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ABSTRACT

Seventy participants representing diverse groups such as management, union members, government workers, and college teachers attended a 2-day conference covering the full range of industrial relations problems. For those attending the conference, sessions were held which dealt with problems in the construction industry, issues in incomes policy, the relationship of education to labor supply, public service employment and workman's compensation. A general session on problems in labor economics included discussion of the effects of minimum wages, the depth of unemployment, and the mobility of labor. Still other sessions were devoted to the field of organizational behavior and personnel management, union-minority relationship, black employment, and lower-middle income workers. This proceedings report includes the text of 35 presentations and summaries of discussions. (JS)

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INDUSTRIAL RELATIONS RESEARCH ASSOCIATION SERIES

Proceedings of the Twenty-Fourth Annual Winter Meeting

DECEMBER 27-28, 1971
NEW ORLEANS

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EDITED BY GERALD G. SOMERS

THE INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

The Industrial Relations Research Association was founded in 1947 by a group who felt that the growing field of industrial relations required an association in which professionally-minded people from different organizations could meet periodically. It was intended to enable all who were professionally interested in industrial relations to become better acquainted and to keep up to date with the practices and ideas at work in the field. The word "Research" in the name reflects the conviction of the founders that the encouragement, reporting and critical discussion of research is essential if our professional field is to advance.

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Benjamin Aaron

President 1972

PREFACE

The Association's Twenty-Fourth Annual Winter Meeting included topics covering the full range of industrial relations problems.

Labor economists were primarily concerned with problems in the construction industry, issues in incomes policy, the relationship of education to labor supply, public service employment, and workman's compensation. A general session on problems in labor economics included discussion of the effects of minimum wages, the depth of unemployment and the mobility of labor.

Students of international industrial relations problems were especially interested in President George Hildebrand's address on organized labor and foreign trade and in the session on European labor in transition.

A session of competitive papers was devoted to the field of organizational behavior and personnel management. Relatively new members in the field presented papers which were discussed by more fully established authorities. A second session of competitive papers, also open to those who had not previously participated in IRRA meetings, was devoted to a broad range of topics in industrial relations.

Those primarily concerned with social issues were attracted to the sessions on the union-minority relationship, on black employment, and the lower-middle income workers.

We are grateful to the participants for their prompt submission of manuscripts and to those who made arrangements for the New Orleans meeting. Once again, I am indebted to Mrs. Elizabeth Gulesserian for assistance at all stages in the preparation of the *Proceedings*.

Gerald G. Somers
Editor

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PRESIDENTIAL ADDRESS

George H. Hildebrand
Cornell University

Organized Labor and Foreign Trade

GEORGE H. HILDEBRAND
Cornell University

In the literature about the American labor movement, there is a surprising dearth of references to questions involving foreign trade. Even the publications deriving from within the movement itself disclose no prominent and lasting general concern over trade matters.[1] Not that the federation itself has failed to take positions on trade issues of overriding importance—for example, the critically needed support it gave to the Trade Expansion Act of 1962. In addition, its constituent national unions have frequently intervened when their interests so dictated. Finally, over the period beginning with the mid-sixties, there becomes manifest a growing disquiet over increasing imports and a presumed loss of jobs that has accompanied them.

Nevertheless, as one looks back over the long span of years to the founding of the American Federation of Labor in 1886, trade questions have not been a continuing interest. Indeed they have become overt only in special cases—in infrequent debates over tariff legislation, and, from time to time, with the special employment problems of import-competing industries.

The reasons are not hard to find. Foreign trade has always been a very small part of U.S. gross national product. Even today the proportion reflecting total trade turnover is only eight per cent. Before 1940, the great bulk of the industries organized by our unions was wholly domestic. That is, they were not import-competing while their export sales typically were small or non-existent. In short, effective control of the product market was not in those times significantly threatened by foreign competition in either form. Extension of the span of bargaining power beyond the country's borders was simply not a problem.

With the emergence of the mass-production unions after 1935, the disruptive potential of foreign competition was undoubtedly increased. But European rearmament and the second World War held it in abeyance throughout the formative period of the CIO. With the return to peace in 1945, the world position of American industry continued to be insulated from competition for at least another

[1] For a competent assessment, see Daniel J. B. Mitchell, "Labor and the Tariff Question," *Industrial Relations*, 9:3 (May 1970), pp. 268–276. See also American Federation of Labor, *History, Encyclopedia Reference Book* (Washington: AFL, 1919).

decade, while the other industrial systems were concentrating upon recovery and reconstruction. To be sure, a few unions began expressing concern over foreign trade from 1955 onward—in basic steel, watchmaking, fishing, and some segments of textiles and apparel. But these were the exceptions. Their claims could be met, or so it seemed at the time, by provision of adjustment assistance in the Act of 1962. Accordingly, general support still could be had for a continuing program of trade liberalization through reciprocal tariff reduction negotiations.

The date of the sea-change in the general view of organized labor toward foreign trade can be placed at 1965 with considerable confidence. This was the year in which the current inflation began; it is also the date from which the dollar clearly began to suffer from overvaluation. Not by coincidence, from this time onward foreign trade emerged to become a general issue for the American labor movement. Indeed, President Meany himself declared in his testimony in the U.S. Senate last May that the AFL-CIO had been seeking a change in government policy since 1965, to deal with foreign subsidies and barriers that injured U.S. trade; to check the outflow of U.S. capital and technology; and to cope with the problems created by multinational firms.[2]

At this point, I want to recur to the classical problem of every *bona fide* trade union: effective control of the relevant product market. It furnishes the key, I believe, to the strategy of organized labor toward foreign trade. In one of the most perceptive essays ever written in labor economics, "American Shoemakers, 1648-1895," John R. Commons portrayed the union as the latest of a long series of producer protective organizations emerging one after the other in the shoemaking trade. Each of them, Commons argued, had been created to protect the incumbent journeyman workmen from certain threats, or what he called "menaces" to their economic interests as producers. Central as the source of these hostile external forces, Commons contended, was the widening of the product market with improved transportation. As the market became extended, it gradually made obsolete the existing protective organization, compelling its members to replace it with another. At the end of the historical chain was the labor union, a device for raising wages and improving

[2] "A Trade Policy for America," pamphlet, based on Mr. Meany's testimony before the Subcommittee on International Trade, Senate Finance Committee, May 18, 1971. For an earlier view of trade questions see American Federation of Labor and Congress of Industrial Organizations, Research Department, *AFL-CIO Looks at Foreign Trade: A Policy for the Sixties* (Washington: AFL-CIO, [n.d.]).

employment standards of its members in their roles as workers, not as consumers.

It is here that we find the explanation for the somewhat ambivalent position of unions toward trade, the product market, and competition. To be effective, the union must achieve complete organization of all competing firms in the product market. Only then can wages be "taken out of competition." Only then can the efforts of product buyers to substitute among suppliers be prevented from undercutting the organized sector of the market. Thus the economic philosophy of unionism has always stressed protection of the interests of incumbent members. Only indirectly has it shown concern with consumers' economic welfare, when it posed no clash with worker interests.

For present purposes, trade unions can be grouped in three categories: (1) those concerned with sources of supply that are purely domestic, such as housebuilding or electricity supply; (2) those concerned with domestic sources of supply that are in active competition with imports, such as shoes, apparel, textiles, and television sets; and (3) those concerned with export markets in which U.S. products must compete with those from foreign sources for example, automobiles, aircraft, and fabricated steel products. For the unions in the first or fully insulated category, foreign trade is no problem and therefore of no evident interest. For those in the second group, import represent a form of Commons' competitive menace that devolves from a widening of the product market. With direct foreign investment by domestic producers, U.S. capital, management, and technology can all be exported together, to create new sources of import competition, and through such to become the gravest "menace" of them all—in the language of the unions, an international version of the run-away shop. As for our third group, its problems are parallel to those of the second, except that foreign competition with U.S. exports in third markets is also important and may be intensified by direct investments by U.S. export firms to create overseas operations to replace domestic ones.

As the unions see the matter, the early postwar case for liberalizing U.S. trade policy has long since disappeared. Our major trading partners have long ago made good their wartime losses, to become vigorous competitors today. For the past 15 years, American industry has been helping to make them competitive, by exporting capital in its own private version of the Marshall Plan, in search of cheaper labor. While the United States, the argument runs, continues to maintain the freest market of access in the world, these partners of ours have been busily closing their own borders to our products, through quotas, preference arrangements, border taxes, and other devices. In result, over the past half decade our import-competing industries have experienced a surge of inflowing products, bringing about closures, layoffs, and disappearance of formerly expanding job opportunities. At the same time, export sales have also been constricted.

In this welter of claims there is a measure of factual support, but we shall put off assessment of its quantitative importance until I can consider the implications of expanding foreign trade for domestic unionism.

Both the increase of imports and the lagging growth of exports reflect a widening of the product market on the supply side. In short we have here a special version of incomplete market organization so far as the coverage of collective agreements is concerned. The alternative responses open to the unions for protecting their incumbent members are all difficult: to try to extend the area of organization into other countries, as the Automobile Workers did in Canada; to seek international cooperation through the trade secretariats, to form strike coalitions and so to bring into being some version of international labor standards; to attempt to get such standards through inter-governmental bodies (ILO, GATT); or to try to obtain official measures to limit foreign access to the American market.

Still another implication of expanding foreign trade is that it poses a dual economy problem for the domestic unions. Instead of the American South, the seat of the trouble now is in the developing countries. Clearly, one of the primary incentives for acquiring subsidiaries or for setting up branch manufacturing plants in countries such as Taiwan, South Korea, or Mexico is to take advantage of far cheaper labor costs. Also aiding this exodus is the availability of Section 807 of the Tariff Schedules of the United States, under which duty exemption is granted on the value of American components contained in products imported from these plants. Not only are wages fantastically low in these locations: even more important, manhour productivity by no means is also proportionately lower than in the U.S., because American management, technology and equipment have proved able largely to protect mainland standards of labor efficiency even when using relatively untrained and inexperienced local labor.

But the story does not end even here. Typically in these lands a large supply of excess labor continues to be available indefinitely from the agricultural and artisan sectors. Absent intervention by the state or by trade unions, real wages will not rise for years to come although manufacturing employment increases—in short, W. Arthur Lewis's dual economy case. Thus the outflow of added capital from the industrial countries does not call forth a rise in wages and in unit labor costs, that is to say it fails to induce a self-cancelling equilibrating process that ultimately would check the rise in such imports. On the Mexican border, for example, the situation is found in unalloyed purity, even unto the exclusion of such products from the Mexican market. However, it exists in other underdeveloped regions as well. To the American unions, it is the worst example of importation made possible by the competition of cheap foreign labor. For them there is no easy way to meet the problem: their organization of the full product market is woefully incomplete. It cannot readily be extended. Meanwhile, competitive forces do not work to close the wage gap that makes the problem so severe for the organizations subject to its direct impact.

But how serious is the problem in larger terms? For 1966-69, the Department of Labor has estimated that increased imports have involved displacement of 700,000 *potential* jobs that would have been required if the equivalent output had been produced domestically. In the same period, export-related employment has risen by 200,000 persons. Thus it might be concluded that 500,000 job opportunities were lost, as the AFL-CIO has contended.

There are serious weaknesses in this line of argument. The 700,000 opportunities are phantom jobs, not real ones. They do not represent equivalent unemployed or available and employable persons. Hence they are not comparable with the 200,000 increase in persons actually employed in the export trades. Even more, this was a period of full employment: the only way that 700,000 persons could have been put to work to produce the equivalent for these imports would have been by diverting them from other jobs, with attendant loss of product in these other domestic fields. Obviously the reason this diversion did not occur is that wages were better and workers more productive in these other fields.[8] Beyond these considerations, it should be said that, if undertaken, the putative transfer would have made an already serious inflation still worse, at the same time denying to consumers the added imports that they had revealed that they had preferred at existing comparative prices and product standards.

From the standpoint of the national interest, so long as there was

[8] See Sanford Rose, "U.S. Foreign Trade: There's No Need to Panic," *Fortune* (August 1971), 109 ff.

full employment the equivalent increase of imports implied by these 700,000 phantom jobs has significance only relative to the balance of payments. If it had not been in deficit at the time, the increased imports would have represented simply one way of disposing of the earnings of U.S. capital abroad. Increased foreign investment would have been another. By contrast, since the balance of payments was in deficit, the growth of these imports reflected inflation and increasing overvaluation of the dollar. In a broad way one could say that the U.S. was failing to pay its way through net exports plus earnings of capital. Instead it was using foreign credits to maintain an otherwise unsustainable rate of importation and consumption—credits provided interest-free through the dollar-pegging operations of the foreign central banks, under the Bretton Woods system. But these are issues external to our present concern, which has to do with relationship between imports and jobs.

Clearly this relationship takes on a different character when the increase of imports is associated with rising general unemployment, as occurred after 1969. For example, between the first quarter of 1970 and that of 1971, employment fell by 370,000 persons while unemployment rose by 1,540,000. Inports were rising strongly in the same period. To what extent were they responsible for these adverse changes in the domestic labor market?

Using Census end-use data for trade and BLS input-output technical coefficients to estimate employment effects, Lawrence Krause and John Mathieson have found that 16,600 jobs were lost because of shifts in imports and exports between the first quarter of 1970 and that for 1971.[4] With a jump in unemployment of over 1.5 million persons in the same period, the indicated direct contribution of international trade to U.S. unemployment was barely one per cent—small enough to be trivial.

But this is a net figure, obtained by estimating (1) direct job losses from decreased specific exports and increased specific imports (-182,200 persons); (2) direct job gains from specific increases in exports or decreases in imports (182,700 persons); and (3) indirect job losses and gains in supplier industries to the export and import-substitute trades (-17,100 persons). Behind these figures are some even more interesting ones: increased imports cost a direct job loss of 134,400 in the import-competing industries, with sharp impacts in basic steel, motor vehicles, electrical goods, and apparel and finished textiles. By contrast, increased exports directly created 181,400

[4] Lawrence B. Krause, assisted by John Mathieson, "How Much of Current Unemployment Did We Import?," *Brookings Papers on Economic Activity*, No. 2 (1971), pp. 417–428.

jobs in the same period, almost completely offsetting the job loss from larger imports, and reminding us that trade creates jobs as well as eliminates them. However, when job losses are concentrated and when they occur in a context of rising general unemployment, then it becomes even more difficult to persuade people that trade still contributes to economic welfare.

Consider the position of a labor leader in an import-competing industry. He heads an organization of individual sellers of labor services. The organization prospers or declines with the fortunes of its members, and they, in turn, with the domestic firms that employ them and with the continued ability of their union to control the relevant product and labor markets. The union's orientation is to its own members, while their mutual concern is for steady jobs, good wages and conditions, recognition of skills and experience and ties to the local community.

Foreign trade both benefits and threatens these interests because it widens the area of effective competition, both for workers and their products. As always, the benefits are less obvious than the costs: high-wage jobs for making exports are tacitly accepted, while imports are often painful enough to cause reflection. As a special form of Commons' competitive menace, trade can wipe out significant numbers of jobs, on occasion undermining whole communities. In such circumstances, no union can be expected to be a partisan for open markets, for to be such would be to undercut the very basis for its existence. Thus there is a natural and understandable chain of logic that starts from a primary concern for the interest of incumbent workers as producers. If those interests become adversely affected by a surge of imports—or in an export industry by direct investment overseas to develop substitute sources for domestic production—then the logic of job protection leads directly to demands for quotas, for higher tariffs, and for restraints upon export of capital and technology. Such pressures cannot be turned aside by a showing that open markets would add to the economic welfare of the United States even if the rest of the world were stanchly protectionist, granted that the showing can readily be made. The special interests of workers as *producers,* not as consumers, are not necessarily well-served by a policy of liberalized trade.[5] As producer-oriented organizations, the unions well understand this. Their basic problems are the relative immobility of labor as compared with capital; the promotion and protection of the interests of incumbent employees; and the dif-

[5] International trade necessarily produces gains or it would not occur. However, it does not follow that completely free trade would make these gains optimal.

ficulty of extending the effective zone of bargaining power to overseas locations.

Since 1964, these problems have been made acute by further overvaluation of the dollar, by an attendant induced surge of imports in certain important products, and by an accelerating outflow of direct investment also encouraged by obsolete dollar exchange rates.

In addressing ourselves to these issues, we have to confront a problem of compromise, not of reconciliation—a compromise intended to be an equitable recognition of the special interests of workers as producers, without a blind sacrifice of the general interest of the whole national population in the efficient use of its scarce resources. International trade is not the only factor that both creates and destroys jobs. Technology and shifts of demand are continually producing the same effects on a much larger scale. If job protection were taken literally to mean that nobody should ever have to change his job, and perhaps even his place of residence, then the policy deriving from this objective would call for a permanent and complete freezing of the allocation of productive resources.

If, instead, foreign trade alone were to be singled out as a disruptive force, perhaps on the mercantilistic principle that it is a less defensible cause of domestic economic disturbances, then the policy flowing from this position could range from attempts to control the rate—or changes in the rate—of importation; or in the extreme, to measures to cut off imports entirely. The further one goes in the matter, the greater the likelihood that the export trade would also wither, with autarky as the end result. Under autarky employment still could be kept full by competent demand management. The trouble is, scarce and alternatively usable productive resources would be assigned to the wrong places and purposes and in the wrong combinations—because external trade is not available as a force for redirecting them according to comparative national advantage. In consequence, the country loses the opportunity to specialize and with this loss the economy foregoes a powerful stimulus for development along with the less spectacular but still important gains that trade itself always yields.[6]

But no one is actually proposing autarky—the trouble is, we might still end up with it eventually because of a rapidly growing concern about the disruptive effects of surges in imports.

These disruptions—increases in the rate of increase, to be exact—have become noticeable, and in some cases acute, in the latter half of the sixties. Apart from style effects for demands for certain

[6] Ronald Findlay, *Trade and Specialization* (London: Penguin, 1970), p. 134.

products—and these have not been absolutely large—the principal cause of these disruptions has been the inflation of prices and incomes under a fixed exchange rate. With the chain of monetary events whose first link was forged last August 15, disturbances from the side of imports have begun to lose importance.

To be sure, devaluations of important currencies such as the pound and the franc helped bring about some overvaluation of the dollar well before 1965, simply because they reduced the export prices of British and French goods relative to competing American products both within the United States and in third markets. But the effects were minor: the chief factor in overvaluation was the sustained domestic inflation that set in with 1965, followed within a year by a sharp uptrend in unit labor costs. For over six years, U.S. exports and import substitutes experienced a growing competitive disadvantage. The firms that produced these goods, and their employees, were being whipsawed by internal inflation and the system of fixed exchange rates.

The consequences were painful. In some particularly vulnerable situations, workers lost their jobs and plants were closed down. In the most sensitive industries, the growth of job opportunities slowed down or turned negative. Less obvious but more important, direct private U.S. investment abroad began to grow rapidly. To be sure, the export of private capital in part was for the traditional purpose developing lower-cost extractive resources overseas, or was induced to enable American firms to get over foreign barriers against their exports. However, the grounds are good for believing that the major influence at this time was the growing attractiveness of markedly lower unit labor costs in manufacturing abroad, particularly in certain of the developing countries. As the American inflation gathered speed, it called into play what we may term "the Lewis effect," that is, a growing wage disparity that invited capital migration abroad, unchecked by other forces operating to cancel the external wage advantage itself.

Although domestic inflation and its underlying causes are not to be overlooked as the basic source of the trouble, the adverse role of the Bretton Woods arrangements must also be confronted. Under a system of fixed exchange rates, a currency can be overvalued or undervalued for some time without compelling change in parities. If the case is one of overvaluation, then the nation's exports are too high in price, while its imports are too cheap. This has been an increasingly acute U.S. problem over the last seven years. Under Bretton Woods, the dollar was given a special tie to gold while the other currencies were pegged to the dollar. Because the dollar was made "as good as gold" for purposes of official convertibility, it could serve as a reserve currency for other countries, incidentally helping us to finance a 20-year string of payments deficits. But there was another side to the coin: by reason of this "special position" for the dollar, the U.S. in effect gave up the right to alter the external value of its currency at its own initiative. By contrast, the rules did accord this right to the other members of the system. Each was free to peg or to change the dollar value of its own currency, in this manner to control the dollar prices of its exports to and imports from the United States.

In this peculiar way, the American inflation could be manipulated by some of our principal trading partners for their own benefit. By holding the dollar to the established parity, the dollar prices of exports to the U.S. could be made cheaper and cheaper relative to domestic substitutes—hence the massive invasion of certain U.S. markets. At the same time, the relative prices of U.S. exports tended to go higher and higher for the same reason.

On the external side, the official actions of last August 15 presaged the end to this one-sided game. When the President slammed the gold window shut, the external value of the dollar now had to depend upon the exchange market, together with whatever interventions the foreign central banks cared to make. They could buy up surplus dollars to hold the old fixed parity. Or they could let the dollar float downwards until it found an equilibrium price, inducing our partners to develop a desire to negotiate a new set of rates.

At this point it would be perfectly fair for you to ask, What on earth does Bretton Woods have to do with the interests of organized labor in the United States? Fortunately, there is an answer: A great deal.

Effective devaluation of the dollar means, first, a reduction in the prices of our exports, and a corresponding increase in the prices of imports. Both will aid home employment. Second, it means that the advantage to American industry of going abroad in pursuit of foreign wage differentials will also be reduced. The effect for home employment is more complex but probably will be positive for the near term. Given these advantages from devaluation, together with a more realistic approach to adjustment assistance for workers displaced from their jobs by increased imports, the pressures for quotas and other restrictions should lose force. In short, the dollar reform, together with other measures, provides the equitable compromise mentioned earlier, that between job protection on the one side and community access to the advantages of foreign trade on the other.

It should also be recognized that changes are in prospect to increase the inducement to invest and, through monetary and fiscal measures, to accelerate the rate of increase in real output. Larger expenditures on plant and equipment are essential to improved output manhour. For the near term, labor productivity also will derive a cyclical gain from an increase in the rate of utilization of productive capacity. As productivity benefits, the pressure on unit labor costs and final sales prices should abate. With this, real wages can advance and inflationary expectations should subside.

Let me close with a few cautionary remarks.

First, currency depreciation—and that is what it should be called—is not a permanent cure for disequilibrium in the balance of payments. It will give the United States opportunity to put its economic house in order. But it is not a solution to the problem of inflation. Indeed, to those who believe in cost-push inflation, the prospect for relief through further depreciation constitutes an invitation to indulge in continued excesses in economic policy—monetary, fiscal, and price- and wage-making.

Second, the difficulties experienced by certain domestic industries from the sharp recent rises in imports, or in their export markets, may obscure certain more fundamental shifts in patterns of world trade—shifts for which overvaluation was not the basic cause and for which depreciation is not a permanent cure. Perhaps, as Lawrence Krause has suggested, the U.S. is losing gradually its traditional comparative advantage in hard goods, in favor of a diverse collection of service activities. Certainly employment trends in the past quarter century do not belie this contention. Collaterally, and for reasons not yet well understood, the arts of manufacture and assembly seem more easily diffused over the globe today than, say, before World War II. In short, the U.S. may well be leaving the tertiary industrial stage of its economic history for something vastly different. If so, trends in our trade will show it.

And third, as I have now argued at length, a certain clash is always inevitable between organized labor and foreign trade. Each serves legitimate national interests, the one concerning workers as producers, the other concerning the whole population as consumers. One need not overlook the valuable contribution that the unions have been making to reiterate the case for foreign trade, which is but an extension of the case for internal exchange as well. In the language of the economist, international trade moves out the nation's welfare frontier (except at one special point of no concern here) relative to where it would be under autarky. Thus, as Samuelson says, "some trade is better than no trade." This will hold even if there is complete immobility of productive factors, and, depending upon the terms of trade, even with rigid relative real wages.[7]

In short, there are gains from trade. But more important than the gains themselves is the stimulus that trade provides for specialization, and through specialization, for increased efficiency in the use of the world's scarce resources. Higher efficiency is the lasting source of higher real incomes for workers throughout the world, assuming, of course, that this is still a goal for policy. If, then, workers are fairly protected against the costs of adjustments imposed by trade, it is reasonable to ask their support for a policy to encourage foreign trade itself.

[7] Findlay, *op. cit.*, pp. 128, 123-134.

I

INDUSTRIAL RELATIONS PROBLEMS IN THE CONSTRUCTION INDUSTRY

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The Council on Industrial Relations for the Electrical Contracting Industry

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Industrial relations events of recent times have spurred concern for the design and development of dispute settlement mechanisms in both the private and burgeoning public sectors of the economy.[1] One of the most interesting and distinctive mechanisms in the private sector is the C.I.R.—the Council on Industrial Relations for the Electrical Contracting Industry.

This paper will trace the C.I.R.'s historical development, discuss recent and current problems it has faced and explore the question of its exportability to other sectors of the construction industry and to other industries.

The C.I.R. is a national bi-partite tribunal of the International Brotherhood of Electrical Workers and the National Electrical Contractors Association. The C.I.R. renders final and binding decisions in both contract and grievance disputes and it applies to virtually all agreements (95 percent) in the electrical branch of the industry.[2] To date in its fifty year history the C.I.R. has made 2039 decisions, with all but 45 having been rendered since 1947.[3]

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[1] The American Arbitration Association has established a high level tripartite committee to study alternatives to strikes. See *Business Week*, February 20, 1971, page 80. Se also Bok and Dunlop, *Labor and the American Community*, Simon and Schuster, New York, 1970, Chapters 8 and 11.

[2] There are Council clauses in agreements in all sections of the country and in all major cities except Chicago and Los Angeles. In Chicago, Local No. 134 is a party to a local arbitration plan with the Chicago Building Trades Council. Los Angeles Local No. 11 negotiated a local arbitration clause two years ago to replace the Council clause because of membership dissatisfaction with a Council wage decision. It is interesting to note that the Local's officers had recommended a settlement which the rank and file rejected. The C.I.R. upheld the settlement initially agreed upon by the Local's officers and put it into the agreement. The pattern of I.B.E.W. settlements in the southern part of California supported the Council decision, but that made little difference to the rank and file who proceeded to defeat the business manager who recommended the initial settlement.

[3] Apart from numerous articles appearing in the I.B.E.W.'s monthly *Electrical Worker's Journal* and N.E.C.A.'s monthly *Qualified Contractor*, the following sources contain information on the Council: James J. Healy, ed., *Creative Collective Bargaining*, Prentice Hall, Inc., 1965, pp. 89–95; *Congressional Record-Appendix*, May 24, 1962, p. A3876 (Remarks of Senator Wayne Morse and Article by John D. Pomfret of the *New York Times*); Shaughnessy, *Some Aspects of Collective Bargaining in the Electrical Contracting Industry*, unpublished dissertation, Catholic University of America, June, 1949; Mulcaire, *The International Brotherhood of Electrical Workers*, Studies in the Social Sciences, Vol. V, Catholic University of America, 1923, pp. 146–156; M. H. Hedges, *A Strikeless Industry*, The John Day Company, New York, 1930; *The Council on Industrial Relations for the Electrical Contracting Industry*, published by the Council, Washington, D.C., 9th ed., January, 1968; Bok and Dunlop, *Labor in the American Community*, Simon and Schuster, New York, 1970, p. 242.

