping at shady and illegal sources of income, low physical and moral capacity and the completion of the cycle in continued low output and productivity."<sup>3</sup>

### THE ECONOMICS OF LEGAL MINIMUM WAGES

There is a vast difference between a general wage increase that spreads through all occupations, firms, and industries and an increase in the legal

<sup>1</sup> For references to English experience, see the author's *Economics of Labor*, Macmillan, New York, 1941, pp. 63 and 68.

<sup>2</sup> For American experience, see *ibid.*, pp. 78–81.

<sup>3</sup> Gustav Peck, *Economic Factors in Statutory Minimum Wages*, Senate Document No. 146, 80th Congress, 2nd session, April 15, 1948, p. 17.

minimum that affects directly only a small fraction of all occupations, firms, and industries, and among that small fraction its effects are uneven, being different for each firm. In discussing statutory minimum wages, therefore, it cannot be stressed too strongly that (a) their effects are limited to a small fraction of an industry and do not apply to most firms and many industries, (b) among the firms affected, the required wage change is differentiated firm by firm, and (c) with wide variation in minimum rates in a locality, the effects of legal minimum wages on a national scale are spread thinly over the country rather than being concentrated in a few areas or one region.

**Lack of wage standards.** As explained in Chapter 4, wide and irrational variation exists within single communities in the wage rates being paid for the same job or equivalent labor on similar jobs. In non-union localities such inter-firm variation in wage scales differs significantly from community to community, being two or three times greater in some localities than in others. In fairly small southern communities, the high-wage textile mills may pay for standard jobs one-quarter to one-half more than do the low-wage mills producing the same cotton article.<sup>4</sup>

Between localities or regions, wage differentials for the same work also vary widely and irrationally. As explained in Chapter 4, some southern plants pay wage scales equal to or in excess of their northern competition, and some industries have no North-South differential, whereas similar or related industries have a wide regional differential. The data discussed there showed that wage differentials between cities and regions cannot be closely related to differences in productivity, to differences in the amount of capital and power used per worker, or to differences in living costs. In the same industry, some firms have no North-South wage differential yet others have wage scales one-fifth to two-fifths below those paid by their northern competitors.<sup>5</sup>

The lowest-paid jobs in a firm or industry are the unskilled occupations—common labor, janitor, sweeper, stacker, hauler, yard labor, floor boys, messenger, etc. Usually no more than 2, 3, or 5 per cent of the workforce of a firm or an industry are at the minimum or lowest rate.<sup>6</sup> In general, such unskilled jobs represent substantially the same work whether in the automobile, oil, food-canning, fertilizer, or cotton-textile industries. Yet, as explained in Chapter 4, minimum pay varies widely among such industries as well as among firms in each industry.

**Restricted application of legal minimum.** The aim of a government-enforced minimum wage is to require a small fraction of an industry, say 5 or 10 per cent, to meet the minimum standards that their competitors and neighboring firms have adopted voluntarily. Suppose the projected minimum is 75

<sup>4</sup> For references see Chapter 4.

<sup>5</sup> Again, for details, see Chapter 4.

<sup>6</sup> See Gustav Peck, *op. cit.*, pp. 10-12.

cents an hour and firms representing one-tenth of the industry's production have minima ranging from 60 to 74 cents an hour. Those are the firms that will be directly affected by the new legal minimum, requiring all covered employers to pay at least 75 cents an hour to every employee, except for exempt groups like learners and handicapped workers. Ninety per cent of the industry is not directly affected by the legal minimum. Indeed, the unaffected firms tend to support it and often aid in its enforcement.

In the firms directly affected, the required amount of wage increase will vary from plant to plant. It will depend on the difference between the firm's old and new minimum, the proportion of the plant's workforce formerly at rates below the new minimum, the extent to which occupational rates above the minimum need to be increased also, and the management's ability, through wage administration, to avoid having hourly earnings rise as fast as wage scales. In some instances, the legal minimum may merely eliminate unjustified race or sex differentials below the minimum wage paid to white, male labor. In some affected firms, skilled rates do not need to be raised with the unskilled rates because the company may have been paying the same skilled rates as its unaffected competitors or neighbors. Craftsmen's rates are often more stabilized than unskilled rates in non-union areas. Whether an affected firm that is forced to raise its minimum wage by, say, 10 cents an hour can taper off the increase in the middle and upper brackets to 7.5, 5, or 2.5 cents an hour will depend on the circumstances. For such reasons, any wage adjustments caused by the enactment of or increase in statutory minimum wages will differ from firm to firm, so that no uniform or standard answer with respect to effects on wage structures and earnings is possible.

Only certain low-wage industries are likely to be affected by a uniform national minimum by law. They are highly competitive industries like clothing, cotton textiles, small-scale logging and sawmilling, laundry and dry cleaning, tobacco preparation, food canning and processing, and other semi-rural types of production. For most of them, entrance into the business is easy, and non-union competition presents a threat to labor standards. Sometimes these low-wage industries are mistakenly referred to as marginal—the first ones to contract and disappear with an increase in price. That, however, is incorrect. The demand for food and tobacco, for example, is highly inelastic. However, in the case of personal services which have a local market, the demand is likely to decline sharply with a relative rise in price, but the extent of such contraction will vary with business-cycle conditions.

**Effects on productivity and prices.** Because legal minimum wages have restricted application and differentiated effects, they serve to stimulate improvements in management and in worker performance. The lowest-wage

firms, faced with an increase in their wages relative to those paid by the bulk of their competitors, are under pressure to improve plant organization and functioning so that their operations approach the efficiency of their unaffected competitors. The possibilities of improved management practices under the stimulus of minimum-wage legislation are frequently indicated by actual experience. For example, Robert West, when head of the Riverside and Dan River Mills, testified in the wage and hour discussions of the cotton-textile industry that his firm's labor costs rose only one-third of the expected cost when the NRA required the same wages for 40 hours as formerly were paid for 55 hours, two-thirds of the expected cost increase having been eliminated by "the utilization of improved machinery, better arrangements of processes and application of skilled labor, and the more adequate scheduling of the flow of production and better selection of materials." <sup>7</sup>

In addition to the "management effect," there is the effect on the productivity of workers whose wages are raised. Selected wage increases are supposed to provide an incentive. Under legal minimum wages, the increases are differentiated by firm and often within the firm. Moreover, raising the real income of the lowest-paid labor tends to improve its health, attitudes, and working qualities. And with higher minimum wages, management may be more careful in labor placement and may expand its training activities for workers. Presumably it would seek to be more selective in hiring new labor, but that may not be possible unless unemployment increases.

Do legal minimum wages have inflationary price effects? If so, how would the price rises be caused? It is difficult to see how a statutory minimum would raise product prices, (a) if the minimum is reasonable, applying say to no more than 10 per cent of the market supply, (b) if it is uneven for the affected firms so that each one has a different increase, and (c) if the industries involved are highly competitive. Such a restricted legal minimum alone is not likely to cause much increase in demand for the industry's products or decline in its output and, hence, decrease in supply. Firms are not likely to reduce output or to go out of business on any scale as a result of legislation that brings their minimum rate up to the lowest paid by 90 per cent of the industry. If the legal minimum causes a rise in management and worker efficiency in the affected firms, the industry's output would tend to increase. And any output reduction in the wage-pressured part of the industry would be likely to be taken up by other firms, probably at no increase in unit costs except perhaps in extractive industries like mining that are subject to increasing costs. Of course, a higher minimum may raise prices in personal-service, local-market

<sup>7</sup> *Textile Industry, Findings and Opinion of the Administrator*, Wage and Hour Division, U. S. Department of Labor, September 29, 1939, p. 35.

lines, like restaurants and laundries, which may enjoy some spatial monopoly and in which a high proportion of costs are for low-wage labor so that much more than 10 per cent of the supply for the market is affected.

**Effects on employment.** A legal minimum wage can reduce employment by causing an increase in product prices, the use of more labor-saving methods, or the substitution of more effective for less effective labor. The price aspect has already been discussed. Raising minimum wages by law may provide added impetus to the use of semi-automatic or automatic equipment. That seems to have been true in the seamless hosiery industry following the establishment of a minimum of 32.5 cents an hour industry under the Fair Labor Standards Act in September, 1939, when almost half of the workers in the industry had been receiving less than that wage.<sup>8</sup> However, the substitution of equipment for labor may not be feasible for many of the lowest-wage jobs—common labor, sweeper, cleaner, yard labor, hauler, and messenger. Unskilled workers in such low-wage categories are sometimes incorrectly referred to as “marginal employees.” The fact is, however, that cotton mills cannot dispense with roving haulers and yard labor, that tobacco manufacture requires stemmers, and that most plants need some sweeping and cleaning. And a legal minimum wage is not likely to cause an employer to discharge regular employees in such low-wage categories in order to replace them with new employees, if for no other reason than that to do so would be to invite labor organization.

Theoretically, it can be demonstrated that a forced increase in minimum wages will increase employment where there is domination and control by the buyer or buyers in a labor-market area. What an enforced minimum can do under such circumstances is to rob the employer or employer group of the possibility of keeping wages low by not bidding up wages through additional employment.<sup>9</sup> Actually, employment and wage scales are not so closely related as such reasoning implies. Consequently, wages are less likely to be depressed by artificial restrictions on employment than by employer cooperation in wage determination and wage change.

<sup>8</sup> See Harry M. Douty, “Minimum Wage Regulation in the Seamless Hosiery Industry,” *Southern Economic Journal*, Vol. VIII (October, 1941), pp. 176–90.

<sup>9</sup> To illustrate this point, assume that an employer is employing 30 workers at 62.5 cents an hour or \$5.00 a day. Suppose that the hiring of five additional workers would increase the employer's total receipts by \$5.80 per worker or \$29.00 a day, but that the employer would have to offer wages of 70 cents an hour or \$5.60 a day in order to attract additional workers. He cannot pay new employees \$5.60 a day without also paying his regular employees \$5.60 a day, which would increase his total costs by \$18.00 a day (60 cents  $\times$  30 workers). Therefore, the five additional workers would add each day to his total receipts \$29.00 a day and to his total costs \$46.00 (\$5.60  $\times$  5 + \$18.00 a day additional in wages to the 30 regular employees). Consequently, the employer would not hire additional workers if he had to pay 70 cents an hour to attract them. If, however, the government fixed a minimum wage of 70 cents an hour or \$5.60 a day, then the employer would hire the additional five workers because they would add \$29.00 a day to his total receipts and only \$28.00 a day to his total costs since the legal minimum has forced him to pay the 30 employees 70 cents an hour anyway.

