

**Principles for a Post New Deal
Employment Policy**

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Abstract

Principles for a Post New Deal Employment Policy

Despite a decade or more of extensive innovation in human resource and labor management practices in leading firms, the American economy has yet to observe sufficient diffusion of innovations to produce improvements in macro economic performance or worker economic or social welfare. This paper analyzes the reasons for limited diffusion and outlines a strategy for overcoming the systemic obstacles limiting widespread and sustained human resource innovation. These obstacles include market failures, characteristics of capital markets and firm-level governance structures that limit time horizons and investments in human resources, growing adversarial relations between labor and management, weakness in industry and national institutional infrastructures, and the lack of a coherent national human resource and employment policy.

A Mutual Gains employment policy is proposed that seeks to overcome these obstacles and extends the results of private sector experiments. This policy would go beyond the New Deal labor policies by taking steps to encourage private sector firms to adopt human resource strategies that produce sustained improvements in productivity and living conditions. The key components to this policy include:

- 1). Tax incentives to promote greater investment in human resources;
- 2). Establishment of human resource councils within firms to both elevate the influence of human resources in corporate governance and strategy and to help implement and administer mutual gains policies;

3). Transformation of labor laws designed reverse the cycle of adversarial labor-management relations and fill the void left by the decline of traditional unions with forms of employee participation and representation that facilitate mutual gains strategies;

4). Development of the data and analytic capacity within government and the academic research community needed to support and evaluate employment policies and firm level human resource practices.

One of the hallmarks of the prior generations of industrial relations researchers was their contributions to the development and analysis of public policies that regulate employment relationships.¹ The field of industrial relations was born out of the efforts of an early generation of institutional labor economists to find better ways to address the labor problems they observed in the early part of this century. Their work eventually provided the intellectual foundation for the New Deal labor policies and industrial relations system. This tradition was carried on by the next generation of institutional economists who used their experiences with the War Labor Board to help develop and apply the principles guiding collective bargaining and labor policy in the post war era. These two generations of scholars shared the view that government had an important role to play in protecting labor standards and regulating the rules of the game governing employee-employer relations.

Unfortunately, these views have been largely ignored in policy making circles in recent years. Instead, the past decade saw a return to a laissez faire labor and employment policy and a resurgence in neo-classical economics as the dominant intellectual framework guiding employment policy. Public policy makers were largely passive observers in the 1980s as management and labor in the private sector engaged in far reaching trial and error efforts to update and transform their practices to accommodate changes in their product and labor markets. As a result, while significant innovations were initiated, they have yet to diffuse

¹To avoid confusion I will use the terms "employment policy" or "employment relations" to include what conventionally has been variously labeled labor, industrial relations, human resource management or policy. In this paper, as in all research in this tradition dating back to the origins of the field discussed here, the domain of interest is broad, encompassing all aspects of the employment relationship and the parties (workers, managers, labor representatives, government policy makers, etc.) who influence its institutions, policies, and outcomes.

to the point where their potential benefits to the macro economy and society are realized.

While we in the research community have studied and debated the implications of changes in private practice for both theory and practice, (see for example, Freeman and Medoff, 1984; Piore and Sabel, 1985; Kochan, Katz, and McKersie, 1986; Derber, 1982; Barbash, 1980; Lewin, 1987; Dunlop, 1989; Freedman, 1989; Chelius and Dworkin, 1990) we have yet to fully explore the implications of these changes for the role of government as an actor in employment relationships. Although a number of us believe that the New Deal labor policies are no longer sufficient or adequate for today's economy and workforce (see for example Weiler, 1990; Kochan and McKersie, 1988; Heckscher, 1987; Marshall, 1987; Lawler, 1990) we have yet to articulate a convincing intellectual framework or set of principles to replace the New Deal model.

This essay sketches out a framework for a post New Deal employment policy that builds on the institutionalists' perspective toward the labor market. But it goes beyond that perspective by building on the lessons learned from the private experimentation of the past decade. The key extension of the New Deal approach is to suggest that contemporary employment policy needs to support innovations in private practice that can create mutual or joint gains (Walton, 1986) in employment relationships. The central argument is that if widely adopted, these innovations and others that will follow can contribute to the twin macro economic and social objectives of enhancing the competitiveness of the economy and promoting improvements in the standard of living. To achieve these twin objectives will, however require breaking with the past decade's passive approach to employment policy.

The Need for a New Employment Policy

Over the course of the past decade recognition that changes in the international and domestic economy are challenging a host of traditional American policies and practices led to the formation of a large number of competitiveness, productivity or similarly focused commissions and study groups. These groups covered the broad political spectrum ranging from President Reagan's Council on Competitiveness (now a private group) to Governor Cuomo's Commission on Trade and Competitiveness, to groups led by leading faculty members at universities such as Carnegie-Mellon, California at Berkeley, Harvard, and MIT, to labor-management groups such as the Collective Bargaining Forum.² In addition to these broad based commissions, five former Secretaries of Labor led or organized national commissions and studies aimed at identifying the implications of changes in the economy and the workforce for the future of labor and human resource policy and practice.³

A number of common rhetorical points can be found in each of these reports. First, there is a general recognition that the central economic and social policy challenge facing

²See for example, the various reports of the Berkeley Roundtable on International Trade, The Cuomo Commission Report on Trade and Competitiveness, (New York: Simon and Schuster, 1988), Michael L. Dertouzos, Richard K. Lester, and Robert M. Solow, Made in America (Cambridge, MA: MIT Press, 1989); Two reports of the Collective Bargaining Forum, New Directions for Labor and Management (1988) and A Social Compact for Labor and Management, (1990), (Washington, D.C. U.S. Department of Labor).