The Council clause, which is incorporated in local union agreements, specifies essentially that "There shall be no stoppage of work either by strike or lockout because of any proposed changes in this agreement or disputes over matters relating to this agreement." It established a local labor-management committee consisting of three employers and three union representatives respectively, with all matters to be determined by majority vote. Should that committee fail to adjust the dispute, the clause provides that ". . . such shall then be referred to the Council of Industrial Relations for the Electrical Contracting Industry. Its decision shall be final and binding on both parties hereto." The clause is "evergreen," that is, it continues to bind the parties without limitation of the time unless it is removed by agreement of the local union and its employing contractors. It may not be excised unilaterally.

The Council mechanism is supplemented by an informal arrangement between N.E.C.A. and the I.B.E.W., under which in the instance of an unresolved dispute the chairman or secretary of the local committee is to notify the appropriate I.B.E.W. Vice President and Regional Director of NECA so that their representatives may assist the local committee toward reaching agreement. This procedure has resolved disputes in an unknown but significant number of cases. Those not resolved have gone to the Council. The Council meets quarterly in Washington, D.C., and operates with panels of 12 members, 6 appointed by the International President of the IBEW and 6 by the President of NECA, and the two presidents serve as co-chairmen of the Council.[4] All decisions are by unanimous vote. The Council has never utilized outside neutrals. With the exception of one case to be discussed later, Council decisions have been respected and there have been no strikes or lockouts.

Th C.I.R. is tailored to fit the characteristics of the industrial relations system in the electrical contracting industry. Moreover, the C.I.R. is the product of courage, intelligence and farsightedness, qualities always in short supply in the industrial relations system of our society. This is not to say that the leaders of the Brotherhood and N.E.C.A. have been paragons of economic virtue. They have undoubtedly made mistakes, but they have perceived that enduring gains would best be achieved, not by fighting with each other but by mutual respect and cooperative efforts. The C.I.R. has sought to mini-

[4] Since May, 1970, the Council has operated with two panels each having six I.B.E.W. representatives and six N.E.C.A. representatives. International Vice Presidents Flynn and Vinson have acted as the I.B.E.W. co-chairmen on each panel and anyone of several N.E.C.A. representatives has assumed that position for N.E.C.A. on each panel.

mize work stoppages and to promote high quality performance using productive, modern methods. As I.B.E.W. President Tracy put it in 1939, "We are on record as willing to cooperate. We know that the interests of neither electrical workers nor electrical contractors can permanently be advanced without the method of rational compromise." This task was performed in an industry expanding secularly, but nevertheless an industry with so few barriers to entry that it is populated by very small employers. Because of low capital requirements non-union competition constitutes an ever present challenge.[6] In modern parlance, the fashioning and evolution of the C.I.R. has been an effort by national leaders jointly to generate a philosophy and structure of bargaining that would best serve the perceived long run interests of the respective organizations and their members.

Historically, the C.I.R. owes its origin to a small group of large Eastern travelling contractors, the Conference Club. Led by L. K. Comstock, a farsighted electrical engineer who headed one of the largest firms, the Club found the I.B.E.W. leadership, and particularly International President F. J. McNulty and International Secretary Charles P. Ford in 1917 enthusiastically responsive to the idea of developing an all encompassing standardized national agreement which would stabilize the industry's labor relations. In the same year, McNulty worked with the larger National Electrical Contractors' Association of the United States, which had 1074 members including the firms which were a part of the smaller Conference Club, to achieve an arrangement with the federal government specifying that electrical work on war installations would be performed by electrical contractors and not by general contractors who were newly installing electrical departments to acquire such work. This successful cooperative venture demonstrated the virtues of cooperation.

By 1919, however, I.B.E.W. and Conference Club leaders realized that a national agreement embodying wages and working conditions was impractical in an industry characterized by local product markets. Instead they saw as the starting point the expression of a commonly held industrial philosophy. This they worked out and incorporated in a Declaration of Principles. The Declaration stressed, among other things, "close contact and a mutually sympathetic interest between employee and employer," the avoidance of strikes and lockouts as

[5] *Journal of Electrical Workers and Operators*, May, 1939, p. 231.

[6] This is an industry of small employers. In 1967, 20,671 of 26,125 electrical contractors in the nation employed 9 men or less. (See "Electrical Work—Special Trade Contractors," *1967 Census of Construction Industries*, U.S. Department of Commerce, Bureau of Census, July, 1970.) Among *unionized* contractors in the month of March, 1966, 10,734 of 14,544 employed 10 men or less. Data from the I.B.E.W.-N.E.C.A. National Electrical Benefit Fund, Washington, D.C., March, 1966.

"detrimental to the interests alike of employees, employer and the public," the elimination of waste, and the improving of standards of work by fixing an adequate minimum of qualifications for engagement in the industry. The Declaration further expressed the view that "Cooperation between employee and employer acquires constructive power, as both employees and employers become more completely organized."[7]

The 1919 conventions of the Brotherhood and the national contractors' association to which the Conference Club members took the Declaration, ratified it—the Brotherhood unanimously and the contractors' association by a very narrow margin because many local unionized contractors who disliked the competition of traveling contractors joined with non-unionized members to oppose the move.

Subsequently in 1920 the Brotherhood's International Officers and the contractors' representatives formulated the C.I.R. as the mechanism to implement the Declaration of Principles. This creation of a procedure or mechanism, as opposed to substantive terms of an agreement which would have become quickly outdated, was an outstanding contribution to the history of the electrical contracting industry.

The C.I.R. arrangement was especially acceptable to the Brotherhood's officers. They were aware of the painful fact that in its early years the Brotherhood had nearly perished because of unwise strikes called by local leaders. Beyond that, they saw the C.I.R. as completely in keeping with traditional constitutional provisions which favored the use of voluntary arbitration where it was appropriate and which provided for participation by the International Office in local disputes as a method of reducing the incidence of strikes and lockouts. Indeed, F. J. McNulty, who became International President Emeritus as the 1919 convention stated:

> It is easy to call men on strike. It is easy to put you on the streets. But it is very hard afterwards to get you back again. I say this with pride: I have been your President for sixteen years and have yet to call a strike when you called me in before a strike occurred, and I am proud of this record even though some say I am too conservative. It is what brings the bacon home—conservatism and common sense.

At the outset, the C.I.R. adopted eleven Precepts to guide its decision making. These Precepts included the following: sudden wage changes and retroactive wage advances were to be discouraged because of employer construction contract commitments with owners; regularity and continuity of employment were to be sought to the

[7] I.B.E.W. Convention Proceedings, 1919, pp. 271–272.

fullest extent possible; the right of workers to organize local unions was to be fully recognized; agreements were to contain provision for a means to obtain interpretation; restriction of output by workers or by negotiated conditions was to be regarded as harmful; continuing agreements were to be recommended, provided they contained provision for settling disputes. It was the latter precept which led to the development of the Council clause in local agreements, beginning in 1922.

Between 1921 and 1940, the Council heard and decided 45 cases. At least 150 additional cases were settled informally with the assistance of the officers of the Brotherhood and of the contractors' association. The first seven cases in 1921 and 1922, during the period of the American Plan,[8] involved proposed wage reductions and threatened lockouts. The Council refused to grant the reductions, in part on the ground that the existing wage was fair in relation to the prevailing cost of living, and in part on the ground that ". . . the only satisfactory way in which the competition of the open shop employer can be successfully met is by improving the productive efficiency of the union mechanic," not by reducing wages.[9]

The Council handled each of the 45 cases heard up to 1940 on its own merits but two principles in particular emerged as important. First, it would not countenance obstruction to technological progress. Thus, it ruled that New York Local No. 3 could not refuse to install prewired equipment. Second, in wage cases, it looked particularly to the extent of organization and the union—non-union differential. For example, in a Salem, Massachusetts case, it observed that the local union represented less than one-half the electrical workers in the territory; and it pointed out that much of the work locally had been performed by union labor ". . . but the increased cost of the same has resulted in the displacing of union employees with non-union employees." Wages higher than non-union rates are justified, the Council ruled, if they do not increase the cost of production, but this in turn requires that the employer of union labor must improve his management and the worker his skill if the higher wage was to be justified. "It must be remembered," said the Council, "that economic laws work inexorably—we may legislate against them, but like the law of gravitation, they still persist.[10]

In the 1930's, the Council decided some 12 cases, but its employer

[8] The "American Plan" was the name given by employers to their concerted drive after World War I to reduce the power of unions and if possible eliminate unions from their properties. See Taft, *Organized Labor in American History*, Harper and Row, New York, 1964, pp. 364–365.

[9] *Decisions of the Council on Industrial Relations, 1921–1940*, Vol. I, p. 3.

[10] *Ibid.*, p. 265.

sponsorship changed four times. The problem basically was disaffection between the organized and unorganized members of the contractor's association, which led most of the former to withdraw and try unsuccessfully to run their own guild. Continuity of sponsorship up to 1939 was provided at first by interested individual contractors and then between 1937 and 1939 by the Conference Club. In 1939, sufficient unionized contractors had returned to the National Electrical Contractors Association to make it possible for that organization's newly formed Labor Relations Committee to assume the co-sponsorship role.[11] With the onset of World War II, the Council became inactive, but key figures of N.E.C.A. took full advantage of the war period to build the Labor Relations Section of the organization.[12] Paul M. Geary, Executive Vice President, travelled across the country installing N.E.C.A. chapters and persuading local contractors and I.B.E.W. local unions to incorporate the Council clause in their agreements. Also, between 1945 and 1946, Geary worked out with the Brotherhood's International Officers the "one percent plan." Under this program, local contractors pay one percent of their gross payroll through local N.E.C.A. chapters to a National Employees Benefit Board to support the national pension plan of the I.B.E.W. and N.E.C.A. This arrangement provided I.B.E.W. local unions with an incentive to favor the establishment of N.E.C.A. chapters. The net result of these efforts was an increase in the number of N.E.C.A. members from 1200 in 1941 to over 2000 in 1947 when the C.I.R. resumed active operation. Geary's success in building N.E.C.A. was an important contribution, because a strong contractors' association provides a vital, if not indispensable, element for operating the C.I.R. It furnishes a coherent, adequately financed national organization whose interest is national and oriented to promotion of the industry as a whole.

Beginning in 1947, the case load of the C.I.R. grew at an accelerating rate. By 1963, the Council handled its thousandth case. In the eight years since 1963, the Council has heard 1039 cases and volume is now running at about 200 cases a year. Among the local unions and N.E.C.A. chapters in the nation's 25 largest cities, 12 presented cases between 1947 and 1955 and 9 presented two or more cases. The local parties of one city appeared six times. Between 1956 and 1966, 20 of these large cities presented at least two cases. With this kind of volume, strains were bound to develop.

There has often been pressure from local unions at the Brother-

[11] The key contractors involved were E. C. Carlson of Youngstown, Ohio and Robert McChesney of Washington, D.C.

[12] *John E. Parks et al. v. International Brotherhood of Electrical Workers*, United States Circuit Court No. 8649, Decided January 23, 1963, pp. 7 and 51.

hood's national convention to modify the Council clause. Pressure by certain local unions at the I.B.E.W.'s quadrennial conventions in the 1950's to secure passage of resolutions permitting unilateral elimination of the Council clause from their agreements met with little success. But in 1960 a most serious challenge occurred. Baltimore Local Union 28 struck in defiance of the Council clause for a wage increase far in excess of the N.E.C.A. chapter's offer; it refused to go to the Council; it rejected the more modest increase awarded by the Council after the N.E.C.A. chapter's presentation; it refused to honor International President Freeman's refusal to grant strike sanction and his instructions not to strike. At this time, non-union competition in Baltimore was quite severe.

The Local persisted in its actions and Freeman revoked its charter upon receipt of findings of fact from an independent referee appointed by him in accordance with provisions of the I.B.E.W.'s constitution. Freeman's action was upheld by the Brotherhood's International Executive Council. Freeman also established a successor local union 24. The dissidents challenged Freeman's actions in a lengthy federal court suit, culminating in a circuit court of appeals decision upholding the International President.

The Court's opinion affirmed the importance of the C.I.R. The Court observed, "The Council's principal purpose is to remove the causes of friction and dispute in the electrical contracting industry by providing a forum for conciliation and settlement of controversies between I.B.E.W. local unions and N.E.C.A. chapters. It has aided in creating a relatively 'strikeless climate' within the electrical construction industry and it is undisputed that by and large it has served the parties well over the years." The Court noted also that parent unions have played a useful role in bringing a measure of order and stability to the labor market. The Court added the observation that to have ruled on an ad hoc basis that locals may with impunity defy their parent unions and strike at will would have succeeded only, in the pursuit of what is called democracy in union government, in introducing not democracy but chaos.[12]

The firm position taken by the Brotherhood's International Officers in the Local Union 28 case demonstrated their conviction that the C.I.R. offers the best way to deal with the kind of substantive issues raised by the Baltimore local union, and it was an unqualified commitment at the International level in favor of the continuance of union-management cooperation for the peaceful resolution of disputes.

At the I.B.E.W.'s 1966 and 1970 conventions local unions continued to offer resolutions that would modify the C.I.R. machinery or allow local unions to withdraw unilaterally from it. Generally, these resolutions tended to characterize the C.I.R. as compulsory arbitration which interfered unwarrantedly with local autonomy. Some resulutions pointed out that the other building trades do not have a C.I.R. so that the I.B.E.W. should not have one either. At each of these conventions, however, all such motions failed to be adopted and were instead supplanted by study resolutions.

The 1966 study committee found the C.I.R. arrangement to be basically sound. It did suggest modification in the C.I.R. rules that would reduce if not eliminate the possibility of a gap between the effective date of a wage increase and the expiration date of the previous wage period, thus providing an effective remedy against complaints that the C.I.R. often caused members to lose wages because of its traditional reluctance to grant retroactivity.[13] The 1970 study committee has not yet reported its findings.

The C.I.R.'s significance is that it appears to allow for dispassionate joint decision making in a broader perspective when local interests, even after assistance from representatives of their national organizations, fail to agree.[14] It is a species of voluntary arbitration, even though it involves no neutrals, and it yields a decision which is influenced by consideration of broad criteria and specific data which relate to the economic health of the industry as well as to the aspirations of the contending parties.[15] But it is also a species of bargaining carried on away from the din of the local scene. At the Council, a unanimous decision can be reached within broad parameters without requiring full agreement on the individual ingredients that led to that decision. In this fashion, it is a flexible instrument not requiring major

[13] The Study Committee established by the 1966 Convention decided it would not be practical for all decisions to be made available to all local unions and all employers. Council decisions are sent only to the parties involved.

[14] The facts in one relatively recent case seem to illustrate the point. The officers of the local union in a large labor market agreed to a settlement with the contractors and recommended it to the members. The membership voted it down. The case went to the Council which upheld the settlement initially agreed upon. The facts showed that this settlement was in line with the pattern of settlements in the surrounding area. Thus availability of the C.I.R. may well have saved the area from a long costly strike or a destabilizing settlement or possibly both.

[15] Data available include the following for wage cases: rates and wage adjustments for other trades in the immediate area; wage increases granted to immediate surrounding I.B.E.W. locals; the volume of work performed in the area in the past year (from the [illegible] percent reports); work under progress and due to start (Dodge Reports); size of the local manpower pool and where and at what cost additional men may be brought in if needed; percent of the local work that is done non-union; past wage adjustments made in the local area for additional workers.

The C.I.R. has in the past occasionally set a pattern. For example, in the Spring of 1970, most of Rochester, New York building trades except I.B.E.W. were on strike. The I.B.E.W. and the N.E.C.A. chapter went to the Council. Its decision ultimately set the pattern for other settlements for the Rochester building trades.

modfication. Moreover, it would seem particularly important not to take the increased volume of cases going to the C.I.R. as a basis for dismantling the Council or curtailing its powers. For one thing, some part of the growth in cases may well be the result of the chaotic character of construction collective bargaining in the 1967-70 period, and the rise may subside as a result of the work of the Construction Industry Stabilization Committee and the onset of calmer times.

Is the C.I.R. mechanism exportable? the available evidence suggests that replication of the Council arrangements outside of construction is far from imminent. The I.B.E.W. itself has tried to interest the public utilities with which it has agreements (it represents some 75 per cent of the organized utility workers of this country) in such a plan, but the employers have shown little interest. Within other sectors of the construction industry itself, however, the likelihood of developing analogous arrangements may be more promising. Five plans in other sectors of construction have been developed and endorsed since the early 1960's by construction industry leaders at the national level.[16] Two of these—the Industrial Relations Council for the Plumbing and Pipefitting Industry and the National Joint Adjustment Board for the Sheet Metal Industry—have gotten off the gound and seem to be making progress. Both have the solid backing of top International officials, a sine qua non as the I.B.E.W.'s experience with the C.I.R. clearly demonstrates. But whether these newer mechanisms can achieve the standing so painstakingly built over the years by the C.I.R. it is much too early to say.

[16] The other plans are: the Industrial Relations Council for the Plumbing and Pipefitting Industry; the National Joint Adjustment Board for the Sheet Metal Industry; the National Dispute Adjustment Plan of the National Constructors' Association and the Building and Construction Trades Department, AFL-CIO; the Associated General Contractors of America Disputes Settlement Plan with the Bricklayers, Carpenters, Operating Engineers, Laborers, Iron Workers, Cement Masons and Teamsters; and the Joint Trade Board for the Settlement of Disputes in the Painting and Decorating Industry. The Plumbing and Pipefitting Plan, which dates from 1950, is modeled most closely on the C.I.R. A brief summary of the foregoing plans and experience under them is available in "Dispute Settlement Procedures," unpublished memorandum of the Construction Industry Collective Bargaining Commission, Washington, D.C., 1971.

New Initiatives in Public Policy for the Construction Industry

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Recently governmental concern for what has been labeled "normal construction industry processes" has expanded. Evidence of the rising concern include the establishment of the Construction Industry Collective Bargaining Commission in September 1969, the Construction Industry Stabilization Committee in March 1971, and tailored programs to achieve equal employment opportunity (EEO) in the industry. This paper discusses three recent program initiatives—wage stabilization, equal employment opportunity, and a program to improve the linkage between vocational education for construction trades and the apprentice training system. These initiatives will most likely have a long-term impact on manpower development and collective bargaining in the construction industry.

Public policy has often tended to single out the construction industry as a unique situation. Several examples of this special consideration would be the wage stabilization boards developed for the industry during World War II and Korea, the Missile Sites Commission of the 1960's, the Davis-Bacon and 61 related Acts for determining and enforcing payment of prevailing wages on federally-involved construction, and special programs to promote apprenticeship training. Since the late 1960's, the government and the industry have been developing additional special relationships. Underlying this trend are many factors including the importance of national housing goals, the search for wage and price stability, and the need to achieve equal employment opportunity. The uniqueness of the construction industry has placed a special burden on the government to develop policies compatible with industry structure and processes, while assuring added industry responsiveness to the public interest.

A major factor accounting for the unique nature of the construction industry for public policy purposes relates to the role of the craft union in hiring and training. The unions in the industry are organized into 18 major crafts and are mostly composed of highly skilled and independent persons. The unique role of these unions has its basis in the intermittent and seasonal nature of employment in the industry. Employment contracts commit a worker to an employer for a finite period, perhaps as little as one or two hours. The employer can discharge the man without difficulty, particularly if there is no work. Moreover, employment in the industry is highly seasonal. Between August of one year and February of the next, average monthly employment in the industry may fall by an amount equal to total employment in the entire automobile industry.

In an industry where employment is so tenuous, the craft union represents the only stable force. It operates hiring halls or manages the work referral system and has considerable influence on entry into formal training through the apprenticeship system. The small size of most contractors and their fragmentation into numerous, often competing contractor associations further re-enforces the role of the craft union in training and hiring.

A major example of public policy particularly tailored to the construction industry is in the area of wage stabilization. In the summer and fall of 1970, average first-year increases in major collective bargaining agreements (1,000 or more workers) for construction were rising rapidly, especially in comparison to manufacturing. Average increases in construction and manufacturing rose from 7.6 percent and 6.4 percent, respectively, in the first quarter of 1969, to 21.3 percent and 6.9 percent by the final quarter of 1970. Telegrams and letters from concerned citizens, state and local government officials, Congressmen, Senators, construction contractors and employer associations, as well as employers in other industries, were received in bundles at the Department of Labor and the White House. The authors of this often-spontaneous flow demanded action—any action to restore rationality to wage determinations in the industry.

The Federal Government responded to the situation on March 29, 1971, when President Nixon signed Executive Order 11588, establishing the Const...ction Industry Stabilization Committee (CISC) for the purpose of stabilizing wages in the construction industry. Another portion of the Order provided for the establishment of an Interagency Committee on Construction to develop criteria for reasonable prices and white-collar compensation.

More rational wage settlements in the construction industry were not the sole objective sought by the architects of the construction stabilization program. A policy which achieved non-inflationary wage settlements while sacrificing essential freedom in bargaining would hardly be in the public interest. Yet, of course, the designers could not be purists either. A stabilization mechanism with enough clout to influence a decentralized and fragmented bargaining structure would require a review process, criteria for acceptable settlements, and viable enforcement measures. The structure and processes were designed to strike a balance between maximum local participation and determination, while assuring results in the public interest.

Prior to August 15, 1971, the process worked like this: the parties bargained locally with an eye to the local economic situation and the criteria established in the Order. The two original criteria were as follows:

> Acceptable economic adjustments in labor contracts negotiated on or after the date of this Order will be those normally considered supportable by productivity improvement and cost of living trends, but not in excess of the average of the median increases in wages and benefits over the life of the contract negotiated in major construction settlements in the period 1961 to 1968.
>
> Equity adjustments in labor contracts negotiated on or after the date of this Order may, where carefully identified, be considered over the life of the contract to restore traditional relationships among crafts in a single locality and within the same craft in surrounding localities.

Completed settlements are forwarded to an appropriate joint labor-management Craft Dispute Board along with supporting data. The Board is composed usually of national representatives of the local bargaining parties. The settlements are reviewed by the Board in the light of published criteria and precedents, and either forwarded to the tripartite Stabilization Committee for final review, or returned to the parties with advice and assistance offered.

The Stabilization Committee is composed of labor, management and non-governmental "public" members. The Committee reviews each contract and finds it acceptable, unacceptable, or remands it to the appropriate Craft Dispute Board with an explanation of why it was not approved. The Board, in turn, contacts the parties, and offers advice and assistance.

With the establishment of the post-freeze policy, the CISC and Craft Dispute Boards administer the policies of the Pay Board with respect to wages and salaries and other economic adjustments in the construction industry. The Pay Board now has the power originally held by the Secretary of Labor under Executive Order 11588, to certify unacceptable wage and salary increases, which triggers the enforcement mechanisms. The Secretary of Labor, however, retains the authority to appoint members to the tripartite CISC.

Several things about this structure and process of stabilization have a direct bearing on the degree of freedom retained by the local parties in the bargaining process. First, the criteria in Executive Order 11588 and those announced by the Pay Board are purposely flexible. Part of the reason for this is that it preserves considerable freedom of bargaining. Ceiling percentage increases may have simplified administration, but they would have also destroyed free bargaining in the industry, rendering it a shackled process. Second, the local parties and their national representatives make the major decisions in the wage determination process. Only at the apex of the review process is the public interest specifically introduced, and then by the public members only, representing but one-third the vote of the Committee. Over time, however, the values and philosophy of the Committee should permeate the system and provide a new awareness of the public interest to the local negotiating parties.

The results of the CISC's decisions to date have been gratifying. The average annual increase in contract settlements in 1970 was in excess of 15.2 percent. Under the stabilization program, the annual increase in settlements (measured similarly) has been lowered to 10.9 percent. Moreover, the duration of new contracts has shortened considerably, from 29 months in 1970, to 17.5 months in 1971. This means that a lot of the equity considerations have been accounted for in these short term contracts, and that next year the "screw may be tightened" further.

Another indicator of the success of the stabilization effort is the reduced number of strikes. Historically, nearly one contract expiration in three in the industry ends in a work stoppage for economic reasons. This statistic has been significantly modified. About ½ as many strikes have taken place in 1971 than in 1970, affecting less than ⅓ as many workers. The duration of each work stoppage has also been reduced by one third. For the first time since 1963 man-days lost through work stoppages will decline in the industry.

Statistics on declining wage settlements and the incidence of work stoppages, although gratifying in themselves, provide only a limited assessment of the stabilization program. Of perhaps equal importance are the new relationships that are developing in the industry which may have long-term impact on bargaining and provide insight into how the public interest may be better preserved.

One qualitative aspect of import relates to the functions of Craft Dispute Boards. The overly narrow geographic bargaining areas in the industry coupled with the political sensitivity of the business agents often necessitates a parochial view of member interests. Competition between business agents, as well as inadequate labor supplies and labor market mechanisms, has been a driving force behind higher wage settlements. Clearly, regional and national interests have frequently been overlooked in the wage determination process.

The Craft Dispute Boards are composed of national representatives of construction labor and management. These Boards—18 of which have been established—are the "tier of first review" for settlements reached after March 29, 1971. Originally, many Boards were way-stations before agreements were shuttled to the tripartite Committee. This situation is changing. Even before comprehensive controls were established, more and more contracts were being returned to the local parties by the Boards. The Boards' emerging role in disputes settlements augurs well for a greater concern for the regional and national interests of unions and employers alike.

Another qualitative import of construction stabilization activities has been the development of a reservoir of information about the geographic structure of the industry. Only the bare outlines of reality are visible when more than 5,000 agreements exist in an industry. These by-product data lend encouragement to another idea which many believe would extend the public interest—an expansion of the geographic scope of bargaining in the construction industry.

Narrow bargaining areas by craft promote instability in bargaining—particularly in times of full employment. Workers on strike can journey to a neighboring jurisdiction to escape the economic pressures of unemployment. Moreover, fragmented geographical units keep localities from having a proper perspective of regional and national interests. "Leapfrogging" settlements—the wage escalation caused by one group of persons basing their negotiations on those in the same or neighboring localities—also serve to aggravate problems in the industry.

The Construction Industry Collective Bargaining Commission has been actively seeking an approach to expanding the geographic scope of bargaining in the industry. The work of the Stabilization Committee has helped sharpen the industry's awareness of the fragmentation in bargaining. The Construction Industry Collective Bargaining Commission—a tripartite construction industry mechanism established by President Nixon in September 1969—would hope to build on the new awareness and develop a common consensus between management and labor for reforming the geographic scope of bargaining.

