

Article

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The New Industrial Relations in the US

Phase II

Jack Barbash

The author examines phase II of the new industrial relations in the United States, the labor strategy of American management on the offensive.

The New Industrial Relations (NIR) is the labor strategy of American management on the offensive. The hard essence of the strategy is the slashing of labor costs and the recasting of the industrial relations structures which support high labor costs.

Phase I, which began in the early 1980's, was the strategy of business in crisis. Chrysler bordering on insolvency was the preeminent Phase I case. But now NIR is no longer transitory, as many had thought during Phase I — and that is the point of this paper.

The strand which runs through both Phase I and II is the «union-free doctrine» or the expendability of the union, if that is what it takes to achieve NIR's ends. In the half-century previous to NIR, management took the union as given in two senses: If unionized, overt antiunionism was inexpedient. If nonunion, the union bargains formed, in Ross's phrase, a necessary «orbit of coercive comparison»¹. Under NIR the union-free conception has moved above ground and become «rational».

NIR is fundamentally an economic phenomenon reenforced at the margin by ideology. The economics of NIR are rooted in critical changes in market structure which put an end to the long western cycle of growth. But

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¹ Arthur M. ROSS, *Trade Union Wage Policy*, Berkeley, Univ. of Calif. Press, 1948, p. 53.

an historic antipathy to the union principle has brought management to NIR somewhat sooner and somewhat more aggressively than the economic constraints seemed to require.

In the pre-1930's American business believed that unions were morally wrong and only incidentally uneconomical. American management now concedes the legitimacy of equity in employment of the kind that the union asserts. But management believes that it can perform the equity function at lower cost and without the union's intrusive presence. If management does its job right, the argument runs, there is no need for a union.

By way of comparison, Western European management is no less preoccupied with efficient performance. But for Western Europe unions are a source of stability, considering the likely alternatives. European management seems to be willing to pay a premium to confine industrial conflict to the collective bargaining table and the parliament and out of the streets.

ECONOMIC LOGIC

The economic logic underlying NIR starts with adverse market conditions brought to a head by a great recession marked by record unemployment and a deteriorating union bargaining position.

The market forces which brought American management to NIR are well known by now. They need only be listed here to make the point that labor costs are only one element in the American competitive predicament, and not necessarily the most important.

The market sources of NIR are: (1) the internationalization of markets, with auto and steel as the textbook cases; (2) the deregulation of markets, with air transport as the textbook case but at work also in telecommunications and trucking; (3) corporate restructuring via mergers, acquisitions, divestitures, leveraged buyouts and Chapter 11 bankruptcies — «ideal types» include Wilson Meatpacking and Continental Airlines for bankruptcy, AT&T for divestiture, Frank Lorenzo for airline mergers; (4) deunionization caused by large and unyielding cost disparities between union and nonunion situations — the prime cases here are meatpacking, retail trade, contract construction and coal mining; and finally (5) management miscalculation: General Motors «bet on rising gasoline prices and continued fuel shortages» and «put its money on smaller cars. Instead it got lower gasoline prices and a surge in consumer demand for large automobiles»².

² «General Motors: What Went Wrong», *Business Week*, March 16, 1987, p. 103.

Structural deficiencies also need only to be listed: the sluggish stall of economic growth, productivity, entrepreneurship and investment, a decade (or so) of unyielding inflation and the destabilizing effects of disinflation, overrepresentation of the baby-boom young in the labor force and many say an impairment of the work ethic. Peter Drucker questions whether «the cost of government» is not really the villain of the piece now³.

RADICAL LABOR MARKET STRATEGIES

Radical changes in the industrial environment are likely to generate radical labor market strategies. By radical change I mean fundamental, thoroughgoing and long-term change. American management justifies its radicalism as a necessary part of the larger ordeal of survival to preserve market position against the competition and to preserve power position against corporate raiders. «Corporate survival cannot be taken for granted, ... [it] must now be the chief executive's overriding concern», says one CEO⁴. The historic analogy is with the radical changes of the 1930's ushered in by Roosevelt and industrial unionism.