³See for example Work Force 2000 (Johnston and Packer, 1987), a report of the Hudson Institute prepared for the U.S. Department of Labor, 1987; America's Choice: High Skills or Low Wages, Commission on the Skills of the American Workforce (Rochester, NY, National Center on Education and the Economy, 1990); Investing in People, Final Report of the Secretary of Labor's Commission on Labor Force Quality and Labor Market Efficiency, 1989; and the forthcoming report of the Secretary of Labor's National Commission on Work Based Learning.

the U.S. today is to restore the competitiveness of U.S. industries and firms in world markets while simultaneously reversing the erosion in American standards of living experienced in the past decade. Second, there is an equally general recognition that to achieve these twin objectives will require that U.S. firms gain competitive advantage from the quality and utilization of their human resources. Moreover, most of these reports go on to argue that the key micro-economic strategy for achieving these objectives lies in improving the long term rate of productivity growth since productivity growth is a necessary condition for improving real wages and living standards. But these reports add new dimensions to the on concept of productivity (cf Cyert and Mowery, 1986; Dertouzos, Solow, and Lester, 1988). In today's economy productivity means more than simply output per work hour. It must also encompass the production of high quality goods and services and the capacity to innovate and adapt quickly to new technologies and market opportunities.

These reports also normally note that meeting these new productivity and quality imperatives will require significant investments in human resources and sustained cooperation and innovation in labor-management relations. Achieving world class levels of quality and productivity requires organizations that achieve high levels of skill, motivation, participation, and trust from their workforce. Here is where the lessons of the innovative side of private sector labor and human resource practices of the past decade enter into the rhetoric. Although the specifics vary from industry to industry and firm to firm, the contours of the type of organization capable of eliciting this type of sustained mutual commitment to high levels of investment in human resources in return for high levels of trust and motivation usually involve some variation on the following principles:

- a. The firm competes the basis of product quality and differentiation as well as price.
- b. Human resource considerations weigh heavily in corporate strategic decision making and governance processes. Employee interests are represented through the voice of the human resource staff professionals and/ or employee representatives consult and participate with senior executives in decisions that affect human resource policies and employee interests. In either case, employees are treated as legitimate stakeholders in the corporation.
- c. Investments in new hardware or physical technology are combined with the investments in human resources and changes in organizational practices required to realize the full potential benefits of these investments.
- d. The firm sustains a high level of investment in training, skill development, and education and personnel practices are designed to capture and utilize these skills fully.
- e. Compensation and reward systems are internally equitable, competitive, and linked to the long term performance of the firm.
- f. Employment continuity and security is an important priority and value to be considered in all corporate decisions and policies.
- g. Workplace relations encourage flexibility in the organization of work, empowerment of employees to solve problems, and high levels of trust among workers, supervisors, and managers.
- h. Worker rights to representation are acknowledged and respected. Union or other employee representatives are treated as joint partners in designing and overseeing innovations in labor and human resource practices.

These arguments are grounded in the innovations introduced by a number of leading firms and unions in the 1980s. The primary lesson from these experiments and the research that evaluated them is that a mutual gains employment relationship is possible to construct and, that when in place, employees respond favorably to it.

Yet there is another side to the reality of the past decade's experience that the policy making community has not yet been willing to face. These innovative practices and high

rates of investment in human resources are limited to a small segment of the economy, difficult to sustain or institutionalize, and not diffusing. Instead, the majority of employment relationships are going in the exact opposite direction called for by the conclusions and recommendations of these commissions and study groups.

Despite the calls for increased commitment to training, comparisons between the level of public and/or private firm investment in human resources in the U.S. lags that of Germany and Japan (Kochan and Osterman, 1991; MacDuffie and Kochan, 1991). While U.S. firms have been estimated to spend more than \$30 billion annually on training (Carnevale, 1990), in reality this amounts to less than two percent of total private sector compensation. The vast majority of these training dollars are spent by large firms on management development. The reality is that investments in training are not a widespread phenomenon but concentrated on executives and managers in large, elite firms.

The same is true for sustained labor management cooperation. While the 1980s were a decade of profound innovation in labor management relations in some firms, the dominant labor relations trend of the 1980s was one of accelerated declines in union membership, escalating tensions and conflict between unions fighting for survival and legitimacy and employers intent on either avoiding or minimizing the influence of unions. By the end of the decade union membership in the private sector of the economy fell to less than 12 percent, the lowest point recorded since just prior to the Great Depression. Consequently, the capacity of labor and management to work together in cooperative and innovative ways likewise declined.