Turning to the Equal Employment Opportunity program for the construction industry, it is clear that the special role of the craft union in the construction industry has also influenced the design of this government program. The Federal Government, through the Office of Federal Contract Compliance, requires federal contractors to develop good faith efforts to eliminate the underutilization of minority workers.

However, in the construction industry, the lack of control over the supply of labor gave the contractor a ready-made reason for under-utilizing minorities. Moreover, enforcement mechanisms supporting affirmative action policies—debarment from federally-involved construction projects—could not be used to influence the apprenticeship selection and the referral practices of craft unions, which have little to lose personally from the debarment of specific contractors.

Given these problems, the Department of Labor has developed two approaches to achieving EEO in the construction industry. One of these approaches is to impose a plan on a geographic area. This plan—the prototype was established in Philadelphia in 1969—requires federal contractors to make substantial effort to achieve certain proportions of man-hours of minority employment on all of their projects—public and private. The proportions are developed after a public hearing which ascertains the extent of underutilization of minorities, if any, by trade, as well as other data. Enforcement is assured primarily through the threat of debarment should the contractor not achieve the goal, or demonstrate sufficient intent. A collective bargaining agreement which includes an exclusive hiring hall provision is not sufficient in itself to absolve the federal contractor from the obligation. The Department has five operational imposed plans in Philadelphia, St. Louis, Atlanta, San Francisco, and Washington.

The second major strategy—the "Home Town Plan"—was designed to overcome many of the weaknesses associated with imposed plans. The Department gives blanket approval to contractors and trades that negotiate and enter into a tripartite agreement including representatives of the minority community. This approach obliges crafts that may be a party to the plan to commit themselves in the agreement to certain numbers of minority workers over stated intervals of time. The major advantages of the "Home Town Plan" is that the commitment by craft is applied area wide, rather than exclusively to Federal contractors, and that union membership is assured for minorities accepted into the plan. Labor and management cooperation in the "Home Town Plan" means that a manpower support contract to recruit, train, and place minorities can be extended with a reasonable chance of achieving success. In practice, these contracts are generally awarded on a prime or subcontract basis to a minority organization. Chicago was the site of the first "Home Town Plan." More than 30 "Home Town Plans" have been given tentative or final approval by the Department.

Since each of these strategies was inaugurated, the employment picture in construction has turned sour. The extent of the influence of this situation on the success of either approach is uncertain. Departmental evaluation of the approaches shows some solid successes and some failures. My own belief is that the specific impact of the plans differs by locality because of such factors as the extent of federally-aided construction, the level of overall construction activity, the degree of organization of the minority community, the relationships between white and black communities generally, the quality of the manpower support activity—and numerous other factors.

Nevertheless, the public interest is clear. Minorities must take their rightful place and share equally the employment as well as the unemployment in all industries, at all levels of endeavor. Often times, however, this goal could perhaps be better achieved if a greater degree of flexibility in the choice of approaches was possible. For example, if an imposed plan or "Home Town Plan" lacked reasonable success, a modified approach may be within the best interests of all concerned. Needless to say, however, any approach once instituted develops vested interests whether they be in management, labor, or the community. Attempts to introduce alternative approaches are considerably difficult.

With these problems in mind, the Department is now considering experimental programs which will be utilized in certain circumstances where their chances of success appear favorable. The experimental programs will continue to provide for minority participation in ways that will enhance the achievement of EEO, but will retain greater flexibility. In most cases, experimental programs will continue minority participation in manpower support contracts incident to the compliance program. We believe that this wider variety of programs will open up a whole range of new choices in the EEO field, for selection in those instances where an alternative to an imposed or "home town plan" may better reflect the public interest.

Vocational education is a third area in which the government has developed special approaches for the construction industry. On March 17, 1970, the President issued a statement on combating inflation and meeting future construction needs. The statement contained new initiatives, many of which were designed to increase manpower and improve labor market mechanisms in the industry. One of these initiatives required the Construction Industry Collective Bargaining Commission to develop a subcommittee to provide leadership in improving the quality of vocational education, its linkage with the apprenticeship system, and to promote "craftsmanship" and the dignity of skilled labor. The subcommittee was formed and its membership included a representative of the Office of Education, the National

Advisory Council on Vocational Education, and the Department's Bureau of Apprenticeship and Training.

The program which was developed and unanimously endorsed by the Commission membership, may bring the very separate institutions of secondary education and training process in the construction industry closer together. Specifically, the program promotes career preparation courses for all youths, at least in grades 6 to 9. Increased Federal, State and local government, and private support for the "World of Construction" program (which provides an overview of the processes, functions and occupations in the man-made world) are encouraged. Cooperative (work-study) education programs, and development of procedures for certifying vocational education courses and programs are stressed. Students completing these programs should receive credits for entry into apprenticeship as well as advanced standing.

Several meetings have been held between Commission members and representatives of the Office of Education to seek ways of rapidly expanding the "World of Construction" program. This program, which was developed by the Industrial Arts Curriculum Project at Ohio State University, has broad-based support among educators and construction labor and management. Its purpose is to replace traditional industrial arts courses which emphasize drawing, woodworking, metalworking, and a few other skills, but do not represent the whole scope of contemporary industry. Through the program, students learn how man plans, organizes, and uses materials, tools, techniques, and people to produce buildings, bridges, highways, and dams. The program reinforces a student's understanding of broad concepts and principles of technology, while giving him a feeling for the nature of occupations from plumbing, engineering, architecture, to office occupations and city planning.

The problems and challenges of manpower development in the construction industry are perhaps as complex as those facing any industry. The seasonal nature of employment, the role of labor in training, and the historic separateness of education from industry present important barriers to rationalizing the flow of youth from education to industry. Suffice it to say that the work of the Commission has made the industry's leaders more aware and conscious of the importance of this problem, and given progressive vocational educators hope and encouragement that progress can be made in better articulating these relationships. Youth, the community, and the industry have much to gain by the success of the Commission's new program.

The subject areas discussed in this paper—wage stabilization, vocational education and equal employment opportunity—represent a considerable shift in the involvement of government in the construction industry. This may please some persons, not others. They are, however, necessary and dynamic responses that reflect the unique nature of the construction industry.

DISCUSSION

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There are two comments I wish to make regarding Professor White's paper. First, the significance of the voluntary nature of the CIR cannot be stressed too strongly. The CIR is a national tribunal, composed of management and labor exclusively which renders final and binding decisions on the terms of new contracts between local unions and employer associations—and the decisions of the Council must be unanimous.

It is particularly instructive to consider the CIR in a period in which many seek to find methods of dispute settlement through programs which compel private parties, by one means or another, to reach an agreement. For without any outside compulsion, certainly none from the government, these private parties have developed a method of peaceful resolution of disputes. The Council is effective because those who established it wish it to be so. This experience should reinforce the view that persuasion of private parties to settle their disputes peaceably remains the best method of improving industrial relations.

Second, the influence of CIR on the rest of construction is very pronounced today. The Council is being studied by the Construction Industry Stabilization Committee and by many of the unions and employer associations in the industry. Professor White has usefully pointed out the features of the CIR and the electrical contracting industry which have limited its "exportability." However, features which in the past limited exportability are less significant in a period of support for CIR-type arrangements in construction generally.

Several points from Dr. Moscow's paper deserve emphasis. First, the increasing involvement in construction matters by government authorities is significant. Such involvement is appropriate for several reasons, not the least of which is the industry's strategic role in the economy as the principal capital goods sector. Historically the inattention paid by our government to this sector, as compared to the support provided abroad has been a major failing of U.S. economic and industrial relations policy. Second, many recent government initiatives have been constructive. Some of the most recent developments in the area of equal employment opportunity, the CISC, and the discussions regarding reforms in the structure of collective bargaining are important examples. It is a comprehensive program—and nothing less is required.

The role of the government in the future must also be constructive and comprehensive. The Construction Industry Stabilization Committee and the Construction Industry Collective Bargaining Commission each contain the seeds of important developments in the industrial relations of the industry. The Craft Disputes Boards established in conjunction with the Construction Industry Stabilization Committee, and modeled, in part, after the CIR, are a major initiative toward improving the performance of collective bargaining in construction. But it is difficult for a federal administration to take long-run initiatives on its own. These must be suggested and developed by the industry itself, and by those in the academic world closely familiar with the industry. It is then appropriate for the government to provide assistance to these efforts. There is no more important governmental function than this.

Finally, with some exceptions, the role of researchers, statisticians and academicians has often been poorly performed with respect to construction. The industry is a complex entity, very much unlike manufacturing in its industrial organization, product markets and industrial relations. The needs of public policy and of intellectual understanding are poorly served by extension of concepts and approaches developed for manufacturing to construction. A serious commitment by government statisticians and academicians to the improvement of the study of construction needs to be made.

II

PROBLEMS IN LABOR ECONOMICS

Howard Rosen, Chairman
U.S. Department of Labor

The Lag in Effect of Minimum Wages on Teenage Unemployment*

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Although the existence of the effect of minimum wages on teenage unemployment has been examined by numerous researchers, only recently has there been an attempt to measure the effect.[1] The measurement of the lag in the effect has received even less attention.[2] Since the effect of minimum wages on teenage unemployment is an important concern of policy-makers, an investigation of the lag structure is in order.

This paper examines the lag structure of the impact of real federal minimum wages on various categories of teenage unemployment rates using three techniques: namely, an autoregressive model, distributed lags and cross-spectral analysis.

Data

Seven classifications of monthly seasonally adjusted teenage unemployment rates supplied by the Bureau of Labor Statistics are used for the period January 1954–December 1970. The classifications are for the following teenage groups, aged 16-19: (1) all teens, (2) all white teens, (3) all non-white teens, (4) male white teens, (5) female white teens, (6) male non-white teens, and (7) female non-white teens. The symbol U_i is used to designate the i^{th} classification of teenage unemployment where $i = 1 \ldots 7$. The monthly seasonally adjusted unemployment rate for all civilian workers, also obtained from the Bureau of Labor Statistics, is designated U_c. The statutory minimum wage for covered workers, W_m, contained in *Youth Unemployment and Minimum Wages* (Bulletin 1657, G.L.S., p. 11) is expressed for computational purposes as a monthly series with changes occurring

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[1] A general survey of the literature can be found in *Youth Unemployment and Minimum Wages*, Bulletin 1657, U.S. Department of Labor, Bureau of Statistics, 1970, pp. 30–33.

[2] See Douglas K. Adie and Gene L. Chapin, "Teenage Unemployment Effects of Federal Minimum Wages," *Proceedings of Industrial Relations Research Association*, 23rd Annual Meeting, 1970, pp. 117–27, and Thomas Gale Moore, "The Effects of Minimum Wages on Teenage Unemployment Rates," *Journal of Political Economy*, Vol. 79, No. 4, July/August, 1971, pp. 897–902, for attempts to measure the effects.

only in the month the federal minimum wage for covered workers changed. Monthly figures for average hourly earnings for production workers, designated AHE, are contained in *Employment and Earnings Statistics* (B.L.S.) for the period January 1954–December 1970. The real federal minimum wage X used throughout this paper is defined as:

$$X = \frac{W_m}{AHE}.$$

Theoretical Model

To derive the model consider a non-linear demand for labor function,

$$D = aI^bX^c \quad (1)$$

where D is the quantity of labor demanded expressed in number of workers, I is an index of business conditions and a, b, and c are parameters.

$$S = dX^f \quad (2)$$

is a non-linear supply of labor function where S is the number of workers offering their labor services; d and f are parameters.

From (1) and (2)

$$\frac{S - D}{S} = 1 - \frac{a}{d} I^bX^{c-f} \quad (3)$$

Since the unemployment rate is expressed in percentage terms

$$U = \frac{S - D}{S} 100 \text{ and (3) becomes}$$

$$U = 100 - 100 \frac{a}{d} I^bX^{c-f} \quad (4)$$

For downward sloping demand and upward sloping supply functions: $c < o$ and $f > o$, so $c\text{-}f < o$ and

$$\frac{\partial U}{\partial X} < o$$

Using U_c as a proxy for business conditions, and new parameters, (4) can be approximated by the following expression in log form:

$$\ln U_i = \alpha + \beta \ln U_c + \gamma \ln X \quad (5)$$

which is the basic form of the model.

First Order Autoregressive Model

A first order autoregressive model was used instead of ordinary least squares multiple regressions to measure the unemployment elasticities γ_i, because of positive serial correlation in the residuals.[3] The model used is

$$\ln U_{i,t} - \rho \ln U_{i,t-1} = (1-\rho)\ \alpha_i + \beta_i (\ln U_{c,t} - \rho \ln U_{c,t-1}) + \gamma_i (\ln X_{t-m} - \rho \ln X_{t-m-1}) \quad (6)$$

where i is the classification of teenage labor, t is time and m is the number of months lag. Equation (6) is similar to equation (5), except that it is expressed in partial first difference form with the possibility of different time periods being introduced between the unemployment rates and real minimum wages. The regressions were run using equation (6) with time lags of 0, 8, 16, 24, 32, 40, 48, and 60 months. A value of ρ was chosen for each equation which brought the Durbin-Watson statistics close to 2.0. The unemployment elasticities calculated by this method are listed in Table 1 with their standard errors in parentheses below them.

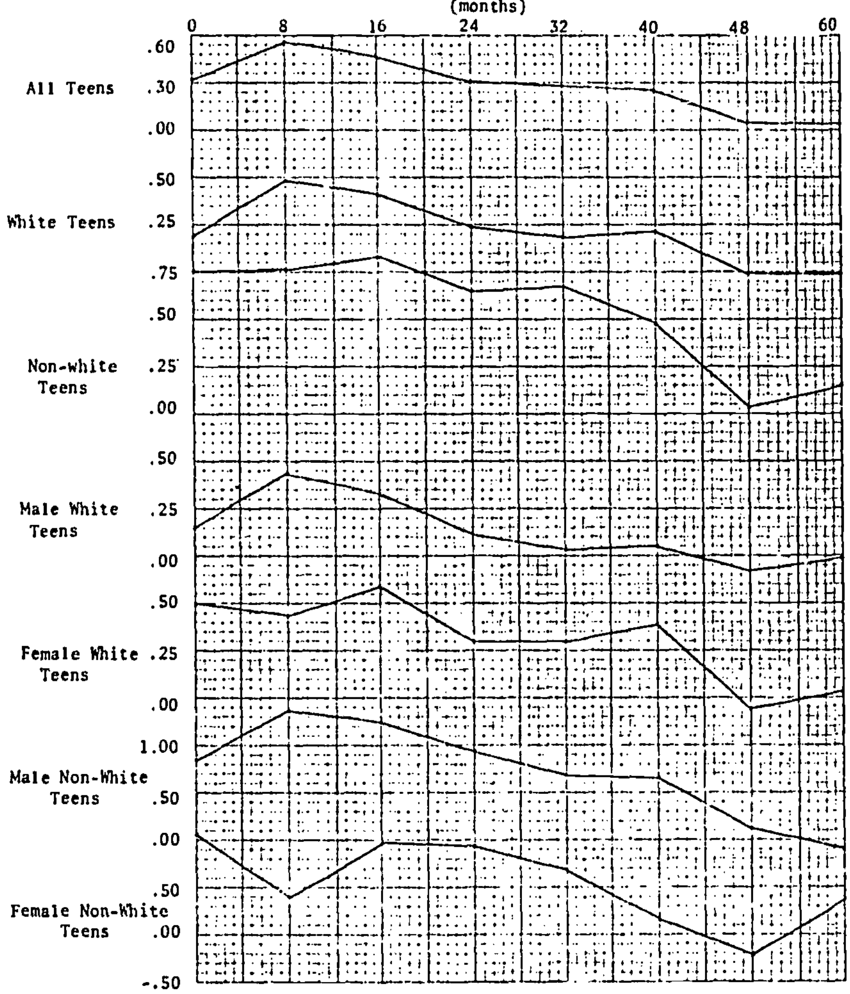
The elasticities in Table 1 are plotted in diagram 1 to demonstrate more clearly the trend in the elasticities as the lag is lengthened. From diagram 1 it appears as though the unemployment elasticity reaches its maximum around the interval 8-16 months for all classifications of teenagers and then tapers off. It is difficult to pinpoint

[3] The unemployment elasticity for teenage sub-group i is the percentage change in the unemployment rate when the real federal minimum wage changes by 1 percent, and is estimated by γ_i.

TABLE 1
Unemployment Elasticity Coefficients

Classification of teenage labor	Lag (months)							
	0	8	16	24	32	40	48	60
All Teens	.32	.56	.47	.30	.28	.26	.05	.05
	(.14)	(.13)	(.13)	(.13)	(.13)	(.12)	(.12)	(.11)
White Teens	.18	.48	.41	.24	.18	.21	−.01	−.01
	(.14)	(.13)	(.13)	(.14)	(.13)	(.12)	(.12)	(.12)
Non-White Teens	.75	.76	.81	.65	.67	.48	.03	.15
	(.28)	(.27)	(.24)	(.22)	(.22)	(.21)	(.20)	(.18)
Male White Teens	.15	.44	.33	.13	.03	.05	−.08	−.02
	(.11)	(.10)	(.11)	(.11)	(.11)	(.11)	(.12)	(.11)
Female White Teens	.50	.44	.58	.30	.30	.39	−.06	.03
	(.24)	(.26)	(.22)	(.23)	(.23)	(.22)	(.20)	(.18)
Male Non-White Teens	.82	1.39	1.24	.93	.69	.66	.06	−.05
	(.35)	(.31)	(.25)	(.26)	(.22)	(.20)	(.20)	(.20)
Female Non-White Teens	1.06	.40	.96	.93	.68	.14	−.21	.36
	(.37)	(.37)	(.30)	(.30)	(.36)	(.31)	(.25)	(.30)

Diagram 1. Unemployment Statistics



the lags more precisely without calculating more elasticity coefficients.

Of the 56 elasticities listed in Table 1, 31 are significant at the 5% level. Most of the insignificant elasticities occur for 48 and 60 month lags.

For all teens, white teens, non-white teens, female white teens, and male non-white teens the elasticities are still close to 50% of their maximum values after 40 months. The elasticity for white male teens decreases rapidly after 16 months and by 32 months is almost negligible. The elasticity for non-white female teens decreases rapidly after 32 months and is only 14% of its maximum value after 40 months.

Distributed Lag Model

To determine the weights W (j) in an unconstrained distributed Almon lag model, second degree La Grangian polynomial interpolation was employed.[4] The model is of the form

$$\ln U_{i,t} = \alpha_i + \beta_i \ln U_c + \sum_{j=0}^{m-1} W(j) \ln X_{t-j} \qquad (7)$$

where i is the classification of teenage labor, t is time and m is the number of months lag. Again all variables were used in lag form to facilitate the direct estimation of elasticities. Equation (7) is similar to the basic model (5) except that instead of the real minimum wage being just one value for a single time period it is a weighted average of previous values of the real minimum wage. After trying a number of lags m = 60 was chosen for all classifications because of the values for R^2, the Durbin-Watson statistic and general internal compatibility of the results. A summary of the results of this model is contained in Table 2.

Table 2 lists the cumulative sums of unemployment elasticities for different period lengths up to a lag of 60 months. Over the complete 60 month period the sum of the weights are the elasticities which indicate larger unemployment effects than the autoregressive model. For instance, for all teens the cumulative elasticity for 60 months is 1.82 as compared with a maximum elasticity of .56 using the autoregressive technique; for white teens the distributed lag model yields 1.44, for non-white teens 3.67. The autoregressive model yields .48

[4] For a description of this technique see Shirley Almon, "The Distributed Lag between Capital Appropriations and Expenditures," *Econometrica*, Vol. 33, No. 1 (January, 1963), pp. 178–195.

TABLE 2.
Cumulative Unemployment Elasticities (Distributive Lag Technique)

Distribued Lag Weights for Months	All Teens	White Teens	Non-White Teens	White Male Teens	White Female Teens	Non-White Male Teens	Non-White Female Teens
0–8	.8850	.8534	1.1328	.6125	1.2003	.5843	1.8160
0–12	1.1547	1.1068	1.5200	.7854	1.5685	.8347	2.3628
0–16	1.3601	1.2947	1.8468	.9060	1.8515	1.0765	2.7786
0–24	1.6127	1.5073	2.3500	1.0154	2.2083	1.5268	3.2994
0–32	1.7107	1.5587	2.7406	.9906	2.3640	1.9198	3.5429
0–36	1.7229	1.5449	2.8455	.9437	2.3956	2.0900	3.6122
0–40	1.7220	1.5161	2.9726	.8820	2.4116	2.2401	3.6741
0–48	1.7145	1.4469	3.2161	.7393	2.4442	2.4722	3.8575
0–60	1.8165	1.4405	3.6716	.5711	2.6687	2.6212	4.5904
R^2	.8521	.8650	.2646	.8846	.5334	.2677	.1961
Durbin-Watson	1.16879	1.17372	1.22856	1.62246	1.07104	1.35910	1.20729

TABLE 3.
Percentage of Maximum Unemployment Effect Felt at Different Time Lags

Time Lag	All Teens	White Teens	Non-White Teens	White Male Teens	White Female Teens	Non-White Male Teens	Non-White Female Teens	Moore's Results for All Classifications
12	.64	.77	.41	1.38	.59	.32	.52	.43
24	.89	1.05	.64	1.78	.83	.58	.72	.69
36	.95	1.07	.78	1.65	.90	.80	.79	.83

Source: Table 2 and Moore, *op. cit.*

and .84 respectively for white and non-white teens. The elasticity for white teens using the distributive lag model can be broken down into an elasticity of .57 for male white teens and 2.67 for female white teens while the autoregressive model yields maximums of .44 and .58 The elasticity for non-white teens using the distributed lag model can be broken down into an elasticity of 2.62 and 4.59 for male and female non-white teens respectively. The maximum autoregressive estimates are 1.39 and 1.06 respectively. The elasticities estimated with the distributed lag model are internally consistent when the teenage classifications are broken down by race and sex; however, the estimates are much larger than those made with the autoregressive model.

Except for the elasticity for white male teens which reaches its peak at 26 months and white teens which reaches its peak at 31 months, the cumulative elasticities for all classifications using the distributive lag model increase to 60 months. This is inconsistent with the results using the autoregressive model which indicated that for all classifications of teenagers the unemployment elasticities reached their peaks around 8-16 months.

Thomas Moore's distributive lag model indicated that .43, .69, and .83 of the maximum unemployment effects were felt after 12, 24, and 36 months respectively for all classifications of teenagers.[5] In Table 3 it can be seen that these figures understate the rapidity with which the full effect is felt as compared to either the Almon lag model or the autoregressive model. On the basis of the Almon lag model, .64,

[5] Thomas Moore incorrectly specified his real minimum wage variable. It is not the nominal minimum wage in time t-m deflated by average hourly earnings in time t that affects the unemployment rate in time t, but the real minimum wage in time t-m which is the nominal minimum wage in time t-m deflated by the average hourly earnings in time t-m. Also the weights attached to earlier changes in the nominal minimum wages are constrained to be larger than those attached to more recent changes. This is a peculiar weighting pattern which requires some theoretical justification since it does not follow the normal pattern of decay. If Moore had derived his reduced form equation from a theoretical model he might have avoided these errors. However, despite the misspecifications, Moore's results still show significant teenage unemployment effects of changes in federal minimum wages.

.89, and .95 of the maximum unemployment effects were felt after 12, 24, and 36 months respectively. When these figures are futher broken down by race and sex as they are in Table 3, they appear to be internally consistent. On the basis of the autoregressive model the effects are felt even sooner.

Cross-Spectral Analysis

Before using the classifications of teenage unemployment in cross-spectral analysis, business cycle fluctuations were removed from the data by using the residuals from the following regression:

$$\ln U_t = a + b \ln U_c + \varepsilon \qquad (8)$$

This is the spectral analysis counterpart to the first part of expression (5).[6] In the cross-spectral analysis these residuals were used with the base series which is the log of the real minimum wage.

The coherence square was calculated between the log of the real minimum wage and the residuals for each classification of teenage unemployment and at each frequency from 0 cycles per month to .5 cycles per month.[7] For each classification of teenage unemployment the frequency with the highest coherence square was chosen. This is done in columns (1) and (2) of Table 4. The phrase angle which accompanies this coherence square expresses the lag of the unemployment rate from the real minimum wage in a fraction of a cycle. The phase angles are listed in column 3 of Table 4.

In interpreting the lead-lag relationship there are indeterminacies connected with the questions of which series leads which and the number of cycle lengths which intervene.[8] I have interpreted all fractional cycle lags as applying to a lag in unemployment rates in column 4 (columns (3) x (5)) and have chosen a suitable small number of cycle lags (column 6) on the basis of internal consistency and the results of the autoregressive model. The total lag expressed in months, includes the number of full cycles (columns (5) x (6)) and the fraction of a cycle (column 4) and is listed in column 7 of Table 4.

The first figure in column 7 of Table 4 indicates that there is an average lag of 13.53 months after a change in the real minimum wage before the maximum effect is felt on the unemployment rate for all

[6] For a similar use of residuals see Irma Adelman "Long Cycles—Fact or Artifact," *American Economic Review*, Vol. 55, June 1965, pp. 450-5.

[7] The coherence square is the cross-spectral counterpart of the R^2 in multiple regression analysis. For an example of the use of cross-spectral analysis see Phoebus Drymes, *Econometrics: Statistical Foundations and Applications*, Harper and Row, 1970, pp. 479-83.

[8] See George Fishman, *Spectral Methods in Econometrics*, Harvard University Press, 1969, p. 44.

TABLE 4
Cross-Spectral Analysis

	(Base Series is Real Federal Minimum Wage)						
Teenage Classification	(1) Frequency (cycles/ mo.)	(2) Coherency Square	(3) Phase (fraction of Cycle)	(4) Lag in Cycles (mo.)	(5) Period of Cycle (mo.)	(6) Number of Lag Cycles	(7) Total Lag in Months
All Teens	.275	.940	.726	2.64	3.63	3	13.53
White Teens	.183	.962	.492	2.69	5.46	2	13.61
Non-White Teens	.083	.957	.217	2.61	12.05	1	14.66
Male White Teens	.108	.853	.030	.278	9.26	1	9.54
Female White Teens	.200	.843	.158	.790	5.00	3	15.79
Male Non-White Teens	.083	.887	.230	2.77	12.05	1	14.82
Female Non-White Teens	.083	.976	.192	2.31	12.05	1	14.36

teens. For white teens, non-white teens, male white teens, female white teens, male non-white teens and female non-white teens, the average lags expressed in months as listed in column 7 are 13.61, 9.54, 15.79, 14.82 and 14.36, respectively.

Except for the lag for all teens which is below that for white teens and non-white teens, the lags seem to be internally consistent. For instance, the lag for white teens is 13.61 months while those for male white teens and female white teens are 9.54 and 15.79 months respectively—one above and one below the aggregate figure. Also the lag for non-white teens is 14.66 months while the lags for male non-white teens and female non-white teens are 14.82 and 14.36 months respectively—one above and one below the aggregate figure.

