Employment Policy for a High Skills and High Wages Economy[1]

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[1]This paper builds on the material presented in more detail in Thomas A. Kochan, "Principles for a Post New Deal Employment Policy," MIT Sloan School of Management Working Paper No. 3425-92-BPS, May, 1992.

Introduction

The U.S. employment relations system is at a historic crossroads equivalent to that of the 1930s. The strategies adopted by government, business, and labor representatives in the initial phase of the Clinton Administration will determine whether U.S. employment relations continue evolving from a rigid, adversarial model suited to the needs of the past to one that can help to achieve the mutual economic and social gains envisioned in the term "a high skills and high wages economy." Not since the eve of the New Deal has an Administration faced as critical a set of decisions and as great an opportunity to achieve a fundamental breakthrough in employment policy and practice. Fortunately, the principles underlying what will be described here as a new "Mutual Gains" paradigm have been largely sketched out already through the trial and error experimentation that has taken place in the private sector in recent years. The new Administration's task is therefore to provide the leadership and the policies needed to support the diffusion of these principles across the economy.

Principles of the "Mutual Gains" Paradigm

The innovations introduced in various workplaces over the past decade generally involved efforts to implement the broad principles outlined in Figure 1. Together, these principles add up to what can be called a "Mutual Gains" employment relationship, i.e., one that attempts to pursue strategies and practices that support the goals of the firm to be competitive and achieve a fair return to its owners while also meeting the goals of its workforce for high wages and working conditions.[2] The key linchpins in achieving and sustaining mutual gains are continuous

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[2]These principles have been described, studied, and advocated by a wide variety of authors, study groups, and commissions and have been given various names. See for example, Richard

improvement in productivity and innovation and equitable distribution of the gains among the various stakeholders of the firm. To do this firms must be effective at integrating technology and human resources and gaining full advantage from these assets.

While the specific practices needed to achieve these mutual gains will vary across different employment settings, they all start with a recognition that high productivity and innovation require a well educated and highly skilled workforce and employment practices that fully utilize these skills on the job. Employee participation in problem solving and continuous improvement activities and flexibility in the organization of work serve as the starting points for mutual gains strategies. To sustain employee trust and commitment to continuous improvement these workplace practices must be supported by adequate investment in training and human resource development, a demonstrated commitment to managing for employment security, and a willingness and ability to integrate human resource planning with the competitive strategies and decisions of top management. Finally, the firm must be committed to a long term strategy of competing on the basis of continuous improvement in quality, innovation, customer service as well as cost control and recognize that employees are stakeholders who, like the firm's owners,

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E. Walton, "Toward a Strategy of Eliciting Employee Commitment Based on Policies of Mutuality," in Richard E. Walton and Paul R. Lawrence, HRM Trends and Patterns, Boston: Harvard Business School Press, 1985, 35-65; Thomas A. Kochan, Harry R. Katz, and Robert B. McKersie, The Transformation of American Industrial Relations. New York: Basic Books, 1986; The Collective Bargaining Forum, Labor-Management Commitment: A Compact for Change, Washington, D.C.: U.S. Department of Labor, 1991; Alan Blinder (ed.) Paying for Productivity, Washington, D.C.: The Brookings Institution, 1990; or Barry Bluestone and Irving Bluestone, Negotiating the Future, New York: Basic Books, 1992. Alternatively, see the reports of various university or national competitiveness or productivity commissions such as Michael Dertouzos, Richard Lester, and Robert Solow, Made in America, Cambridge, MA: MIT Press, 1989 or any of the last five Secretary of Labor's Commissions on labor market and workforce strategies.

should share in both the risks and the rewards of the enterprise and, therefore, should participate in the governance of the firm similar to other key financial stakeholders. In return, this approach requires, and generally obtains a corresponding commitment by employees and labor organizations to addressing the competitive challenges facing the firm.