NIR's radicalism lies in the *scale* of change, as in large wage cuts, plant shutdowns and in mass unemployment in the Great Recession — selective afterward. But quantity becomes quality when the heavy burdens of change fall mainly on northeast and middle-west manufacturing and when industrial relations structures are fundamentally recast. On the political front, radical change toward the right brings *de facto* amendment of labor laws by administrative rule, staff retrenchment, weak enforcement and administrators unsympathetic to the laws they administer.

FLEXIBILITY

NIR's central task has been, in the words of a financial analyst, to «rationalize... noncompetitive labor costs with a vengeance»⁵. Indeed, NIR's rationalizations have brought a whole new vocabulary into being.

NIR's ruling maxim is flexibility. (The term is more common to Western Europe, but the theory and practice operate for the U.S. as well.) Flexibility means making labor costs more responsive to market uncertainties.

³ «Rise and Fall of the Blue Collar Worker», *The Wall Street Journal*, May 22, 1987, p. 32.

⁴ Steven PROKESCH, «Remaking the American CEO», *The New York Times*, Jan. 25, 1987, p. F-1.

⁵ Gary SCHILLING, *The Wall Street Journal*, March 6, 1984.

Flexibility clashes with the union doctrine of wages as a fixed cost «immuniz[ing] workers' incomes and the security of their families against adverse effects from fluctuations in the volume of business»⁶. Its effect is to replace wages as a fixed cost with a system of compensation more heavily weighted toward variability and results. Flexibility also reorients the employment relationship. Financial participation like profit sharing, stock ownership and lump-sum bonuses in lieu of periodic wage increases do introduce more variability in compensation costs. But these forms are also expected to alter the employee psychology from wage earner to risk taker. Similarly, quality circles and «autonomous work groups» types of operative participation are meant to reorient the wage earner from adversary to problem-solver and collaborator. There is division in the ranks as to whether this is good for unions or not.

Flexibility has led to fragmentation of the employment relationship; fragmentation in turn has led to the two-tier work force — «inside employees [who] still enjoy benefits, perquisites and a degree of job security, [and] new 'outside' workers [who] have an uncertain tenure». Eli Ginzberg distinguishes between «'core and peripheral employment systems'»⁷.

«Disposable» part-time, temporary and homeworkers are replacing some part of the fulltime workforce⁸. «Hollow corporations» assemble and distribute components or entire products made abroad⁹. The «floating factory» — a series of small modules located in different places — «contract[s] out flexible portions of a constantly changing transportable whole»¹⁰.

The current «layoff frenzy» is another manifestation of fragmentation. White-collar, technical and professional and managerial employees with expectations of lifetime careers are being «demassed», «restructured», «streamlined» and «downsized» out of jobs and left to the mercies of «outplacement»¹¹.

Fragmentation extends to retirement. «Companies are... renegeing on promises of benefits to retirees, and asking those who remain to finance more of their retirement out of their own pockets»¹². The worst case here is

6 United Automobile Workers, *Special Convention*, 1967, Collective Bargaining Resolution, p. 10.

7 Amanda BENNETT, «Growing Small», *The Wall Street Journal*, May 4, 1987, p. 1.

8 «The Disposable Employee Is Becoming a Fact of Life», *Business Week*, Dec. 15, 1986, p. 2.

9 «IBM Is Leading the Way», *Business Week*, June 16, 1986, p. 122.

10 Steven PROKESCH, *op. cit.*, p. F-8.

11 Michael SCHRAGE, «Nationwide Layoff Frenzy Swamps Outplacement Firms», *The Sacramento Bee*, Jan. 18, 1987, p. D-2.

12 «The Shrinking Nest Egg», *Business Week*, Dec. 8, 1986, p. 114.

represented by the bankruptcy of LTV Steel Corp. which dumped its pension obligations on the Pension Guarantee Corp., thereby threatening PGC itself with insolvency¹³. Drawing off «excess» pension reserves raises the legal question of who really owns these «excess assets»¹⁴.