Summary

The autoregressive model shows lags of about 40 months before the unemployment effect becomes small with the maximum effect occurring around 8-16 months. The length of time required before the maximum unemployment effect is felt is confirmed by the cross-spectral analysis which shows that the maximum effects occur between 9.54 and 15.79 months for all classifications of teenagers. The collaboration between the results of the autoregressive model and the cross-spectral techniques seems to lend credence to these two techniques and the results obtained from them.

If these results are indicative of the actual state of affairs, the unemployment effects associated with increases in the minimum wage are substantial, are felt in their maximum impact after only a relatively short period of time and persist for a considerable period of time. This suggests that minimum wage policy should try to ameliorate rather than exacerbate this condition by lowering rather than raising minimum wages for teenagers.

The Depth of Unemployment, 1948-1970*

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The aggregate unemployment rate has two distinct dimensions that have received little attention—*width* and *depth*. The width of unemployment represents the frequency with which unemployment occurs, regardless of the duration of unemployment. Expressed differently, the width of unemployment is the rate of entry into the pool of unemployed. The depth of unemployment represents the length of time workers remain unemployed. A simple analogy should illustrate the point. Unemployment is more like a pipeline than a pool, where the length of the pipeline is analogous to the duration of unemployment. As workers become unemployed they enter the pipeline. As workers flow through the pipeline there is at every point a leakage back into employment (or out of the labor force). The volume of unemployment at any point in time is then determined by both the initial rate of entry and the average length of time spent in the pipeline.

The purpose of this paper is to investigate the determinants of both the secular and cyclical behavior of the depth of unemployment from 1948 to 1970. In the process I hope to determine whether the secular trend in the depth of unemployment observed by others is explained by identifiable factors other than the business cycle.[1]

In this paper I use three measures of the depth of unemployment: long-term unemployment (LU), which has lasted fifteen weeks or more as of the survey week; very long-term unemployment (VLU), which had lasted at least twenty-seven weeks; and the porportion of all unemployed who had been out of work for at least fifteen weeks (RU). N. J. Simler estimated the impact of general levels of economic activity on long-term unemployment by regressing LU (and VLU) on the aggregate unemployment rate.[2] While Simler's results are statistically quite powerful, they may be suspect due to his choice of independent variables. Since LU (or VLU) is a part of the aggregate

* We regret to report that Professor Chapin died March 7, 1972. Research on this paper was supported by a grant from the Ohio University Research Committee. Regression results are discussed, but not reported in the interests of space.

[1] N. J. Simler, "The Structural Hypothesis and Public Policy," American Economic Review, Vol. LIV, December, 1964, pp. 985-1001, and Eleanore Gilpatrick, *Structural Unemployment and Aggregate Demand*, (Baltimore: The Johns Hopkins Press, 1966), pp. 175-181.

[2] Simler, *op. cit.*, p. 989. His equation includes both current and lagged values of the aggregate unemployment rate.

unemployment rate (U), estimates of a relationship between LU (or VLU) and U contain an element of tautology. Possibly more serious, LU (or VLU) as a proportion of U rises to a peak during recession years so that the estimated relationship between LU (VLU) and the level of economic activity may be biased.[3] To avoid this problem and to get the necessary monthly series, I constructed a monthly index of economic activity by detrending the Federal Reserve Board Index of Industrial Production (FRB) covering the years 1948 through 1970.

The depth of unemployment is affected by the level of economic activity in two ways. First, the unemployed at every point in the pipeline will find their probabilities of finding employment affected by a change in the level of economic activity. Second, the rate of entry into the pipeline will change. The newly unemployed will affect the long-term or very long-term unemployment rates only after a lag of at least fifteen to twenty-seven weeks. This suggests the following equation:

$$(1)\quad D = a + b(FRB) + c(FRB{-}9) + \epsilon,\ b<0 \quad c<0;$$

where D is one of the measures of the depth of unemployment, FRB is as defined above, FRB-9 is the Federal Reserve Board Index lagged nine months, and ϵ is an error term assumed to have a zero mean and constant variance.

The results appeared to be highly significant in a statistical sense. Over three-fourths of the variance was explained by each regression and all variables were of the expected sign and significant at the 0.01 level. However, the Durbin-Watson statistic indicated strong positive serial correlation. Therefore, we can have little faith in the significance of the coefficients. Holding this problem in abeyance for the moment it is worth considering the cyclical behavior of the depth of unemployment in more detail.

Over the period 1948 to 1970 there were five identifiable business cycles. These varied as to amplitude and duration. It would be useful to know if there was any systematic tendency for the cycles to begin with successively higher initial levels of the depth of unemployment. One way to investigate this is to split the data series (using the NBER turning points) into two series; one trough to peak, the other peak to trough. Using these series regressions of the form

$$(2)\quad D = a + bFRB + cC_1 + dC_2 + eC_3 + fC_4 + gC_5 + \epsilon$$

were estimated. Because some cycles were quite short it was not pos-

[3] Since Gilpatrick regresses sub-group LU on aggregate LU her regressions suffer from the same flaw. See Gilpatrick *op. cit.*, p. 180.

sible to use the FRB-9 variable. The behavior of the zero-one dummy variables (C_1,C_2,C_3,C_4,C_5) will indicate whether the level of D was higher or lower at upturns and downturns. For example, using peak to trough data, if each of the coefficients of the dummy variable is positive and significant it will indicate that the depth of unemployment was higher at every successive peak.

The estimates of Equation 2 indicated that there was no systematic rise in the depth of unemployment at either peak or trough. Only two clear patterns emerged. First, the initial cycle appears to have been characterized by a lesser depth of unemployment at both trough and peak. Second, the 1960-61 business cycle appears to have started a significantly greater depth of unemployment at the peak in 1960 and continued to a trough in 1961 that was characterized by an unusual depth of unemployment. While these results must be viewed with considerable skepticism owing to serial correlation in the underlying series and the simplicity of the regression, they do suggest that the early 1960s' may have been unique as regards the depth of unemployment. The extreme depth of unemployment in the early part of the decade may be due to a number of factors. The greater relative depth of unemployment in the 1960-61 cycle may reflect the particularly close conjunction of two business cycles, so that the effects of the 1957-58 downturn on long-term unemployment may not have been wrung out of the system before the onset of the 1960 downturn. However, all of this discussion must be tempered by an awareness that the time period under discussion witnessed a number of institutional changes and possible changes in the structure of the economy.

The depth of unemployment is likely to be affected by a number of factors other than the general level of economic activity. In particular the structural unemployment-aggregate demand debate of the early and mid-sixties centered around the possibility of systematic changes in the labor market such as to increase the level of unemployment associated with any given level of aggregate demand. As I have already pointed out, most of the increase in the "full-employment unemployment rate" is due to an increase in the depth of unemployment. The question is whether this increase represents the impact of permanent changes in the labor market or if it can be explained by transitory phenomena.

Over the period from 1948 to 1970 there was a monthly average of 2,837,000 men in the Armed Forces. Variations in this figure were largely a consequence of changes in draft calls. It is well known that the incidence of the draft falls particularly heavily on marginal workers. To the extent that marginal workers are more heavily represented among the long-term unemployed, changes in the draft call should directly affect the depth of unemployment. This direct effect is reinforced by the likelihood that those workers who have been unemployed for a long spell are more likely to choose the option of volunteering, particularly with the threat of the draft hanging over them. In brief, they may say "I'm out of work now, so why not get my military service finished."

The depth of unemployment is a function not only of aggregate economic conditions but also of wage flexibility. It has been argued elsewhere that the availability of unemployment compensation is likely to increase the duration of unemployment.[4] Unemployment benefits reduce the cost of time-using search and reduce the cost of leisure. The probable effect is to increase the duration of unemployment. Furthermore, the longer the period for which unemployment benefits are available, the less likely are workers to drop out of the labor force.[5] This latter point suggests one flaw in our measures of the depth of unemployment. In a sense, hidden unemployment as a consequence of the discouragement effect is properly viewed as a part of long-term unemployment. For this reason, anything which delays withdrawal from the labor force may increase the *measured* depth of unemployment without causing a real increase in the depth of unemployment.

The unemployment insurance system changed relatively little between 1948 and 1970, with two exceptions. In 1958 and 1959, and again in 1961 and 1962 the federal government enacted programs temporarily to extend unemployment benefits to an additional fifty per cent of the maximum claim period.[6] Programs of this magnitude (over 1½ million workers were affected by each program) may have had a substantial impact on the measured depth of unemployment.

There were a number of programs in the mid and late sixties directly aimed at reducing the number of hard-core unemployed. Malcolm Cohen has estimated that the major federal manpower programs reduced the aggregate unemployment rate by 0.3 per cent in 1966 and

[4] Gene L. Chapin, "Unemployment Insurance, Job Search, and the Demand for Leisure," *Western Economic Journal*, Vol. IX, March 1971, pp. 102-107. Also, see Dale T. Mortenson, "Job Search, the Duration of Unemployment, and the Phillips Curve," *American Economic Review*, Vol. LX, December 1970, p. 853.

[5] For a good discussion of the "discouragement effect" see Jacob Mincer, "Labor Force Participation and Unemployment: A Review of Recent Evidence," in Robert A. Gordon and Margaret S. Gordon (eds.), *Prosperity and Unemployment*, (New York: John Wiley & Sons, Inc., 1966), pp. 73-112.

[6] The 1958-1959 program was authorized by the Temporary Unemployment Extension Act. It covered the period June, 1958 to July, 1959. Sixteen states and the District of Columbia participated. The Temporary Extended Unemployment Compensation Act, 1961, covered the period from April, 1961 to June, 1962. All states participated in this program.

0.4 per cent in 1967.[7] Manpower programs may reduce the depth of unemployment in two ways: First, such programs may operate along "employer of last resort" lines—directly pulling the hard-core (and long-term) unemployed out of the unemployment pipeline. Second, these programs may permanently increase the employability of participating workers.

The preceding discussion suggests the following regression equation:

$$
\begin{aligned}
(3)\quad D = \alpha + \beta_1(\mathrm{FRB}) + \beta_2(\mathrm{FRB\text{-}9}) + \beta_3(\mathrm{TUC}) + \beta_4(\mathrm{TEUC}) \\
+ \beta_5(\mathrm{AF}) + \beta_6(\mathrm{M}) + \beta_7(\mathrm{T}) + \epsilon \\
\beta_1, \beta_2, \beta_5, \beta_6 < 0; \beta_3, \beta_4 > 0; \beta_7 \lesseqgtr 0
\end{aligned}
$$

where D, FRB and FRB-9 are defined above, TUC and TEUC are zero-one dummy variables. TUC assumes the value one for the months in 1958 and 1959 when the Temporary Unemployment Compensation program was in force. TEUC assumes the value one for the months in 1961 and 1962 when the Temporary Extended Unemployment Compensation program was in force. The variable AF is the monthly number of men in the Armed Forces. To capture the effect of manpower programs, a dummy variable (M) is included. It assumes the value one from January 1966 to December 1970. T is a time draft variable that assumes the values 1,2,3,...n, where n is the last observation.

Preliminary estimates of equation (3) indicated the continued presence of strong positive serial correlation. To reduce this problem to a level where statistical tests could be used with any confidence it was necessary to perform a first-order autoregressive transformation on the regressions.[8] Table 1 shows the results of estimating equation (3), after adjustment for serial correlation. The results reported in Table 1 are quite satisfactory from a statistical standpoint. All coefficients but one are statistically significant at well beyond the 0.01 confidence level (that one is significant at the 0.10 level). Each equation explained over two-thirds of the variance and the D-W statistic indicates that serial correlation is no longer a serious problem.[9]

The results are also analytically satisfying. In every case where the anticipated direction of a variable was specified the coefficient has the correct sign. The one variable for which there was no *a priori* expectation, T, is positive and significant in all three regressions. Given

[7] Malcolm S. Cohen, "The Direct Effects of Federal Manpower Programs in Reducing Unemployment," *Journal of Human Resources*, Vol. IV, Fall 1969, pp. 491–507.

[8] For a description of this technique see William C. Merrill and Karl A. Fox, *Introduction to Economic Statistics* (New York: John Wiley & Sons, Inc., 1970), pp. 416–420.

[9] The D.W. for regressions (1) and (3) cause us to reject the hypothesis of positive serial correlation. The D.W for regression (2) is in the indeterminant region.

TABLE 1
OLS Estimates. Monthly data, 1948–70[a]
$D = \alpha + \beta FRB + \beta_2(FRB\text{-}9) + \beta_3(TUC) + \beta_4(TEUC) + \beta_5(AF) + \beta_6(M) + \beta_7(T) + \epsilon$

	Dependent Variable		
	(1) LU (×100)	(2) VLU (×100)	(3) RU (×100)
Constant	4.02180	1.00720	34.96400
FRB	−0.03615	−0.00880	−0.12518
	(4.868)	(3.760)	(1.803)
FRB-9	−0.02606	−0.01734	−0.41519
	(4.868)	(6.751)	(5.505)
TUC	0.74431	0.62924	8.73872
	(6.106)	(10.510)	(5.113)
TEUC	0.71830	0.57202	8.56752
	(6.348)	(10.124)	(4.913)
AF	−0.00032	−0.00018	−0.00474
	(4.819)	(5.444)	(4.793)
M	−0.55551	−0.46101	−12.45889
	(5.496)	(9.149)	(8.339)
T	0.00038	0.00030	00.00784
	(6.018)	(9.656)	(8.523)
S.E.	0.272	0.133	3.943
R^2	0.765	0.812	0.686
D-W	1.746	1.532	1.856

[a] The values in parentheses are t-values. D-W is the Durbin-Watson test statistic for serial correlation. There are 254 degrees of freedom.

the smallness of the confidence intervals of the variables it is legitimate to reflect on the implications of the magnitude of the regression coefficients.

The temporary extension of unemployment compensation appears to have had a substantial impact on the measured depth of unemployment. If the regression coefficients are taken at face value, they indicate that the TUC and TEUC programs added roughly 0.74 and 0.72 percentage points respectively to the long-term unemployment rate.

The two coefficients (for TUC and TEUC) are quite similar in size. This is reasonable in view of the fact that while the TUC program was more liberal in some of its provisions the TEUC program covered more workers. Still the size of the coefficients is bothersome. They seem too large for my casual expectations. It is, of course, quite possible that the two dummy variables captured the influence of some important variable not included in the regression equations.

Military manpower requirements (AF) seem to have had a direct impact on the depth of unemployment. Larger numbers of men in the Armed Forces tend to reduce LU, VLU and RU. The effects seem to be allocated somewhat more strongly toward unemployment of 15-26 weeks duration than VLU. Roughly, these coefficients mean that for every increase of 1,000 men in the Armed Forces, 230 workers were pulled out of long-term and 60 from very long-term unemployment.[10]

The coefficients for the post 1965 dummy variable indicate that this period was characterized by a long-term unemployment rate that was over one-half a percentage point lower and a VLU that was just less than one-half a percentage point lower. The time drift variable is highly significant in a statistical sense, but quantitively unimpressive. It suggests that each additional year saw approximately a 0.00456 increase in LU and a 0.00360 increase in VLU. Using the 1970 labor force this translates into approximately 3700 net long-term and 2900 very long-term unemployed.

To this point we have concentrated on the behavior of LU and VLU. In a sense, RU is a purer measure of the depth of unemployment than either LU or VLU. However, all patterns that can be discerned in the former are present in the latter. It is notable that for at least four variables (TUC, TEUC, M and T) the effect on the depth of unemployment is fairly concentrated in unemployment that lasted for twenty-seven weeks or longer.

The results reported in this paper provide grounds for believing that the depth of unemployment associated with a given level of aggregate economic activity may increase over the next few years. In particular, continued reductions in the size of the Armed Forces will lead to increases (*ceteris paribus*) in the depth of unemployment. Likewise the elimination or reduction of manpower and related programs, to the extent that they have not permanently increased the employability of the hard-core unemployed, will result in a greater depth of unemployment. These two forces far outweigh the slow upward drift in LU, VLU and RU indicated by the coefficients for T.

One factor that may increase the *measured* depth of unemployment is the establishment of a permanent program providing for the extension of unemployment benefits whenever the unemployment rate in any state remains above 4.5 per cent for three consecutive months. This program would provide a fifty per cent extension of the normal duration of state benefit period, up to a combined maximum of 39 weeks.

[10] The AF data are in thousands. Thus you get a 0.00032 reduction in LU. LU averages almost exactly 1.0 per cent, or 714,000 workers over the 1948-1970 period; and $-0.00032 \times 714.000 = -228.48$ workers. Similarly VLU average 329,000 and $-0.00018 \times 329{,}000$ OIL $= -59.42$.

The Mobility of Labor in Low Income Regions of the South

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The purpose of this research is to explore the patterns of mobility among workers in the poorest regions of the South. Traditionally, there has been a heavy stream of migrants, particularly blacks, from the rural South to the largest cities of the North and West. By many measures, opportunities for the unskilled in the northern industrial centers appear superior to those in the South: Wages are higher, discrimination less intense and educational opportunities probably better. Still we are faced with the contradiction of high unemployment in the northern ghetto, the 1966-68 riots, and, at the same time, rapid industrialization taking place in the South. Increasingly the argument is made that the best opportunities for the southern poor are not in the industrial centers of the North, but in the moderate-sized cities of the South such as Greensboro-High Point and Winston-Salem. In terms of migration policy, the question is: Are labor markets for the unskilled generally more favorable in the rapidly growing middle-sized cities of the South, or in the North?

In this paper attention is focused on the earnings of workers who made alternative migration decisions. Social Security data are used to study migration patterns in one particular low income region in the South—the Coastal Plains region, comprised of the eastern counties of the Carolinas and Georgia. An alternative source of data, the Survey of Economic Opportunity, is used in a regression analysis of the earnings of migrants from rural areas and small towns throughout the South.

I. Migration and Earnings of the Costal Plains' Labor Force—Social Security Data

The results of this section are based on the one-percent Continuous Work History Sample of Social Security records.[1] This source has both

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[1] The author did not at any time have access to, nor did he receive, any information relating to specific individual units or reporting units.

For a general description of this data source, see U.S. Bureau of Census, "Use of Social Security's Continuous Work History Sample for Population Estimation", Part I, Current Population Report, Series P-23, No. 31.

advantages and disadvantages in the study of earnings and migration. It provides information on the earnings and industry of the migrant both before and after the move takes place. Ideally, one would attempt to hold constant other factors besides migration. However, with Social Security data it isn't feasible to hold other factors constant except race,[2] age, and sex. No information is available pertaining to such crucial characteristics as the amount and quality of education, health and occupation. Other limitations include incomplete coverage of workers and under-reporting of earnings. The movement of persons who are not in covered employment at each reference date is unrecorded, and not all workers are covered by Social Security. These limitations of the data are pronounced in the study of low income workers, for example farm and household workers.

The Social Security data indicate the following trends in migration between 1960 and 1965: (a) high rates of net out-migration among young black workers, age 18 to 34 in 1960; (b) counter-balancing in-migration of young whites; (c) net in-migration of workers aged 35 and older of both races; (d) net out-migration of blacks and net in-migration of whites;[3] The heaviest flows of migrants into and out of the Coastal Plains were with the rest of the Southeast, the Northeast and the Great Lakes regions, in that order. Three aspects of the inter-regional flows call for comment: (I) the large net in-migration of workers of both races from the Southeast region, (2) the large outflow, both gross and net, of blacks to the Northeast region, (3) the net inflow of whites from every region except the West; and (4) the region's shift from a net exporter to a net importer of labor between 1960 and 1965.

To what extent did migration lead to increases in the earnings of migrants who left the Coastal Plains during this period and were there pronounced differences in the earnings experience of migrants choosing alternative regional destinations? Using Social Security data, the average increase in income of males who migrated from the Coastal

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[2] It was not feasible from this data source to focus on the relatively large Indian population of the Coastal Plains. The tabulations of the Social Security data pertained to Negro and "non-Negro."

[3] According to Census estimates, net out-migration of population from the Coastal Plains has persisted. Between 1960 and 1970, there was net out-migration of approximately 8 percent, very slight net in-migration of whites (less than 1 percent) and continued heavy net out-migration of nonwhites (approximately 29 percent). Only three counties out of 159 did not lose nonwhites during the decade. Thus, the overall rate of population net out-migration was only moderately below the net loss of approximately 12 percent between 1950 and 1960.

The 1960–70 figures were calculated from U.S. Bureau of Census, "Components of Population Change by County: 1960 to 1970," Current Population Reports, Series P-25, No. 461. The 1950–60 figures are from Charles Floyd, *Economic Profile of the Coastal Plains Region*, Coastal Plains Regional Commission, 1970, p. 24.

Plains region between 1960 and 1965 was compared with the average gain in earnings of those who remained. In the case of white males, the largest gain was scored by migrants to the Southwestern region (102 percent). Those who went to the rest of the Southeast experienced gains of 71 percent, while the earnings of those remaining in the Coastal Plains increased 38 percent.

Although black males working in the Coastal Plains in 1960 earned much less than white males, those who remained in the region experienced the same percentage gain between 1960 and 1965 as white males (38 percent). The largest gains were experienced by black males who migrated to the Great Lakes and Northeast regions. The black migrants going to the Northeast region began the period with earnings substantially less than the earnings of the stayers, but ended the period with substantially greater earnings ($3,450 for the movers compared with $2,495 for the stayers). The earnings of black migrants to the rest of the Southeast increased 95 percent.

Since earnings typically increase with age during the early working years and migrants tend to be younger than non-migrants, it is important to hold age constant in assessing the returns from migration. The changes in average earnings for particular age groups by migration pattern were therefore computed. Black migrants to the rest of the Southeast region who were under age 45 made larger gains than those who remained in the Coastal Plains. Black migrants of all ages who went to the Northeast region made larger gains than those who either stayed in the Coastal Plains or migrated to the rest of the Southeast. White migrants to the Northeast also experienced larger gains than non-migrants for each age group; however, white migrants in the age groupings above age 24 did better in achieving gains in the Southeast region than in the Northeast region.[4]

II. Migration and Earnings in Low Income Regions of the South—Survey of Economic Opportunity

The Survey of Economic Opportunity (SEO) provided an additional perspective on the expected returns from alternative migration decisions.[5] A subfile of this national survey was selected, consisting of approximately 25,000 adults who were either living in the South or had

[4] An expanded version of this paper, including additional Tables, is available from the author.

[5] The Survey of Economic Opportunity was a national sample designed especially to provide detailed information pertaining to the low income population. For additional information the interested reader is referred to "The 1966 and 1967 Survey of Economic Opportunity Files and Related Software", Memorandum No. 48, The Brookings Computer Center, Washington: The Brookings Institution, Sept. 1969.

migrated from the South. Multiple regression was used in analyzing the effects of migration on the earnings of workers in low income regions of the South.

In analyzing the earnings of workers with cross-section data, multivariate analysis is frequently used. The objective in this case is to hold other causal factors constant and to isolate the effect of migration on earnings. However, for the purpose at hand this source of data also had major limitations. Although SEO contained information on such characteristics as education, current occupation, and type of residence, it did not give the earnings or occupation of the worker before migration. As usual with this type of data, it was not possible to hold some important factors constant, such as quality of education and amount and type of on-the-job experience, and motivation. There are also obvious limitations in the use of cross-section data in attempting to draw conclusions about such essentially dynamic phenomena as the migrant's period of adjustment and expected lifetime earnings.[6]

The regression equation used in this study was of the following form:

$$\begin{aligned} EARN = f(&\text{Age, } A_1 \ldots A_5 \\ &\text{Education, } E_1 \ldots E_4 \\ &\text{Health, } H \\ &\text{Race, } N \\ &\text{Sex, } F \\ &\text{Migration pattern, } M_0 \ldots M_{16} \\ &\text{Time since migration, } T_1 \ldots T_4). \end{aligned}$$

The explanatory factors were entered as dummy variables in a simple linear equation.[7] The migration decision was classified in terms of the origin and destination of the migrant—including the choice of not migrating. Other things equal, a worker originating in an urban area was expected to have a higher quality education, more on the job learning, and more sophistication about the operation of the job market. It was also expected that the larger the destination city, the

[6] For a discussion of methodological problems in the study of the returns from migration, the reader is referred to the following sources: John B. Lansing and James N. Morgan, "The Effect of Geographical Mobility on Income", *Journal of Human Resources*, Vol. II, No. 4, pp. 449–460. Mary Jean Bowman and Robert G. Myers, "Schooling, Experience, and Gains and Losses in Human Capital Through Migration", *American Statistical Association Journal*, Sept. 1967, pp. 548–51.

[7] For a discussion of this procedure, see Daniel B. Suits, "Use of Dummy Variables in Regression Equations", *American Statistical Association Journal*, Dec. 1957, pp. 548-51.

higher the earnings of the migrant.[8] Of particular interest, too, was the decision to remain in the South.[9]

The results that are especially pertinent for a study of workers in the low income regions of the South are concerned with migrants of rural and urban nonmetropolitan origin.[10] A measure of the returns from alternative migration choices is the difference in the size of the coefficients for the migrants of rural origin who made various migration decisions. The coefficients, which are found in Table 1, indicate that earnings are lowest by far for those who remained in rural areas. Other things equal, the rural adult earned approximately $670 less, $940 less in the case of white males and $1,050 less in the case of nonwhite males; the differentials for females were $240 for whites and $390 for blacks. Movement from rural to urban nonmetropolitan areas (M_1 movers) was associated with large gains compared with remaining in a rural area. Although the earnings coefficients of M_1 movers did not differ significantly from zero, this indicated a gain of approximately $1,000 to males from migration. Among the patterns within the South, movement to a medium-sized metropolitan area (population ¼ to ¾ million) was associated with the largest gain for white males of rural origin. Females of both races, who remained in the South, experienced the best gains in earnings by migrating to large metropolitan areas (population of at least 750,000)—an indication that job opportunities for women were more favorable in large cities in the South than in the smaller cities. There appears to have been a clear advantage to nonwhites of rural origin in migrating out of the South. Black males who went to large northern cities had incomes of $360 above the overall mean. Those who chose destinations in the North, other than in large cities, experienced earnings of $870 above the overall mean. In contrast, there appeared to be no clear advantage to rural white males who migrated north. Some limited gains in earnings among females of both races were associated with migrating to the North. Thus the largest gains from migration occurred to black males who migrated to the North and who avoided the large cities. In quan-

[8] Other studies have reported that wages and incomes tend to be directly related to city size. For example, see Victor Fuchs, "Differentials in Hourly Earnings by Region and City Size, 1959", New York: National Bureau of Economic Research, Occasional Paper No. 101, 1967, pp. 10–17; and Edwin Mansfield, "City Size and Income, 1949", in *Regional Income*, Studies in Income and Wealth, Vol. 21, New York: National Bureau of Economic Research, 1957, pp. 271–306.