**Some experience.** In a dynamic economy it is, of course, not possible to isolate and measure the exact effects of minimum-wage legislation. It is, however, possible to demonstrate by actual experience that theoretical economists, reasoning on the basis of unrealistic assumptions (competitive purchase and sale of labor, perfectly functioning management pursuing profit relentlessly by applying marginal principles, no increase in production as a result of minimum wages, etc.), will arrive at wrong answers regarding the economic consequences of minimum-wage regulation.<sup>10</sup>

Two examples will be cited. Primarily as a result of the establishment under the Fair Labor Standards Act of a minimum of 30 cents an hour in October, 1939, and of 32.5 to 40 cents in July, 1940 (depending on the branch of the industry), the South-North wage differential in the men's cotton-garment industry (shirts, collars, nightwear, work clothes, and pants) was reduced, on the average, by one-third between March, 1939, and March, 1941. Yet during those two years, employment in 180 identical plants increased more than one and a half times as fast in the South as in the North.<sup>11</sup>

The same pressure of minimum wages had similar results in the wood furniture industry. Between October, 1937, and February, 1941, the South-North wage differential was reduced about 7 per cent for 72 identical wood furniture plants, with the establishment of a statutory minimum of 25 cents in October, 1938, and 30 cents in October, 1939, and the fixing of minima from 32.5 to 40 cents in the principal industries competing with southern furniture manufacturers for labor. Not only did employment for the industry as a whole increase the most in firms with the lowest average hourly earnings in 1937, where the statutory minima obviously had the greatest direct and immediate effect; but employment in the southern plants increased 26 per cent, whereas it decreased slightly in competing northern firms during the period (October, 1937, to February, 1941), and within the South employment expanded more than twice as fast in the lower-wage firms whose wages increased 10 per cent as it did in the higher-wage firms where the increase in wages was less than

<sup>10</sup> See, for example, *The Economics of Minimum Wage Legislation*, Report of Committee on Economic Policy, Chamber of Commerce of the United States, June, 1947; and George J. Stigler, "The Economics of Minimum Wage Legislation," *American Economic Review*, Vol. XXXVI (June, 1946), pp. 358-65. For critical comment on those writings, see F. H. Blum, "Marginalism and Economic Policy," *American Economic Review*, Vol. XXXVII (September, 1947), and my article, "Marginalism, Minimum Wages, and Labor Markets," *ibid.* (March, 1947), pp. 142-48, and my testimony in *Minimum Wage Standards*, Hearings before Subcommittee No. 4 of the House Committee on Education and Labor, 80th Congress, 1st session, Vol. 2, October, 1947, especially pp. 993-97.

<sup>11</sup> Separate figures for branches of the industry show somewhat varying results. Employment decreased slightly in southern plants producing shirts, collars, and nightwear, where the North-South differential was practically eliminated, but, in the work clothing and cotton pants branch, employment increased more than twice as fast in the South as in the North despite a reduction by more than 50 per cent in the average North-South wage differential. See "Earnings in the Men's Cotton-Garment Industries, 1939 and 1941," *Monthly Labor Review*, Vol. LV (August, 1942), p. 349.

2 per cent.<sup>12</sup> Inquiry of the industry in the South indicated that management improvements stimulated by wages were an important factor in expanded employment.

Support for such results is afforded by the replies of executives of 43 southern concerns to a questionnaire I sent in the summer of 1945, asking how their firms would be likely to adjust to a 50 per cent reduction in the average South-North wage differential in their industry during the first three years following the defeat of Japan in World War II. Twenty-one of the 43 concerns were in furniture and cotton-garments manufacture, and the rest were in metals, chemicals, and other articles of clothing. The replying firms estimated their wage scales, on the average, at 18 per cent under the levels paid for comparable jobs by their northern competitors, so that the question involved an independent and differentiated increase (averaging 11 per cent) in the wage scales of the southern firms, assuming no change in the wage levels of their northern competitors. The replying executives gave most frequent mention and greatest emphasis to improvements in efficiency through better production methods, organization, supervision, incentives, workloads, and so forth. Second in importance in their answers was the installation of labor-saving machinery, which was stressed particularly by firms with high ratios of labor cost to total cost. Almost as significant as labor-saving machinery in number of times mentioned and average weight given was increased sales efforts in order to expand sales and production. Stress on sales efforts is an understandable adjustment in view of the fact that all the executives except three considered that their variable or operating costs per unit of output were declining up to 100 per cent of rated plant capacity. Increased sales effort would, of course, tend to result in a greater volume of production and employment. A category, "change in price, quality, or kind of products manufactured," was stressed less frequently than the three adjustments already mentioned, and mostly by furniture concerns. Although the price factor cannot be separated out, the replies leave no doubt that a price increase is not considered by most executives in highly competitive industries to be a feasible adjustment to such restricted and differentiated wage increases.<sup>13</sup>

Reasoned conclusions concerning the consequences of a legal minimum wage are often incorrect, because it is assumed to operate like a general wage increase, because all business management is assumed to be operating accord-

<sup>12</sup> See *Earnings and Hours in the Furniture Industry*, February, 1941, U. S. Bureau of Labor Statistics, Serial No. R. 1330, 1941, Table 3, p. 11, and *Minimum Wages in the Wood Furniture Manufacturing Industry*, Wage and Hour Division of U. S. Department of Labor, June, 1941, pp. 24-28. From these sources, I constructed a table. See R. A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *American Economic Review*, Vol. XXXVI (March, 1946), p. 76, footnote 41.

<sup>13</sup> For a more complete statement of the results of the questionnaire replies, see R. A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *op. cit.*, pp. 77-81.

ing to marginalist economic theory, or because generalizations are made from cases where employers, especially in personal-service lines, claim to have laid off employees as a direct consequence of the minimum wage. Examination of actual experience in a number of industries provides a better perspective and aids in correcting false theoretical constructs.

## PROVISIONS OF STATE AND FEDERAL LAWS

Notable contrasts exist between state and federal legislation with respect to minimum wages and hours of work. State minimum-wage laws usually cover only women and minors; the minimum of the Fair Labor Standards Act applies to male as well as female employees. The state laws usually provide for wage boards to establish a separate minimum wage for each industry; whereas the Federal Act stipulates in the law a uniform minimum for all covered firms. The state laws apply mostly to intra-state trade and service industries (laundries, dry cleaning, mercantile and retail trade, hotels and restaurants, beauty parlors, etc.); the Federal Act applies to the manufacture of goods for interstate commerce (with some exceptions).

With respect to hours, the state and federal laws have different purposes. The state laws are designed to protect the health, safety, and morals of women and minors, the health of male and female workers in hazardous occupations, and the safety of passengers on common carriers. Consequently, the state laws generally fix an absolute limit on the hours of work per day or per week<sup>14</sup> and, except in special lines like hazardous occupations and transportation, do not apply to men. The Fair Labor Standards Act, passed in the recession of 1938, was designed to spread work and promote the general well-being of workers through more free time. Therefore, it covers all workers, male and female alike, and, instead of a flat maximum that cannot be exceeded, simply provides for a punitive rate of one and a half times the regular rate of pay for "overtime" hours beyond 40 a week.

**Provisions of state laws.** The first state minimum-wage law was passed in Massachusetts in 1912. By 1950 a total of 26 states and the District of Columbia had such legislation. The states issuing the most wage orders under the statutes during the 1940's were California, New York, Massachusetts, Oregon, Washington, and the District of Columbia.<sup>15</sup>

Most states follow the precedent of the British Trade Boards Act of 1909 by providing for wage boards, with employer and employee representatives from the industry, to determine the minimum wage for that particular industry. The principles that wage boards are to follow in making their determina-

<sup>14</sup> In many states, overtime is permitted in an emergency and in some states during seasonal peak periods.

<sup>15</sup> See *State Minimum-Wage Laws and Orders, July 1, 1942-January 1, 1949*, Supplement to Bulletin 191, Women's Bureau, U. S. Department of Labor, Bulletin 227, 1949.

tions vary somewhat between states for historical and constitutional reasons. Some employ the necessary cost of living as the standard for setting minimum wages, others specify the criterion of "fair and reasonable value for the service," and others still use a combination of those two bases. In at least 12 states, the wages paid for work of comparable character by employers voluntarily maintaining "fair" minimum standards may also be considered by the wage boards. A considerable diversity exists between states in the minimum for the same occupation or industry and also between industries within the same state.

Industry boards have the distinct advantage of permitting flexibility and adaptability. They facilitate adjustments for differences between industries and for changes in wage and price levels and business conditions. The test of minimum standards being paid voluntarily by, say, nine-tenths of the industry can be more readily applied.

All the states have some legislation restricting the daily or weekly hours of work for minors and all but four regulate working hours of women. The permitted maxima often vary with the industry, ranging from 60 to 44 a week and even 40 for minors in a number of states.<sup>16</sup> Much state hours legislation has been rendered obsolete by subsequent reductions in scheduled working hours. As with minimum-wage legislation, agriculture is generally exempt from state hours laws.

**Experience in the states.** Attempts to estimate the net effects of state minimum-wage legislation are hampered by the lack of continuity in enforcement and the difficulty of seeking to relate cause and effect in the welter of economic change. Nevertheless sufficient evidence exists to indicate that state minimum-wage legislation has increased the earnings of women, has not tended to prevent differentials above the minima, has not caused a relative reduction in the level of employment for women, and has not stimulated a significant tendency for men to replace women in jobs as a result of raising women's wages by law. In New York State, for example, after a minimum wage was instituted in 1933 for female workers in laundries, employment expanded twice as fast as in neighboring Pennsylvania with no minimum wage, and there was no indication of displacement of women by men in that industry, for they continued to constitute 60 per cent of the employees in New York State laundries during the two years following introduction of the minimum.<sup>17</sup> Experience in California, Massachusetts, Ohio, Rhode Island,

<sup>16</sup> For a summary of the provisions of state hours laws, see *State and Federal Hours Limitations, A Summary*, Bulletin No. 116, Bureau of Labor Standards, U. S. Department of Labor, January 1, 1950.

<sup>17</sup> See Mary E. Pidgeon, *Women in the United States*, Bulletin No. 155, Women's Bureau, U. S. Department of Labor, 1937, p. 109, and also *The Effect of Minimum-Wage Determination in Service Industries*, Bulletin No. 166, Women's Bureau, 1938, pp. 23-32.

and other states has been much the same.<sup>18</sup> The evidence seems to indicate one or all of the following: the wage differentials existing before introduction of the wage minima were unjustified, minimum wages improved the efficiency of workers and management, and men are not a good substitute for women in the jobs affected by the wage minima.

When hours legislation for women was first enacted in the states, some manufacturers predicted industrial ruin and lower wages for the workers. The first effective state law regulating the hours of adult women occurred in 1879, when an amendment to the Massachusetts Ten Hours Law of 1874 made it really enforceable. An elaborate statistical study in 1880, covering the New England states and New York, showed "that Massachusetts with ten hours produces as much per man [worker] or per loom or per spindle, equal grades being considered, as other States with eleven and more hours; and also that wages [in Massachusetts] rule as high if not higher than in the States where the mills run longer time."<sup>19</sup> The consequence of that demonstration of the advantages of legal restrictions on work hours was the spread of such legislation to other states, with similar results.

Except in the case of minors, state hours laws have tended to become obsolete since the passage of the Fair Labor Standards Act in 1938, establishing a 40-hour week in October, 1940. That law has tended to establish a customary hours standard for that half of American industry, mostly intra-state, which is not covered by the Federal Act.