Fragmentation facilitates flexibility by allowing management to expand and contract the workforce almost at will, unencumbered by contract impediments of income and job guarantees, seniority and bumping, separation allowances, fixed job descriptions and overhead fringe benefits. The aim eventually is to achieve a just-in-time workforce comparable to the «just-in-time inventory» just sufficient to meet the current demands¹⁵.

UNION FREE STRATEGY

Flexibility and fragmentation add up to an exercise in circumventing the equity burden associated with unions and collective bargaining¹⁶. The union as the main guarantor of equity protection necessarily becomes the target of a «coherent, articulated strategy of union avoidance»¹⁷.

Union membership as a proportion of the labor force has been in long-run decline because the union-prone industries are in decline. In the management view, unions cost too much and interfere too much. Over a long period management has dramatically increased «the amount and sophistication of legal and illegal company actions designed to forestall the organization of workers»¹⁸.

The carrot side of union avoidance is union substitution. Management's union substitution recognizes the need for equity in the workplace but without a union. Management buys out, so to speak, union-proneness by «human resources management» (HRM). HRM «bypass[es] the union and deal[s] directly with the worker and his needs»¹⁹. Rather than confront the union head on HRM strikes at the breeding grounds of union proneness.

¹³ Lindsey GRUSON, «LTV Retirees Protest Pension Share», *The New York Times*, Feb. 27, 1987, p. 19.

¹⁴ Labor Letter, *The Wall Street Journal*, March 31, 1987, p. 1.

¹⁵ Amanda BENNETT, *op. cit.*, p. 14.

¹⁶ See Jack BARBASH, «Equity as Function» in *Essays in Comparative Industrial Relations*, Columbia, S.C., Univ. of So. Carolina Press (forthcoming).

¹⁷ Thomas KOCHAN and Michael PIORE, «Industrial Relations in Transition», *Challenge and Choice Facing American Labor*, Cambridge, MIT Press, 1985, p. 3.

¹⁸ Richard B. FREEMAN and James MEDOFF, *What Do Unions Do*, New York, Basic Books, 1984, p. 22.

¹⁹ Randolph M. HALE, «The New Industrial Relations in a Global Economy», *Proceedings, IRR Spring Meeting*, Atlanta, 1986 (mimeo), p. 7.

On the money side HRM «compete[s] with the compensation and benefits existing in collective bargaining». On the human side, management looks to «the design of the organization and the workplace, the leadership performance of superiors and the involvement of individuals and small groups of workers in workplace problems and decisions» to bring about a fair, agreeable and participatory work environment²⁰.

Union substitution could be the single most important cause of the historic union lag among white-collar employees. Even in its time of travail IBM considers «'full employment' [is] fundamental to the way [it] does business»²¹. IBM's «resource balancing» exhausts every other mode of retrenchment before it lays off people, because otherwise «IBM's prized trust between management and labor» would be destroyed²².

Union avoidance works to keep the union from getting in, to begin with. Union substitution has management performing the equity function instead of a union. Union attrition weakens the union as an institution by denying it its lifeblood of «more» — whether more money or more power. Concession bargaining, therefore, not only turns more into less but, just as important, the union comes off as a loser to its existing and potential adherents.

Other concessions go directly to union power. Fewer job classifications weaken union job control. Profit sharing and stock ownership dilute wage-earnings. Quality circles and their like enhance small group motivation at the expense of the larger solidarity. These changes may be necessary for the overall good and welfare but likely at potential cost to the union bond.

RADICAL RESULTS

Radical means and radical ends lead to radical results. Since 1980, each year has set a new record low for wage increases. Employment cost increases in the private sector and in state and local government have slowed to their lowest point since the statistics started in the 1960's. Union membership has declined by about 3.1 million between 1980 and 1985 at a time when wage and salary employment increased by 7 million. Union density has been thereby lowered to 18% in 1985.

²⁰ *Ibid.*, p. 17.

²¹ John MARCOM, Jr. and Dennis KNEAL, «IBM 'Battle Plan' Points to Longer Term», *The Wall Street Journal*, July 18, 1986, p. 4.