Employment security also appears to have lost ground as a priority in corporate

decision-making in recent years. Firms such as IBM, Digital Equipment Corporation, Hewlett Packard and other well known for their commitment to employment security were forced by shifts in their product markets to turn to layoffs or equivalent means of involuntary reductions in their workforce.

Meanwhile the role and status of labor and human resource policy within the federal government also went in a direction opposite that called for by the rhetoric and recommendations of these commissions. Despite the calls for expanded training and innovation in labor management relations, in 1990 the federal budget for training was less than half the level budgeted in 1980. By 1992 the only two small programs in the federal government devoted to promoting labor management cooperation and innovation, (the Bureau of Labor Management Relations and Cooperative Programs in the Department of Labor and the Federal Mediation and Conciliation Service's grants to support innovative labor-management joint programs) were eliminated.

Enforcement of safety and health policies also weakened in the 1980s. The budgets and inspection staff of Occupational Safety and Health Administration were reduced in the 1980s and the process of setting new standards for exposure to toxic substances slowed considerably (Noble, 1992). Even a bona fide crisis was not successful in producing a shift in labor policy. In 1989 a major explosion in a petrochemical plant killed 23 workers and injured 232. As a result the Congress requested Occupational Safety and Health Administration (OSHA) to commission an independent study of the alleged underlying cause of this and other recent accidents in petrochemical plants. A central issue to be studied was the claim that the increased use of poorly trained temporary contract workers to perform

maintenance and related renovation work was increasing the risk of accidents in these plants. Although the study confirmed that the current regulatory and management systems in this industry were not effective in managing the risks associated with the use of contract labor, OSHA lacked the independence from higher levels of the executive branch (in this case the Office of Management and Budget (OMB) to initiate any changes in the way it regulated these employment relationships (Kochan, Wells, and Smith, 1992). While this is only one isolated example, it is symbolic of the general decline in the stature and independence and influence of the Department of Labor in national economic, social, and employment policy debates. The Department has neither been led by experienced and respected labor experts of the calibre of previous Secretaries from the War Labor Board generation such as George Shultz or John Dunlop nor does it have the professional staff required to provide the analytical support necessary to play an effective role in policy making discussions within the government.

Thus, the current state of employment policy and practice is poorly matched to the needs of the economy and workforce. Indeed, I believe we are facing a crisis in labor policy and analysis at least as large as the challenges facing scholars and policy makers in the years just prior to the beginning of the New Deal. If we are to carry on the legacy left to us by earlier generations of industrial relations scholars we will need to meet this crisis by providing the theoretically and empirically grounded principles that can serve as the intellectual framework for a new national employment policy. The next section is devoted to the development of such principles, starting with the enduring contributions of the institutional economists who provided the intellectual foundations or principles guiding the

New Deal labor policy.

The Institutional Foundations to Labor Policy

The first generation of institutional economists proposed an alternative view of the labor market to the prevailing classical economics model, a view that provides an important part of the intellectual justification for a more activist role for government policy in employment relations than prevailed at that time. The essence of the institutional view was (and remains) that the employment relationship is an ongoing economic and social relationship in which employees build up property rights that need to be balanced against the economic interests or property rights of employers. Employment transactions are not one time exchanges of commodity goods but ongoing bargains involving exchanges of human effort in return for current compensation and implicit promises of future economic security. Moreover, the institutionalists viewed these relationships as what Walton and McKersie (1965) labeled as "mixed motive" in nature, i.e., they involved a mixture of conflicting and common interests and thereby required both periodic, distributive negotiations and integrative efforts to pursue joint gains. Like any relationship involving conflicting interests, power plays a critical role in shaping outcomes of these negotiations, thus the need to assure that power is reasonably "balanced." Thus the early institutionalists believed government should balance the power between the parties in ways that promoted periodic negotiations and orderly resolution of the parties' conflicting interests.

The institutional model of labor markets further challenged a prevailing principle of classical economics, namely that perfect competition would provide the socially optimal

outcomes for labor market transactions. Instead, the institutionalists adopted a view first articulated by the Webbs in their discussion of the higgling of the market (Webbs, 1897). Competition to the Webbs meant price competition which in turn translated into factor cost competition. Thus, labor is treated like a commodity, a factor of production, and a cost to be minimized. Competitive market forces will therefore serve to drive out any "rents" that labor power may create and thereby, if left unregulated by law and/or private institutions, will drive down labor standards.

Given this view of the labor market and the problems identified by the careful empirical research conducted by the first generation of institutional economists, it is not surprising that the New Deal labor policies focused on the distributive side of the employment relationship. Various labor standards (minimum wages, hours of work, unemployment insurance, workers' compensation insurance, social security, etc.) set a floor on working conditions while collective bargaining legislation strengthened workers' ability to influence their conditions of employment. As such the New Deal policies reflected an effort to institutionalize and regulate conflicting interests at the workplace.

Since the institutionalists viewed conflicting interests between workers and employers as inherent and enduring features of employment relationships, the need for legislative protection of labor standards and rights to organize are equally enduring through time. Thus, the institutional legacy of industrial relations suggests a first principle for employment policy:

Government is responsible for creating an environment and set of rules to redress imbalances in power in employment relationships and to insure that enduring conflicts of interests between workers and employers are resolved through negotiations and basic worker rights are protected by labor standards.