**Fair Labor Standards Act.** The original act was passed in 1938 at a special session of Congress in the midst of the 1937–38 recession. The circumstances under which the legislation developed influenced its aims and contents. Its basic philosophy was similar to that underlying the NRA codes of fair competition during the period 1933 to 1935, namely, to put a floor under wages in order to preserve and enhance workers' purchasing power and a ceiling to work hours in order to aid in absorbing the unemployed into industry.

The 1949 amendments of the Act confine its coverage to work "closely related and directly essential to the production of goods for interstate commerce." Many agricultural processing activities are exempt from the minimum-wage and overtime requirements of the legislation. At the time the 75-cents-per-hour minimum became effective on January 25, 1950, the amended minimum-wage provisions of the Act covered some 23 million workers, of whom one million were estimated to have had their wages raised by the increase in the statutory minimum.

<sup>18</sup> For a discussion of experience in other states, see the pamphlets mentioned in the preceding footnote and R. A. Lester, *Economics of Labor*, Macmillan, New York, 1941, pp. 334–35.

<sup>19</sup> Massachusetts Bureau of Statistics of Labor, *Twelfth Annual Report*, 1881, p. 457.

The original act had provided for a uniform minimum of 25 cents an hour during the first year, ending October, 1939, for a flat minimum of 30 cents an hour from October, 1939, to October, 1945, and a single minimum of 40 cents thereafter. However, in order that industries individually might reach a minimum of 40 cents an hour as soon as possible, provision was made for recommendations by tripartite industry committees. They were to aid in establishing the highest minimum up to 40 cents, which would "not substantially curtail employment in the industry." Account was to be taken of (a) "competitive conditions as affected by transportation, living, and production costs," (b) "wages established for work of like or comparable character by collective agreements," and (c) "wages paid for work of like or comparable character by employers" voluntarily. Under the industry-committee arrangement, reduction of the minimum was possible if "necessary in order to prevent substantial curtailment of employment in the industry."

World War II soon made the wage provisions of the Act obsolete, although some 70 industry committees were established and 18 of the first 30 making their recommendations between June, 1939, and June, 1941, proposed minimum rates under 40 cents an hour. The National War Labor Board exempted "substandard wages" from the maximum increases permitted under the "Little Steel" formula and allowed automatic approval of minimum rates up to 50 cents an hour in March, 1943, and up to 55 cents in May, 1945. In January, 1946, its successor, the Wage Stabilization Board, recognized a minimum of 65 cents an hour as "approvable."

The new minimum-wage provisions of the Fair Labor Standards Act simply establish a flat minimum of 75 cents an hour, effective beginning January 25, 1950. Unfortunately, the industry-committee arrangement is not continued except for Puerto Rico and the Virgin Islands, so that the amended law fails to provide flexibility and adjustments to meet changing conditions. The 75-cent minimum can be expected to be obsolete in a few years, necessitating further amendment of the law.

Since October, 1940, employment covered by the hours' clauses of the Fair Labor Standards Act has been subject to a nominal 40-hour week, with one and a half the employee's regular rate required as pay for all hours he works over 40 in any one week. The hours' provisions of the Act caused workers' weekly earnings to rise sharply when the actual workweek was generally increased to 48 hours in war production during World War II, and tended to decline correspondingly after the war with a return to the 40-hour week. The hours' provisions then were really not a deterrent to a long workweek (except perhaps in a few civilian industries) but a means for automatically raising average hourly earnings when the government was seeking to stabilize wages.

The amended Act sharply restricts child labor in covered employments. In interstate commerce or production of goods for interstate commerce, it prohibits the employment of children under 16 except by parents, and children between 16 and 18 years cannot work in occupations declared hazardous by the Wage-Hour Administrator.

**Public contracts laws.** The states and the federal government have laws requiring the payment of "prevailing" minimum rates on public projects or government contracts. For example, the Walsh-Healey Act of 1936 stipulates that prevailing minimum wages for particular industries as determined by the Secretary of Labor be paid on all federal contracts in excess of \$10,000 and that such contractors conform both to an eight-hour day and to a 40-hour week in calculating overtime. Thus, the hours restrictions are more severe and the minimum-wage determinations are generally higher under the Walsh-Healey Act than under the Fair Labor Standards Act, although most contractors of the federal government would come under both laws.

## THE ECONOMICS OF LABOR STANDARDS

In the past, dire predictions have been made concerning the consequences of legal standards for minimum wages, regular work hours, and child labor. Often businessmen have protested that new or higher labor standards by law would hinder them in competition with employers in other states or nations. In the nineteenth century in both this country and England, employers complained that legislation preventing child labor and reducing the working hours of women and children in factories would injure local industry in competition with firms in interstate and international trade. Experience soon proved such employers' prognostications wrong; output was not reduced and industry did not suffer. By preventing an irreparable loss from defective development and ill health, human resources were conserved for a more productive working life.

Why were the gloomy forecasts of business management regarding the consequences of legal labor standards so incorrect? Why have their fears proved to be largely unfounded? What factors did they overlook? What was wrong with their assumptions and their theories?

The preceding discussion has indicated the locus of some of the errors in their reasoning. They were shortsighted, neglecting the effects of such legislation upon the health and productivity of workers over an extended period of time. In stressing immediate money cost, they ignored the income side of wages and the effects of investment in human resources. The management-stimulating effects of labor legislation were also overlooked. As capital investment per worker increased, more and more emphasis was put on effective operation of costly equipment. That meant greater stress on employee training,

on responsible use of equipment, and on reduction in employee absenteeism, labor turnover, and defective output.

**Labor and industrial location.** Basic factors in the location of industry also were disregarded or misunderstood. Much of industry is "market bound." The service lines (such as laundry and dry cleaning, baking, retail trade, personal service, gas and electricity, telephone, newspapers, building, banking, and amusements) have to be carried on near the point of consumption. They cannot be shipped in ready-made. Some of the so-called basic industries are "materials bound" in the sense that they must be carried on where certain raw materials or natural resources are located. That is true of extractive industries like mining, logging and sawmilling, pulp and paper, farming, food canning, and some chemicals.

The location of "unbound" industry is influenced by a great many factors other than labor cost. They include: transportation facilities and costs, taxes, water and power availability and costs, the availability of certain types of labor, spatial limitations on management's effectiveness, style influences as in women's clothing, proximity to factories and trading exchanges linked to the industry, accessibility and nearness to selling markets, geographic pricing methods such as the freight allowed and basing-point systems, local costs of materials and fuel, and past investment in plant facilities. Inflated capitalization or uneconomic capital expenditures can be deflated by sale or bankruptcy without, however, reducing employment as ownership of the plant and equipment changes.

Much migration of industry is caused by such considerations as changes in transportation facilities and costs, the exhaustion of natural resources, developments in cheaper power, shifts in population, and changes in consumers' expenditures. Few people claim that it is economically undesirable to move industry and labor from areas made less advantageous by physical and technological change or shifts in population and tastes. But when industrial migration is said to result from improvements in labor standards, such as minimum-wage, hours, or child labor legislation, it is somehow assumed that the migration is economically and socially bad. Actually, labor as a whole gains by the migration of business to locations that prove most advantageous without any lowering of labor standards. A local subsidy to industry in the form of low labor standards may be similar to a local subsidy to business firms in the form of lower taxes, tax exemptions, or free plant sites and buildings contributed by local business and real-estate interests.

Certainly there is more justification for uniform state or national labor standards than there is for regional or national uniformity in the prices of products with a nationwide market. It has been said that such standards tend to curtail employment in low-wage areas and to maintain or expand it in

high-wage areas. From the point of view of the material well-being of the whole nation that is desirable, unless it can be demonstrated that any differential in money wages merely reflects corresponding differences in costs (not standards) of living or the extent to which workers prefer one area over others as a place in which to live. That price differentials can be more effective than wage differentials in bringing about economic adjustment is illustrated by the rubber tire and tube industry. Tires and tubes carrying the well-known brand names have a uniform price all over the country, yet the cost of production of tires and tubes in southern plants apparently has, on the average, been lower than in northern plants. The large companies reported in 1945 that wage rates for all comparable jobs were 20 to 30 per cent below the rates in their northern plants, yet some of the companies stated that labor efficiency and actual labor output in their southern plants equalled that in their northern plants.<sup>20</sup> Pricing on an f.o.b., plant-by-plant basis would, therefore, have been the competitive method of bringing about the expansion of production and employment in the rubber tire industry in the South. Uniform delivered prices, with the producer absorbing the varying freight charges to all destinations and with cost and profits calculated on a company-wide basis, may serve to confuse and conceal plant production-cost differences.

**State wage and hour standards.** Some migration of business and labor is, of course, a normal and necessary means of economic adjustment within a country. For reasons already explained, it is economically desirable when it is stimulated by the raising of labor standards to levels already attained by most areas within the nation. Minimum wages serve to stimulate efficiency and productivity, if not in the same firm or locality, then by transfer of the labor resources to other firms and localities. A state should not exploit the health and future well-being of its population by allowing children who should be in school to spend a long working day in factories.

In raising labor standards it is, of course, desirable to avoid too sharp an increase at any one time. Low-standard employers can make the necessary adjustments and improvements better under small, repeated advances in standards, and it is more economical to society if workers, without being subsidized, can remain employed in the same plants and localities. Furthermore, too great a change at any one time raises serious problems of enforcement, because effective enforcement of labor legislation is difficult with widespread employer opposition.

In discussing state labor standards, one should bear in mind certain differences between intra-national and international trade. In comparing two areas

<sup>20</sup> See the author's articles, "Diversity in North-South Wage Differentials and in Wage Rates within the South," *Southern Economic Journal*, Vol. XII (January, 1946), p. 240, and "Effectiveness of Factory Labor: South-North Comparisons," *Journal of Political Economy*, Vol. LIV (February, 1946), p. 66.

within a nation, businessmen and workers do not need to take account of exchange rates, price-level differences, monetary standards, or other differences in national policies, including national taxes. Within a country there is freedom of movement of capital, products, and labor to a degree that does not exist between countries. Between states, economic adjustments cannot be made through exchange rates or changes in the money supply and the price level; they must occur primarily through shifts of labor and business, motivated by the prospect of higher real wages, more employment, greater profits, or increased expansion of the business. Between nations, on the other hand, the migration of labor and even business capital has been extremely limited, and depreciation of exchange rates is a feasible means of cheapening one's products for foreign buyers.

Trade between nations involves different moneys and, therefore, inpayments and outpayments of a money will balance. That is not true between states within a nation which have a common money. If we provide dollars to foreign countries either by purchases of their products or by loans to them, they can only spend such dollars in this country by buying goods and services from us. On the other hand, if New Yorkers buy from Georgia producers, that does not necessarily mean that the money the Georgians receive must be spent in New York; it can be spent anywhere in the country, so that New York citizens' purchases from other states may not automatically increase their sales to other states. For such reasons, differences in labor standards between nations may be less serious competitive obstacles than between states.

**National labor standards.** The economic objection has been made against practically every proposal for national legislation to protect labor that it would injure the country's industry in competition with other countries not having such standards. It is assumed that independent national improvements in labor standards place a nation's industry at a disadvantage in international trade.