²² «IBM's Fancy Footwork to Sidestep Layoffs», *Business Week*, July 7, 1986, pp. 54-55.

At the micro level the unions in auto, steel, airlines, meatpacking, retail trade, lumber, apparel, textiles and telephones have been rocked by bargaining and membership reverses. Textiles has lost 17% of its workforce, primary metals 30% and steel 40%. The steel industry's union membership has declined from 313,000 (1980) to 151,000 currently²³. The auto workers have lost 400,000 members since their high of 1.5 million members in the late '70's²⁴. Frank Lorenzo's Continental Airlines has cut its wage bill in half and its employees from 11,000 to 6,000 between 1983 and 1986²⁵. U.S. Steel has slashed its union workforce by 48%²⁶. The major airlines lowered labor costs from 30-40% to 20-30% of total costs²⁷. GM's plans to contract its salaried workforce by 25%²⁸. The most recent CWA contract allows AT&T to hire an all purpose technician «at 40% less than the skilled rate of \$15.75 per hour»²⁹.

NIR — A «PERMANENT REVOLUTION»

Is NIR just a transient phenomenon, or is it a «permanent revolution»? At this moment circumstances have to favor the latter. To begin with, after seven years NIR is still in full cry with no end in sight. Fifty-four months, as of now, includes the cycle's expansion phase — when, the theory says, union bargaining power should be at its height.

Nor is this the end of the union predicament. Indicators point to «continuing difficulties»³⁰. Wage adjustments for 1986 are the lowest «since the series began in 1968»³¹. Unions and managements resort to work stoppages «sparingly»³². But a 1986 pickup in strikes suggests mounting rank-and-file protest at a time when management shows few signs of relaxing its commitment to NIR. «More companies... will try to stay open when workers strike», according to a management consultant's survey³³.

23 «Are America's Manufacturers Finally Back on the Map?» *Business Week*, Nov. 17, 1986, p. 92; see also Janet L. NORWOOD, *The Future of Employment*, U.S. Dept. of Labor, Bureau of Labor Statistics, 86-416, Oct. 18, 1980.

24 John HOLUSHA, «Auto Industry Woes Set Tone for Contract Talks», *The New York Times*, Apr. 12, 1987, p. 10.

25 «Continental Is Soaring Out of Chapter 11», *Business Week*, July 7, 1986, p. 32.

26 «Bad Blood at Big Steel», *Business Week*, May 19, 1986, p. 82.

27 Kirsten R. WEBER, «Changing Union Structure and the Changing Structure of Unionization in the Post-Regulation Airline Industry», MIT, Dec., 1986 (mimeo), p. 3.

28 «Reality Has Hit GM Hard», *Business Week*, Nov. 24, 1986, p. 37.

29 «ATT's Hard Bargain», *Business Week*, June 30, 1986, p. 37.

30 Alfred MALABRE, Jr., «The Outlook», *The Wall Street Journal*, May 4, 1987, p. 1.

31 U.S. Dept. of Labor, Bureau of Labor Statistics, *Major Collective Bargaining Settlements in 1986*, Jan. 27, 1987, p. 1.

32 George RUBEN, «Labor-Management Scene in 1986», *Monthly Labor Review*, January 1987, p. 37.

33 «On Strike, In Business», *The New York Times*, Apr. 5, 1987, p. B-1.

There is no let-up either in the negotiation of such retrograde terms as (1) two-tier wages (more lump-sum bonuses and two-tier wage plans have been installed in the last five years than in the prior twenty years)³⁴, (2) the reinstatement of employee sharing of health costs and (3) the devolution toward company-by-company or «even plant-by-plant» bargaining³⁵.

Arguing further for NIR as a permanent revolution is management's continued and systematic reorganization of compensation and employment to arrest future labor cost increases. As detailed earlier, subcontracting, outsourcing and corporate restructuring create a part-time «peripheral» workforce at several removes from the «home» enterprise. Much of this workforce is overseas and nonunion. The sovereign objective is to achieve freedom from fixed obligations, from income and employment guarantees and, most of all, from accountability to a union. Recourse to Chapter 11 bankruptcies allows a business to do all these things without having to export production.