The above brief description is an oversimplified caricature of the mutual gains' enterprise. But what has been the actual experience of firms, employees, and unions that have attempted to move toward this model? In unionized firms the most significant innovations have come where management accepts union leaders as legitimate partners and recognizes their need for organizational security by not automatically opposing union organization of new plants or worksites. Companies such as Xerox, Corning, Ford, GM, Chrysler, AT&T, Bridgestone Tire, and American Airlines have all benefitted from these types of positive relationships at various points in time over the course of the past decade. In addition to these highly visible examples, most firms and their unions have attempted to introduce some of the features noted in Figure 1. However, because many of these parties were either unable or unwilling to make the full scale changes or to remain committed to the change process long enough to experience its benefits, a number of them have fallen back into traditional patterns. Most, however, remain stalled somewhere between the traditional and the new paradigm recognizing that the old system no longer meets their needs but unable to overcome the obstacles that block their path to the new paradigm.

In non-union companies innovation has been concentrated among large, growing firms led by CEOs or founders who were personally committed to mutual commitment strategies. Polaroid, IBM, Delta Airlines, Hewlett Packard, Digital Equipment Company, Honda, Federal

Express among others all developed reputations for these practices at various times throughout the 1980s. Many of these firms also experienced significant setbacks in recent years as their markets matured and they were unable to maintain their commitments to employment security.

These innovations, when sustained over a long period of time, have proved to be highly productive. At Xerox, for example, executives will attest that they could not have recaptured the market share lost to the Japanese in the 1970s, nor could they have won the Baldridge award for quality improvement, without the labor-management innovations and partnership the company achieved with its employees and union representatives. In the auto industry, the evidence could not be clearer. For example, in the mid 1980s, the Toyota-GM joint venture plant called NUMMI for "New United Motors Manufacturing Inc." demonstrated the power of this new model in working with the UAW to achieve the highest productivity and quality performance of any auto plant in the country. Since then all the auto companies have embraced the principle of teamwork, training, and employee empowerment along with new manufacturing methods that minimize inventories, space, and materials to build quality into the product the first time. They took these actions in response to the clear empirical evidence that effective implementation of these principles and their corresponding flexible manufacturing principles are needed to achieve world class levels of productivity, product quality, and capacity to innovate.[3] GM's Saturn Corporation has turned its labor-management partnership into a competitive advantage by marketing itself and its product as a "New Kind of Car and a New Kind of Company." At

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[3]See for example James J.Womack, Daniel Jones, and Daniel Roos, The Machine that Changed the World, New York: Rawson-MacMillan, 1990 and John Paul MacDuffie and John F. Krafcik, "Integrating Technology and Human Resources for High-Performance Manufacturing," in Thomas A. Kochan and Michael Useem, (eds.) Transforming Organizations, New York: Oxford University Press, 1992; 209-26.

Saturn the UAW is a total partner with management from the shop floor to the CEO.

But these innovative relationships are still the exception rather than the rule. While they have spread gradually throughout most of the 1980s, they remain fragile and, in recent years have been stalled by a number of economic and institutional barriers. It is these barriers that will need to be attacked if these isolated innovations are to be diffused broadly enough across the American industry to achieve the macro economic results they promise.

Obstacles to Diffusion

Short Term Time Horizons. The biggest barrier to widespread adoption and diffusion of this new model has been the pressures on corporations to downsize and demonstrate short term cost containment and profit improvements. While some of this pressure is cyclical and reflects the consequences of the deep and prolonged recession of the past several years, part of the problem reflects more permanent features of U.S. capital markets. The short term time horizons U.S. capital markets and financial institutions impose on American managers are now recognized to be a serious constraint limiting the diffusion of human resource and labor-management innovations.[4] Indeed, a recent survey managers cited short term pressures as the single biggest factor limiting progress in this area.[5]

Market Failures. But short term time horizons and cyclical pressures are only part of the problem. A deeper market failure is also at work here. To date, these innovations have proceeded on an isolated, individual, firm by firm basis. However, most individual firms are

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[4]See Michael E. Porter, Capital Choices. Washington, D.C,: Council on Competitiveness, 1992.