Economists, on the other hand, have long maintained that higher labor standards, taxes, rent, interest, or other costs do not prevent a country from exporting. A general overall change in money costs, the economists claim, will soon be counterbalanced by offsetting adjustments in the exchange value of the country's currency (if it is on an independent monetary standard) or through gold flows and changes in the country's money supply and price level (if it is on an international gold standard). In short, they insist that a country will not continue to suffer in international trade as a result of minimum-wage legislation or laws abolishing child labor or shortening working hours.

International trade is based on ratios of productive efficiency within a country compared with similar ratios for the rest of the world. It is comparative, not absolute, ability to produce various commodities that is significant, and that assures a country will have exports even though it is not especially

well adapted for the production of any commodity. Iceland has exported mutton and imported peaches, not because Iceland can produce mutton better than other countries but because, compared with the rest of the world, Iceland is the least inefficient in mutton and because Iceland can consequently obtain more peaches by selling mutton abroad and buying peaches with the proceeds than she could obtain by growing peaches in Iceland. As long as she continues to import, the mechanism of international adjustment (either changes in exchange rates or in relative national price levels) will assure a money cost to foreigners for some of her products sufficiently low for her to export.

There is no basis in international trade theory for a belief that a country will permanently injure its position in foreign trade if its citizens decide to forbid all child labor or if they prefer shorter working hours to an increase in material goods. Even should the nation's total output decrease because of such child labor or hours legislation, that would not cause its imports or its exports to cease. With, say, a 20 per cent reduction in output, a country would presumably have about the same ratio of exports to total production as before the legislative restrictions.

**The International Labor Organization.** The 1919 Treaty of Versailles, in a section on labor, provided for the establishment of an International Labor Organization. Until World War II it was an agency of the League of Nations; since 1946 it has been associated with the United Nations. Its purpose has been to encourage and facilitate the adoption of world-wide labor standards.

The procedure followed by the International Labor Organization rests on voluntary action by each nation. The 60 member nations (Russia is not one but Poland and Czechoslovakia are), each send four delegates to an annual conference—two government representatives, one representative of the country's employers, and one representative of labor. These annual conferences make recommendations and adopt "draft conventions," upon the approval of two-thirds of the delegates. The "draft conventions," which are really model drafts of laws, specify minimum standards with regard to child labor, hours of work, minimum-wage-fixing machinery, social insurance, unemployment, and similar subjects. By 1950, about 100 conventions and almost as many recommendations had been approved by ILO conferences, some applying to industry in general and others to particular industries, especially ocean transportation. Each member country is supposed to submit the conventions to its own law-making body for ratification or rejection. By 1950 this country had ratified only six conventions, all but one dealing with working conditions of seamen on ocean-going ships. Action is by the U. S. Senate under the Constitution's provisions for ratification of treaties by a two-thirds vote. Ratification has been hindered by our federal system, by a desire to preserve areas for

action by collective bargaining, and by a fear that ratification would injure a country in international trade. The Organization itself has, of course, no powers of enforcement.

The ILO has been an important instrument for world education and for peaceful discussion of common problems between nations. Its permanent staff makes valuable studies of labor conditions in various countries. Undoubtedly, its recommendations and conventions have helped to establish labor standards which public opinion tends to accept as desirable. Nevertheless, it has not been too successful in terms of bringing about national labor legislation in member countries, and it is based on a false conception of the economics of national labor standards.

Basic to the operations of ILO is the notion that parallel improvement in national labor standards is necessary if the industry of an advanced country is not to be placed at a disadvantage in competition with that of countries less advanced in labor standards. The Peace Treaty provisions establishing the ILO state that "the failure of any nation to adopt humane conditions of labor is an obstacle in the way of other nations which desire to improve conditions in their own countries."

Discussion of past experience and international-trade theory indicates the questionable character of the economic basis for the ILO. As its officials state, "experience appears to show that the countries with the most advanced labor legislation are by no means the least successful in competition for world markets."<sup>21</sup> Yet for purposes of ILO operations, the doctrine of economic injury in international trade from improved labor standards has been fully accepted.

The discussions in the annual conferences and the statements of ILO officials do not make clear whether all conventions—those eliminating child labor or protecting workers against loss from work accidents and sickness as well as those to reduce the hours of work—are supposed to place a country adopting them at a disadvantage in international trade. With regard to "the regulation of minimum wages as an international problem," the chief of the Organization's statistical section wrote: "The payment of exceptionally low wages is among the typical cases alluded to in the Peace Treaty in which other countries are prevented from making progress in the improvement of their working conditions by the fact that one country fails to give its workers reasonable conditions of work."<sup>22</sup>

It has been against draft conventions for general reductions in working hours that the employer delegates have used the argument of international competition most extensively. The first draft convention, adopted in 1919,

<sup>21</sup> *The International Labour Organization, The First Decade*, Preface by Albert Thomas, George Allen and Unwin, London, 1931, p. 30.

<sup>22</sup> Karl Pribram, "The Regulation of Minimum Wages as an International Problem," *International Labour Review*, Vol. XVII (March, 1928), p. 319.

provided for the eight-hour day and the 48-hour week in all industry, with time and a quarter for overtime. During the following two decades, 23 countries ratified that convention, but four of them made their ratification conditional upon similar ratification by their leading competitors. Many countries gave as their chief reason for not ratifying the fear of competition of countries which did not adopt the convention. With regard to the draft convention of a 40-hour workweek adopted by the 1935 conference, the employer delegates charged that it would be "economic suicide" for any country to ratify that convention, because the country would "be cut out of the market at once" and its national economy would "suffer fatal injury."<sup>23</sup>

Past directors of the ILO have maintained that "the reforms adopted in the more advanced countries had to be protected against unfair competition by other countries which perhaps might not scruple to exploit their workers to the utmost for the sake of commercial advantage."<sup>24</sup> Such statements lend support to the charge that the ILO is a means whereby rich, prosperous, and advanced countries can impose "on poor and backward states burdens that prevent them from competing in international markets."<sup>25</sup> They also support employer arguments, such as that of the U. S. Chamber of Commerce, that the Fair Labor Standards Act of 1938 "would handicap domestic producers of goods competing generally with imports."<sup>26</sup>

With such questionable arguments used so freely by officials of the ILO and employer delegates to its annual conferences, one would expect that the Organization's staff would at least have made a thorough analysis of the alleged "burdens" or "handicaps" of national labor standards. Unfortunately that has not been done. A good cause is not furthered by erroneous arguments. The incorrect assumptions on which it rests only hamper the effectiveness of the International Labor Organization.

<sup>23</sup> See *Record of Proceedings, International Labour Conference, Eighteenth Session, 1934*, p. 43; *Nineteenth Session, 1935*, p. 183; and *Twenty-Fourth Session, 1938*, p. 627.

<sup>24</sup> Albert Thomas in the Preface to *The International Labour Organization, The First Decade*, p. 11. See also Harold Butler, "Introduction," *Annals of the American Academy of Political and Social Science*, Vol. CLXVI (March, 1933), p. 3; and *Report of the Director, International Labour Office, 1938*, p. 51.

<sup>25</sup> Ernest Mahaim, "The Principles of International Labor Legislation," *Annals of the Academy of Political and Social Science*, Vol. CLXVI (March, 1933), p. 14.

<sup>26</sup> *Hours-and-Wages Legislation, Report of Special Committee, Chamber of Commerce of the United States, August, 1937*, p. 5.

## **CHAPTER TWENTY**

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### **WAGE POLICY, FULL EMPLOYMENT, AND ECONOMIC MOBILIZATION**

The nature of business cycles and the uncertain relationships between wage rates and employment were discussed in Chapter 5. The problem of unemployment, it was pointed out, is not as simple as commodity-market reasoning from the particular to the general would seem to indicate. Involved are all the factors that affect total money spending, so that a monetary approach needs to be adopted in tackling the problem of depression unemployment and public policy with respect to high-level employment.

In this chapter that discussion is carried forward and focused on some specific problems of public policy. They are: national wage policy and business cycles, collective bargaining and price inflation, wage stabilization in a military economy, and manpower problems in economic mobilization. The chapters on union policy, collective bargaining, and labor legislation provide a realistic basis for analysis, particularly of wage-price issues in a full-employment economy.

#### **NATIONAL WAGE POLICY AND BUSINESS CYCLES**

The notion of a national wage policy implies a deliberate wage objective or objectives and a conscious effort to influence wages accordingly. In peacetime, that effort may take the form of advice and attempts at persuasion. In emergencies, more deliberate control or coercion is possible. In any event, a central planning or control agency is assumed.

**Wages and stability of investment.** As indicated in Chapter 5, the major unstabilizing factors in our economy have been expenditures for business and personal investment in plant and equipment, business inventories, housing, automobiles, and other durable consumer goods. Expenditures for such items are postponable and can, therefore, vary widely and somewhat independently. Business inventories often have the greatest variability during short periods of time. Because they are deferrable and subject to bunching up, investment expenditures are influenced by business expectations. The longer the life of

the capital good, the more expenditures for it depend on long-range forecasts of product demand, prices, and profit possibilities.

Can wage policy make private investment more stable? Can it aid in achieving a goal of narrow fluctuations around an expanding trend? Wage policy can influence private investment through consumption expenditures, the volume of savings, and business and consumer expectations with respect to such items as price, sales, and profits.

Whether a general wage increase will stimulate or discourage investment depends on the conditions postulated and the factors one emphasizes. Wages are both costs and incomes. Costs are obstacles to output, whereas income spending encourages more output and employment. By stressing wages as income, one can prove that a general wage increase will expand consumer purchases and, hence, private investment in inventory and capital equipment for the production of consumer goods. The reasoning is as follows: The basis of investment is expected consumer demand. Payrolls not only represent the largest element in consumer demand but also money wages are generally spent more rapidly than income in the form of interest, rent, and profits, and that is especially true in business slumps when investment outlets are scarce. Consequently, any shift of funds to wages from profits or corporation balances will help to reduce idle savings, increase spending by consumers, make management more optimistic about future markets and prices, and thus stimulate business investment.

Emphasis on wages as costs can, on the other hand, lead to the opposite conclusion. Higher wage rates will encourage managers to seek to save on labor in order to keep payrolls from rising. If payrolls increase, they will do so at the expense of profits and the liquid resources of the companies or of higher prices. The profits and holdings of cash and securities lost might otherwise have been used for investment in inventory and equipment. Reduced profit margins tend to discourage future investment and make outside financing more difficult. Higher prices resulting from higher costs tend to discourage consumer buying unless prices are expected to rise higher, which is not likely if investment is discouraged.

Obviously, one's conclusions concerning the investment effects of general changes in the wage level depend on his assumptions. Answers will differ with the phase of the business cycle, with the postulated effects of the wage change on price and sales expectations, and with assumptions concerning the relationship of prices and wages and the objectives of business management. Are business managers influenced primarily by maximum profits or by sales and market position? Are price changes based primarily on wage-rate changes or on money spending and other factors? A study of the financial records of eight firms in four industries indicates that during the 1930's it apparently was more

usual for price changes to bring about wage changes than for wage changes to induce price changes and that then the wage policies of companies were influenced to a considerable degree by their financial position.<sup>1</sup> Often the effects of wage-level changes upon investment and employment will depend upon monetary policy and the readiness of the banks to expand their credit by making loans and security purchases. A rise in wage rates requires more money spending to carry on the same volume of transactions, whereas a decline in wage rates frees some money for other uses, if it is not accompanied by a reduction in the money supply.