[9] The Census definition of the South was used except that Baltimore and Washington were included in the North The racial categories pertained to "whites" and "nonwhites".

[10] In 1970, approximately two-thirds of the poor living in the South were residing in nonmetropolitan areas. U.S. Bureau of Census, *24 Million Americans*, Poverty in the United States: 1969, CPR, Series P-60, No. 76.

TABLE 1
Regression Analysis of Earnings and Migration Patterns

	Weighted Total	White Males	NW Males	White Females	NW Females
M_0 Rural nonmigrants and rural-rural migrants	•−668	•−937	•−1052	•−238	•−387
M_1 Rural to southern urban-nonmetropolitan areas	−39	−126	−147	−87	−380
M_2 Rural to southern small city 50,000–250,000	•−455	•−901	•−582	−19	•−275
M_4 Rural to southern medium city 250,000–750,000	76	−47	−308	98	•−349
M_5 Rural to southern large city above 750,000	•−277	••−576	•−525	264	••−195
M_6 Rural to North, not in a city of at least 750,000	12	−378	•871	•264	108
M_7 Rural to northern city of more than 750,000	•318	156	•336	•395	96
M_8 Urban nonmetropolitan (UNM) nonmovers and movers within the size class within the South	•−212	•−460	•−747	•196	••−174
M_9 UNM to small	••−229	••−196	−224	−83	−287
M_{10} UNM to medium	••208	223	−353	215	−42
M_{11} UNM to large	−40	−244	−275	201	−131
M_{12} UNM to North, not large	76	−28	390	209	−97
M_{13} UNM to North, large	−5	−408	•427	−29	5
M_{14} Metropolitan South to North, not large	•−167	−286	•672	47	−5
M_{15} Metropolitan South to large cities in the North	•247	243	•501	155	26
M_{16} North to South movers	•−498	•−900	•−879	•−174	•−287

Total number of observations, 25,312.
• Indicates significant at the .05 confidence level.
•• Indicates significant at the .10 confidence level.

titative terms, this gain was on the order of $1,920 per year [870-(-1,050)][11]

The earnings of migrants from urban-nonmetropolitan areas were also analyzed. The earnings of nonmovers and movers within this size category (M_8) were used as a basis of comparison. Again, in the case of white males, the highest earnings characterized migrants who went to medium-sized cities within the South, and there appeared to be no clear advantage in migrating north. However, in the case of black males the most substantial gain accrued to migrants who went

[11] A statistical test for significant difference between two sample means can be found in Samuel B. Richmond, *Statistical Analysis*, 2nd ed., New York: Ronald Press, 1964, pp. 190-93.

to cities above 750,000 in the North.[12] The annual differential for black males was $1,174 [427 - (-747)]. If there was any earnings advantage to females of either race in migrating north, it was statistically small.

Somewhat less detailed but more comprehensive migration patterns were studied next. Three patterns that are pertinent here are: remain rural (M_o), migrate to the urban South (MRU), or migrate to the North (MRN). White males who followed the NRU pattern gained approximately $1,040 per year, while nonwhite males gained approximately $810. White and nonwhite females gained approximately $150 and $300, respectively. The migrants following the MRN pattern experienced even larger gains for all 4 race-sex groups.

The Survey of Economic Opportunity provided information on the respondant's current age and age at the time of his last move (of 50 miles or more). Thus, the time since the move could be approximated by current age minus age at the time of move: T_1 (less than 2 years), T_2 (2-5 years), T_3 (6-9), and T_4 (10 or more). The adjustment period was analyzed separately for rural migrants to the urban South and rural migrants to the North. The results indicate that the migrants were, in general, not able to increase their earnings significantly during T_1. It should be noted, however, that the earnings of some of the recent migrants pertain to the period before and during the move. Migrants' earnings appear to rise steeply with time in the North compared with the earnings profile of migrants to the urban South.

III. Conclusions and Policy Implications

Both the analysis of Social Security data and the analysis of the Survey of Economic Opportunity data indicate that large percentage gains accrued to workers who left low income regions in the South. The whites who chose destinations in southern cities did comparatively well in terms of earnings, while blacks achieved higher earnings in migrating out of the South. From the point of view of private efficiency, these findings are consistent with the continued net out-

[12] Although a consideration of differences in the cost of living was beyond the scope of this paper, it seems probable that such differences would re-enforce the conclusion with respect to white males and would not reverse the conclusion with respect to black males. The Department of Labor's index of the cost of a "lower living standard" indicates that in 1967 the cost was approximately 7.4 percent greater in metropolitan areas in the Northeast and Northcentral regions compared with metropolitan areas in the South. The index was not estimated for rural areas; however, the difference between the urban nonmetropolitan South and the northern metropolitan areas was about 16 percent. See U.S. Bureau of Labor Statistics, Bulletin No. 1570-5, p. 27.

In 1966 the mean earnings of nonwhite male adults who were living in the North and who had migrated from the rural South was approximately $3,800. The cost of living adjustment, then, may be on the order of $280 in comparing inter-regional metropolitan differences and $610 in comparing differences between the metropolitan North and the nonmetropolitan South.

migration of blacks and net in-migration of whites to the South. These findings cast some doubt on the thesis that employment conditions in the growth centers of the South have become more favorable for blacks than labor markets in the industrial centers of the North; and they suggest that caution should be exercised before adopting any migration policies aimed at redirecting the flow of black migrants to southern cities.

The conclusions of this study are based on an analysis of earnings without consideration of nonmonetary advantages and disadvantages of particular locations, and without detailed information pertaining to differences in the cost of living. Although, it seems unlikely that differences in the cost of living would alter the basic conclusions of this study, it should be emphasized that the comparative results of migration may have been significantly affected by improving national economic conditions during this period. Since that time, employment conditions in the large urban centers outside the South may have deteriorated relative to labor markets in the South—a possibility that merits further investigation.

DISCUSSION

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Rather than attempt to draw a common thread through these three articles, I would prefer to comment on each separately.

The Chapin article on the Depth of Unemployment is another contribution to the information already gathered on the structural unemployment problem. He continues and amplifies the studies of others and particularly that of N. J. Simmler. Simmler found a secular increase in the depth or duration of unemployment. Chapin's contribution to the subject seems to be his effort at using a de-trended federal reserve board index of economic activity rather than the general unemployment level as an independent explanatory variable for the depth of unemployent. However, he has not provided for the reader's information a correlation coefficient between the unemployment rate and the de-trended federal reserve board index of production. Should there be an extremely high correlation between these two variables, Mr. Chapin has not overcome any of the basic criticisms he has placed against Mr. Simmler.

The most interesting aspect of his article seems to me to be the role of the armed forces in affecting the depth of unemployment. Considering the multivariant nature of the relationship (that many other major factors are accounted for), this presents some compelling evidence that the government possibly is the only effective employer of our last resort in our economy.

However, I don't feel so confident about the role he attributes to extended unemployment insurance. These benefits were generated as a policy measure at a time of relatively high unemployment. It seems, therefore, circular to reason that they produced increasing depth of unemployment. I suggest that as a qualitative variable they were the result of deep unemployment at the time.

It has been suggested that the manpower programs aleviate the depth of unemployment because they replace long-term unemployed people with short-term unemployed. Therefore, while the depth of unemployment may be reduced because of the up-take of hard-core unemployed others previously marginally employed may be pushed out of the workforce. Only time will tell clearly whether the manpower programs have had any real absolute effect or whether their effect is solely to substitute one type of worker for another.

I wouldn't have expected the teenage labor force growth would have any substantial effect on the depth of unemployment. Although Vladimir Stoikov has indicated a secular increase in the unemployment rate of teenagers, it is not clear that any depth of unemployment has been increased within this group. Teenagers seem to be itinerant workers who are in and out of the work force with short-term jobs such that their turnover may be more frequent while the depth of unemployment does not substantially increase.

The Adie article on minimum wage effects on teenage unemployment presents a compelling argument against the rise of minimum wages especially because of its effects on the younger worker. However, despite the growing rate of evidence against the further increase of minimum wages, Congress and the state legislatures seem compelled to continue increasing coverage and minimum rates. One wonders whether they or other policy makers pay any attention to the facts which are available to them. Once policy decisions are made they seem to be carried on despite the observed consequences.

The basic criticism of this article would be the absence of other controlling factors as independent variables in the regression analysis. It certainly is probable that teenage unemployment is affected by other conditions. Mr. Adie is imposing a formidable burden of explaining teenage unemployment variance on one factor, the increased minimum wage at the federal level.

As I indicated earlier, Stoikov indicates a secular increase in teenage unemployment. As we know minimum wages have increased over time. The adjustment of the minimum wage by the manufacturing wage tends to give a "real" minimum wage but probably does not create much cyclical variance about the mean. Therefore, what we are observing are two time-trend variables progressing upwards for the period of observation. I am not confident of correlations between variables which do not fluctuate.

The most interesting point in the article seems to be the persistent cumulating effect of the minimum wage over time. This indicates that the entry of the teenage worker into the labour force is blocked in a continually increasing manner from an imposition of a single change in the minimum wage.

The Iden study of mobility overwhelms the reader with data and provides no clear path for one to follow in analyzing this information. No thesis is offered by Mr. Iden to account for this information. In his defense, he offers the statement in his paper that he is merely attempting to investigate migration patterns. While it seems clear that young blacks and other minority races may have moved north in preference to moving to the larger areas within the south, the southeast and coastal plains regions have maintained and even increased their labour force as a result of immigration from the southeast region of the United States. It also seems evident that the migrant has improved his economic welfare over time as opposed to those who have stayed or remained in their locations. However, the type of data that is available does not identify persons who are unemployed or does not clearly identify those who have returned from previous migration.

It seems clear that certain either real or assumed discrimination against blacks in the coastal plains encourages their movement to the north. However, Mr. Iden presents no evidence that the employment opportunities are not greater in the north than in the coastal plains. Nor on the contrary, does he suggest that they are greater in the coastal plains region. No conclusion can be drawn merely from the fact that people have moved. There should be some independent evidence of what employment opportunities actually exist. I am not clear after having read this article if migrants are pulled into the area by job opportunities of if job opportunities are created by the migration. All I can say in sum is that the efficiency of the labour market stands relatively unassailed by the evidence, and that the earnings of the individual workers reported to the Social Security Administration are some evidence that the migration of the workers from one section of the country to the other is rational from a personal standpoint. But if employment opportunities in the north were so much greater, and the blacks could improve their earnings so much more, why is it that the welfare people in the major northern cities wring their hands with the news of increased in-migration? I think the article lacks the scope and additional information necessary and useful to fully evaluate the data which have been presented.

DISCUSSION

RICHARD M. SCHEFFLER
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"The Depth of Unemployment, 1948-1970" is a carefully prepared study of the determinants of long-term unemployment for the United States as a whole. Professor Chapin defines his problem well, even to the point of constructing for us a rather interesting analogy (the pipeline). He then examines the cyclical and secular behavior of long-term unemployment via several regression models. It is to the author's credit—and not to the paper's detriment—that each estimated equation is criticized honestly for the assumptions it appears to violate. Too many studies in this area simply run a batch of regressions and adopt the one with the highest R^2.

Regarding the cyclical behavior estimation, my main criticism is that the FRB Index of Industrial Production is a better indicator of certain types of economic activities than it is of others. In particular, it would have been useful to obtain some additional indicator of the economic health of service industries, where much unemployment is tending to concentrate. Furthermore, it is obvious that equation #1 suffers from significant multicollinearity, but it would have been interesting to see it run with either FRB or (FRB-9) alone and to note to what extent, if any, the "explanatory power" of the model is reduced. In his discussion of equation #2, the author does not distinguish among the cycles according to their strength or duration; it would have been interesting to see the relationship between the severity of cycles and the depth of unemployment.

Regarding the attempt to assess the secular behavior of unemployment, I felt the basic choice of regressors was good, but some refinements could have been made.

Instead of using the gross monthly average of men in the Armed Forces as a regressor, perhaps it would have been better to deflate these averages either by population or volume of labor force. Thus the effects of population growth on the Armed Forces variable would be recognized and eliminated.

The author's assessments of the effects of unemployment benefits on unemployment seem reasonable, as far as they go. However, there is a possibility that the dummy variable which is used picks up the effect of usually severe recessions as well as the effect of supplementary unemployment benefits. Some account might be taken of the additional worker theory that says that as unemployment increases among primary income earners, secondary workers are forced into the labor market. Also, it seems that under the heading of wage flexibility, some analysis should be made of the effects of the minimum wage. It may be that increases in the minimum wage contribute significantly to the depth of unemployment, as discussed by Professor Adie. The entire discussion of the possible effects of unemployment benefits seemed to be more applicable to blue collar than to white collar workers. For the white collar worker, unemployment benefits are a much smaller portion of total income, and there is perhaps a greater social stigma attached to being unemployed.

There are at least three other factors that may have worked to increase the depth of unemployment over time: (1) the labor market has become more specialized so that job skills are less transferable; (2) the increase in public goods has tended to make leisure less costly and to reduce the level of private real expenditures necessary to maintain a given standard of living; (3) the increase in the labor force participation of females now makes them a much larger percentage of the labor force. Their behavior might be different from those whom the author has included in his discussion.

The fact that unemployment does vary from sector to sector suggests an interesting extension of the analysis pursued in this paper. Separate regression models for the industrial blue collar sector, the agriculture sector, white collar workers, and the service industries, for instance, would offer additional insight into the problem of long-term unemployment for the nation as a whole.

The paper presented by Professor Adie, "The Lag in Effect of Minimum Wages on Teenage Unemployment," uses an autoregressive model, distributed lags and cross-spectral analysis to examine the lag structure of the impact of the real federal minimum wage on teenage unemployment.

In determining his data base, the author should be commended for disaggregating teenage unemployment into categories. This, of course, permitted him the opportunity to make meaningful statements later in the paper on the differential effects of the minimum wage on teenagers. The decision to work with a "real" minimum wage is a good one, but it is not clear to me that the author has constructed a real wage index. It appears to be a variable which measures the "relative" wage of teenage workers earning the federal minimum wage to the average earnings of production workers.

The theoretical model should be praised for considering both the supply and demand side of the market. However, I see no *a priori* reason to assume on theoretical grounds that demand and supply are exponential, other than the fact that it facilitated estimation of the model later in the paper. Furthermore, it would be helpful to the reader if Professor Adie showed the mechanics of the lag transformation he uses. (It is not clear whether his new variable $\ln v_1$ equals 100-V or $\frac{100\text{-V}}{100}$.)

The results of the distributed lag model, found in Table #2, point to at least two problems: (1) only one Durbin-Watson statistic (white male teenagers) is large enough for us to reject the null hypothesis of autocorrelation and (2) the model's explanatory power for non-whites is noticeably deficient. This is not surprising since the basic unemployment model does not include several major factors affecting the unemployment of non-whites such as racial discrimination, the lower quality and quantity of human capital, and the rapid growth of non-white teenage employment in concentrated urban areas.

Regarding the cross-spectral analysis, it seems quite odd, if not logically impossible, for the lag for all teens to be less than either the lag for white teens or non-white teens. The author notes this internal inconsistency, but I cannot dismiss it as quickly as he did. It certainly makes the other results suspect.

In his conclusion, Professor Adie suggests that we lower the minimum wage for teenagers to help relieve their unemployment problem. But what are the implications of this policy for the labor force as a whole? What if it results in substitution of teenagers for marginal adult employees who are primary earners? This new policy suggestion requires, I think, a more thorough discussion than is presented in this paper.

III

BLACK EMPLOYMENT

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6669

The Economics of Discrimination: Theory and Practice*

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Under the marginal productivity theory, profit-maximizing employers would not discriminate between homogeneous factors. But most observers have concluded that discrimination does exist. Indeed, the concept of discrimination is, itself, a theory: since incomes of different groups of people are not equal, and since economists and psychologists cannot show that these income differences are totally a function of differences in productivity, at least part of the income differences is termed "discrimination".

In order to refurbish the neoclassical approach Gary Becker[1] developed a "theory" of discrimination which incorporated the concept of discrimination into the marginal productivity doctrine. Becker's "theory" involved numerous aspects, the two most important of which were first, that discrimination could be thought of as a subjective taste—capable of being quantified in dollar terms—describing an attitude whereby one man or group of men (white) prefer not to associate with another man or group of men (black). Becker called this "a taste for discrimination," and its dollar measure the "discrimination coefficient" (DC).[2] Second, Becker claimed that "new insights are gained and the analysis made simpler" if we think of the world *as though* it were two separate "societies"—one wholly white, the other wholly black—which engage in foreign trade in which factors and not products are exchanged.[3] Then, since the white society has a "relative abundance" of K and the black society has a relative abundance of L, the black society will "export" L and "import" K, and the white society will do the reverse.[4]

In 1954, Gordon Allport defined discrimination as one means of acting out prejudice—an irrational, emotional aversion causing one

* Data collection and analysis in part three of this article was partially supported by U.S. Department of Labor Grant's 81-19-68-13 (Negro Employment in the South Project) and 31-45-70-03.

[1] Gary S. Becker, *The Economics of Discrimination*. (Chicago: The University of Chicago Press, 1957).

[2] *Ibid.*, pp. 6–9.

[3] *Ibid.*, pp. 11–12.

[4] *Loc. cit.*

person to take action harming another.[5] In Allport's terminology, Becker's "taste for discrimination" would be defined simply as "prejudice." Furthermore, the DC concept is difficult to test since persons who discriminate do not admit it; and even where persons discriminate consciously, they do not do so in dollar terms. In addition, neither discriminators nor economists know with any reasonable accuracy the relative MRP's of different workers, and the use of the concept of a DC in a model that assumes rational behavior may be a contradiction in terms. A rational (profit-maximizing) employer will employ any factor of production so long as $MRP_a > P_a$. Becker adds the DC to P_a and says that even if $MRP_a > P_a$, if $MRP_a < (P_a + DC)$ a rational employer will not hire a. Becker thus enlarges the concept of maximizing to include one non-economic good. This, however, reduces the whole concept of maximizing to a tautology: 'Employers attempt to maximize some combination of all the things they consider good (worth maximizing).' Consequently, narrow definitions of "rational" are incorrect, and broad ones are tautological. Perhaps a better alternative would be to retain the *concept* of profit maximizing employers who occasionally, as when they discriminate, engage in irrational behavior.

Although generally well received by economists, specific aspects of Becker's quasi-foreign trade model have been criticized. The model is based on unrealistic assumptions which yield unworkable deductions. Specifically:

(1) the U.S. is not two separate societies;
(2) even where segregation is greatest, there are numerous linkages between the white and black "worlds";
(3) neither white nor black factors are internally homogeneous, let alone perfectly substitutable with factors in the other "society";
(4) if white and black L were perfectly substitutable, L_b would move to the white "society" only to optimize the K-Lmix, but there would be an infinite number of optimal "equilibrium" positions (assuming infinite divisibility);[6]
(5) perfect competition does not exist in either "society" and certainly not between the two;

[5] Gordon W. Allport, *The Nature of Prejudice*. (Garden City, New York: Doubleday and Company, Inc., 1958—originally published 1954), pp. 6–15.

[6] Using Becker's assumptions that $L_w = 9 \cdot L_b$ and $K_w = 150 \cdot K_b$, the relative factor amounts would be:

$$L_b = 100,\ K_b = 12,\ L_w = 900,\ K_w = 1800,\ \Sigma K = 1812 \text{ and } \Sigma L = 1000.$$

Assuming infinite divisibility, there are an infinite number of possible combinations which would yield 1.812 K:1L. If only K moved, 169.2 units of K_w would move to the black society. For every unit of L_b that moved to the white society, there would be a decrease of 1.812 units of K_w moving to the black society.

(6) the two societies "trade" neither commodities nor factors of production—in the "real world" goods and factors move in both directions, albeit with numerous imperfections.

In sum, while Becker's book was an important seminal contribution, it has not been useful in providing a format for empirical studies due to its highly unrealistic assumptions and procrustean methods.

Part II

Lester C. Thurow's *Poverty and Discrimination*[7] is a compilation of econometric models and techniques and provides an excellent discussion of definitions and terminology in addition to preliminary estimates of the extent, interrelationship, and complementariness of poverty, discrimination, and human capital. Even though Thurow was explicitly aware of the limitations of his own methods and data he failed to include qualitative variables in his analysis, apparently because of the difficulties in finding suitable quantitative proxies.

Thurow developed a poverty model which measured the correlates of poverty.[8] In the model, the national incidence of poverty over time was represented as a linear function of 6 economic "causes" of low income. Although Thurow recognized that causation was multi-directional, he contended that rural-urban mobility was an effective means of reducing poverty, since the incidence of poverty fell by 0.3 percentage points for every percentage point decrease in the number of farmers.[9] A study conducted in Birmingham,[10] however, indicates that it is mobility *to jobs* that decreases poverty. For example, during the 1960's the number of agricultural jobs fell whenever the unemployment rate fell. When there are no jobs in the city, rural-urban mobility does not decrease poverty but merely shifts it.

Education was another important variable affecting poverty in Thurow's model. Thurow says that "most (82 percent) of the difference between the incidence of white and Negro poverty is explained by the handicaps of being a Negro and of having a low education level."[11] It is implied that blackness, plus the other factors which correlated with blackness, led to a low income. But what is the "handicap

[7] Lester C. Thurow, *Poverty and Discrimination.* (Washington, D.C.: The Brookings Institution, 1969).

[8] $P = a + bF + cN + dL + eE - fW - gI - hD + u$ in which the percentage of families in poverty = P, on farms = F, headed by nonwhites = N, with no one in the labor force = L, with heads having less than 8 years education = E. W = percentage of population 14 years old and above who worked 50–52 weeks, I = state industrial structure index, D = dummy variable for Alaska and Hawaii and u = error term.

[9] Thurow *op. cit.*, p. 34.

[10] Brian S. Rungeling and George Ignatin, *Black Employment Patterns in the Birmingham SMSA*, to be published by the U.S. Department of Labor.

[11] Thurow. *op. cit.*, p. 42.

of being a Negro?" The Birmingham study shows that such handicaps involve social and economic discrimination by whites, which results in blacks having poor education, poor housing (close to polluted areas), poor transportation, poor medical care, low incomes, and lack of political power. Thus it is the combination of factors which cause blacks to be absent from the work force, have low marginal productivities and to be discriminated against which explains their poverty. It is not enough to say that "blackness" correlates with low income; nor is it enough to show that blackness correlates with a few obvious measures and causes of poverty;[12] for policy purposes, it is necessary to know what "blackness" implies in terms of *all* other relevant variables.

Thurow discusses two other models: the queue and human capital models. The queue model states that workers are hired according to their marginal physical productivities (MPP); those having the lowest MPP (blacks) are hired last and laid off first.[13] While similar to Ricardo's concept of the differential fertility and location of land, the model is an explicit recognition that employers try to rank prospective employees according to expected productivity and regard L as non-homogeneous.

Thurow's basic definition of human capital (K_H) may be paraphrased as "that which determines a person's income." He says, "Individuals with little education, training, and skills have low marginal productivities and earn low incomes." He adds, "Blacks who have less capital than whites earn less."[14] Granted; but blacks with more K_H than whites also earn less. In Birmingham whites and blacks with equal amounts of K_H earn unequal incomes because employers, due to preconceptions about capabilities, prefer to hire whites. Blacks having large amounts of K_H are perceived to have small amounts of K_H, perhaps because blacks who previously have applied for specific jobs have had very little K_H. While Thurow (as does Becker) uses education as a proxy for K_H, it is clear that people develop skills and tools through means other than formal schooling. Thus, quantity and quality of education often give a poor estimate of K_H. This supports Thurow's contention that blacks (1) fare poorly in the amount of on-the-job-training received and (2) due to poverty, do not develop "desirable" business contacts or work habits. Perhaps Thurow's most significant theoretical contribution involves his argument that education and training (and, by

[12] Thurow, *op. cit.*, p. 41.
[13] *Ibid.*, p. 48f.
[14] *Ibid.*, p. 66.

implication, other manpower aspects) are complementary and multiplicative, not merely additive.[15]

Thurow's claim that individuals should invest in education and training as long as benefits exceed costs[16] involves a tautology which in abbreviated form says that individuals will find it profitable to invest in education and training so long as they think it is profitable. However, the important empirical questions are whether people (1) are "rational" and (2) actually invest in K_H when the *expected* dollar returns are greater than *expected* dollar costs. We believe workers are not "super rational" beings, and that investment in K_H is a short-run pragmatic decision. Many individuals go to school as required by law, or for social reasons; and the decision to invest is often made by parents or government. Given short-run perspectives and imperfect capital markets (stressed by Thurow), the cost of acquiring "experience" may be far less than the cost of acquiring "education." The Birmingham study supports Thurow's contention that there is a difference in time preference between poor and wealthy people, that many people are entrenched in a "poverty band," have less information about the labor market, and have less certainty that they will benefit from investment in K_H. However, not only do the poor, "continually underinvest in their human capital since they lack the necessary assets"[17] as Thurow says, but it is questionable that they actually consider the alternatives in any kind of structured analysis. More important, heavy investment in K_H results from traits inculcated through family customs and habits and depends on strong faith in on-going family processes and a "taste" for improvement (or survival) of the group.

Thurow argues against Becker's central proposition that "when actual discrimination occurs he [the discriminator] must, in fact, either pay or forfeit income for this privilege."[18] But regardless of who pays the costs of discrimination or who *might* benefit, discrimination is caused by non-economic motives and, by our definition, must result in economic losses. The issue detracts from Thurow's overall force. He has produced a well-reasoned empirical study, advancing new insights that should lead to more empirical studies; and he has provided solid evidence that blacks have more unemployment, are paid less for the same work, face obstacles in entering certain occupations, have less human capital, find it more difficult to borrow money, and

[15] *Ibid.*, pp. 71f and 93-5.
[16] *Ibid.*, p. 84.
[17] *Ibid.*, p. 85.
[18] *Ibid.*, p. 113.

"are not permitted to enter those areas where monopolies result in factor returns above [market price.]"[19]

Part III

The Birmingham study[20] supports Thurow's conclusions. EEOC data for Birmingham showed that in 1966 5.2 percent and in 1969 11.0 percent of all black workers in the private sector were in white-collar occupations compared to 46.4 and 53.8 percent of all white workers.[21] The black occupational structure changed due to exogenous factors; there was an improvement in overall occupational structure rather than a black improvement relative to white. Blacks in all industries had a less than proportionate share of the jobs in high paying occupations (white-collar and craftsmen) and a more than proportionate share of the lower paying occupations (services and laborers). Blacks fared relatively best in medical and health related industry, education and the Federal government, and worst in State government and most private industries.