Fragmentation of the employment relationship need not always be anti-union in intent. Perhaps the most fateful development in NIR is the corporate mass layoffs of their nonunion, middle-class salariat, heretofore immune from the insecurities of wage employment and the main beneficiary of union substitution and management equity.

Add power realignments to the processes at work in the new industrial relations: realignments (a) in the union status of American business, (b) in power relationships *within* the trade union movement and (c) in the relationship of the state to industrial relations.

The union-free strategy has become an active management option even among companies with long-established bargaining relationships. The attenuation of pattern bargaining of the big industrial unions devolves power back to the locals. The loss of membership weakens the industrial union position in the internal councils of the labor movement where they are being supplanted by the public sector union leadership.

For a half-century the state has underwritten union power. Indeed, union power is so characteristically fragile that it can hardly endure in the face of determined opposition without support from the state as a matter of public policy. And in the United States it hasn't mattered too much whether the state is in Democratic or Republican hands. Eisenhower's James Mitchell, Nixon's George Shultz and Ford's John Dunlop were not all that conspicuously different from Kennedy's Arthur Goldberg, Johnson's Willard Wirtz and Carter's Ray Marshall.

³⁴ «Non-Traditional Reward Systems Growing», *Madison (Wisc.) Capital Times* (LA Times News Service), Apr. 16, 1987, p. 4.

³⁵ George RUBEN, *op. cit.*, p. 38.

But under Reagan's Raymond Donovan the U.S. Department of Labor took on an antiunion face. So has President Reagan's labor policy which, as much as anything, emboldened American business to carry on NIR with assurance that it would not be undercut by an unsympathetic administration. This could be the most significant realignment of all, and this is why political action tops the union counter-strategy.

THE FUTURE

What of the future? The forces that brought NIR into being, to begin with — internationalization, deregulation, deunionization of markets and the restructuring of American business — show few signs of abating. This fact, if it is one, is for me the most persuasive reason why NIR will not go away in the middle-run future.

But a reversal of field in the immediate future can't be ruled out altogether. A decisive defeat of a Republican presidential candidate in 1988 is not impossible. Indeed, at this moment, the odds seem to favor it. The repudiation of Reaganism at the polls could inspire the battle — weary unions with new purpose, much as Roosevelt's election triggered the labor revolution of the 1930's and thereafter. A Republican defeat could even turn business away from its present course.

Mass layoffs of middle-class employees could signal «the end of corporate loyalty», as *Business Week* (Sept. 4, 1986) titled a cover article not long ago. Now that management's strategy of union substitution and equity are proving too costly, might not the «salarial» reassess the worth of a union in a new light? The historical analogue is with the industrial union assault on big industry's militant open shop in the 1930's. The 1930's were fueled by disillusionment with big business and the hope that Roosevelt would usher in a new day³⁶. Are the same ingredients for a sea-change in the making now?

On balance, to repeat, the odds seem to favor more of NIR. Nonetheless, the specter of Prof. George Barnett's prophecy has to haunt all industrial relations prophets. Barnett, you will remember, in his 1932 presidential address to the American Economic Association, allowed as how American trade unionism was unlikely to «revolutionize itself within a short period of time so as to become in the next decade a more potent influence...»³⁷. Three months later FDR took office and did, in fact, set off a labor revolution which, more than a half-century later, has yet to be fully digested.

³⁶ «A Backlash Against Business Building», *Business Week*, Apr. 6, 1987, p. 49.

³⁷ «American Trade Unionism and Social Insurance», *American Economic Review*, March 1933, p. 6.

To state my own preferences, if they haven't already been revealed: I wouldn't mind too much suffering Barnett's fate of having my prophecy over-turned. Trade unionism should not be allowed to go out with a «whimper». Even people who don't care for unions in their daily lives ought to understand that we have no record of a democracy prospering and surviving without a free labor movement. Free unionism is as essential to the democratic order as are a parliament and a congress. It is no accident that the first thing left and right totalitarians do when they get into power is to emasculate the unions.