So many factors affect investment that wage changes are not likely to be a major consideration. Among the more important factors influencing investment in plant and equipment are: the rate of technological change making existing equipment obsolete, depreciation practices and the dates of necessary replacement, shifts in demand between industries and products, population changes, interest rates for borrowed funds to expand capital outlays, and the existence of idle capacity.<sup>2</sup> Business inventories are likely to be influenced primarily by expected levels of price and demand.

Post-war periods are especially subject to cycles or waves in investment. Postponement of capital expenditures in civilian lines during the war, wartime curtailments of production of consumer durables, and post-war restoration of civilian inventories, cause a bunching up of demands—the catching-up demand added to the normal demand. Such concentrated investment makes it almost impossible to prevent some subsequent decline in investment expenditures, and may even result in a bunching of later demand for replacement of the new post-war equipment and facilities when they wear out.

Selective wage decreases in capital-goods industries, particularly building construction, are sometimes favored as a means of stimulating investment. Whether a relative wage reduction in the construction and machinery-making industries would stimulate demand much during a business downswing is, however, doubtful. Wages in such industries are but perhaps one-quarter of total costs, so that a reduction of 4 per cent in wages is required for every 1 per cent reduction in total costs. And wage cuts could only be accomplished in such well-unionized industries at the cost of a considerable amount of industrial strife.

<sup>1</sup> See *Industrial Wage Rates, Labor Costs, and Price Policies*, Monograph No. 5, Temporary National Economic Committee, Washington, 1940, pp. x, xi, xvii, xxiii, and xxiv.

<sup>2</sup> Four corporation presidents state: "The man in the operating end of business cannot but be convinced that the demand for fresh capital is correlated primarily with increases in effective demand for products. He builds additions to his plants or starts new projects in response to demand or, more rarely, in anticipation of it. When he cannot anticipate an effective demand no interest rate is low enough ordinarily to affect him." See H. S. Dennison *et al.*, *Toward Full Employment*, McGraw-Hill, New York, 1938, p. 192.

Wage policy is a poor instrument for attempting to stabilize investment. Both those who stress wages at costs and those who emphasize the “purchasing power” aspects claim too much for wage-level changes as a counter-cyclical device. Furthermore, economic analysis is not yet competent to explain the complex and uncertain relationships between wage-rate changes and investment. Main reliance for anti-cyclical action must be placed on such means as monetary and fiscal (federal tax-expenditure) policy.

**Wage policy and high-level employment.** Although not well adapted for control of investment, wage policy can be a significant element contributing to general stability in the economy. Under collective agreements, wage scales are fixed for a period of time, often for a whole industry. Such wage-fixing serves as a brake on wage-level changes during both the upswing and the downswing of the business cycle.

By providing an element of stability and certainty, wage agreements may help to restrain extreme fluctuations in prices, sales, and even investment. Business management has some security of expectations, which facilitates future planning. Assurance of wage stability tends to restrain cumulative expansion and contraction of sales. Declines in investment and consumption are less likely to be accelerated or intensified by an expectation of repeated reductions in wages and prices, which tends to cause postponement of purchases and a deflationary spiral until the bottom has been reached.

If wage stability helps to limit cyclical swings in business, it would presumably be desirable for the wage level to be fairly stable during business contraction and to rise at a moderate rate during periods of business expansion. Whether such a policy is possible depends to a considerable extent on movements in the level of prices, especially of food and clothing which constitute the bulk of the wage-earner's budget. The prices of agricultural products, both food and raw materials for clothing, are particularly sensitive to changes in demand and are, therefore, considerably affected by swings in the business cycle. They tend to rise rapidly in the early stages of an upswing. The rate at which workers' living costs rise during such a period is likely to have a significant bearing on union demands and the rate of increase in negotiated wage scales.

Under the Employment Act of 1946, the federal government has “the continuing policy and responsibility” of helping to assure “useful employment opportunities” and “maximum employment, production, and purchasing power.” The Council of Economic Advisers, which serves as the chief agency for achieving the objectives of the Act, has assumed that “a proper balance among prices, wages, and profits” will contribute greatly to “the maintenance of high levels of consumption and investment.” The chairman of the Council

has even asserted that "the major stabilizing or unstabilizing factors are the wage-profit relationships of the enterprise system."<sup>3</sup> On such an assumption, the Council has, at times, sought to encourage selective wage-rate increases and price decreases as a means of increasing consumer purchasing power and, thereby, changing the relation of consumption to savings. The ineffective instruments it has used have been chiefly gratuitous advice, exhortation, and conferences with representatives of management, labor, and agriculture.

Economists have been skeptical both of the Council's standards of decision in wage-price matters and the effectiveness of its program of free advice and education.<sup>4</sup> Unfortunately the Council has operated on an *ad hoc* basis, without explaining the standards of judgment it uses or what wage-price-profit relationships it considers most conducive to economic stability. Some economists point out that economic analysis is not yet capable of translating aggregative relationships into standards applicable to particular situations, so that one could determine the appropriate wage-price action at any one time in a dynamic economy. Involved would be difficult problems of economic forecasting, with a multiplicity of possible reactions obscuring the outcome. And even assuming agreement on the appropriate line of action, doubt exists that the Council could, by means of exhortation and conferences with key figures, induce management, labor, and agricultural groups to subordinate their short-run interests and objectives to the Council's conception of the common interest. Certainly the Council's pleas to business and labor to be moderate in raising prices and wages from 1946 to 1949 were practically ignored.

Careful students of the problem have concluded that no conceivable behavior of prices and wages would eliminate business cycles and that it is practically impossible to specify, except within broad limits and with various qualifications, the desirable balance between prices and costs.<sup>5</sup> That does not mean that correct wage-price behavior (if we could discover what it is) might not help to reduce cyclical swings and to maintain high-level employment. Because wage determination under collective agreements covers a significant period of time, wage-price adjustments can probably be more conducive to long-term than to short-period stability.<sup>6</sup>

Any workable wage policy would have to take account of the institutional

<sup>3</sup> Leon Keyserling, "Must We Have Another Depression?", *New York Times, Magazine Section*, June 8, 1947, p. 55.

<sup>4</sup> See, for example, Edward S. Mason, "Some Reflections on the Wage-Price Problem," *Proceedings of the First Annual Meeting, Industrial Relations Research Association*, December 29–30, 1948, pp. 22–34; and John T. Dunlop, "Discussion," *ibid.*, pp. 51–54. The discussion in this paragraph draws on Professor Mason's paper and also the author's article, "Truman Economics—1950 Model," *New Republic*, Vol. CXXII (January 23, 1950), pp. 11–13.

<sup>5</sup> See, for example, J. M. Clark, "Financing High-Level Employment" in *Financing American Prosperity; A Symposium of Economists* (Paul T. Homan and Fritz Machlup, eds.), Twentieth Century Fund, New York, 1945, pp. 101–102, and Clark's *Guideposts in Time of Change*, Harper, New York, 1949, pp. 164–72.

<sup>6</sup> See Dunlop, *op. cit.*

elements and organizational interests in our economy. And it would be faced with the fact that business management has repeatedly demonstrated its ability to protect profit margins against wage costs during prosperous periods. Generally it would only be during depressed business conditions—an unfortunate period of time—that increases in wages at the expense of profits would be possible.<sup>7</sup>

## COLLECTIVE BARGAINING AND PRICE INFLATION

As unionism has spread and gained in strength, it is alleged that collective bargaining determines the price level and gives our economy an inflationary bias. Only by confining general wage increases to productivity increases, it is said, can unions avoid contributing to an upward wage-price spiral.

**Negotiated wages in a full-employment economy.** Under collective bargaining, the terms of employment are influenced by economic strength. Full employment affords a favorable bargaining environment for unions because employer resistance to wage increases is weakened; firms can pass wage increases on to consumers in price increases without fear of pricing themselves out of the market. The contention is, therefore, that a stable price level is impossible with collective bargaining under full employment. We are, it is claimed, faced with three alternatives: either collective bargaining must be subjected to central controls, which means the abandonment of the traditional freedom to bargain; or full employment must be abandoned so that unions, instead of enjoying a sellers' market, have their demands checked by unemployment and strong employer resistance; or a stable price level must be abandoned as collective bargaining pushes wages and prices upward. In other words, it is assumed that, in full employment, negotiated wage increases will continually exceed productivity gains.

Are the alternatives that sharply defined? Is free collective bargaining inconsistent with full employment at a stable price level? Must union freedom be restricted and union structure be changed in order to rid the economy of an inflationary bias? Is unionism the crux of the problem?

Full employment is loaded with inflationary pressures and dangers. That would be true in the absence of collective bargaining. In all price inflations, monetary factors have been the main generating force, and wages have tended to lag behind prices, particularly in the early stages of the upward spiral. Has unionism changed this pattern? Do negotiated wage increases force the banks and monetary authorities to expand credit—to make more loans and investments by writing up checking accounts? Does collective bargaining force wages up, with prices following after?

<sup>7</sup> See George Terborgh, "An Analysis of the Nathan Report entitled 'A National Wage Policy for 1947,'" *Machinery and Allied Products Institute Bulletin*, No. 1965, December 19, 1946, pp. 8-9.

Answers to such questions are not easy and may vary with the circumstances. Generally in the past, wages have not been a major inflationary factor, and collective agreements have been a stabilizing element. Often wages would have risen even more rapidly under non-union conditions, where the restrictions of agreements on wage increases are absent. The contrary impression arises from the more spectacular character of the wage changes that do occur through negotiations. That was particularly true during the period from 1945 to 1949 when the country experienced three so-called rounds of wage increases. That period was complicated by the withdrawal of wartime price controls, the elimination of overtime hours, and the more speedy spending of an excessive money supply which drove up prices, especially for food.<sup>8</sup>

With collective bargaining, some factors tend to increase wage rates faster, and some to restrain them more, than would be the case without negotiated wages. The prices of farm products become a pivotal factor under collective bargaining. If business and monetary forces cause agricultural prices to rise, union wage demands are likely to increase correspondingly in order to maintain the real income of wage-earners. Another factor that tends to raise union demands is union rivalry in pattern-setting and leadership in the labor movement. On the other hand, collective bargaining develops restraints and counter-vailing forces. Greater influence can be exerted by public opinion and the government, especially with intervention in a dispute. Multiple-employer bargaining not only tends to increase the bargaining strength of employers but also the averaging of a wider unit reduces the possibility of bottleneck or strategic groups of employees or managements setting in motion wage increases that would spread rapidly to other groups.<sup>9</sup> As has been the case, for example, in men's clothing and full-fashioned hosiery, national bargaining develops union responsibility and moderation. Contrary opinion rests on an erroneous conception of unions as calculating monopolies seeking to maximize the money income of members and national bargaining as constituting a form of bilateral monopoly.