Blacks, compared with whites, did relatively worse on objective tests, had higher dropout rates from high school, attended college less frequently, and had lower median years of schooling. Blacks had higher tuberculosis rates and accounted for a larger relative percentage of 7 of the 9 most numerous reported diseases. Blacks had higher death rates than whites from all but 3 causes. The black infant mortality rate was 1.8 times the white rate; and black babies, on average, weighed 7.5 percent less than white babies.[22]

Blacks had greater access to those employment recruitment channels which involved low-paying occupations while whites had greater access to better jobs. Public transportation was undependable and slow, and blacks (and women) relied on public transportation far more heavily than did whites (and men). Certain craft unions in Birmingham refused entrance to blacks although some blacks have been placed through an "outreach program". While most unions in the building trades have had at least one black apprentice or journeyman,

[19] *Ibid.*, p. 118.

[20] Rungeling and Ignatin, *op. cit.*

[21] EEO-1 reported employment represented 39 percent and 43 percent of non-agricultural employment in Birmingham in 1966 and 1969 respectively.

[22] Nationally, black babies weighed 5.2 percent less than white babies. Generally, birth weights rise as family income rises, indicating that birth weight is partly a function of income and other environmental factors. See "Variations in Birth Weight. Legitimate Live Births United States—1963." National Center for Health Statistics—Series 22—Number 8. p. 17.

a majority of the blacks who entered have left the program—for reasons not completely known.[23]

Blacks, compared with whites, lived in areas characterized by: more unsound housing, more persons per house, fewer houses occupied by owners, more houses with more than one person per room, lower rents, lower housing values and lower family income. For testing purposes these data were put into a linear regression model. However, due to extreme multi-collinearity between the variables, it was not possible to conclude that, *ceteris paribus*, blacks in Birmingham lived in less sound housing than whites, since it was clear that the other things were not equal. Blacks lived in "worse" housing because of a combination of the above factors, plus numerous others. Relative to whites, blacks in Birmingham have:

(a) lower incomes,
(b) worse jobs,
(c) discrimination in jobs and housing,
(d) more persons per family *and* per wage earner,
(e) less education (both quantity and quality),
(f) less efficient transportation,
(g) less knowledge about job, housing and money markets,
(h) worse nutrition and health care and more disease,
(i) other as yet unspecified variables.

While the relationships between the above variables are speculative, it is clear that any one housing variable, say "soundness", can be "explained" by an equation of other *housing* variables; but the causes and cures for unsound housing probably include other economic and social variables.

Part IV—Conclusions

It is difficult to talk about discrimination in terms of a rational maximizing model: First, discriminators do not always discriminate consciously, second, even if employers and whites want to maximize some form of income or utility from discrimination, it is doubtful that they would have the knowledge to do so, or could do so. Both Becker and Thurow argue implicitly that discrimination is rational and premeditated; but the Birmingham study indicates that discrimination results in large part from tradition and unconscious action. Thus, the term discrimination should be divided into: (1) conscious discrimination, (2) unconscious discrimination and (3) disadvantagedness. In

[23] An NAACP leader claims that blacks have been "pushed out" of the program while a union leader says blacks voluntarily left because they could not handle the work and/or work routine.

general, if the term "discrimination" is to have a rigorous meaning, it must refer to blacks being: (1) forced into jobs which yield less pay, status, and production than blacks are capable of performing or (2) denied those high pay, status and productivity jobs which blacks could perform. "Conscious discrimination" occurs when $MPP_b \geqslant MPP_w$ and yet employers hire w, while "unconscious discrimination" refers to subjective, *erroneous* evaluation of MPP_b and MPP_w where employers believe there is some objective criterion forcing them to discriminate; that is, employers ***think*** that $MPP_b < MPP_w$ when, if fact, $MPP_b \geqslant MPP_w$. "Disadvantagedness" means $MPP_b < MPP_w$; often blacks are inferior manpower inputs—with less K_H and lower MPP's than whites.

Disadvantagedness results from discrimination and is not a type of discrimination *per se*. However, it might be fruitful to test the hypothesis that disadvantagedness leads to further discrimination. It is clear that blacks and whites bring different amounts of K_H to the labor market. This is, in part, a result of past discrimination; but even without current discrimination, blacks in Birmingham would bring fewer manpower "tools, and equipment" to the labor market than do whites. Furthermore, both blacks and whites have fewer "tools" than do residents of other parts of the country.

Blacks are regarded by white employers (who have little objective data) as inferior workers. This is unconscious discrimination. But this raises the question of how we determine whether blacks are, in fact, inferior workers where employers regard them as such. In particular, where employers use generalized intelligence tests (Eg. Wonderlic), *job* capabilities are not ascertainable. Even if employers know that an additional unit of L will increase TR by more than TC, employers cannot determine the relative marginal productivities of different *individuals*.

Thurow does an excellent job of isolating and explaining *some* variables affecting poverty and discrimination. But he has not formulated a theoretical framework for curing the numerous real social and political problems; and he has not tested all of the possibly-relevant variables. Breaking the circle of poverty (and discrimination) is difficult—conceptually, statistically, and from a policy standpoint. Thus, Thurow is right when he recommends actions that would attack the circle of poverty and discrimination at all of its links simultaneously,[24] since discrimination is an amalgam of numerous interrelated problems. To eliminate poverty will require programs to increase K_H, physical K, and organizational efficiency, but it will also require programs to correct market imperfections, lags in economic

[24] Thurow *op. cit.*, p. 159f.

adjustments, and the status of individuals and families who are not now in the labor force.

Future models for empirical testing should include numerous social, political and economic variables combined into a system of behavioral equations. But first we need to know what the variables are. Currently, we are gathering data and trying to uncover all of the as yet unspecified variables which affect the productivity of L. It is our tentative conclusion that the circle of poverty involves far more interconnected links than prior statistical tests have considered. Thus, while Becker stayed within the narrow confines of neoclassical assumptions, and Thurow carried the theory of discrimination into the empirical stage by testing variables in single equations, we believe that in the long-run, a useful theory should include a system of simultaneous equations which allows for the identification and interaction of various elements of poverty, discrimination and disadvantagedness. We have been examining qualitative aspects of a broad, general system; at present we do not know how many variables are relevant, but ultimately an operational model should include measures of the interrelationships between such variables as:

a. individuals' education
b. individuals' parents' education
c. individuals' parents' income
d. soundness and crowdedness of housing
e. occupational structure
f. industry structure
g. transportation problems (including time and aggravation as economic costs)
h. difficulties of acquiring and transmitting labor market data
i. medical and health care
j. nutrition (prior to birth, in the 5 years following birth, and for adult L)
k. air and water pollution
l. voting percentages and political responsiveness
m. provision of public services
n. community attitudes
o. crime and delinquency
p.-z. unknown other relevant variables.

It would be premature to set up these variables in test equations; in the meanwhile, the best route might be Thurow's—but only if we are aware of the limitations thereof and exercise the same diligent scholarship that he did.

Black Employment in New Orleans*

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I

Before presenting some of the quantitative and qualitative results of this study, as it currently stands, a very brief overview of the local socio-economic base should be helpful to the reader. The metropolitan area, consisting of four independently governed parishes (Orleans, Jefferson, St. Bernard and St. Tammany), grew in terms of population by 15.3 percent during the most recent decade, exceeding slightly more than one million persons in 1970. In terms of inter-parish growth, the area experienced essentially similar behavior as other large American cities: the central city (Orleans Parish, also the city of New Orleans) lost white citizens, absolutely and relatively, and gained black citizens; all other parishes (the suburbs) gained white citizens at much faster rates than blacks. Partly as a result of this type of outmigration, economic activities are spreading more evenly throughout the entire area, although the dominant concentration remains in Orleans Parish.

During the latter part of 1971 the unemployment rate typically exceeded six percent, and the area continues to be classified as one of "substantial unemployment." Ratios of unemployed whites/blacks continue fairly stable at about 45/55 percent. In terms of employment opportunities, the area remains primarily a trade/services/transportation economy, with manufacturing typically providing a large, stable but non-growing source of jobs. The transportation sector is stable; trade employment grows slowly; the services sector shows significant growth, however. During the 1960's the area experienced an important but temporary boost in manufacturing employment through the Nation's space efforts (locally referred to as the Michoud operations). Although allied industries did not develop as a result, that possibility remains open; a resurgence of activity may be forthcoming due to recent emphasis on the space shuttle program.

The likely economic base for the area will be increasingly oriented to services; developments favoring a massive Domed Stadium, a ma-

* This paper is both a *partial* and a *preliminary* version of the study for New Orleans and is part of a larger project for the Department of Labor under the overall direction of F. Ray Marshall, University of Texas.

jor medical complex and an emphasis on tourism portend this outcome. But a major economic development program centering around the Port of New Orleans has recently begun, stimulated by the Dock Board and the Chamber of Commerce. Although the time horizon is a long one (30 years for completion) a successful effort should aid substantially manufacturing and transportation employment, both large but dormant as growth sectors.

II

Next, our discussion is organized arould five increasingly detailed perspectives concerning patterns of black employment; these interpretations are based on the EEO data for the period 1966-1969.[1]

(1). Indices of Occupational Position yield the most general and fundamental bench marks for comparing the relative occupational status of blacks and whites.[2] These data indicate that the occupational structure has improved somewhat for blacks relative to whites. Between 1966 and 1969 the index for black males relative to white males moved from 66 percent to 70 percent; for females the index moved from 71.4 percent to 75.2 percent. While some slow improvement for both male and female blacks has taken place their relative positions remain clearly inferior.

(2). Greater clarity is given to the above general statement by looking at occupational data in more detail; specifically by nine categories (Managers-Professional-Technical-Sales-Clerical-Craftsmen-Operative-Laborers-Services). According to Census data for 1950 and 1960, and EEO data for 1966 and 1969, blacks are employed mostly in the bottom three categories. The EEO data indicate some improvement between 1966 and 1969 by showing about a ten percent decline in the percentage of employment in the bottom occupational categories for both men and women; the percentage of blacks employed in the unskilled occupations remains several times that of white males and females, however. The upward shift from the bottom classes for males is distributed mostly to the Craftsmen category, next to the Sales-Clerical category and least to the top classes of employment. For black women the major shift has been from the bottom categories to the Sales-Clerical class. Thus, the EEO data indicate a favorable occupational shift for blacks during the 1960's; a supportable statement but not as strong is that during the 1950's a stable occupational mix ex-

[1] We regret that space limitations prevent the publication of most of our data in these proceedings. Data will be available in the final text, however.

[2] In the computation of this index, it is assumed that wages-salaries for each occupation are held constant across ethnic groups and differences in the index are due only to differences in the distribution of whites and blacks across the occupations.

isted, which then changed favorably during the '60's. As pointed out earlier, however, these gains did not greatly change the overall mix between whites and blacks by occupation.

(3). Statistics for eight employment sectors (Transportation-Utilities, Retail Trade, Wholesale Trade, Finance-Insurance and Real Estate, Construction, Mining, Services, and Manufacturing) indicate that the upward shift noted above took place in *each* of the eight sectors, for both black men and women. These favorable changes took place across-the-board for men in both the White-collar and the Craftsmen occupations. Black women, however, did not enter the Craft occupation as readily, but this is not a significant employment class for women in New Orleans.

(4). Next we looked at cumulative frequency distributions based on 50-60 specific industries (two digit SIC code) within these eight employment sectors; these distributions express the number of industries by the Index of Occupational Position (IOP) for that industry within a given $100 range. Cumulative distributions are given for Negro and White *Males*, proceeding from low indices to high indices. With these distributions, several descriptive statements can be made about the patterns of black employment in New Orleans:

(a). The *range* of average wages-salaries paid to black males is about two-thirds the range for white males. This, of course, reflects the bunching-up of employment of blacks in the lower wage categories, relative to the white employment structure.

(b). Only a handful of the 50-60 industries covered by these distributions yielded IOP's for white males which were less than the *average* IOP of black males across all industries. The distributions indicate that IOPs' for white males completely dominate those reflecting the employment of black males. This suggests that virtually any white male entering the local labor market could expect to enter at random any industry and earn more money than the average black male.

(c). To emphasize this dominance aspect, we note that the maximum IOP for black males was exceeded by 34 of the 56 industries employing white males in 1966. In 1969 this maximum IOP for black males was exceeded in 35 of the 51 industries employing white males.

(d). A positive change can be seen in relative wage positions for blacks by noting the relative variation (coefficient of variation) of the distributions. This coefficient was significantly less than for whites in 1966 (10.9 vs. 12.7) and became almost equal by 1969 (11.4 vs. 11.5). Also, the range of IOP's for the distribution on black males became larger during the three year period.

All in all, this view of the situation reflects the occupational dominance of whites as a more or less pervasive matter for males, as measured by employment in these 50-60 industries in New Orleans. While allowing a slightly more general image of moderately positive change over many industries, it also shows the size of any presumed gap to be overcome in the relationship between male employment patterns in most industries.

(5). Lastly, we summarized the EEO data by industries, occupations and growth sectors. Eight industry sectors were divided into those exhibiting higher penetration ratios by blacks between 1966 and 1969 and those exhibiting lower penetration ratios, according to three occupational categories (White-collar, Craftsmen and Blue-collar). Additional data yield long-term and short-term growth rates for each industry sector.

Summarizing over all industries for males and females by occupations, the following table reveals the occupational penetrations for 1966-1969.

Distribution of Black Employment by Penetration Rates

	1966	1969	Change
MALES			
All Occupations	21.6%	22.7%	1.1 points
White Collar	2.2	4.7	+2.5
Craftsmen	7.9	12.4	+4.5
Blue Collar	43.8	42.9	−0.9
FEMALES			
All Occupations	18.7%	20.8%	+2.1 points
White Collar	4.8	8.2	+3.4
Craftsmen	41.9	37.3	−4.6
Blue Collar	48.3	54.1	+5.8

In general the higher penetration ratios in the White-collar category are encouraging since employment opportunities are rising rather rapidly in this category. A positive substitution effect seems to be taking place for black women in the Blue-collar category because this is not a growth area; but this is a low employment base for women, as is the Craft category, so strong conclusions are not possible.

Space is not available to present data as distributed over the eight industry sectors by occupation and growth. Suffice it to say that there seems to be no obvious relationship between growth sectors and those producing higher penetration ratios for blacks. For example, the manufacturing sector produced virtually no job growth during this three year period yet all occupations in that sector yielded higher penetration ratios for black males; this suggests a definite substitution effect as job turnover takes place. The services sector also yielded higher penetration ratios for black men over all occupations; this sector has grown significantly. Thus both substitution and growth influences helped to yield higher penetration ratios for men. Taken as a whole, those sectors producing lower penetration ratios for black males were of the no-to-slow growth variety; thus substitutions *against* black males would seem to have taken place in these sectors. In sum, there is some evidence to indicate that blacks are achieving higher penetration ratios in both high and low growth sectors but are also experiencing less participation in some of the more slowly growing sectors, especially for males. The previous table shows, by implication, that the interaction of the higher and lower participation rates yielded only a very slight change in the overall participation of blacks in all occupations, although evidence of some upgrading is also clearly shown by the data.

So far in this research we have attempted a limited amount of statistical analysis of the data by SIC code in order to test several hypotheses about patterns of black employment. Data were used only for the male distributions inasmuch as severe biases exist in the data for females, making regression analysis virtually impossible. For males, then, we find that:

(a). The Index of Occupational Position correlates positively with Median Years of Schooling for whites (0.1 significance) but that same test for black males yields no significant correlation. When Indices of Occupational Position and the Educational Indices are placed on a relative basis (Negro/Anglo) so that we test the hypothesis that as the education of black males rises relative to that of white males their wage position does likewise, the correlation is not significant at the five percent level. These tentative results lend credence for this area to the argument that even in the face of educational parity the occupational structure is biased downward for blacks, relative to whites.

(b). The relative wage position of black males as measured by the ratio of Negro to Anglo IOP's becomes worse as the wage position for whites improves. Taking the wage position of whites as a proxy variable for high and low wage industries, this means that when blacks tend to achieve parity in wage positions with whites the industry tends to be one paying low wages. This test is significant at

> the five percent level. Another version of this test proved as significant; it showed that the relative wage position of black males improved as the percentage of total employment in the industry in the Blue-collar category increased.

III

In order to gain insight into some of the qualitative dimensions of black employment in New Orleans we conducted several interview studies. These were designed to better understand the attitudinal and institutional aspects influencing employment patterns. We examined the educational situation confronting young blacks, the efforts and attitudes of major employers in the area, the experiences and views of young blacks as they face employment markets, and finally the efforts of various public and civic agencies involved in relevant action programs. This section of the paper will summarize our findings briefly.[3]

Interviews with young blacks, their counselors and placement officers in predominantly black high schools and colleges suggest several phenomena at work in New Orleans. (The New Orleans (Orleans Parish) Public School system educates about 80 percent of the young blacks in the entire metropolitan area.) The high school graduate not bound for college is unable to receive much assistance from the educational system on how to secure a job. A low level of funding leads to a short supply of counselors; their time and energies are spent primarily on helping students solve special personal and family problems. Further, the communication between employers and counselors is generally weak and ineffective.

Many young blacks entering the labor market do so with low expectations about the type of work they can perform, and they often seek low-skilled jobs. They do not know how to seek employment, how to effectively follow up job leads or how to handle the employment process that may involve completing an applications form, furnishing references and being interviewed. Failing in two or three attempts to secure a job, a young black may conclude that the job does not actually exist (false and deceptive leads) or feel discrimination. Of special significance is the observation, based on these interviews, that a

[3] Other interviews, notably with union and government officials, were also made, but cannot be reported at this time. Also, we recognize the hazard of over-generalization from limited and highly subjective individual and group views. These generalizations are based on observations shared by persons positioned at different points in the overall employment scene, however, and should have a collaborative base in that regard.

young black often does not learn from his experiences about how to improve the process of seeking and securing employment.

Black college graduates find local employment increasingly available. Wages and salaries in this area are typically less than in many Northern cities, however, and these graduates are not confident that advancement opportunities will exist for them in New Orleans. These perceptions cause many graduates from local black colleges to seek employment away from the city, although many would prefer to live in New Orleans, were the outlook better for them.

Several forces currently affect the educational situation for blacks in the area. First, more job opportunities, nationally, for blacks in professions other than teaching has caused a significant shift away from the traditional major in education among Southern black college students. This had made recruitment of high quality black teachers more difficult. Secondly, white teachers transferred to predominantly black schools have a higher than normal attrition rate, creating greater instability in the teaching staffs of those schools. The academic standards in predominantly black schools appear lower than in white schools. Interruption of the academic routine for extracurricular activities such as band, athletics and theater are more common because these activities traditionally are viewed as relatively more significant in their school life. Finally, black parents are becoming more interested and aggressive about educational matters. In both well integrated and predominantly black schools this tends to create new pressures and tensions that white and black educators are not often prepared to handle.

Our interviews with employers were made against a cross-section of SIC codes. Individuals in twenty-eight firms were interviewed; over 40,000 persons including over 8,000 blacks are employed in these firms. This represents about 10 percent of the total workforce but about 27 percent of the workforce reported in the EEO data; for blacks it represents about 30 percent of the EEO data.

Twenty-three of the twenty-eight firms reported making special efforts to recruit blacks since the introduction of Title VII. Another three said that a substantial employment of blacks already existed or that such employment had been increased with special efforts. The over-riding reasons for *changes* in hiring policies were derived mainly from government pressures as well as higher management echelons, often from corporate offices outside the area. Most of the new hiring has been at the hourly and clerical level although several firms report direct hiring of blacks into management and supervisory jobs for the first time.

Employment officers say that top managers in their organizations have the most positive attitudes to the current changes in hiring policies; the attitudes become decreasingly positive, or worse, at lower levels in the management heirarchy, and within non-management levels. Expectations of special problems as a result of desegregation failed to materialize; threats of violence were made in some cases and some white employees quit, but few significant incidents took place. Accompanying increased employment of blacks was a fuller desegregation of facilities, also unaccompanied by serious incident.

Employers indicated that a major problem in hiring blacks is in the employment interview itself. Sixteen organizations reported that a general lack of verbal skills, nervousness, mistrust, personal hygiene factors, and generally defensive attitudes are seen with much greater frequency in employment interviews with blacks than with whites. Also cited is an inability of some black job applicants to communicate relevant past experiences that would help qualify them for a job.

The actual job performance of black employees varies by organization but, on an overall basis, appears equal to that of white counterparts. Turnover rates are about the same; absenteeism is higher for blacks in the lower wages categories but lower than for whites in the higher wage classes.

Our summary view, based on these interviews, is that more blacks are sought and hired primarily due to external pressure on the organizations. The results of the hiring have not led to major problems or incidents. Blacks have entered new jobs primarily at the lower skill and clerical levels; they have performed as well as whites in similar jobs and better in some instances. At higher job levels the absenteeism and turnover behavior of blacks has been superior to that of whites. Only a few blacks have penetrated the managerial or supervisory payrolls, however. Minimal efforts were made by the organizations to prepare themselves for desegregation or to design special upgrading programs.

The desegregation results are looked upon as significant accomplishments by the responsible individuals within these organizations, and the overall outlook is for steady progress in providing more equal employment opportunities for blacks in New Orleans. Relative to the total employment problem for blacks, however, such progress appears very slow. This latter observation is reinforced by noting that what might be called the "easy" integration of the lower levels of the workforce is now behind these major organizations. In only two or three interviews did we detect serious concern over the employment problems facing blacks.

Finally, there are alternating signs of progress and restraint that make the prospects for significant change quite difficult to forecast; any concluding statement as to trend in this regard could be wholly misleading. One of the hopeful signs on the horizon is a positive change taking place in the administrative styles of various influential bodies in government and community leadership. The Manpower Area Planning Council, under the Mayor's Office, the efforts of the New Orleans Goals Program, economic development plans of the local Chamber, of the Dock Board and a host of other civic groups all point positively to a better integration of manpower programs in the community. Because the overall results of the various groups have been disappointing, given the expenditure of funds to date, the prospect of better coordination, communication and less program fragmentation is encouraging. At the same time, total current efforts of the CAMPS activities relate to about 8,600 people but the universe of need, as defined by the Louisiana Division of Employment Security, exceeds 50,000 persons. The totality of the attack is thus not all that encouraging.

At the same time, the relatively slow economic growth for New Orleans, both historically and prospectively, makes the setting of objectives for significant change in a short time period very difficult. Fortunately, those sectors with above average growth prospects appear able to absorb a greater number of blacks. Many of the other sectors enploying blacks in significant numbers appear rather stable in terms of jobs; thus while layoff risks appear low additional opportunities are also limited.

Underneath all these activities, however, is a particular style of problem-solving that tends to influence the total situation. The community is frequently described by both local and outside observers as one with a lack of urgency about problems; this frequently exists because the definition of a "civic improvement" can gain polarizing support from a variety of influential bodies. Thus controversies boil on for years without significant change taking place. As noted above, there may be some new forces at work but the decision-making apparatus tends to remain diffused. A strong economic and political power structure, comparable to some Northern cities or cities like Atlanta and Dallas, does not clearly exist. These characteristics manifest themselves in the private, business and public sectors, at all levels.

Whatever the presumed benefits or costs inherent in this local situation, the implication for employment opportunities for blacks is that pressure for change within the community is unlikely to be very high or very concentrated. We expect the quantitative signs of progress in the amelioration of manpower problems for blacks to be visible but not dramatic.

Minimum Wages and Black Employment in the Louisiana Sugarcane Industry

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Until the 1966 amendments to the Fair Labor Standards Act, fieldworkers employed in the production of sugar crops were the only agricultural workers covered by wage minima legislation in the United States. This paper analytically studies the policy and the effects of the *non* Fair Labor Standards Act (hereinafter FLSA) wage minima in the sugar crop industry.[1] The focus of analysis is Louisiana, where approximately 18,000 workers, more than 90 per cent blacks, are employed in the growing of sugarcane. The study is organized into four parts: a descriptive history of the formation of wage regulatory policy for fieldworkers in the industry; a discussion of the wage setting mechanisms used by the regulator; an effort to ascertain the economic effects of the wage policy; and concluding observations.

History of Regulatory Policy

For labor economists the unique aspect of sugar regulatory policy exists in the initial provisions of regulation under the Jones-Costigan Act, as well as in the subsequent Sugar Acts of 1937 and 1948, whereby a wage minima policy was established for workers producing sugarcane and sugarbeets. In his message to Congress requesting enactment of what was to become the Sugar Act of 1937, President Roosevelt stated,

> It is highly desirable to continue the policy, which was inherent in the Jones-Costigan Act, of effectuating the principle that an industry which desires the protection afforded by a quota system, or a tariff, should be expected to guarantee that it will be a good employer. I recommend, therefore, that the prevention of child labor, and the payments of wages of not less than minimum standards be included among the conditions for receiving a Federal payment.[2]

* Financial support was given by the Universiy Research Council of Louisiana State University and by the L.S.U. Foundation, though neither of these organizations are in anyway responsible for the views expressed in this paper.

[1] Wage minima in Louisiana sugarcane production exceed FLSA agricultural minima. See Table 1.

[2] "Recommendation Regarding Enactment of the Sugar Quota System," 75th Congress, 1st Session, House Document No. 156.

The effect of the Presidential statement was to cause Congress to include in the Sugar Acts of 1937 and 1948, the unique provision requiring growers of sugarcane and sugarbeets to adhere to specified wage minima as a partial condition for receiving crop subsidies (See Table I). The wage provision states that

> . . . all persons employed on the farm in the production, cultivation, or harvesting of sugarbeets or sugarcane . . . shall have been paid wages therefore at rates not less than those that may be determined by the Secretary [of Agriculture] to be fair and reasonable after investigation and due notice and opportunity for public hearing; and in making such determinations the Secretary shall take into consideration . . . the differences in conditions among various producing areas.[3]

Wage Setting Mechanisms

How has "fair and reasonable" been determined in establishing the wage minima in Louisiana? The primary factors the Department of Agriculture (hereinafter USDA) states it uses are: 1) prices of sugar and by-products; 2) income from sugarcane; 3) cost of production; 4) cost of living; and 5) relationship of labor cost to total cost.[4] Other influences, it is said, as considered where and when necessary. What is uncertain about the use of these primary factors is how they are calculated and weighted in the wage determination process. We have found no conclusive evidence that the primary factors form even a majority of the basis for wage determination. In fact, the Department of Agriculture seems contradictory in its standards, for it has stated that for the period 1937-1948, wage rates were established ". . . primarily on the basis of the historical wage-income relationship."[5] If in fact such a basis was ever used it would require starting with slavery, where money wages were zero. For the sugarcane labor force was until 1865 composed of slaves, and most certainly money wage payments in the period 1865-1905 were at best exceedingly small. In the period 1905 to 1927, the sugarcane crop in Louisiana was ravaged by mosaic disease, which pushed production downward from 355,000 tons in 1904-05 to 42,000 tons in 1926-27. And though a more resistant form of cane was introduced to offset mosaic disease, the sugar industry was substantially harmed by the Great Depression in the 1930's. To say that wage rates are rooted in a historical wage-income relationship is nonsensical given the past history of the industry. Moreover, there

[3] Sugar Act of 1948, as amended, Title III, Sec. 301 (c) (1).
[4] *Federal Register*, October 6, 1950, Part 865, p. 6749.
[5] *Ibid.*, October 21, 1948, Part 802, p. 6143.