While this remains an important first principle for employment policy, it is no longer sufficient. The early institutionalists and the New Deal labor policies had little to say about the integrative side of the employment relationship, i.e., how public policy might encourage the pursuit of mutual gains at the workplace. In part this reflected the lack of an adequate theory of management, a weakness that continued to plague industrial relations theory for years to come. But if the view of the importance of managerial choices and actions posited in contemporary strategic choice models of industrial relations (Kochan, Katz, and McKersie, 1986) is accurate, and if mutual gains' strategies are to be encouraged by policy makers, this weakness must be addressed. Mutual gains strategies will only be chosen if human resource considerations and employee interests can influence the critical managerial choices and long term strategies of the firm.

Organization Governance, Management, and Employment Policy

To the extent management was considered at all in early industrial relations research it was in the context of how to limit management's potential abuse of its power in employment relationships. The institutionalists' traditional answer to this question was through collective bargaining that specified worker and management rights and responsibilities. Beyond this management retained its prerogatives to manage. Management retained the rights to make strategic decisions affecting the enterprise; workers and their unions were to be given rights to negotiate or file a grievance over management actions that affected wages, hours, and working conditions. Thus, to the extent there was an implicit theory of management in industrial relations, management was viewed through the eyes of

its industrial relations representative.

Later industrial relations theorists clearly recognized and conceptualized the intraorganizational bargaining (Slichter, Healy, and Livernash, 1960; Walton and McKersie, 1965; Dunlop, 1967) that occurs within management over labor policies. But even these models viewed the process through the eyes of the industrial relations manager preparing for or participating in collective bargaining. The burgeoning field of personnel management took a similar "functional" approach to its domain by focusing on the specific activities and techniques of recruitment, selection, compensation, performance appraisal, etc. Little attention was given to conceptualizing the broader domain of strategic decision-making regarding technology, investment, capital flows, or the governance structure of the firm since these were perceived to lie well beyond the domain of labor policy. The essence of strategic choice theory is that this level of management must now be incorporated into labor and human resource theories and policies since it is at this level of the firm that the key decisions are made that shape the outcomes of the employment relationship.

Research on these broader aspects of management fell to behavioral scientists who lacked both as deep an understanding of the workings of labor markets and the values that guided the institutionalists view of employment relations and public policy. Behavioralists either ignored or denied the distributive side of the employment relationship and took as their objective the search for managerial methods that integrated individual and organizational interests (Mayo, 1933; McGregor, 1960).

But some branches of modern organization theory (March and Simon, 1958; Cyert and March, 1963; Thompson, 1967; Child, 1972; Pfeffer, 1992; Pettigrew, 1973; Thomas,

forthcoming) as well as industrial relations theory (Kochan, Katz, and McKersie, 1986) explicitly model management not as a monolithic actor but as a coalition of competing interests composed of multiple functional and hierarchical levels. While external markets, technologies, and social forces (including government) influence managerial actions, these external forces are not deterministic. Managers retain some discretion or range of choice in shaping an organization's long term strategies and internal practices. Nor are top managers simply neutral coordinators of different functional interests. Instead, managers bring values and ideologies, functional interests, personal aspirations, and perceptual frames of reference to their decision-making roles, all of which need to be taken into account in shaping government policy. Finally, the 1980s brought home a new empirical reality to students of management and employment relations, namely, that shareholder interests and external financial institutions affect managerial behavior and strategy and outcomes of the employment relationship (Useem and Gottlieb, 1992; Davis, 1992). All of these emerging insights regarding managerial behavior and decision-making need to be taken into account in shaping a modern approach to employment policy. The key question therefore is: How do human resource and labor issues fit into this structure and process of strategic decision making?

Human resources has historically ranked as one of the weakest functions within the management structure of U.S. firms. The status of the personnel or human resources function has risen and fallen over time. As far back as the 1920s Sumner Slichter (1919) and Paul Douglas (1919) noted that personnel managers were finally coming into their own and being viewed as important and influential within management as their colleagues in

finance, marketing, and manufacturing. This same view dominated the rhetoric in the personnel literature throughout the 1980s. Human resource executives were expected to become strategic partners with top executives and line managers. But the relative ranking of these executives has not fundamentally changed. In a recent small survey of high tech firms in New England we found that human resources still ranked fourth out of five managerial functions. Moreover, human resource executives continue rely on their ability to establish "partnerships" with more powerful line executives or gain the confidence and commitment of the top corporate executives to give voice and influence to human resource policies within the firm (Freedman, 1990; Towers Perrin, 1991). As long as this is the prevailing position of human resources in corporate governance and strategic decision-making, this function will continue to occupy a relatively low and/or variable position of power and influence.

Historically, human resource innovations come in sharp periods that coincide with wars, social crises, union threats and/or major changes in government policy (Baron, Dobbin, and Jennings, 1986; Jacoby, 1985; Kochan and Cappelli, 1984). As these external threats mount, so too does the power of those human resource, industrial relations, or other professionals within management who cope with the risks and potential threats to the organization that these external pressures entail. The more permanent these pressures, the more likely they are to result in lasting shifts in the influence of the professionals assigned to cope with them within the firm. These professionals are most successful, however, when they can translate these external pressures into mutual gains strategies (Cebon, 1992).