Denial that unions operate strictly on monopoly principles does not, however, mean that reliance can be placed on the reasonableness and self-restraint of unions to avoid inflationary wage increases.<sup>10</sup> If prices are rising,

<sup>8</sup> For a good analysis of the inflationary factors in that period, see W. A. Morton, "Trade Unionism, Full Employment and Inflation," *American Economic Review*, Vol. XL (March, 1950), pp. 13-39.

<sup>9</sup> See John T. Dunlop, "Wage-Price Relations at High Level Employment," *American Economic Review*, Vol. XXXVII (May, 1947, Supplement), pp. 250-51.

<sup>10</sup> In its *Annual Economic Review of January, 1950*, the Council of Economic Advisers writes: "In the first place, increasing study of what constitutes sound wage policy should bring larger conformity to it, because basically both management and labor are propelled by the desire to pursue a reasonable course." See *The Economic Report of the President Transmitted to Congress, January 6, 1950*, p. 101. For similar expressions of reliance on union self-restraint, see Sir William Beveridge, *Full Employment in a Free Society*, Norton, New York, 1944, p. 200; Eugene Forsey, "Trade Union Policy under Full Employment" in *Insights into Labor Issues*

unions cannot be expected to follow a sacrificial wage policy, with labor leaders inducing the members to accept some reduction in real wages in order to help restrict price increases. Nor would such a policy of self-denial be likely to prevail, as some writers seem to believe, if responsibility for wage decisions were taken out of the hands of national unions and concentrated in a national labor federation, which would be a revolutionary change in union authority and functions.

Although a broader base for decisions would tend to broaden the considerations influencing bargaining negotiations, union leaders cannot be expected to assume obligations that really rest with the monetary authorities. Unions cannot, through bargaining, control or determine the money supply or governmental fiscal policy, which are perhaps the most important influences on the price level and undoubtedly the two price-level determinants most subject to national control. Possibly negotiated wage increases may make the problem of maintaining a stable price level under full employment more difficult for the monetary fiscal authorities, but so may many other factors such as administered prices, agricultural price supports, and federal debt and lending policies. Basic causes of price inflation and responsibilities for its control should not, however, be confused with economic adjustments to increased spending. Before labor organization became so widespread, "profiteers" (business men) were mistakenly accused of causing price inflation.

**Wage-level changes and productivity.** The Council of Economic Advisers and other economists have proposed as a wage principle that money wages generally increase with gains in physical productivity for the economy as a whole.<sup>11</sup> In other words, overall productivity developments would provide the norm around which wage changes in individual concerns or industries would cluster. With widely divergent rates of growth in particular industries, wage and price movements in different lines of business would vary considerably, but the average wage increase would correspond to the average improvement in productivity, so that the level of prices would remain fairly stable.

Enunciation of such a policy raises numerous questions. Presumably it would govern basic wage rates plus the monetary value of supplementary benefits. But for what time span should it operate—a year or a decade? Should it apply to all employment as a unit or to branches such as manufacturing separately? How rigid should the linkage be? Should it serve to force wage decreases with general decreases in physical productivity? Should the principle apply regardless of the factors responsible for productivity changes? How

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(R. A. Lester and J. Shister, eds.), Macmillan, New York, 1948, pp. 317–20 and 328; and the references in Orme W. Phelps, "Collective Bargaining, Keynesian Model," *American Economic Review*, Vol. XXXVIII (September, 1948), pp. 591–95.

<sup>11</sup> See *The Economic Report of the President Transmitted to the Congress*, January 6, 1950, p. 101.

is it supposed to operate in specific cases? How could unions be induced to confine their wage gains to an average of 2 to 3 per cent a year?

The advantages of taking productivity gains in the form of increased income rather than falling prices are rather obvious. In that way, the productive factors receive the reward and debt burdens are reduced in terms of incomes. Increasing wage income has beneficial psychological effects on worker attitudes. As explained in Chapter 9, employees resist attempts to cut piece rates or to tighten production standards with improvements that increase output per worker. Wage increases with productivity advances permit adjustments that help iron out inequities in the wage structure without the necessity of reducing wage rates or earnings. And, if wage-rate increases averaged no more than the overall increase in productivity, unions could not be charged with giving the economy an inflationary bias.

Unfortunately, average productivity is not a satisfactory criterion for wage increases.<sup>12</sup> The factors influencing prices and wages differ from those governing productivity. Monetary and market conditions, for example, directly influence prices and wages but may not change output per man-hour. Often wage increases are stimulated by cost-of-living increases, yet productivity in agriculture will vary with the weather, and wages are but a small fraction of farming costs. Full employment may bring about significant price and wage rises, accompanied by inefficiency in operations, so that money wages and worker productivity move in opposite directions. Output per payroll-hour is affected by such factors as technological advance, managerial improvements, quality and availability of materials, product mix, and the percentage of rated capacity at which industry operates (the production volume over which overhead is spread), all of which may have little direct bearing on money wage scales. Man-hour output in manufacturing shows marked upward and downward changes from year to year. Consequently, wage rates and productivity may and should often diverge from year to year or during various stages of the business cycle.

The proposal to link the wage level to overall productivity changes neglects important considerations and would involve numerous practical difficulties. Some neglected factors have already been mentioned, namely, cost of living and conditions in product markets. Others include profits or the ability to pay, non-union competition, rival unionism and leadership, and maturity of relations. How could the parties in tens of thousands of individual negotiations each year be induced to govern wage settlements by crude estimates of productivity, which are subject to all sorts of qualifications and revisions and are

<sup>12</sup> The remainder of this subsection draws heavily on two articles: Clark Kerr, "The Short-Run Behavior of Physical Productivity and Average Hourly Earnings," and John C. Davis and Thomas K. Hitch, "Wages and Productivity," both appearing in *Review of Economics and Statistics*, Vol. XXXI (November, 1949), pp. 292-311.

not available for the current year? Not only that, but negotiated wage scales usually apply during the next year, so that a productivity guide would require forecasting the change in output per man-hour a year ahead.

Although overall productivity has shortcomings as the only criterion for increases in the level of wages, it is an important consideration. As such, allowance can be made for it in negotiated agreements. As explained in Chapter 12, an "annual improvement factor" is included, along with a cost-of-living escalator clause, in both the 1948 and 1950 agreements between General Motors Corporation and the UAW (CIO).

### WAGE STABILIZATION IN A MILITARY ECONOMY

A basic knowledge and understanding of unions, labor relations, wages, and jobs in our kind of economy are essential for the proper handling of the labor problems of economic mobilization. Lessons were learned in World War II with respect to wage stabilization and manpower allocation that can be applied in any future mobilization or semi-mobilization of the economy.

**Organization.** The National War Labor Board had a tripartite form of organization—four public members, four industry members, and four labor members.<sup>13</sup> For the settlement of labor disputes in wartime, the tripartite arrangement has many advantages. It affords labor, the group on whom wage ceilings are being placed, an opportunity for full participation. Participation is an important element in acceptance and support. That helps to explain why, despite complaints and rank-and-file resistance, union leaders accepted wage stabilization and why the Board was relatively immune from political attack. The labor and industry members had a chance to express their point of view in the Board, and any political attack on the Board would have meant a direct assault on them.

Unions make all kinds of demands. An agreement is not merely a wage-fixing contract. Many cases came to the Board or its regional boards and its industry commissions with one, two, and three dozen different issues. Some of those demands were for bargaining purposes and some to save face or satisfy special groups. Often the real difficulty that lies behind the demand is concealed. Industry and, especially, labor members of a board can aid in weighing the relative merits and importance of particular demands, in revealing the real significance of issues, and in indicating the kind of settlement that

<sup>13</sup> For an official history of the Board, see *The Termination Report of the National War Labor Board, Industrial Disputes and Wage Stabilization in Wartime, January 12, 1942–December 31, 1945*, 3 vols., 1947. For an informal treatment of the Board's experience, see Dexter M. Keezer, "Observations on the Operations of the National War Labor Board," *American Economic Review*, Vol. XXXVI (June, 1946), pp. 233–57. For an analysis of various aspects of the wage-stabilization and labor-disputes experience, see *Problems and Policies of Dispute Settlement and Wage Stabilization during World War II*, Bulletin No. 1009, Bureau of Labor Statistics, U.S. Department of Labor, undated but published in January, 1951.

would be acceptable. Acceptable, workable solutions are necessary because the daily relations of the parties in the plant are governed by the agreement.<sup>14</sup>

The tripartite arrangement worked better in the *ad hoc* panels in the field than it did in Washington where the positions of the labor and industry members of the Board tended to become crystallized. Industry and labor panel members frequently considered themselves public agents seeking to solve problems within the framework of wage-stabilization policies. The author was chairman of three-man panels in the South, which had the industry and labor members supporting the opposite party's position on particular issues and which, when the whole agreement was in dispute, drafted and unanimously approved a new one.

Wage and price controls should be coordinated but handled differently. As costs, wages affect prices, although, as already observed, the relationship is not so direct and rigid as is sometimes assumed. The price authorities have the problem of maintaining balance in the structure of prices and costs. But the differences between the terms of collective agreements and prices are too great to have them handled by the same personnel or to subordinate one to the other. Under union conditions, wages are negotiated, along with the many other provisions of the agreement. A considerable degree of substitution exists between the different parts of agreements. Some changes in agreements are costless to the firm, some may be cost-saving, and others are cost-increasing, but to what extent may depend on administration of the change and reaction to it. Price administrators are not generally qualified for and interested in passing on the detailed provisions of labor agreements.

The problems of wartime controls bring out clearly the contrasts between wages and prices, jobs and materials, labor relations and commodity transactions that have been emphasized throughout this book. The price or wage aspect of labor cannot be isolated from other aspects of the job. If a labor dispute arises, it may involve various parts of the agreement, and usually the wage dimension cannot or should not be separated out for discrete treatment. A tripartite board is undoubtedly the best arrangement for wage controls, but certainly not for price controls. Piecemeal wage control makes no sense, but price control and allocations or rationing can be on a selective basis, confined to certain commodities or stages of production. Indeed, wage control can exist without price control, or price control without wage control. The necessity for either type of control or both types largely depends on the extent to which expenditures on military items are financed by taxation.

Emergency controls should be operated under an emergency agency rather than be scattered among the regular federal departments. Distribution of price, wage, materials, and employment controls among the regular departments

<sup>14</sup> See Keezer, *op. cit.*, p. 242, for a discussion of these advantages of the tripartite set-up.

would prevent proper integration of price and wage controls and materials and manpower programming. Furthermore, it would hamper the recruitment of qualified personnel and create a suspicion of permanency. High-quality personnel from outside the government is not interested in a regular government job under the regular government hierarchy. A War Labor Board under the Secretary of Labor would suffer in prestige and be handicapped in its operations. The U. S. Department of Labor has considered labor its main support and has sought to avoid offending union leaders, so that management would question its impartiality in labor-management disputes. Furthermore, both business and labor would fear that emergency powers in the hands of the regular bureaucracy would continue after the emergency had passed, whereas an emergency agency has every incentive to cease operations as soon as possible.