TABLE 1

Statutory Minimum Wages and Average Wages Actually Earned by Louisiana Sugarcane Workers for Harvest and Production-Cultivation 1938–1970

	Harvest Workers												Production-Cultivation Workers					Averages	
Year	Cutting, topping, stripping Male	Cutting, topping, stripping Female	Cutting, Pilers, Loaders	Loaders	Hoist operators	Teamsters	Grabmen, spotters, ropemen	Scrappers	Tractor truck driver	Operators of mechanical equipment	All other harvest workers Male	All other harvest workers Female	Male	Female	Children	Tractor driver	Teamsters	Average Minimum (Unweighted)	Average wage actually earned
1938	.17	.13											.13	.11				.14	n.a.
1939	.17	.13											.13	.11				.14	n.a.
1940	.17	.13											.13	.11	.10	.17	.13	.14	n.a.
1941	.17	.13	.18	.20	.18	.20	.20	.14	.21	.21	.14	.11	.13	.11	.10	.17	.13	.16	n.a.
1942	.19	.14	.20	.23	.20	.22	.23	.19	.23	.25	.16	.13	.17	.14	.13	.22	.17	.19	n.a.
1943	.30	.25	.33	.37	.33	.36	.37	.30	.38	.41	.16	.13	.17	.14	.13	.22	.17	.27	n.a.
1944	.30	.25	.33	.37	.33	.36	.37	.30	.38	.41	.26	.21	.23	.19	.17	.28	.23	.30	n.a.
1945	.30	.25	.33	.37	.33	.36	.37	.30	.38	.41	.26	.21	.26	.22	.19	.32	.26	.31	n.a.
1946	.32	.26	.34	.38	.34	.37	.38	.32	.39	.42	.26	.21	.27	.23	.21	.34	.27	.32	.37
1947	.34	.30	.37	.41	.37	.40	.41	.34	.42	.46		.30	.29	.24	.22	.36	.29	.35	.39
1948	.39	.34	.42	.47	.42	.45	.47	.39	.47	.52		.34	.32	.24	.22	.36	.29	.39	.41
1949	.39	.34	.42	.47	.42	.45	.47	.39	.47	.52		.34	.32	.27	.24	.41	.32	.40	.43
1950	.39	.34	.42	.47	.42	.45	.47	.39	.47	.52		.34	.32	.27	.24	.41	.32	.40	.44
1951	.41	.36	.43	.48	.43	.47	.48	.41	.49	.53		.36	.34	.29	.27	.43	.34	.42	.45
1952	.41	.36	.43	.48	.43	.47	.48	.41	.49	.53		.36	.34	.29	.27	.43	.34	.42	.49

TABLE 1 (Continued)

Statutory Minimum Wages and Average Wages Actually Earned by Louisiana Sugarcane Workers for Harvest and Production-Cultivation 1938–1970

	Harvest Workers										Production-Cultivation Workers				Averages	
Year	Cutting, topping, stripping Male Female	Cutting, Pilers, Loaders	Loaders	Hoist operators	Teamsters	Grabmen, spotters, ropemen	Scrappers	Tractor truck driver	Operators of mechanical equipment	All other harvest workers Male Female	Male Female	Children	Tractor driver	Teamsters	Average Minimum (Unweighted)	Average wage actually earned
1953	.43	.46	.51	.46	.49	.51	.43	.52	.56	.38	.36	.28	.45	(b)	.46	.52
1954	.45	.48	.53	.48	.52	.53	.45	.54	.59	.40	.38	(b)	.47	(b)	.49	.55
1955	.45	.48	.53	.48	.52	.53	.45	.54	.59	.40	.38	(b)	.47	(b)	.49	.56
1956	.48	.50	.55	.50	.55	.55	.48	.58	.63	.43	.40	(b)	.50	(b)	.51	.63
1957	.53	.55	.61	.55	.61	.61	.53	.64	.70	.50	.44	(b)	.55	(b)	.57	.67
1958	.60	.60	.65	.60	.65	.65	.60	.70	.75	.55	.50	(b)	.60	(b)	.62	.69
1959	.60	.60	.65	.60	.65	.65	.60	.70	.75	.55	.50	(b)	.60	(b)	.62	.71
1960	.65	.65	.70	.65	.70	.70	.65	.75	.80	.60	.55	(b)	.65	(b)	.67	.77
1961	.65	.65	.70	.65	.70	.70	.65	.75	.80	.60	.55	(b)	.65	(b)	.67	.79
1962	.70	.70	.75	.70	.75	.75	.70	.80	.85	.65	.60	(b)	.70	(b)	.72	.83
1963	.75	.75	.80	.75	.80	.80	.75	.85	.90	.70	.70	(b)	.80	(b)	.78	1.12
1964	.90	.90	.95	.90	.95	.95	.90	1.00	1.05	.85	.85	(b)	.95	(b)	.93	1.07
1965	.90	.90	1.05	1.00	(a)	(a)	.90	1.00	1.05	.85	.85	(b)	.95	(b)	.95	1.16
1966	.95	.95	1.10	1.05	(a)	(a)	.95	1.05	1.10	.90	.90	(b)	1.00	(b)	1.00	1.22
1967	1.05	1.05	1.20	1.15	(a)	(a)	1.05	1.15	1.20	1.00	1.00	(b)	1.10	(b)	1.10	1.32
1968	(a)	(a)	1.30	1.25	(a)	(a)	(a)	1.25	1.30	1.15	1.15	(b)	1.20	(b)	1.23	1.49
1969	(a)	(a)	1.45	1.40	(a)	(a)	(a)	1.40	1.45	1.30	1.30	(b)	1.35	(b)	1.39	n.a.
1970	(a)	(a)	1.55	1.50	(a)	(a)	(a)	1.50	1.55	1.40	1.40	(b)	1.45	(b)	1.48	n.a.

NOTE: (a) —Combined under all other harvest workers
(b) —same as the wage rate for unskilled production-cultivation workers

Source: *Gilmore Sugar Manual*, 1969, p. 20 and *Federal Register* for years specified were no wage data upon which to base a historical wage-income relationship. No official transcript of the Louisiana wage determination hearings has specified the period upon which the historical wage-income relationship was founded.

Our conclusion is that there is no evidence to support the USDA stated basis for wage determination in the period 1937-1948. If historical factors were used then the five primary factors could not have been used, and vice-versa. Whatever standard was employed changed in 1949, to conform to a standard based on a wage-price escalator. The new procedure was formulated so that ". . . wage rates might be more responsive to significant changes in sugar prices and producer incomes than under the fixed wage levels of preceding determinations."[6] Essentially the formula appears to have been designed to transfer some of the burden of falling sugar prices to the labor force, though in fact this did not occur. The mechanics of the 1949 policy linked wage rates to the average price of raw sugar for the two week period immediately preceding the two week period during which the work was performed. When the average price of raw sugar for a two week period ranged between \$5.60 and \$6.00 per one hundred pounds on the New Orleans Sugar Exchange. the wage rates remained fixed at the 1948 level. For each full ten cent change in the average price of raw sugar, either above \$6.00 or below \$5.60, the basic day rates increased or decreased by \$.065 per day (See Table II). Each producer was responsible for ascertaining the average price of raw sugar and the effective wage rates. The wage-price escalator was a Louisiana phenomenon. not applied to any other sugar crop area. Basic wage rates were. however, raised from time to time by producers, so the escalator did not maintain the 1948 wage base. Furthermore. the stabilization of sugar prices after 1950. did remove the threat of downward wage adjustments.

Although the wage-price escalator remained as a standard until 1955. a new basis for wage setting crept into the determination process in 1952. when the hearing transcript carries the phrase ". . . producers' ability to pay."[7] In the wage hearings in 1959, and in the subsequent determination, the Department accepted the producers' wage recommendations because ". . . the increase in time wage rates is within producers' ability to pay."[8] Clearly "fair and reasonable wages" were now whatever producers could pay, but the process

[6] *Ibid.*, September 14, 1949. Part 865, p. 5623.
[7] *Ibid.*, October 3, 1952. Part 865.
[8] *Ibid.*, October 16. 1959. Part 864, p. 8409.

TABLE 2

Raw Sugar Price Ranges and Applicable Basic Wage Rates, 1949

Operations	Price ranges: weeks' average price of 100 pounds raw sugar (duty paid basis, delivered)						
At least	$5.201	$5.301	$5.401	$5.501	$6.100	$6.200	$6.300
But not more than	$5.300	$5.400	$5.500	$6.099	$6.199	$6.299	$6.399
Basic day wage rates per 9-hour day:				Base price range $5.60–$6.00			
Cutting, topping, stripping:							
Adult males	$3.305	$3.370	$3.435	$3.500	$3.565	$3.630	$3.695
Adult females	2.855	2.920	2.985	3.050	3.115	3.180	3.245
Loading	3.955	4.020	4.085	4.150	4.215	4.280	4.345
Cutting and loading	3.505	3.570	3.635	3.700	3.765	3.830	3.895
Tractor drivers and truck drivers	4.055	4.120	4.185	4.250	4.315	4.380	4.445
Teamsters	3.855	3.920	3.985	4.050	4.115	4.180	4.245
Hoist operators	3.505	3.570	3.635	3.700	3.765	3.830	3.895
Operators of mechanical loading or harvesting equipment	4.405	4.470	4.535	4.600	4.665	4.730	4.795
Pilers	3.505	3.570	3.635	3.700	3.765	3.830	3.895
Grabmen, spotters, ropemen	3.955	4.020	4.085	4.150	4.215	4.280	4.345
Scrappers	3.305	3.370	3.435	3.500	3.565	3.630	3.695
Any other operations connected with harvesting	2.855	2.920	2.985	3.050	3.115	3.180	3.245
Basic piecework rates per ton							
Large barrel varieties:							
Cutting top and bottom, and stripping	1.275	1.300	1.325	1.350	1.375	1.400	1.425
Cutting top and bottom	.805	.820	.835	.850	.865	.880	.895
Loading	.425	.430	.435	.440	.445	.450	.455
Cutting top and bottom, stripping and loading	1.700	1.730	1.760	1.790	1.820	1.850	1.880
Cutting top and bottom and loading	1.230	1.250	1.270	1.290	1.310	1.330	1.350
Small barrel varieties:							
Cutting top and bottom, and stripping	1.560	1.590	1.620	1.650	1.680	1.710	1.740
Cutting top and bottom	.990	1.010	1.030	1.050	1.070	1.090	1.110
Loading	.500	.510	.520	.530	.540	.550	.560
Cutting top and bottom, stripping and loading	2.060	2.100	2.140	2.180	2.220	2.260	2.300
Cutting top and bottom and loading	1.490	1.520	1.550	1.580	1.610	1.640	1.670

Source: *Federal Register,* September 9, 1949, p. 5623 of determining ability to pay was not stated. Since some producers paid rates above the required minima, in all probability "fair and reasonable" meant what marginal producers could pay.

The 1961 wage determination states that the "The wage rates of this determination . . . recognize improvements in labor productivity."[9] This suggests a new standard for wage determination. In 1962 the determination provided a bonus provision for the 1963 harvest.[10] Workers on Louisiana sugarcane farms would receive increases per hour of from 1.3 cents to 1.7 cents, depending on skill, for each full one-tenth cent per pound by which the season's average price for raw cane sugar exceeded the average per pound price for the three year period 1956-59. If an individual producer had a "below normal" crop he was to be excluded from the bonus proviso. Workers covered were to be only those paid on a time rate basis. Wage ceilings were imposed, varying from $1.45 per hour for highly skilled workers to $1.15 for the lowest skilled. Should a producer have elected to pay more than the prescribed hourly rates he would credit the amount of overpayment against the required bonus. In effect this complicated wage mechanism created wage maxima, as well as minima. But the minima-maxima standard lasted only one year, giving way in 1964, to "producers' ability to pay," which has remained the norm.[11] However, the wage rates for the lowest skilled workers were raised to meet the rates promulgated by the extension of the FLSA to agricultural workers in non sugar crops in 1966.

Complex as wage determination on a "fair and reasonable" basis is, even more complex is the machinery for establishing wage differentials through administrative procedures. This later contention is supported by the transcript of the wage determination for 1968, wherein the reasoning was advanced that "there are still some areas of the Louisiana sugarcane belt where there is a lack of sufficient competition from industry to cause producers to pay higher rates for skilled workers." Therefore, "continuation of rate differentials for workers of higher skills is both necessary and desirable . . . to provide equity among workers of similar skills in all sections of the sugarcane belt."[12] Equity criteria may not be without merit, but given USDA professed adherence to objective wage setting standards,

[9] *Ibid.*, November 2, 1961, Part 864, p. 10271.
[10] *Ibid.*, November 6, 1963, Part 864, p. 11813.
[11] *Ibid.*, October 6, 1964, Part 864, p. 13638.
[12] *Ibid.*, October 8, 1968, Part 864, p. 15015.

use of equity as a basis for maintaining a differential is unusual.[13] Certainly a possible effect of the wage action in 1968, would be to retain labor in an area where it was less productive than it might be elsewhere.

Given the complexities of establishing administered wages differentials for the industry, we now turn to the consequences of the determinations. What we face is a situation where the State of Louisiana imposes a "right to work" statute on agricultural workers, though not on non-agricultural employees, and where the Federal government does not extend to agricultural workers the protections of the National Labor Relations Act. In short, the employees face extreme difficulty in collectively refusing the wage minima determined by USDA. The employers cannot lock-out in opposition to the wage minima without loss of Sugar Act benefits, however, they are not forbidden from reducing employment through adoption of labor saving technology as a response to wage rates they believe to be excessive.

Effects of Minimum Wages Upon Employment

From a purely theoretical standpoint what effect should we expect the imposition of wage minima to have on employment in the Louisiana sugarcane industry? Faced with a downward sloping demand curve for labor we would anticipate a reduction in employment in the absence of union activity and/or strong monopsony power if the minima are set above the market wage rates. Sugarcane workers in Louisiana are not unionized, and when approximately 1800 farms operate in a comparatively small growing area in southern Louisiana one might reasonably assume that strong monopsony power is lacking. This competitive nature is further complemented by the fact that cane workers are also in demand by other crop growers in the area. Consequently, we would expect employment in the industry to be less than it would be in the absence of the minima, unless the latter are set below the market rate.

Evidence on the position of the legal wage minima relative to market wage rates is unclear. Comparative time series data on the two rates are presented in Table 1. In each year the average wages actually paid have been greater than the legal minima; in recent years significantly so. This suggests that market rates are above the legal minima and thus we should anticipate no adverse employment

[13] Until 1956, producers were required to furnish in addition to cash wages, customary prerequisites, such as "a habitable house, a suitable garden plot with facilities for its cultivation, pasture for livestock, medical attention, and similar incidentals." See *Federal Register*, September 25, 1953, Part 864, p. 5709.

effects. However, such a simplistic interpretation is difficult to support when one considers that the data on wages actually paid are averages computed over several skill levels. We have no information on the dispersion of wages around this mean or wages paid by skill level. Our conversations with persons closely associated with the industry reveal that those workers performing jobs with higher skill requirements are most often the ones receiving wage rates above the legal minimum while the low skilled or unskilled jobs tend to receive only the legal minimum. This implies adverse employment effects at the low-skill level and none at the high-skill level, or a net adverse effect on employment. This conclusion is not disproved by the following regression equation:

$$E = 138.98 - \underset{(-9.47)}{61.57W_M} \qquad R^2 = .84$$

where E = man hours per acre
W_M = legally established minimum wage

These adverse employment effects are not as great as they might have been if the demand curve for labor had proven to be more elastic.[14] Again, we do believe the greater proportion of the negative employment effect falls on low skill jobs.

However, this latter statement is primarily based on our own intuition and comments of those close to the industry. We do know that the peak number of persons working on Louisiana sugarcane firms has declined by 58 percent—from 35,000 to 18,000—in the interval 1950-1969. At the same time there was some increase in the production of sugarcane by expanded average allotments, especially after 1961, when Cuba was blocked from importing sugar to the United States. In Louisiana total man-hours per ton of sugar declined by approximately 80 per cent in the interval between 1947 and 1969. Consequently we find that the change in labor costs per ton of sugar between 1947-1949 and 1967-1969 have decreased 19 per cent, while average hourly earnings of fieldworkers have risen by 292 per cent

[14] Labor costs as a percentage of total costs are about 33% to 38% depending upon farm size. This contrasts with the coal industry where labor costs are approximately 70% of total costs. The relatively low percentage of labor costs to total costs reinforces the tendency toward an inelastic demand curve for labor on sugarcane farms. A simple statistical test reinforces this latter argument. $E = aW^b$ where E = man-hours per acre; W = average wage acually paid; b = elasticity of demand for labor; a = constant term. The regression results are $E = 4.30W - .59$ and $R^2 = .86$. In all probability the demand curve has shifted leftward with each new phase of technological change. Such a shift is not accounted for in the equation.

in the same period.[15] It is doubtful that such dramatic productivity changes have done anything but increase the relative proportion of skilled to unskilled workers.

Conclusions

Our study of the wage determination mechanism under the Sugar Act indicates that there is no systematic procedure or uniform foundation upon which the USDA bases the minimum wages it sets each year. Further, the data indicate that the imposition of these legal wage minima has had an adverse employment effect in the industry, which casual empiricism suggests falls primarily on the low-skill workers. That the legally imposed minima appear to fall above the market wage rates in these lower skill classifications suggests that the open wage hearings have performed a quasi-union function for these workers. Moreover, our analysis tends to convince us that the term "fair and reasonable" could be consistent with one of two sets of wage minima.

One choice would be market wages. Worker earnings would be determined by their contribution to production and the value society places on the product they produce. If the market wage is to be regarded as "fair and reasonable" then the present wage determination process should, of course, cease.

Or, secondly, an argument could be advanced that the spirit of the law-given Roosevelt's demand that the industry should be a "good employer" and pay wages of a "minimum standard"—weighs in favor of providing wage rates consistent with minimum subsistence income levels as determined by official standards. If wages are to be administratively set then it is relatively simple to raise rates to correspond with the subsistence standard, though the regulator has no control over durations of employment, so high rates may not necessarily produce desired effects. Alternatively, given the fact that sugarcane and sugarbeet production enjoy substantial benefits and protections in the form of subsidies, quotas, and import restraints, one could argue that workers should be subsidized as well as em-

[15] William N. Garrott, "Labor Productivity On Sugarbeet and Sugarcane Farms in the United States, 1946–69," *Sugar Reports* 225 (Washington: U.S. Department of Agriculture, 1971).

ployers.[16] This might be an effective method of achieving minimum income levels for workers.

If wages are not to be administratively determined then perhaps workers should be accorded the protections of the National Labor Relations Act and fend for themselves. Hawaiian sugarcane workers have engaged in collective bargaining since 1947 with some degree of success, though their situation is not necessarily comparable to that existing in Louisiana.[17]

We have no wisdom as to the "correct" course of action. We do suggest that since ". . . it has been the policy of the U.S. Government—for defense and strategic reasons—to preserve within the United States the ability to produce a substantial portion of our sugar requirements,"[18] that we as a nation should ask whether workers in the sugar industry are not also vital to national security? If the answer is "yes", then we suggest their income levels should be consistent with basic national minimum income subsistence standards.

[16] Subsidies to producers are financed by a half cent per pound tax levied upon sugar manufactured domestically or imported into the USA. Payments from the fund are made to domestic producers of sugar crops at rates ranging from 0.8 cents per pound of recoverable sugar produced on small farms to 0.3 cents per pound of production in excess of 30,000 tons of sugar on large farms. Average income for mainland sugarcane farms is currently approximately $66,076. A portion of this income is derived from the U.S. Treasury's receipt of $110,000,000 from the sugar tax, $90,000,000 of which is paid in form of subsidy to producers. Presumably the $20,000,000 surplus from the sugar tax could be diverted to subsidize worker income. An increase in the sugar tax on foreign sugar could also be considered as a method of increasing worker income, though problems would obviously exist in this procedure.

[17] Sugarcane workers in Louisiana attempted to organize into a union in 1886 and 1953. See F. Ray Marshall and Lamar B. Jones, "Agricultural Unions in Louisiana," *Labor History* 3:3, Fall 1962. We wish to state that we hold no brief for or against inclusion of agricultural workers in basic collective bargaining law, though we do not in principle see why such rights should be denied to them. Indeed at least one agricultural economist has argued that farmers should engage in collective bargaining. See Ewell P. Roy, *Collective Bargaining In Agricultural* (Danville, Illinois, Interstate Printers, 1970). If farmers do engage in collective bargaining certainly farm workers will have to be accorded similar rights.

[18] *The United States Sugar Program* (Washington: Government Printing Office, 1971), p. 29.

DISCUSSION

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The three papers prepared for this session examine the employment position of blacks in quite different settings. Professors Ignatin and Rungeling have rightly emphasized the linking of theory and empirical activities in order that most effective policies can be chosen. My major concern is that in their sharp critique of Becker's theory of discrimination they have not as yet formulated useful alternative explanations.

Kenneth Arrow's recent work[1] on the theory of discrimination is done from a neoclassical base from which some of the usual assumptions (costless adjustment, perfect information, perfect capital markets) are relaxed. Arrow notes that . . .

> the abandonment of assumptions is not *ad hoc* analysis for the case at hand, but that an important element is a more general theory of analyzing the effects of social factors on economic behavior without either lumping them into an uninformative category of "imperfections" or jumping to a precipitate rejection of neoclassical theory with all of its analytic power.[2]

Not only does he expand the economic theory of discrimination but introduces certain psychological concepts as well. Thus, if one accepts his alternative interpretation of employer discrimination as reflecting not tastes but perceptions of reality, we are better equipped to define the types of unconscious discrimination discussed in the Ignatin-Rungeling report. Perhaps, researchers need to modify their assumptions to be in accord with the recent powerful argument of the Supreme Court in the *Griggs vs. Duke Power Co.* case. That decision defines discrimination in terms of consequences and effects; ". . . practices, procedures, or tests neutral on their face, and even neutral in terms of intent, cannot be maintained if they operate to 'freeze' the status quo of prior discriminatory employment practices."[3]

My final comments on the Ignatin-Rungeling report are that I would not reject maximizing behavior as a normative principle. Federal contractors who must cope with the goals and timetables of Order

[1] Kenneth Arrow, *The Theory of Discrimination*, Presented at the Conference on "Discrimination in Labor Markets," Princeton University, October 7-8, 1971 (Princeton, N.J.: Princeton University, Industrial Relations Section, Woodrow Wilson School, 1971).

[2] *Ibid.*, p. 3.

[3] *Griggs vs. Duke Power Co.*, 401 U.S. 424 (1971).

No. 4, have learned how to undertake just enough affirmative action in the utilization of minority groups and women to appear to be achieving the goals and timetables. Secondly, I prefer to isolate the poverty discussions from labor market discrimination—mainly because much of that discrimination, whether it is against minority group members and/or women, is based on pervasive institutional practices and procedures. However, the dual approaches (poverty and/or discrimination) to the low economic status of minorities are not mutually exclusive.

The report by Professors Jones and Scott on minimum wages in the Louisiana sugarcane industry investigates black employment in a non-industrial activity. This study may also provide a rationale for imposing selected social obligations on those employers who enjoy certain benefits. The Sugar Act of 1937 deemed it highly desirable to effectuate the principle that an industry which desires the protection afforded by a quota system or a tariff should be expected to guarantee that it will be a good employer. The conclusion of the Jones-Scott report, that "we find no justification for completely insulating an industry from market forces and thereby insuring its profitability while at the same time, denying its workers equal protection,"[4] could well be extended to other areas. For example, the complaint recently filed by the U.S. Equal Employment Opportunity Commission before the Federal Communications Commission raised serious questions about the economic costs of discrimination by the Bell system.

The third report by Murphy-Vetter-Coker on black employment in New Orleans does not provide a sharp profile of blacks in a labor market where they are roughly a third of the population in the Standard Metropolitan Statistical Area (SMSA). In 1970, the central city ranked 10th in the nation in terms of the black population and 19th in the total population. Thus, it is of some interest to ask: What has been the traditional role of blacks in the economy? Secondly, in order to comprehend the dimensions of the poor economic position of blacks to whites, one needs to examine data at a more disaggregated level than that shown by the eight major industries in the Murphy-Vetter-Coker report. What about blacks in petrochemicals (a local growth industry) or in Federal, State, and local government employment (excluded from the EEO-1 reporting system)? It seems likely that considerable construction activities such as renewal and rehabilitation of the downtown area (new communities) may be planned for New Orleans.

Why is the occupational dominance of whites more or less pervasive

[4] Jones and Scott, *Minimum Wages and Black Employment in the Louisiana Sugarcane Industry*, p. 12.

in male employment? Why is there no mention of unions and apprenticeship programs? The finding that the relative position of black males as measured by the ratio of Negro to Anglo IOP becomes worse as the wage position for whites improves is significant and specifics should be noted. Are jobs compartmentalized? What do we know about the status of blacks in the longshore industry?

I would caution against great reliance on the responses in interviews from a small sample of high school students, employers, employees, blacks, whites, etc. My own research on unemployment among black teenage females in urban poverty neighborhoods suggests that social research in the black community is not easy and requires a more extended period of observation or participant observation. We were concerned about how low-income black youth are socialized to work. We discovered that some of the negative impressions they have of work is attributed to the fact that most of the adult workers they know have experienced considerable unemployment and may be trapped in unrewarding, dead-end jobs from which they barely earn the poverty wage.

As economists develop both a theoretical and an empirical literature on discrimination in labor markets, they should feel more comfortable about participating in policy and program discussion on these urgent national concerns.

DISCUSSION

JACK A. MEYER
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These three papers attest to the proposition that neither a complex research design nor a vast number of variables is necessary or sufficient for productive research. Both the Ignatin-Rungeling and the Murphy-Vetter papers outline elaborate research designs and present a large number of variables designed to capture all of the relevant determinants of poverty. However, both papers lack a sound theoretical framework into which to fit their observations. The Jones-Scott paper employs a simple, but appropriate strategy to a problem which is carefully defined and limited in scope. As a result, it is easier to ascertain what hypotheses are being tested and what direction the subsequent research will take.