A counterpoint to this view of management dominated popular management research

and writing in the 1980s. This view sees top executives as the key party shaping the culture, values, and behavior of the firm, its managers, and its rank and file employees (Peters and Waterman, 1982). The cultural school of management argues that modern executives had both learned and internalized the view that "human resources are the firm's most important asset" and therefore had become self-enlightened about the need to manage employees fairly and to provide them with opportunities to influence their jobs, work environment, and careers. The values of managers shifted from the days of the robber barons of the past century to the culture conscious CEOs of today. Thus, union threats or government standards are no longer needed because management will attend to employee interests.

This view of corporate governance and strategy making reflects an a-historical and a-theoretical view of the modern corporation. Corporate executives must function as coordinators of multiple interests but ultimately they are agents of shareholders. The legal foundation of the American corporation rests on a premise that the fiduciary responsibility and primary function of management is to maximize the financial interests of shareholders. While since the writings of Berle and Means (1933) it has been recognized that managers develop interests of their own and a separation of ownership and control often occurs, more recently there has been a resurgence of shareholder interests through the development in the 1980s of an active "market for corporate control." Shareholders, and outside bidders, became interested in asserting their short term interests because top executives were thought to have become complacent, stressing their own interests rather than the shareholders, and insulating the corporation from the market. This led to corporate restructuring with a vengeance in the 1980s (Doyle, 1990). More recently, the two leading business periodicals

Business Week (1991) and the Wall Street Journal (1991) concluded that the culture building CEOs of the past are being replaced by hard driving cost cutting executives who are not afraid to come in cut employment and clean house.

Underlying these managerial behaviors lies a set of capital markets and financial institutions that influence managerial time horizons and strategic decisions. Only recently, however, have we begun to examine the relationships between these markets and institutions and firm level labor and human resource strategies (Levine and Tyson, 1990; Porter, forthcoming; Kochan and Osterman, forthcoming; Wever and Allen, 1992).

The key hypothesis emerging out of this literature is that U.S. capital markets and institutions constrain managerial time horizons to focus on short term results. This in turn leads managers to under-invest in activities or projects that have clear short term costs but only long term payoffs. Investments in human resources and innovations in employment practices fit this description. This area of research is only in its infancy but needs to be pursued if we are to engage in a thoughtful and empirically grounded debate over the appropriate role of human resource strategies in organizational governance and the role that public policy plays in shaping that role.

Thus, a modern employment policy that seeks to encourage firms to pursue mutual gains strategies must be based on a better informed model of the role of decision-making within corporations. If the real decisions that affect long term employment relations are made at the top levels of the corporate hierarchy rather than through collective bargaining or within the personnel function of the corporation, if the human resource function continues to occupy a junior partnership position in most organizational hierarchies, and if,

as some argue, U.S. financial markets and institutions bias decision-making in favor of short time horizons and cost controls rather than long term investments, human resource considerations and employee interests are not likely to be effectively taken into account at this level of decision making. The implication of this research is that one role for government is to elevate and stabilize the otherwise weak and fluctuating influence employee interests and human resource management concerns have in American corporations.

This suggests a second principle for a modern theory and perspective on the role of government in employment relations:

The ability of human resource managers to influence corporate strategies historically is low in U.S. firms because of the legal doctrines governing the American corporations. Decision making regarding any functional group is a political process requiring significant influence. The influence of human resource professionals rises and falls over time in response to changes in the degree of external threat posed by labor market, government, or unions or other employee representation institutions. Yet even within this range, the political influence of human resources and/or employee interests remains low relative to other competing interests of functions that are closer to the core concerns for maximizing shareholder interests. Thus, one function of government policy is to elevate and institutionalize the influence of human resource considerations and employee interests in the long term strategic decisions and governance processes of the firm.

Government's Role in Diffusing Mutual Gains' Innovations

While the above discussion suggests that there are systematic internal organizational barriers to sustained human resource innovations, a number of firms have appeared to be exceptions to this pattern. Over the course of the past two decades firms such as IBM, Polaroid, Digital Equipment Corporation, Xerox, and Hewlett Packard achieved reputations for giving high priority to human resource considerations and employee interests. Their policies generally fit the principles of a mutual commitment organization summarized at the

outset of this paper. Yet despite the tremendous amount of favorable publicity these firms received in the 1980s, their approaches have not spread to large numbers of other firms. Instead, as their product markets became more competitive and the financial analysts became more vocal in their concerns over the high costs of these human resource policies, these firms experienced difficulties maintaining these policies. This suggests that the external environment may also be producing systematic market failures that limit diffusion of innovations across the economy and their sustainability within individual firms. As in other cases of market failure, only an active role by the government to change the environment will produce widespread diffusion.