[5]Edward E. Lawler III et.al., Employee Involvement and Total Quality Management, San Francisco: Jossey Bass, 1992.

unwilling to absorb the full costs of the transition unless they have some assurance that their product and labor market competitors will make similar investments. Training investments provide the clearest example. A firm will invest in training to the extent that it can appropriate the benefits of the investment in enhanced employee skills. Unfortunately, the costs of training are absorbed immediately on the firm's profit and loss statement but the benefits of enhancing skills come gradually over time. Meanwhile the newly trained employees become more attractive to competitors who can bid these employees away and achieve the benefits of these higher skills without making the investment. Or, if the economy sours and the firm lays off these employees, it again loses the investment to the external market. Thus, rather than invest in these skills, a rational firm will try to minimize the skill requirements of the job through other means--automation, tight supervision, narrow job descriptions, etc.--exactly the features that keep firms trapped in a low skill/low wage and a rigid high conflict/low trust relationship. Solving this type of classic market failure problem therefore requires government action.[6] Policies that induce more firms to make these investments would help individual firms reap the returns on their investments and place competitive pressures on others to match these benefits to attract and retain qualified employees. In this way the new paradigm diffuses and translates into gains for individual firms and the macro economy and society.

Antiquated Labor Law. Beyond these economic obstacles lies an equally significant legal barrier: the antiquated features of American labor law. Passed as part of the New Deal effort to lift the country out of the Great Depression, the National Labor Relations Act served the

[6]See for example, David I. Levine and Laura D' Andreas Tyson, "Participation, Productivity, and the Firm's Environment," in Alan S. Blinder (ed.) Paying for Productivity, Washington, D.C.: The Brookings Institution, 1991, 183-236.

American workforce and the economy well in an era when the challenge was to build a stable collective bargaining process that could resolve peacefully the deep and often violent conflicts erupting between workers and employers and provide a means for workers to increase their purchasing power as the overall economy improved. In short, the law that established collective bargaining rights did a good job of resolving **conflicting interests** of labor and management. It has not, however, been as successful in encouraging **joint problem solving** where the potential for mutual gains exist. Moreover, over time the law has even lost its ability to provide workers voice in workplace decisions that have the greatest effects on their long run economic security. Thus, today the vast majority of American workers do not have access to institutions that give them an effective voice over the issues that matter most to them at the workplace.

The current law has three basic flaws that must be remedied if workers are to be empowered to help diffuse innovative practices across the American workplace. First, the law must go beyond the rather rigid and narrow form of participation it currently provides--exclusive representation in collective bargaining over a predetermined set of issues involving wages, hours, and working conditions. Participation via informal work groups, employee-management committees, or consultative groups over issues such as production problems, capital investment in new technologies, or design of new facilities or work processes were not envisioned in the law. Indeed, as of this writing, a case pending before the National Labor Relations Board (the Electromation case) challenges the legality of some of these informal types of participation.[7] Thus, the law must be updated to accommodate and support these newer forms of employee

[7]See Stephen I. Schlossberg and Miriam Birgit Reinhart, "Electromation and the Future of Labor-Management Cooperation," Labor Law Journal, September, 1992, 608-20.

participation and empowerment.

Second, the law's enforcement has eroded in recent years to the point that it no longer provides effective access to collective representation for most workers. Any employer determined to avoid unionization or discourage organizing drives can do so through a variety of legal delaying tactics and/or illegal practices that seldom result in enforcement actions that are quick or expensive enough to deter such conduct.[8] Frustration over this aspect of the law and its effects on the ability to organize has been the single biggest argument some union leaders give for opposing "innovation" in labor management relations. Addressing these problems in the law and its enforcement should, once and for all, eliminate this argument and take this issue off the table.