**Standards.** The principles on which wage stabilization should operate are difficult to determine in advance. Much depends on what happens to items that influence negotiated wages, such as the cost of living, labor scarcities, profits, and taxes. Production of war materials requires a changed distribution of the labor force. Wages may be a significant factor in helping to bring about a better allocation of labor resources for war production purposes, but frequently they are not the most important factor. Items like the kind of supervision, physical conditions on the job, transportation facilities, social atmosphere on the job, and patriotic appeal may be more influential. Much may depend on the inter-industry and inter-occupation structure of wages in the period selected as the base or standard for judging allowable increases. During World War II, for example, it was necessary to permit extra wage increases for special groups, like foundry labor, whose wages had become relatively depressed in the 1930's but whose services were vital "to meet the critical needs of war production."

Under wage stabilization it may be necessary to nullify the wage provisions of some collective agreements. If total civilian production declines, the real standard of living of the labor force may drop even with a longer workweek. Despite increased output per man-hour, it might then be necessary to prevent automatic wage increases under an "annual improvement factor" such as that in the five-year General Motors agreement. It would also be necessary to suspend the provisions of agreements requiring special rates of pay for work on Saturday and Sunday as such, regardless of the hours worked from Monday through Friday. Otherwise, with a longer workweek, employees have an incentive to concentrate absenteeism on the first five days of the week. Indeed, a host of problems arise with respect to just the wage provisions of an agreement when government controls are attempted.

Under wage controls, the federal government itself supervises the wage

structure. It has to decide what alleged wage "inequities" should be corrected and how, whether traditional differentials should be maintained or modified, whether wages should be altered for purposes of stimulating manpower changes and increased productivity, and what should be done about "fringe issues" such as shift differentials, vacation and holiday pay, travel time and meal periods, reporting pay, and pay for union stewards while working on grievances during regular hours. With respect to wage matters alone, not to mention the other provisions of an agreement that may come to a War Labor Board for settlement, the government administrator soon appreciates the desirability of handling labor problems by negotiations and private settlement by the parties directly concerned. As labor arbitrators are well aware, each case is somewhat different, and acceptable standards for settlement are difficult to discover.

Because voluntary settlements are restricted by emergency controls and one or both parties may hope to gain more through a War Labor Board decision than through negotiation, collective bargaining is discouraged and the Board soon becomes swamped with all kinds of cases and issues, for which it lacks the knowledge, facilities, and time properly to decide. Wage control and settlement of labor disputes by a War Labor Board or its affiliated units would, presumably, mean disregard of the "emergency disputes" provisions of the Taft-Hartley Act and subjection of the "emergency board" recommendations under the Railway Labor Act to wage-stabilization controls. On that score one can hope for more skillful handling than occurred last time, as explained in Chapter 12.

### **MANPOWER PROBLEMS IN ECONOMIC MOBILIZATION**

Partial or complete mobilization of the manpower of a country for military programs involves problems of labor allocation and use. First, some division of manpower must be made between military service and civilian labor, not just in terms of numbers but ages, sex, qualities, skills, etc. Second, for civilian service, labor must be recruited, transferred, trained, and used most effectively. War production requires more skilled labor, and different kinds and degrees of skill, than peacetime output. Consequently, the task is to eliminate labor shortages and surpluses, to add new recruits to the labor force, to develop shift schedules and optimum hours of work, to prevent the wastes of discrimination, and to work out means for more effective utilization at workers' maximum skills.

The remarks in the preceding section about administration by an emergency agency apply here too. The old-line agencies often lack the proper approach to emergency problems. A centralized employment service should be the backbone of any civilian manpower program. In peacetime the various state

services, as explained in Chapter 3, handle less than one-fifth of all placements. To meet the greater tasks of mobilization, state barriers need to be broken down by federalizing the services, accompanied by a raising of sights and salaries and a readjustment of procedures, practices, and personnel. As another example, the U. S. Department of Labor thinks of training in terms of apprenticeship, whereas what is needed with increased war production is on-the-job training in one part of a journeyman's job and supervisory training, which the Labor Department has never adopted as its function for obvious reasons.

**Coordination with production controls.** Planning for materials should be coordinated with planning for manpower. Manpower placement, employment ceilings, and restrictions on hiring skilled labor should conform with materials priorities, allocations, and production curtailment orders. The placement of contracts and the location of new plants should take account of available manpower and community facilities. Separation of the War Manpower Commission from the War Production Board in the last war was a serious mistake.<sup>15</sup>

Centralization of all controls and purchasing not only facilitates planning and coordination of operations but aids in securing compliance and avoids resort to forced labor. The manpower directives to a firm can be tied to the purchase order, the materials allocated to it, and even War Labor Board directives. Selective Service can also be used as an indirect sanction. Use of directives and pressure for conformance on the employing units eliminates a need for compulsory transfer of labor and compulsory labor service.

**Avoidance of worker compulsions.** Our economic system is based on the principle that voluntary labor is more effective than forced labor. We depend upon incentives, persuasion, willing cooperation, and disciplinary action by management. In mobilization, main reliance should continue to be placed on the regular methods of stimulating and transferring labor. Those means can be supplemented by governmental indication of areas of need, patriotic appeals, use of civilian work as a criterion in drafting persons for the armed forces, and displacement of labor from less essential work by materials controls, production curtailment orders, and employment ceilings on business concerns.

Compulsory labor is dissatisfied and inefficient labor. Talk of forcing labor into essential industries or freezing workers on jobs would tend to discourage entrance into such industries or occupations and, above all, to dry up the greatest source of emergency manpower, namely, recruitment from outside the labor force. Another large source of manpower supply is increased working

<sup>15</sup> For a discussion of manpower programs in World War II, see John J. Corson, *Manpower for Victory, Total Mobilization for Total War*, Farrar and Rinehart, New York, 1943.

hours, which would be less effective under compulsion. Even talk of national service creates uncertainty and wasteful labor turnover. Compulsory transfer would raise a host of difficult problems—adequate housing and community facilities, cost of moving, protection of seniority rights, treatment of absenteeism and discipline of forced labor, comparative exposure to risk of atomic attack in the new and old job, preservation of benefit rights and comparative benefit levels, and so forth. All those problems can either be worked out locally or avoided, where labor transfers are voluntary, where they occur in the normal way with shifts in available employment. Ordering people to work for another concern in business for a profit is likely to create all kinds of problems, resistance, and discontent.

The drafting of men into the armed forces is a form of compulsory service for the government. As such, the selection must be performed in ways that the community considers fair. The local draft boards serve that purpose. During World War II, however, Selective Service was not sufficiently discriminating in drafting people from critical occupations into the armed forces, where frequently their skills were not used and were unrecoverable for civilian operations. In an atomic age, reservation of occupations that require scarce skills and long training is particularly necessary. Local draft boards cannot be expected to operate on the basis of technical judgments of skills and national needs for them, but a technical screening body should so operate at a higher level upon appeal by the employer.

In mobilizing manpower for military service and war production, the differences between men and materials must be recognized. Morale is a great asset both at the fighting front and on the production front.

## **PART IV**

### **CONCLUDING COMMENTS**



## **CHAPTER TWENTY-ONE**

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### **INDUSTRIAL RELATIONS IN A CHANGING WORLD**

It is our lot to live in a period of history dominated by a world-wide clash of two economic and political philosophies—Communist dictatorship and enterprise democracy. Any study of industrial relations in America should be placed in that broad setting. We need to ask ourselves how industrial relations policies, both private and public, influence that struggle and, in turn, are influenced by it.

This closing chapter seeks to give proper perspective to our labor problems. First, it restates some of the basic ideas of the book. Second, the conservative and revolutionary potentialities of organized labor are considered. Finally, an attempt is made, from an industrial relations viewpoint, to assess the alternatives and the prospects.

#### **TOWARD A PHILOSOPHY OF INDUSTRIAL RELATIONS**

Views on industrial relations questions are influenced by one's experience, temperament, interests, and general philosophy of life. The issues are too human and complex for categorical answers. Study can help one to avoid one-sided opinions, shortsighted policies, and errors in reasoning. Knowing that one cannot always reason from self-interest to the social good may, however, not make that person any less selfish or more social-minded. He may simply pursue his purposes more intelligently.

Although the limitations to education as a solution to industrial relations problems need to be recognized, knowledge can help to reduce the area of misunderstanding, disagreement, and emotional contention. Correct appraisal is the first step toward sound answers. That is why so much emphasis has been placed in this book on analysis and understanding. Persons may differ in their ultimate conclusions, but not on the basic elements upon which a philosophy of industrial relations must rest—at least for our kind of political and economic system.

The underlying ideas upon which a philosophy of industrial relations must

be founded have been stressed throughout this volume. Some of the more basic concepts may be summarized as follows:

1. Labor and management have different goals and place different stress on social values, such as security and individual incentives. At times their interests and aims conflict. Labor looks at jobs from the workers' viewpoint and experience; management views them from the vantage point of its objectives and its authority to administer the business. Because employee welfare is not the primary purpose of company operations, management can no more represent the workers than they could represent the management. Consequently, "enlightened" management does not eliminate the need for worker representation in large firms. Collective bargaining is one means by which the parties can explain to one another their problems and viewpoints, so that settlements satisfactory to both groups may be developed.

2. Jobs have significant psychological and sociological dimensions as well as economic aspects. They involve expectations, ethical notions, and a set of special customs or mores. Consequently, employment is not like the purchase of potatoes, securities, or machine tools. Concepts and conclusions developed from commodity and security markets cannot be applied without serious qualification to the field of industrial relations.

3. The market mechanism does not solve, or fails to solve satisfactorily, many of the problems of industrial relations. Hence non-market means, such as collective bargaining and labor legislation, are needed to work out answers. For reasons stated under 1 above, complete reliance cannot be placed on unilateral management decisions.

4. Unions and corporations are complex organizations, with an institutional and political life of their own. It is a mistake to assume that they act on purely economic motives. Much of their behavior is to be explained by social psychology rather than by the principles of economic calculation and maximization. The leaders of corporations and unions may compete with one another for influence, prestige, and functions.

5. Our economic system is based on willing consent and cooperation. Consequently, persuasion and incentives play a vital role. Our political system rests on the democratic process. Union activities and collective bargaining provide training in discussion, analysis, problem-solving, and majority rule, which are helpful for the development of efficiency in government as well as in the economy.

6. Industrial relations involve attempts to arrive at workable compromises and balances between conflicting objectives and values—between incentive and economic security, between discipline and industrial democracy, between authority and freedom, between bargaining and cooperation. In a dynamic economy and society, changes are constantly occurring in the balance between

self-interest, group interests, and the interest of the whole community. There is no final and correct balance, no scientific formula, no cure-all for problems of industrial relations. Solutions must be tailored to meet the particular situation, and, consequently, will vary with the historical, social, and economic circumstances. That helps to explain why the industrial relations practitioner and those who formulate public policy in this area need the insights to be gained from all the social sciences.