Levine and Tyson (1990) outline several factors that contribute to a market failure for human resource innovations: (1) volatility in product markets, (2) loose labor markets, and (3) impatient capital markets. The basic principle at work here is simple. If all employers cooperate and invest to upgrade and utilize the skills of the labor force and provide greater employment security, all firms, their employees, and the national economy will be better off. If one firm invests heavily and others don't the investor loses and competitors that do not invest gain a cost advantage because some portion of the benefits from the investment are lost to the external market. If no one invests, firms might be able to escape the problem in the short run by competing on the basis of labor costs but employees and society eventually suffer because productivity and living standards erode. Eventually more job creating capital investment migrates to regions or countries with lower labor costs. As a result the overall economy suffers from an under investment problem.

U.S. firms are particularly prone to such market failures because of the strong

tradition of firm independence and autonomy embedded in the American culture and ideology. Walton (1988) and Cole (1989) both identify the lack of industry or national infrastructures for diffusing human resource innovations. Commons recognized this problem over seventy years ago in his analysis of the effects of the expansion of the market on the wages and labor standards of shoemakers (Commons, 1919). What is needed now is the equivalent of the institutions that took wages out of competition in the post New Deal system of collective bargaining. This then becomes an additional task for the government and therefore suggests another principle for contemporary employment policy:

The ability of any individual firm to sustain high levels of investments in human resource polices and innovations depends on the extent to which other firms in their labor and product markets and supplier and customer network invest in similar practices. The role of the government is to encourage and support diffusion of human resource policies within individual firms that, if sustained and widely adopted, can produce benefits for the macro economy and society.

The State as an Actor in Employment Policy

Any argument for a more activist role of government in employment policy must also be well grounded in an understanding of the policy making and administrative processes within government. This, however, is another area of weakness in industrial relations theory and research. Too often researchers move directly to prescriptions for changes in national policies without first building a positive theory of the role of the American state in employment relations. Our own efforts to build a strategic choice model of industrial relations has been criticized for failing to fully conceptualize the role of the state as an actor in employment relations (Adams, 1991). While full development of such a theory is beyond the scope of this paper, several points need to be made.

First, similar to its position within American firms, the priority or influence of labor and human resource policy within the federal government is likewise rather low. Thus, the politics of policy making within the government must be taken into account in formulating a viable national employment policy. Second, again as is the case within individual firms, labor and human resource policies cannot stand alone. Instead these policies need to be integrated into and contribute to broader national economic and social policy objectives and strategies. A mutual gains strategy is equally essential for labor policy representatives in national policy making as it is within individual firms. To be successful in this effort requires both strong and respected advocates for employment policy within the economic policy making community and deep technical and analytical support for these policy arguments. Third, policy making influence within government requires the backing of a strong external constituency. Fourth, since researchers have described the U.S. as a weak state and one that is historically reluctant to initiate changes in labor policies (Hattam, 1990; Stone, 1988; Klare, 1985), major changes in labor and employment policies only occur in rare political and economic circumstances. If the past is any guide these circumstances arise in times of severe economic, national security, or social crises--wartime, periods of high inflation or unemployment, significant labor unrest, etc. These were the conditions that were present both in the 1930s when the New Deal labor policies were enacted and in the 1960s when out of the urban crises emerged the state legislation granting collective bargaining rights to public employees. Finally, just as modern theories of management do not treat management as a monolithic actor, neither should we ignore the multiple interests and structure of decision-making within government in formulating a theory of the role of

the state.

Since its establishment in 1913 the U.S. Department of Labor has served as the central agency within the executive branch of government with responsibility for advising the president on labor and employment policy matters. Yet throughout its history, and especially in the past decade, the Labor Department has not been able to assert an independent voice in policy making. Instead, historically it has been subordinate to other Cabinet level agencies responsible for economic policy making. In recent years it has been relegated to an even more subordinate position by the collapse of its external constituency and by the degree of control over domestic and regulatory policy asserted by the Office of Management and Budget. All Congressional testimony, administrative rules or regulations or standards, new legislative proposals, and even data collection instruments must be approved by OMB before the Labor Department (or other Cabinet agencies) can act. This limits the freedom of the Department to bring its own professional judgement to bear on policy issues within its substantive domain. Instead it must obtain approval for its initiatives from the keeper of the budget and the watchdog for limiting the number and scope of government regulations.

The decline in the status and influence of employment policy is both a cause and an effect of decline in the influence of labor in society and at the level of the firm. As union membership declined, the political influence of labor likewise declined. When this decline crossed a threshold, perhaps with the defeat of the Labor Law Reform Bill in 1978 and/or perhaps with the firing of the striking air traffic controllers by President Reagan in 1981, perhaps when the nonunion sector became sufficiently large and viable alternative to

employers, employers and government officials outside the narrow domains of labor policy could deny labor policy makers or labor representatives the legitimacy they need to participate in and influence issues of national policy. Political discourse could then label labor as a "special interest" with a narrow institutional agenda.

This suggests the following principle regarding government as an actor in employment policy:

For employment policy to be effective it must achieve voice and be integrated into macro-economic and social policy making and administration. For it to achieve this status and influence requires a broad and diverse set of external interests who support and reinforce efforts and influence of employment policy officials in policy making and administrative processes. Moreover, employment policy makers must bring an independent and professional analytic capacity to bear into these policy debates that is capable of identifying strategies for pursuing the joint objectives of effective macro economic performance and improvement in labor and living standards.