Third, the NLRA leaves a large number of supervisors and middle managers outside its scope of protection and does not effectively contend with the diversity of occupational groups found in the contemporary workplace. Managerial and supervisory employees, for example, face significant job security risks in the current environment and hold the keys to implementing the organizational reforms needed to sustain continuous improvement in organizational performance. Moreover, although not legally excluded from coverage under the law, the vast majority of non-production workers--professional, technical, and office workers are, for all practical purposes, left out. The types of participation these workers want and need cannot be satisfied by formal collective bargaining rights carried on in separate bargaining units as envisioned in the current labor law. These groups need to be part of cross functional teams

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[8]For an excellent review of the problems with current labor law and options for reform see Paul C. Weiler, Governing the Workplace, Cambridge, MA: Harvard University Press, 1990.

working hand in hand with each other and with production workers to design and implement new products, technologies, and organizational practices. To require engineers, technicians, other professionals, or office workers to form separate bargaining units and petition for exclusive representation so they can bargain over wages, hours, and working conditions only constructs further functional barriers that organizations now are desperately trying to remove in order to improve the innovation process. Thus these groups also need to be enfranchised in a way that supports and facilitates the innovation process.

Addressing these issues requires more than minor, incremental modifications of contemporary labor law. It will require endorsing forms of participation and representation that are specifically designed to promote **mutual gains** employment practices and extend these policies to cover the full diversity of employees found in contemporary workplaces. For this, as well as other reasons, it is time to open up American labor law to allow experimentation with organization wide participatory and representative arrangements that serve as the American equivalent to European style works councils.[9]

Deteriorating Union-Management Relations. Another serious obstacle to broader diffusion lies in the worsening and self reinforcing low trust/high conflict cycle that continues to dominate union-management relations in the U.S. This cycle is perpetuated by:

1. continued union membership losses (membership has declined from 33% of the labor force in the mid 1950s to 24% in 1980 to 16% today--12% of the private sector);

[9]For a discussion of the role of works councils in the German industrial relations system see Kirsten S. Wever and Christopher S. Allen, "Is Germany a Model for Managers?" Harvard Business Review, September-October, 1992, 36-43.

2. the open and sometimes aggressive opposition of the majority of American companies (through both legal and illegal means) to union organizing;

3. declining capacity of local union and management leaders to sustain cooperative relations as labor gets backed farther into a corner and sees it institutional survival threatened and management experiences intensified pressures to reduce costs and produce short run profits.

4. declining employee (both blue and white collar, managerial and non-managerial) trust in top management--in union and nonunion firms--as a result of continued layoffs, growing inequality in income, and declining real wages.

This, unfortunately, is the dominant state of affairs in employee relations today. As a result, there are significant pent-up frustrations building within the American workforce that are likely to explode at some point if we continue down this path.

Historical Parallel: The Eve of the New Deal

The parallel between the current state of affairs and the 1930s is quite remarkable. Then, as now, a new Administration took office with a mandate to bring the country out of the Depression; union representation had experienced a decade of decline in part because its craft mode of organizing and representing workers no longer fit the growing manufacturing workforce and mass production enterprises and in part because employers had introduced management led and dominated practices for employee involvement. But the economic pressures of the Depression proved to be too powerful for these management initiated innovations to be sustained. It was therefore left to the new Administration and Congress to fashion a New Deal employment and labor relations policy that could provide the micro-economic and institutional foundation for sustained commitment to practices needed to support other economic strategies for putting the economy on a path of long term economic growth. This meant institutionalizing collective bargaining and minimum standards for wages, working hours and other conditions so that the intense conflicts erupting between workers and employers could be resolved, firms could pursue expanding domestic mass production markets, and employees could share in the prosperity that they helped to produce. But, to achieve the new paradigm envisioned in the New Deal model required fundamental shifts in ideology and strategy on the part of labor, business, and above all, government. The same is true today. We therefore now turn to a discussion of the changes required by each of these parties if a shift to a mutual gains paradigm is to be achieved.

A New Role for Labor

If the new paradigm is to spread, existing labor unions and perhaps new associations or organizations will need to arise to fill the void in worker representation that currently exists in the American workplace. But whatever organizations fill this void will need to champion and support a variety of forms of employee participation and representation in addition to traditional collective bargaining and grievance handling.