It is not a matter of whether this or that union is good or bad in individual cases. What we are talking about here is the indispensability of the union as function in the employment relationship. Freedom in modern society is a matter of a balance of power among the «social partners» and the state, and *within* the social partnership between the unions and management. I think this is the uncontradicted history of our times and we had better heed it.

In the most fundamental terms then: The new industrial relations may signal the decline of the old industrial relations as the method of mediating or buying out resistance to efficiency. The old industrial relations was a product of the power equilibrium between labor and business based fundamentally on near-full employment. With the waning of full employment and no likely reinstatement in the near future management no longer needs to pay for employee acquiescence if it can get it for nothing by threatening unemployment, all of which may be seen as the denial of industrial relations. But unemployment carries with it other sorts of costs including social costs which could turn out to be more expensive for the really bottom, bottom line.

Les nouvelles relations industrielles aux États-Unis — Phase II

Les nouvelles relations industrielles (NRI) consistent en une stratégie offensive du management étatsunien face aux travailleurs. L'essence de cette stratégie vise la réduction radicale des coûts de main-d'oeuvre et la refonte des structures de relations industrielles qui permettaient ces coûts élevés.

La phase I, qui a débuté au début des années '80, était la stratégie des «affaires en crise». Chrysler, au bord de l'insolvabilité, représente un cas prééminent de cette phase. Les NRI ne sont plus désormais transitoires, comme plusieurs l'ont pensé.

Les liens sous-jacents aux phases I et II se résument à la doctrine d'absence de syndicats. Durant les cinquante ans qui ont précédé les NRI, le patronat considérait le syndicalisme comme donnée de deux façons: en contexte de syndicalisation, une attitude d'anti-syndicalisme manifeste était inefficace. En contexte non-syndical, les gains syndicaux externes constituaient alors un point de comparaison coercitif. Dans le cadre des NRI, cette conception d'absence de syndicat est devenue rationnelle.

Les NRI sont fondamentalement un phénomène économique renforcé à la marge par l'idéologie. Le fondement économique de ces NRI se retrouve dans ces changements critiques de la structure de marché qui ont entraîné la fin de ce long cycle de décroissance en Occident. Cependant, ce recours aux NRI a été accéléré par cette antipathie historique du patronat envers le principe syndical.

Avant les années 1930, le monde des affaires américain croyait que le syndicalisme était moralement mauvais et, à l'occasion, non économique. Le patronat américain reconnaît aujourd'hui la légitimité d'une équité dans l'emploi de la même façon que le prônent les syndicats. Cependant, ce même patronat croit qu'il peut assumer lui-même cette fonction d'équité à meilleur coût et sans l'intrusion de syndicats. Selon cette thèse, si le patronat fait ce travail correctement, le syndicalisme n'est plus nécessaire.

En termes comparatifs, le patronat européen n'est pas moins préoccupé par l'efficacité. Cependant, pour lui les syndicats sont d'autant plus source de stabilité que l'on considère les solutions de remplacement possibles. Ce patronat européen semble prêt à payer un prix pour confiner le conflit industriel à la table de négociation et au parlement, plutôt que dans la rue.

Fondamentalement alors, les NRI peuvent fort bien être le signal du déclin des vieilles relations industrielles comme méthode d'élimination des résistances à l'efficacité. Ces vieilles relations industrielles étaient le produit d'un équilibre de pouvoir entre le patronat et le syndicalisme dans un contexte de presque plein emploi. Suite à la disparition de cette situation et à l'improbabilité de son retour dans un avenir rapproché, le patronat n'a plus besoin de payer pour acquérir la main-d'oeuvre nécessaire. Il n'a qu'à brandir la menace du chômage, ce qui peut sembler être le refus même des relations industrielles. Mais le chômage comporte d'autres sortes de coûts, incluant des coûts sociaux, qui tous, en bout de ligne, peuvent être beaucoup plus dispendieux.