In summary, the contemporary challenge to government is to strengthen its internal analytical capacity to play a more active role in employment affairs. But it must do so with a substantive agenda and strategy that is human resource or market-enhancing--one that encourages firms and employees to focus on the joint outcomes of improving competitiveness of the enterprise and the economy through a high productivity and high skills labor force. This means that within the firm, labor policy should serve to strengthen the role of human resources in corporate strategy and governance, encourage development of a long term perspective that treats employees as valuable assets, and recognizes the importance of a high trust, cooperative culture for innovation and adaptation. Within the government itself, these same principles need to be applied to the development and administration of employment, economic, and social policies. That is, those responsible for

labor or employment policy need to participate in the highest levels of macro-economic and social policy making and decision-making and search for employment strategies and policy instruments that can achieve joint goals of economic growth and competitiveness with high labor and living standards. Labor standards and worker rights to effective representation must continue to be protected but should be embedded in a broader employment and economic policy and be responsive to the greater diversity in the workforce than traditional regulatory and bargaining models have recognized.

Applying the Principles

At the outset of this paper it was noted that one of the legacies of prior generations of industrial relations scholars was their ability to translate the broad theoretical and normative principles guiding their work into practical policies. To be true to this legacy, we need to go beyond the broad principles outlined above to suggest how they might be applied. This task is taken up below.⁴

Specific Policy Initiatives

The policy initiatives proposed here start with a key labor and human resource component to macro economic policies designed to foster sustained improvements in productivity, move on to encourage mutual gains strategies within individual firms, and

⁴What follows is an updated and expanded version of the ideas first presented in a paper with my colleague Robert McKersie at the First Regional International Industrial Relations Association Congress of the Americas, Quebec City, August, 1988 (Kochan and McKersie, 1989).

support the diffusion of these strategies across the economy to the point that they produce benefits to the macro economy and society. But consistent with the longstanding view of our field that effective employee representation is critical to both our democracy and our economy, embedded in these proposals are reforms of labor law that will allow employees to choose the forms of participation and representation that best allows them to influence the issues that affect their interests, contribute to the long term performance of their employer, and, consistent with the forms of empowerment proposed, take more responsibility for their own long term development, safety, and economic security . Thus, all of these recommendations have the effect of strengthening the influence of employees as stakeholders in corporate governance and strategic decision-making.

Integrated Investment Strategies. Most macro economic strategies for improving long term rates of productivity growth call for some type of tax or depreciation incentives to encourage greater capital investment. This is the first point where employment policy should be linked to macro economic policy. The evidence from the 1980s (MacDuffie and Krafcik, 1991; MacDuffie and Kochan, 1991) demonstrated that capital investments are more likely to pay off when combined with investments in human resources and integrated with changes in organizational practices designed to speed the implementation and utilization of the new equipment. Thus, investment incentives should encourage enterprises to invest in both hardware and human resources and put in place the governance and human resource practices required for these investments to reach their full potential. Specifically, any investment tax credit for hardware should be accompanied by evidence that employees have

a voice in the technological choice and implementation process and by a human resource development plan for deploying the new equipment. Moreover, tax credits should also be available for investments in training and human resource development, provided that these are investments that build general human capital.

Human Resource Councils. One way to insure that these investments build general, transferable skills and serve to complement rather than substitute for the specific training needed to perform current jobs is to involve those with the strongest direct interest in having general skills in the design and administration of these policies. Thus, any tax credits for training or human resource investments should have an accompanying requirement that a representative cross section of the enterprise work force participate in this fashion. In a previous paper Robert McKersie and I suggested that such human resource advisory councils should have a broad and open ended mandate and agenda and thereby allow them to evolve in a way that is suitable to the diverse circumstances found in different enterprises and sectors of the economy. These councils can also take on responsibilities in other areas of employment policy such as occupational safety and health where employees have both the incentives and the potential to foster continuous improvements in practices and outcomes.

In some sectors enterprise level human resource investment strategies will need to be supplemented by regional and/or occupational based training and development strategies and institutions. Where there is heavy use of temporary or contract labor, or labor moves across firm boundaries as in construction or clothing, investments in regional or industry consortia for training and human resource development should be eligible for the same tax credits made available for firm sponsored training, again provided that employees are

represented in the design and administration of the training program. These regional institutions can also begin to play the role of developing occupational certifications and standards for the training provided in local educational institutions and thereby support other initiatives to overcome the weaknesses that are now well documented and recognized in the in the U.S. apprenticeship and related school-to-work transition processes (Batt and Osterman, 1991).