In a free society, people put forth their best efforts when they are given recognition and are treated like human beings. Hence one element in a philosophy of industrial relations for a democracy must be the dignity and development of the individual as a person. That means freedom from domination, regimentation, or arbitrary authority, whether exercised by business management, union officials, or government functionaries. As explained below, big-scale industry and unionism constitute a threat to individualism and political democracy.

### ORGANIZED LABOR AND THE AMERICAN WAY

Unions have both conservative and innovating aspects. As agencies seeking to alter the distribution of rights and privileges more to labor's advantage, they promote change. As agencies for negotiating agreements, they help to preserve the capitalistic system.

**Conservative aspects.** The American labor movement has been pragmatic and anti-intellectual. It has never accepted socialism, Communism, or any other radical program. In the past, revolutionary unionists like the Industrial Workers of the World (the IWW early in this century) and the Communists, have not openly controlled a significant segment of organized labor in America. The expulsion of Communist-dominated groups from the CIO in 1949 and 1950 was simply another of the series of purges of left-wing elements from the core of the American labor movement. It was reflected in the international sphere by the founding of the anti-Communist International Confederation of Free Unions, to which both the AFL and CIO belong.

Unions can function as the freely chosen representatives of workers only in a free-enterprise economy. Normal collective bargaining assumes private enterprise. Only under capitalism can the free negotiation of labor agreements exist. Organized labor cannot bargain with the government; public employees do not really enjoy the right to strike.<sup>1</sup> Consequently, unions have a real stake in democratic capitalism. They are among the first organizations to be controlled or crushed under Fascism or Communism.

By facilitating non-radical adjustments, unions help to preserve the system of private ownership of the means of production. The industrial revolution,

<sup>1</sup> See Sterling Spero, *Government as Employer*, Remsen Press, New York, 1948.

giving rise to mass production and urban living, has tended to depersonalize employment and to dwarf the individual. Competition and business fluctuations force management to introduce technological changes that make skills obsolete, to speed up operations, and to lay off workers. Unions help to cushion the harsh effects of progress on workers. Protecting their interests as producers, unions aid in working out compromises that reduce labor tensions and the need for more radical alternatives.

In a civilization of large-scale industry and mass living, unions provide workers with a sense of security, participation, and belonging. Thus, they help to satisfy psychological, social, and even ethical needs. By helping to meet the aspirations for human dignity and developing private means for mutual assistance, they contribute to the democratic way of life.

American unionism has done much to combat Marxism and Communism, which aim their appeal at the "workers of the world." In the world-wide competition of Communism and enterprise democracy for men's minds and loyalties, American unions demonstrate to workers everywhere the advantages of liberty and the American way of life. Our union leaders have been in the forefront of foreign-aid activities to reduce the Communist threat abroad.

**Transforming aspects.** The development of large aggregations of labor power, like the concentration of control in business and agriculture, constitutes a threat to the American way of life. Big Business, Big Labor, and Big Agriculture enjoy common origins, obey related compulsions, and tend to reinforce each other. Bigness threatens democratic government more than it does the efficient functioning of the economy. Even large-scale strikes are more of a political than an economic menace.

Although bigness is not just an industrial relations problem, it does have significant labor implications. Corporations are really combinations of capitalists who bargain collectively through the corporate organization. The significance of their collective strength is indicated by the fact that 200 industrial corporations control almost half of all the nation's industrial assets and employ about as many workers as the 200 national unions have members. And such large firms, along with smaller ones, are federated nationally in the National Association of Manufacturers and the U. S. Chamber of Commerce. On the labor side, half a dozen national unions each have from 600,000 to a million or more members. As explained in Chapter 7, large unions tend to dominate the AFL and the CIO.

From the point of view of the membership and of society, the large union has some of the disadvantages of the big firm. Large units facilitate centralization of control and power in small groups. They discourage individualism, and, in the case of labor organizations, make it more difficult to maintain rank-and-file interest and democratic participation in union affairs. Unions,

and also corporations, have tended to expand their operations to include the educational, recreational, beneficial, political, and social life of the members. Too great a concentration of the different aspects of a man's life in one organization constitutes a totalitarian threat to democracy.<sup>2</sup>

To function successfully, democracy needs diversity and pluralism—diffusion of power and responsibility among a multitude of organizations and interests. All-absorbing unionism, like company domination of community life or paternalistic programs, is repugnant to the democratic process. Pressures to expand the scope of union activities are understandable, especially when a union is insecure; but when a union leader like John L. Lewis boasts that the United Mine Workers, with a membership of 800,000, includes not only coal miners but also workers in "approximately some 115 other industries,"<sup>3</sup> the question naturally arises whether, from a public point of view, that is not perhaps 115 industries too many. Fortunately, Mr. Lewis does not control the thoughts and votes of members of the union, as election results have repeatedly demonstrated.

The struggle for influence and authority is a never-ending one. In a democracy, private organizations are subject to a variety of checks that compel them to compromise and accept the demands of the general public. Excessive power in the hands of any group tends to develop counterbalancing forces and curbs. It is the genius of democracy that ideas and programs are not carried to logical extremes. Some writers place faith in our ability, through public discussion, the development of accepted standards, and the use of governmental suggestions supported by a climate of opinion, to influence the key decisions made by Big Business, Big Labor, and Big Agriculture. Increase in size makes the organizations more vulnerable to public opinion and to governmental intervention.

Faith in the ultimate influence of social pressures and education should not blind one to more immediate dangers. A nationwide strike on the railroads or in coal or steel creates a real national emergency. The more tense the international situation, the sooner the federal government must intervene to stop a threatened paralysis, or partial paralysis, of the economy. In the absence of a hot or cold war, perhaps no more than half a dozen industries could, by a general work stoppage, create a national emergency within a few weeks. However, the number that might do so increases as our economy becomes more and more specialized and interdependent. As explained in Chapter 17, the executive branch of government must have sufficient emergency powers to

<sup>2</sup> For a discussion of this issue by a union official, see Will Herberg, "For 'Limited' as against 'Total' Unionism," *Labor and Nation*, Vol. I (April-May, 1946), pp. 51-54.

<sup>3</sup> *Labor Relations Program, Hearings on S. 55 and S. J. Res. 22 before the Committee on Labor and Public Welfare, U. S. Senate, 80th Congress, 1st session, Part IV, March, 1947, p. 1984.*

cope with such situations. Democratic governments need not be impotent in strike situations, even though they rest on the just consent of the governed.

**Theory of the labor movement.** In 1928, Professor Selig Perlman published an economic interpretation of American trade unionism, which was based on the manual worker's consciousness of job scarcity and the union objective of controlling job opportunities for its members.<sup>4</sup> He explained, with acute insight, the pragmatic philosophy of contemporary craft unionism, with its distrust of political action and radical reform.

The American labor movement of the 1950's cannot, however, be explained alone by a job-conscious interpretation. Any theory of the labor movement in the middle of the twentieth century must interpret labor's new role in the nation and the community and include political, psychological, and sociological, as well as economic, factors. It must account for the policies and leadership of the Automobile Workers, the International Ladies' Garment Workers, and the CIO as well as those of the Bricklayers, the Printers, and the AFL.

The policies of organized labor and its attitude toward government have changed considerably since 1928. Both the AFL and the CIO profess to prefer unemployment, old-age, and health protection by legislative action rather than by collective bargaining. Industrial unionism and full employment have reduced the relative significance of restrictive practices in the labor movement. A fivefold increase in union membership in two decades has multiplied organized labor's power and expanded the scope of its activities. It may be premature to join Professor Sumner H. Slichter in terming ours a "laboristic economy,"<sup>5</sup> but there can be no doubt of the expanding political and social influence of organized labor and, at the same time, the greater influence of government and public opinion on labor policies. Increased size and responsibility have tended to broaden horizons. With the changed balance of power between organized labor, management, and agriculture, conflicts have sharpened. On the cost of living issue, organized labor clashes with the politically powerful farm bloc, which insists on favored price treatment and a government dole for agriculture in good times as well as during slumps.

The behavior of organized labor and particularly its leadership must be explained in terms of the individual and group psychology of manual workers, influenced by the economic, political, and social environment. And a theory of the labor movement, on the basis of such factors as workers' desires for security, decent treatment, social approval, and a rising standard of living, ought to be able to predict the kinds of adjustments to a changing world that the labor movement in America will make. There can be little doubt that during the next decade the Communist threat to our existence as a free people

<sup>4</sup> *A Theory of the Labor Movement*, Macmillan, New York, 1928.

<sup>5</sup> *The American Economy: Its Problems and Prospects*, Knopf, New York, 1948, pp. 7 ff.

and the way we meet that threat will vitally affect the policies and programs of American labor. Its leaders have been and will be forced to take account of such factors as foreign aid, wage-price policy, inflation, and equality of sacrifice.

Despite the importance of foreign affairs and government controls during this period of world struggle, collective bargaining will undoubtedly continue to be the central core of trade unionism in this country. As long as our standard of living improves and widespread unemployment is avoided, the bulk of American labor is likely to evidence little interest in socialism, Communism, an Industry Council Plan, or even an independent labor party. Organized labor will continue to place primary reliance upon the negotiation and administration of collective agreements, upon economic strength and means. That does not, however, preclude considerable and increasing stress by labor upon government action in areas where the market mechanism proves deficient.

### ALTERNATIVES AND PROSPECTS

During recent decades, government intervention in industrial relations has been increasing. Continuation of that tendency means more and more federal regulation and decision in labor affairs. Any one who has studied negotiations, agreements, and grievances appreciates how desirable it is to preserve a considerable area of industrial relations for decision by the parties. Both labor and industrial leaders strongly favor self-determination of the rules that govern their daily relations, for, as a former president and chairman of the National Association of Manufacturers stated in 1949, "Either this nation must make collective bargaining work or we embark on the road to statism."<sup>6</sup>

Theoretically we can choose from among a number of alternatives: (1) return to unilateral employer determination by eliminating collective bargaining, (2) subdivide large unions and companies into smaller independent units, (3) rely on and improve collective bargaining, and (4) place more reliance on governmental determination of the terms and conditions of employment, including restrictions on the right to strike. Alternatives 1 and 2, however, are not politically feasible, except possibly for legislation limiting the number of different industries in which a single union or a single company could operate.<sup>7</sup> As a practical matter, the choice is between 3 and 4, not in terms of one or the other, but rather the extent of private determination and the kind and degree of government regulation and control.

The extent to which industrial relations can and will be kept in private

<sup>6</sup> Ira Mosher in a statement before the presidential Steel Fact-Finding Board, reported in a news release of the National Association of Manufacturers, August 18, 1949.

<sup>7</sup> The practical problems of defining an industry, deciding the applicable limits in each instance, carrying the case through the courts, and enforcing independence, are not discussed here because no proposal of that type has been seriously considered. Such a regulation would presumably have to be applied to both unions and companies with even-handed impartiality.

hands depends on the success of the parties in settling their problems by that method and the course of world affairs and economic conditions. In our type of economy, the three great promoters of government intervention and centralized control are war, severe economic depression, and marked price inflation. In the immediate future industrial relations will be influenced considerably by international relations and by the extent of economic mobilization. Much will, however, still depend on the skill with which the parties work out their own solutions. In the long run, that is the determining factor.