Indeed, the innovations of the past decade produced a major debate within the labor movement over whether to endorse and champion new forms of participation or to press for labor law reforms to strengthen traditional collective bargaining once a more friendly President and Congress are returned to office. While the number of supporters of the innovative model has expanded somewhat in recent years, the pent up frustrations of what labor leaders see as twelve years of neglect of labor law leads some within the labor movement to favor lobbying hard for a series of individual legislative initiatives such as a striker replacement bill, reform of OSHA, improvements in unemployment compensation, a stronger North American Free Trade Agreement, etc. The list goes on. Those favoring this approach agree that changes in union strategies are needed but argue that a "level playing field" for labor relations must be achieved first. According to this view, only then will labor leaders be able to cooperate with management.

If this approach dominates labor's political agenda it will sour the political and labor-management environment and face stiff opposition from a Congress that will see the labor movement as promoting its "special interests" in the absence of a viable long run vision for its role in the economy or as the voice for the work force of the future. If the advocates of a return to traditional approaches dominate, we can also expect continuation of the deteriorating cycle of conflict at the workplace as progressive managers lose confidence in the ability of union leaders to support innovation. Indeed, unless labor becomes a more positive and visible champion for a new approach and demonstrates its determination to lead efforts to achieve it at the workplace, the American workforce, American management, and public policy makers will continue to view labor as a largely negative or at best irrelevant force at the workplace and in economic and social affairs.

What specifically would a new approach imply for labor's strategy? It would require labor to become a competent, full service advocate and technical resource supporting employee participation in workplace problem solving, labor management committees devoted to topics such as safety and health, design and implementation of new technologies and work systems, training and human resource development institutions and programs, employee stock ownership plans and their associated corporate governance roles, and human resource advisory councils that serve functions similar to European style works councils. All of these, in addition to formal collective bargaining and grievance handling, must be encouraged by new laws but it will be up to labor to give these practices life and vigor at the workplace. In doing so, labor can put forward a new and positive vision and image that is consistent with the forms of participation needed in the economy and desired by the workforce. Only by doing so will it be able to reverse its decline in membership and influence in society.

New Strategies for American Business Leaders

Management led the way in introducing innovations in the American workplace in the past decade in large part out of a pragmatic recognition that traditional labor management relations no longer work in a world that requires flexibility, continuous improvements in productivity, problem solving, and cost reduction. The problem is that the champions of innovation within American management have not been influential or large enough in numbers to sustain the commitment to these principles in the face of opposition of managers who do not share their views and in an economic and capital market environment where pressures for short term cost reduction, profits, and employment reductions dominate strategic decision-making.

Management must recognize two things. First, individual firms acting alone, cannot sustain a commitment to innovation. Firms must build the support and commitment of other firms in their industry, customer and supplier communities, and labor markets. Second, management must recognize that it cannot sustain commitment to a high productivity/high trust strategy without accepting workers and their representatives as partners in this process. This means that business must reign in its recalcitrant colleagues who prefer to resist any new employee or union rights to participation. Too many American managers cling to an outmoded union avoidance ideology and thereby perpetuate the labor-management conflicts that the 1930s legislation sought to put to rest! The irony therefore is that innovative management leaders cannot hope to achieve their objectives unless they form a coalition with like minded labor and government representatives and create an environment and policy framework that facilitate and support widespread adoption and diffusion of these innovations.

A Mutual Gains Employment Policy

As the Clinton Administration takes office it faces intense pressure to respond to the pent-up demand for legislative action on a wide array of worker rights and labor standards that were ignored or undermined during the Reagan-Bush years. Past administrations have responded to these issues by separating labor and employment policy from other economic and social policy making groups and initiatives. Labor policy was treated as "special interest" politics. But this risks repeating the stalemate in labor and human resource policy experienced by the Carter Administration where labor, business, or groups within government could each successfully block legislative or administrative initiatives but no single actor could unilaterally impose its own policy ideas or successfully form an alliance to enact new, positive policies.

For all these reasons, the new Administration has both an opportunity and an obligation to avoid a similar stalemate and to serve as the catalyst for diffusing the new employment relations paradigm. To do so a Mutual Gains Employment Policy will be needed that is integrated with and supportive of other macro economic policies for creating a high skill-high wage economy.