Risk-Rewards Sharing and Governance. The incentives to establish new participatory and representative structures and processes called for above should have a positive effect of upgrading the voice of employees and human resource considerations in the operations of American firms. But there is room for further experimentation in organizational governance that flows from the experimental evidence of the past decade. Federal tax policy has provided various incentives and inducements to encourage firms to establish employee stock ownership plans (ESOPS). The evidence suggests, however, that relatively few of these have given employees a voice in the governance of the corporation when ESOPS are introduced (Blasi and Kruse, 1991). Therefore, tax incentives or other policies that encourage ESOPS other forms of contingent compensation should provide for employee rights to nominate or elect representatives to their corporate boards of directors. This would further encourage the transformation of American corporations from entities that focus on short term shareholder interests to ones that give greater weight to long run investments and growth opportunities. Specifically, tax credits for ESOPs or deferred profit sharing should only be provided if employees are provided equivalent representation on corporate boards of directors, in a fashion that is consistent with how other investors and

financial stakeholders gain representation on corporate boards. This would further stimulate incentives for employees and firms to adopt contingent compensation programs that, if diffused broadly, would achieve some of the macro-economic savings, growth, and stabilization objectives identified by Weitzman and others (Weitzman, 1984; Weitzman and Kruse, 1990).

Updating and Transforming Worker Rights to Representation. While the above policy initiatives should help to create a climate that deepens trust at the workplace and encourages the parties to pursue integrative, mutual gains strategies, employment policy cannot continue to ignore the need to provide employees with basic rights to join the employee organization of their choice. Not all employers will choose to compete in ways that are consistent with the types of institutional arrangements proposed above. Distributive issues will remain a central part of employment relationships even in those firms that do choose to embark on a mutual gains strategy. Thus, labor law must provide employees with an effective right to join the type of labor organization that best suits their circumstances. Research conducted after the labor law reform debates of 1977-78 has demonstrated quite conclusively that current labor law no longer serves this function well (see Lawler, 1990; Weiler, 1990 for reviews of this evidence). But minor reforms that simply encourage the parties to discover new tactics to escalate their rhetoric attacks on each other's motives and integrity will not serve anyone's long term interests. Instead, union recognition procedures need to be transformed in ways that avoid starting the relationship off on a protracted and highly adversarial course. Effective reforms would include changes in the union recognition process that encourage the parties to establish their own procedures for extending

recognition voluntarily when new facilities or worksites are being planned, reduce delays in elections and certification decisions where elections are held, strengthen the penalties imposed on labor law violators so as to eliminate the economic incentives that now exist to violate the law, and provide for first contract arbitration in situations where the parties are unable to conclude these negotiations on their own following union certification.

The existence of human resource councils and effective procedures for establishing union representation will create a healthy environment of competition among existing and potentially new labor organizations and associations. In this type of policy environment labor union leaders will compete with other professional groups to train and offer technical assistance to human resource council representatives, much the same way that the CIO offered a competing model to the AFL organizing principles in the 1930s and similar to the ways union and works councils in Germany relate to each other (Wever and Allen, 1992). Whether out of this competition arises a new national labor movement or a looser confederation of local, regional, and enterprise associations (Heckscher, 1987; Kern and Sabel, 1991) remains to be seen. But, as in Germany, the representative organizations that will thrive in this environment are ones that develop skills and abilities to promote development, utilization, and mobility of the human capital embodied in the labor force of the future.

Deepening the Analytical Foundations of Employment Policy. Finally, a new comprehensive employment policy will require considerable strengthening of the analytical capacity of labor policy researchers within government and in the academic community. Here we come full circle and return to the basic traditions that gave rise to our field and

characterized the role of scholars from the days of the first generation of institutional economists to the post War Labor Board generation of labor economists and industrial relations specialists. Those who featured prominently in the administration of New Deal labor policies had prior training, research based knowledge, and experience in the labor markets and organizational practices of their day. The same can be said of the War Labor Board generation, although some of this generation gained their knowledge of practice "on the job" and then deepened their experience through active involvement in labor market and industrial relations affairs that followed in the post war period.

A contemporary version of this generation of useful policy scholars and practitioners need not simply reincarnate the institutional economists of the past. Instead, the tools of modern theory and empirical techniques need to be blended with an appreciation of how modern labor markets and organizations work. Well grounded and careful research of this type has proven useful in various state legislative debates over the effects of public sector impasse resolution alternatives (Stevens, 1966; Stern, et. al., 1975; Kochan, et al, 1979). Similarly, careful studies of management and labor practices in key industries such as autos (Katz, 1985; Womack, Jones, and Roos, 1990) have helped to focus debates over the ways different production and human resource strategies work in practice. In both the public sector and the auto industry examples, quantitative data and analysis were combined with analysis of the institutional issues involved. Unfortunately, there is all to little such research on national employment and labor policy issues.

The keys to producing this type of research lie in creating the data needed to support application of modern analytic techniques to policy analysis and providing opportunities and

incentives for scholars to participate in policy making and analysis. This will require building national data bases capable of documenting and evaluating the contributions of human resources and labor market policies to economic performance. Currently we have labor cost employment cost and consumer price surveys but we have no equivalent data base for tracking the payoffs to investments in skills training, education, and cooperative initiatives. A productivity, quality, and human resource innovations' data base is needed to evaluate the effects of these policy initiatives and to convince skeptical managers, political leaders, and macro-economic policy makers that these human resource investments and policies pay off. Only by building a community of respected researchers who move in and out of various government or advisory roles, can employment policy have the analytical foundation and empirical justification needed to sustain the role envisioned for it here. Nothing would serve to carry on the traditions of prior generations of institutional labor economists in a more appropriate fashion.

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