A strategy for doing so would need three key elements: (1) strong and clearly articulated Presidential support and leadership; (2) an integrated administrative structure and process that incorporates human resource and labor issues directly into economic policy making processes, and (3) a proactive legislative program. The Administration's support for tax incentives for investment in R & D, plant and equipment, infrastructure, and worker training provide a solid foundation for this approach.

It will take the strong, committed, and personal leadership of the President to shift the national labor-management climate from one dominated by mistrust, confrontation, litigation, and polarization in policy debates and practice to one of partnership, innovation, and eventually consensus over labor and human resource issues. The President can demonstrate his determination to achieve this shift in the national climate by personally endorsing and encouraging diffusion of innovative workplace practices as a necessary and integral component of his economic strategy. But the President will also need to make it clear he will not only encourage but will require changes in business and labor practices and strategies by making his support for employment policy reforms and for favorable tax treatment for investment in research and development, capital investment, and worker training contingent on business and labor support. Likewise, the President can organize his Administration in ways that insure employment policy is effectively integrated with other aspects of economic policy. This too will signal the Administration's determination to treat these issues seriously.

But ultimately a comprehensive legislative program will be needed to implement a Mutual Gains employment policy. The elements of a comprehensive program might include micro based incentives that couple investment in hardware, research and development, and worker training with the changes in workplace practices and relationships required to achieve the full return on these investments and a fundamental transformation of labor law. More specifically, such a program might include:

a. Enactment of an R&D tax credit, a capital investment tax credit, and/or a training tax offset or other incentives for firms to invest in human resource development as called for in the President's campaign platform. But, these tax benefits should only be allowed if employers provide clear evidence of employee consultation in the use of these funds. This would encourage innovation from the grass roots, provide all (union and nonunion) employees with a voice in the design and delivery of human resource policies affecting them, and allow these innovations to be tailored to the particular needs of different employers and workers.

b. Fundamental updating of labor law to remove existing legal barriers to workplace innovations and support more varied forms of employee participation and to remedy the weaknesses in the law and its administration that now limit worker access to union representation and collective bargaining. The law should open up opportunities for experimentation with a wide variety of participatory forms including quality circles and similar problem solving groups, self managing work teams, employee-management committees devoted to specific issues such as training, safety and health, or new technology, establishment wide committees similar in makeup and function to European style works councils, and employee representation on corporate boards of directors and/or Employee Stock Owner Plan Trustee committees. To remedy the problems with enforcement of existing labor law the process of union recognition should be streamlined and simplified, violations of the law should be penalized severely and quickly, and either party should have the right to submit unresolved contract disputes to third party arbitration in lieu of a strike or lockout.

c. Expanded support for programs that empower workers and managers to take responsibility for administering and enforcing labor standards and human resource policies. Safety and health is the logical starting point for this approach. After suitable experimentation in this arena, this strategy might be applied to other policy areas as well.

Summary

This paper outlined a blueprint for an employment relations paradigm and suggested a new public policy framework for diffusing this paradigm across the economy. Like any blueprint, it will need modification as it moves from the drawing board through the policy making process and is tested in practice. It is presented here to encourage a national debate over these issues.

What are the consequences of not embarking on a new approach? If we continue to drift down the path that has dominated employment relations in recent years we can expect increased labor-management conflict and limited diffusion of innovation at the workplace, a political stalemate over labor policy, and the failure of macro economic efforts to restore competitiveness given lack of supportive practices at the level of the firm. These results can and must be avoided.

Figure 1

Principles Guiding
Mutual Commitment Firms

Strategic Level

Supportive Business Strategies

Top Management Value Commitment

Effective Voice for HR in Strategy Making and Governance

Functional (Human Resource Policy) Level

Staffing Based on Employment Stabilization

Investment in Training and Development

Contingent Compensation That Reinforces Cooperation, Participation, and Contribution

Workplace Level

Selection Based on High Standards

Broad Task Design and Teamwork

Employee Involvement in Problem-Solving

Climate of Cooperation and Trust