Jones and Scott suggest two courses of action other than further increases in the minimum wage that would improve the status of workers in the Louisiana sugar cane industry—increased unionization and increased sugar taxes (with the additional revenue going to the workers). However, given the research findings of the authors, they should have a clear preference for the latter. The same type of reasoning which led them to expect a negative association between changes in minimum wages and changes in employment should lead to the anticipation of a negative association between changes in the degree of unionization and changes in employment. To the extent that increased unionization pushes wage rates above their competitive levels, particularly at the lower end of the wage structure, it should have the same adverse effect on employment as increases in the minimum wage. In other words, irrespective of the cause of the higher wages, the fact that they are pushed above market-clearing levels will cause some employers to lay off (or delay hiring) some workers. In a study that is very relevant to this one, Kosters and Welch have documented the adverse effects of increases in the federal minimum wage; these increases have made teenagers—particularly non-whites—more vulnerable to short-term fluctuations in economic activity.[1] They claim that youth—particularly black youth—have accumulated less human capital than their adult (or white) counterparts, making them more expendable to the firm as economic activity slackens. High minimum wages discourage firms from

[1] Marvin Kosters and Finis Welch, *The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment*, (Santa Monica, California: Rand Corporation, RM-6273-OEO, September, 1970)

providing on-the-job training to youth, making it even more difficult for these young workers to accumulate human capital.

The second suggestion—an increase in the sugar tax—would have no adverse effect on the domestic employment of sugar workers if it were levied only on imported sugar. Moreover, even if it were levied on both domestic and foreign producers—as Jones and Scott imply—the tax should not contribute to domestic unemployment if it is a lump-sum tax as opposed to a per unit tax. This analysis ignores the effect that such a sugar tax would have on consumers. The argument is that from the point of view of the workers, this tax would be preferable to increased unionization.

The paper by Ignatin and Rungeling correctly observes that theory cannot be separated from empiricism and that it is desirable to build models which can be tested and are capable of generating results that have important implications for public policy.

However, it is important to note that while theory without practical application may be of only pedagogical value, empiricism without a sound theoretical underpinning may also be of limited usefulness. The authors of this paper have been quite concerned about the former pitfall—theory without practice—but seems to have fallen into the latter pitfall—practice without theory.

After critically evaluating the theoretical work of Becker and Thurow, Ignatin and Rungeling present a portion of their own work. While it appears that they have access to extensive and varied data, they offer no theoretical framework into which to fit these observations. Their equations merely state that the dependent variables are linear functions of a vast array of social, economic, and political characteristics, but there is no theoretical framework from which we can deduce the expected relationships among the variables. Furthermore, the problem of multi-colinearity is only mentioned briefly by the authors, even though this may turn out to be a major stumbling block, given the research design which is employed.

The authors are very critical of the conventional theory because it relies on the calculation of marginal products which the authors believe firms in the real world would never make. However, the theory does not rely on the performance of such calculations. It offers a logic of maximization which it implies that individuals follow, but they need not do this with calculators. In other words, it may be the case that employers, without performing any sophisticated mathematical calculations, evaluate the productivity of their workers and make comparisons of the contributions of different workers to the final product. Such observations would not be inconsistent with the theory.

It is common for price theory to be criticized for being unrealistic or irrelevant to the "real world." Such objections add nothing to the stock of knowledge. Those who are unhappy with the existing theory should push that theory as far as it will go to determine whether it is consistent with, or refuted by, the available observations. If it fails this test, it should be modified until a theory is developed which is consistent with the evidence.

The challenge to any researcher in this field is to improve upon the existing theory if he feels it is inadequate. It does not advance our knowledge in this field to knock down a theory as relatively useless, and then forge ahead without a theory at all. Thurow's modifications of Becker's theory were certainly useful and led to productive research. The challenge for future research is to extend the work of Thurow and Becker.

Murphy and Vetter should be admonished to be very cautious in their interpretation of the responses of the employers, students, and school officials who were interviewed, and to avoid making generalizations based on these observations. While these personal interviews can provide a useful complement to the principal part of the study, the responses of the small samples interviewed might not be representative of even the population of employers, students, and education officials in New Orleans. Moreover, these responses may not accurately reflect the actual behavior of those interviewed.

IV

ORGANIZATIONAL BEHAVIOR & PERSONNEL MANAGEMENT: CONTRIBUTED PAPERS*

Leonard Sayles, Chairman
Columbia University

* The discussion presented in this session by Douglas Soutar, American Smelting & Refining Company, is not included in the published *Proceedings*.

The Effect of Workforce Skill Level and Workload on the Costs and Quality of Hospital Services*

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Introduction

The most important issue in the health services industry today is how to maintain or improve the quality of hospital services while limiting the rate of increase in hospital costs.[1] There are obviously many variables which could affect the costs and quality of hospital services; however, the present study will focus upon two labor variables—the workforce skill level and the patient workload.

Many previous studies of the relationship between the quality of services and workforce variables have relied upon impressionistic judgments of quality such as "patient satisfaction."[2] Even the more empirical studies provide inconsistent results because of the different criteria of quality used such as "administrative co-ordination," "rate of omissions," and "functions performed."[3]

While the increase in hospital costs has been well documented,[4]

* The research reported in this paper is based upon my doctoral dissertation ("Manpower Substitution in the Hospital Industry," Columbia University, 1970), and was supported by Doctoral Dissertation Grant No. 91-34-66-31 from the Manpower Administration U.S. Department of Labor, under the Manpower Development and Training Act of 1962 as amended. Points of view or opinions stated do not necessarily represent the official position or policy of the U.S. Department of Labor.

[1] For good discussions of various aspects of this issue see The President's Commission on Heart Disease, Cancer, and Stroke, *Report to the President: A National Program to Conquer Heart Disease, Cancer, and Stroke* (Washington, D.C.: U.S. Government Printing Office, 1964). National Commission on Community Health Services, *Health is a Community Affair* (Cambridge, Mass.: Harvard University Press, 1966); and National Advisory Commission on Health Manpower, *Reports* (Washington, D.C.: U.S. Gov. Printing Office, 1967).

[2] For example, see Faye G. Abdellah and Eugene Levine, *Effects of Nursing Staffing on Satisfactions with Nursing Care* (Chicago: American Hospital Association, 1958), p. 15.

[3] For example, see Basil S. Georgopoulos and Floyd C. Mann, *The Community General Hospital* (New York: The McMillan Co., 1962), pp. 362, 382; Stephen J. Miller and William D. Bryant, *A Division of Nursing Labor: Experiments in Staffing a Municipal Hospital* (Kansas City: Community Studies, Inc., 1965); and Peter Kong-Ming New, *et. al.*, "Too Many Nurses May Be Worse Than Too Few," *The Modern Hospital*, Vol. 93, October, 1959, pp. 104–109.

[4] Hospital daily service charges have been increasing faster than any other component of the medical care price index. From 1947–1966 hospital room rates increased 441% compared to 107% for physician fees and 71% for all consumer prices. See William F. Berry and James C. Dougherty, "A Closer Look at Rising Medical Costs," *Monthly Labor Review*, Vol. 91, November 1968, pp. 1–8.

most previous studies of hospital costs have generally de-emphasized the labor factor.[5] This is surprising in light of the fact that the hospital industry is labor intensive.[6] An exception is a study by Mary Ingbar and others which concluded that the particular kinds of nursing resources and their relative proportions did not significantly influence hospital costs.[7] However, in another study K. K. Ro found that hospitals with schools of nursing (and presumably with higher proportions of professional nurses) had higher unit costs than did hospitals without such schools.[8] There has been much less discussion of the patient workload and its effect on the cost and quality of hospital services. Berry and Dougherty noted that from 1947-1966 the number of hospital personnel increased 131% while the average daily census of patients increased only 80%.[9] Herbert Klarman cited this diminished patient workload per employee as evidence of a lag in productivity gains and a major cause of increased costs in hospitals.[10] With the noted exceptions, most other studies of hospital costs and quality have ignored the workload variable. In any event, it should be apparent that the relationship between workforce variables and the cost and quality of hospital care is still an open question.

In light of the preceding discussion, the present research was designed to test the following two hypotheses:

1. Hospitals costs per patient day will be positively related to the workforce skill level and inversely related to the patient workload. Costs should be positively related to the workforce skill level because as the proportion of skilled employees increases, *ceteris paribus*, the higher wage rates of these employees should increase the total wage bill of the hospital. Costs should be negatively related to the patient workload because as the workload increases, a given number of employees will service a larger number of patients, thus lowering the costs per patient.

2. Quality of service will be positively related to the hospital skill

[5] For example, see Ralph E. Berry, "Product Heterogeneity and Hospital Cost Analysis," *Inquiry*, Vol. 7, March 1970, pp. 67–75; and Martin Feldstein. *Economic Analysis for Health Services Efficiency* (Amsterdam: North Holland Publishing Co., 1967).

[6] Labor costs account for about 65% of total costs in short-term general hospitals in the United States. See 1970 Annual Guide Issue, *Hospitals: Journal of the American Hospital Association*.

[7] Mary L. Ingbar, Barbara J. Whitney, and Lester D. Taylor, "Difference in the Costs of Nursing Service: A Statistical Study of the Community Hospitals in Massachusetts," *American Journal of Public Health*, Vol. 56, October 1966, p. 1710.

[8] K. K. Ro, "Determinants of Hospital Costs," *Yale Economic Essays*, Vol. 8, Fall 1968, pp. 185–257.

[9] Berry and Dougherty, *op. cit.*, pp. 2-3.

[10] Herbert Klarman, "Increases in the Cost of Physician and Hospital Services," *Inquiry*, Vol. 70, March 1970, pp. 22–36.

level and cost per patient day, but inversely related to the patient workload. Quality should be positively related to the workforce skill level because skilled employees can presumably perform more functions with a higher degree of competence than can the less-skilled. In addition, supervision of the job performance of the less-skilled should be improved as the proportion of skilled personnel rises. Quality should also be positively related to cost per patient day because, if resources are used efficiently, an increase in resources should also increase quality. Finally, quality should be negatively related to the workload because as the number of patients per employee increases, less time and attention can be given to each patient.

Methodology

In order to test the preceding hypotheses two groups of short-term general hospitals in New York City were studied for the year 1965. The first group included thirty-six voluntary hospitals while the second group included fourteen municipal hospitals. Each group represented the universe of short-term general hospitals within that group for which complete data were available. The comparison of the two hospital systems should provide some insight as to what differences, if any, exist between government and non-profit hospitals in terms of the relationship between labor inputs and the cost and quality of outputs.

The four variables to be analyzed are the workforce skill level, the patient workload, cost per patient day, and quality of service. For purposes of this study, the workforce skill level is defined as the ratio of skilled employment to total employment.[11] The patient workload index is the average number of patients per day divided by the average number of employees in a given year. The cost per patient day is the total expenditures per day divided by the average number of patients. Finally, the measure of quality of service is the hospital death rate adjusted for the case severity of patients. Milton Roemer has suggested that the hospital death rate alone would be a poor measure of quailty because some hospitals regularly admit a higher proportion of seriously-ill patients than do others. Roemer's index adjusts the death rate upwards if the case severity of a given hospital is low, and downwards if the case severity is high. The quality of services will then be the inverse of this adjusted death rate.[12]

[11] A "skilled" employee is defined as one who has more than one year of specific training for his occupation. Physicians are excluded from the analysis; however, interns and residents are included.

[12] For a more complete discussion of the rationale and measurement of this index of hospital quality see Milton I. Roemer, A. Taher Moustafa, and Carl E. Hopkins, "A Proposed Hospital Quality Index: The Hospital Death Rate Adjusted for Case Severity," *Health Services Research*, Vol. 3 (Summer 1968), pp. 96–118.

Three sources were used for calculating these indexes. The skill level was calculated from data provided in the United Hospital Fund of New York publication on hospital personnel. The patient workload and cost per patient day were calculated from data provided by the annual guide issue of Hospitals. The adjusted death rate was calculated from information on hospital death rates contained in the American Medical Association's *Directory of Approved Internships and Residencies.*[13]

The analysis will proceed in three steps. First, a comparison of the mean values of each of the four variables in each hospital system will be made in order to determine how differences in the means of each variable are associated both within and between the two systems. Second, a multiple regression analysis of the effects of the workload and skill level on the cost per patient day will be made within each hospital system. Thirdly, a multiple regression analysis of the effects of the workload, skill level, and cost per patient day on the quality of service will be made within each system.

Findings

Table 1 shows the mean values of each of the four variables in the two hospital systems in 1965. It can be seen that while the skill level and workload were significantly different in the two hospital systems in 1965, there was no significant difference in hospital costs. This data provides no support for the hypothesis that differences in hospital costs are related to differences in the skill level or workload. However, the

TABLE 1
A Comparison of the Mean Values of Each of the Four Variables in the New York City Voluntary and Municipal Hospital Systems, 1965

Variable	Hospital System	
	Voluntary	Municipal
Skill level	57.94 *	44.47 *
Workload	34.79 *	58.96 *
Costs	57.50	59.82
Adjusted Death Rate	1521.58 *	2037.86 *

* Significant difference between means at the .05 level.

Sources: American Hospital Association, *Hospitals: Journal of the American Hospital Association,* 1965 Guide Issue, Part 2, Vol. 40 (August 1, 1966), pp. 154-158; American Medical Association, *Directory of Approved Internships and Residencies, 1965-1966;* and United Hospital Fund of New York, *Financial and Statistical Analysis Supplement III* (1965).

[13] See United Hospital Fund of New York, "Analysis of Hospital Personnel as of December 31, 1965," *Financial and Statistical Analysis Supplement III* (1965); American Hospital Association, *Hospitals: Journal of the American Hospital Association,* 1965 Guide Issue, Part 2, Vol. 40, August 1, 1966, pp. 154-158; and American Medical Association, *Directory of Approved Internships and Residencies,* 1965-1966.

data are not inconsistent with the hypothesis that differences in the skill level and workload are related to differences in hospital quality. The voluntary system is characterized by a higher skill level, lower workload, and higher quality service (lower adjusted death rate) than the municipal system.

Table 2 presents data on the multiple regression results of regressing skill level and workload against hospital costs. It is apparent that the skill level and workload "explain" a significant proportion in the variance in hospital costs in both hospital systems. Moreover, the workload was negatively related to costs in both systems (as expected). However, the expectation that the skill level would be positively related to costs was not validated. While there was a positive relationship in both systems, the partial correlation coefficients were statistically insignificant. Apparently the higher wage costs associated with a high workforce skill level are counterbalanced by the greater efficiency of the more skilled personnel.

Table 3 shows the results of regressing the workforce skill level, workload, and costs per patient day on the adjusted death rate. The measure of quality is the inverse of the adjusted death rate. Therefore, a variable which is negatively related to the adjusted death rate is positively related to hospital quality. While the three variables in our model provide a good estimate of quality in the voluntary system, they were not good predictors of quality in the municipal system. Apparently, differences in quality of service in the municipal

TABLE 2
Results of a Multiple Regression Analysis of the Effects of Hospital Skill Level and Workload on Hospital Costs in the New York City Voluntary and Municipal Hospital Systems, 1965.

Hospital System and Independent Variable	Regression Coefficient	Standard Error of Regression Coefficient	t-value	Partial Correlation Coefficient
(1) Voluntary System				
Skill level	.214	.165	1.30	.220
Workload	−1.108	.178	−6.23 *	−.735 *
dependent variable = costs per patient day				
a = 83.68		R = .740 *	F = 19.96 *	
n = 36		R^2 = .547		
(2) Municipal System				
Skill level	.421	.676	.62	.184
Workload	−1.023	.217	−4.71 *	−.817 *
dependent variable = costs per patient day				
a = 101.43		R = .850 *	F = 14.30 *	
n = 14		R^2 = .722		

* Statistically significant at the .05 level.
Sources: See Table 1.

TABLE 3
Results of a Multiple Regression Analysis of the Effects of Hospital Skill Level, Workload, and Costs on the Adjusted Death Rate in the New York City Voluntary and Municipal Hospital Systems, 1965.

Hospital System and Independent Variable	Regression Coefficient	Standard Error of Regression Coefficient	t-value	Partial Correlation Coefficient
(1) Voluntary System				
Skill level	−45.73	12.53	−3.65 *	−.542 *
Workload	−53.09	19.46	−2.73 *	−.434 *
Costs	−51.15	12.91	−3.96 *	−.574 *
dependent variable = adjusted death rate				
a = 8959.56		R = .733 *	F = 12.40 *	
n = 36		R^2 = .538		
(2) Municipal System				
Skill level	53.84	43.82	1.23	.362
Workload	−23.37	24.03	−0.97	−.294
Costs	6.71	19.21	0.35	.110
dependent variable = adjusted death rate				
a = 619.40		R = .574	F = 1.64	
n = 14		R^2 = .329		

* Statistically significant at the .05 level.
Sources: See Table 1.

system are largely a function of institutional factors.[14] Two of the three significant variables in the voluntary system were related to quality in the expected direction, but the third was not. While it was expected that the quality of service would be positively related to the skill level and costs per patient day, a positive relationship to the workload was not expected. It appears that a large number of employees per patient (low workload) is not a requisite for high quality service in the voluntary system. In fact, a *high* workload is associated with high quality service. Perhaps the utilization of a large number of employees per patient runs into diminishing and negative returns due to a decline in their marginal productivity.[15]

Conclusions and Implications

The present research represents an effort to expand upon previous studies of hospital costs and quality by explicitly considering the re-

[14] These institutional factors include outmoded facilities, overcrowding, poor utilization of manpower, low socio-economic status of the immediate neighborhood, and various constraints on the autonomy of the individual hospital administrator. For a more complete discussion of some of these factors see David T. Stanley, *Professional Personnel for the City of New York* (Washington, D.C.: The Brookings Institute, 1963), pp. 51–60.

[15] For a discussion of the tradeoffs between the quantity of labor, quality of labor, and efficiency in relation to the quality of hospital service see Myron D. Fottler, *Manpower Substitution in the Hospital Industry* (New York: Frederick A. Praeger, Inc., 1972), Chapter 5.

latively neglected labor variables. The study is clearly exploratory. Other indexes could have been developed for each of our variables and the results may have been different. It is also possible that the inclusion of other variables may have altered some of the relationships between the independent and dependent variables.[16] The relationships themselves only show covariation and do not prove cause and effect. Since changes over time in each of the variables was not examined, the results are only suggestive for explaining dynamic relationships. Finally, New York City is atypical of the rest of the country in many ways. Extension of these findings to other areas would, therefore, be hazardous.

In spite of the above limitations, some tentative policy implications regarding administrative decisions in the New York City voluntary and municipal hospital systems may be implied from the preceding analysis. Administrators in the voluntary system who are desirous of achieving higher quality service at a relatively low cost should follow a strategy of utilization of a higher proportion of skilled personnel but a lower ratio of employees per patient.[17] While this does not imply that they should begin laying off personnel, it does imply there are some inefficiencies which result from a high ratio of personnel to patients. Between 1965 and 1970 the voluntary hospital system did increase the proportion of skilled personnel and did reduce the ratio of personnel to patients.[18] If the analysis in this paper is valid and if administrators are rational, this is the outcome which would have been predicted.

Nationwide, hospitals (most of which are non-profit) have been utilizing a declining proportion of skilled labor[19] together with an increasing ratio of personnel to patients, i.e. declining workload.[20] Yet the present analysis seems to indicate that a high proportion of skilled labor in the workforce and a high workload increases quality without increasing costs. The reasons for these apparent inconsistencies post intriguing questions for future research. In addition, it appears that a relatively high expenditure rate in the voluntary hospitals is associated with a high quality of service. Since this high quality does not

[16] Other variables which could have been profitably studied include hospital size, technology, the patient case mix, and wage rates.

[17] It should be emphasized that what is a good strategy under one set of conditions may not be a good strategy under different conditions because of diminishing returns to both the quantity and quality of labor.

[18] Fottler, *op. cit.*, Chapters 2 and 4.

[19] Jeffrey H. Weiss, "The Changing Job Structure of Health Manpower," *Proceedings of the Twenty-Third Annual Winter Meeting of the Industrial Relations Research Association* (Madison: IRRA, 1971), pp. 162–168.

[20] Klarman, *op. cit.*

appear to be related to greater expenditures for labor,[21] greater expenditures for non-labor items apparently contributes more to quality. This issue also requires further research.

Administrators in the municipal system have fewer alternatives available to them in their efforts to increase quality and control costs. The variables in the present study did not explain differences in the cost and quality of municipal hospital services, with one exception. While costs can apparently be reduced by increasing the workload, none of the three independent variables were significantly related to the quality of services. Apparently institutional factors such as the administrative structure for delivering hospital services are the important factors influencing quality in public hospitals. An examination and rationalization of these structures should contribute more to improving quality than changing some workforce variables within the given structures.

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[21] Higher patient workloads appear to be associated with higher quality service. Higher patient workloads also imply lower labor expenditures per unit because each employee serves a larger number of patients.

Personality Characteristics, Job Satisfaction, and the Four-Day Week

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Abstract

The 4-day, 40-hour week is currently being introduced into American industry. In general, the available evidence suggests that the new system achieves positive results in terms of such criteria as absenteeism and productivity. However, such results may be shortlived as the novelty of the system begins to pale. In the present study it is shown that there is great variability among individuals in regard to their feelings about the beneficial consequences associated with the introduction of the 4-day, 40-hour week. In addition, while job dissatisfaction was significantly related to the preference for the new system, personality characteristics were not. Subjects were 370 engineering technicians employed by a government agency.

Historically there has been a great interest in the issue of hours of work because of its impact on such factors as overtime, moonlighting, and employee productivity. Since the turn of the century the average workweek has been approximately halved. At the same time, however, there has been a dramatic increase in moonlighting or the holding of a second job. Similarly the amount of overtime has risen, for employers tend to prefer the use of current employees rather than the hiring of new employees in order to fulfill work requirements (Dankert, Mann, and Northrup, 1965).

Traditionally the focus concerning hours of work has been upon the reduction of the amount of time that an employee must spend at the worksite on a daily and weekly basis. In the past, pressure from unions and other groups for a shorter workweek and a shorter workday resulted in the present system of the workweek consisting of five eight-hour days.

Recently, however, a new system has been suggested and implemented which is quite different from the traditional working hours proposed by unions and employees. This system involves the use of a "4 day, 40 hours" approach to work. In this instance only the number of days worked per week is reduced; the number of hours worked per day increases from eight to ten. Such a system, in the majority of cases reported thus far, has been associated with positive results in terms of employee morale, absenteeism, tenure, and productivity (Poor, 1970; Wheeler, 1970).

However, a distinction can be made between the short-term and the long-term effects of such a system. In the short run these positive results are not surprising, for the employees receive a long weekend in return for a long workday (Walters, 1971). Nevertheless, after the novelty of the system wears off, it is plausible that negative consequences may result, for the long workday may prove too wearing and tiresome for the majority of the workers. Such results may be particularly exacerbated if the employee actively dislikes his job, since the ten-hour day forces him to experience work pressures in a more intense manner than that normally associated with a shorter workday.

In addition, it is possible that there is a relationship between personality types and the preference for the 4-day week. This relationship would exist if individuals low on such characteristics as initiative and self-esteem believed that the shorter workweek would allow them to escape from the responsibilities of the job. In this situation, the individual may seek a tradeoff of more leisure for fewer days of work, for his career orientation would deemphasize commitment to organizational goals.

The present study is an analysis of the personality characteristics that are related to the preference for the 4-day, 40-hour week. Such an analysis should help to indicate the personality types that respond positively to this new system. In addition, the present study tests the hypothesis that job dissatisfaction is correlated with the preference for the new system. The confirmation of this hypothesis, as indicated above, would have critical implications for any firm which decides to implement the 4-day, 40-hour system, particularly in the long run.

Method

The study was undertaken in the spring of 1971. Subjects were all of the engineering technicians, grade levels 4 through 7, who were employed by the Soil Conservation Service, Department of Agriculture. A questionnaire was distributed to all of the 503 technicians, and 370 responded. The response rate was 73.5%.

To measure preference for the 4-day, 40-hour week, five items

TABLE 1

Means and standard deviations for each question concerned with the preference for the four-day week, in terms of a 7-point scale of disagreement-agreement (N = 370).

	$\bar{X}$	σ
I prefer working ten hours per day for four days a week to working eight hours per day for five days per week.	4.93	2.21
I would like to concentrate the time spent at my job in as few days as possible.	4.34	2.28
I can accomplish more work in four 10-hour days than in five 8-hour days.	4.26	2.32
Less leisure time in the evening with a four-day workweek is perfect if I have three full days of leisure time on the weekend.	4.90	2.20
If the 4-day workweek of ten hours per day becomes a reality, I believe I will have more time available for my family or personal activities	5.43	2.12

were constructed. The subject would respond to each of the five items in terms of a seven-point scale of disagreement-agreement (Table I). These five items were then factor analyzed by the principal component method, orthogonal rotation (BMD 03M). As indicated in Table 2, two factors were rotated, the second of which contained only one of the five items. Hence the first factor, which was loaded heavily by four of the five items, became the measure of preference for the four-day week in the present study.

To measure job satisfaction, the researchers utilized the Job Description Index developed at Cornell (JDI). This instrument, in addition to the total score, contains five subscales: Work, supervision, people, pay, and promotions. The JDI has been validated on many samples comparable to the one under study.

The Ghiselli Self-Description Inventory was used to measure personality characteristics. This inventory contains seven scales: In-

TABLE 2

Factor analysis of items concerned with the preference for a 4-day, 40-hour week. Principal component method, rotated factor matrix, orthogonal rotation.

	Loadings	
	Factor 1	Factor 2
I prefer working ten hours per day for four days a week to working eight hours per day for five days a week.	.80	.45
I would like to concentrate the time spent at my job in as few days as possible.	.81	.29
I can accomplish more work in four 10-hour days than in five 8-hour days.	.86	.21
Less leisure time in the evening with a four-day workweek is perfect if I have three full days of leisure on the weekend.	.68	.61
If the 4-day workweek of ten hours per day becomes a reality, I believe I will have more time available for my family or personal activities.	.30	.94
Cumulative proportion of total variance	.72	.83

telligence, supervisory ability, initiative, self-assurance, perceived occupational level, decision-making ability, and sociometric popularity. The test manual for the Ghiselli Self-Description Inventory contains descriptions of many validation studies. The scales used with a short explanation of each are:

Intelligence. Reference to the perception that the person has such abilities as judgment and reasoning and can deal with abstract ideas.

Supervisory ability. Perception that one has the capacity to direct others, interpret their activities and to organize the activities of subordinates.

Initiative. Involves perception that one has the ability to initiate action without stimulation and support from others or one has the ability to see courses of action and implementations that are not readily apparent to others.

Self-Assurance. Refers to the extent to which the person perceives himself to be effective in dealing with the problems that confront him.

Perceived occupational level. This scale measures something akin to level of aspiration.

Decision-Making Approach. High scorers are more decisive and low scorers more cautious in making decisions.

Sociometric popularity. Measures the extent to which a person perceives that he is accepted in a group situation.

Zero-order correlations between preference for the four-day week, personality characteristics measured by the Ghiselli Self-Description Inventory, and job satisfaction were then computed (Table 3).

TABLE 3
Zero-order correlations between preference for the "4-day, 40-hour" week, the Ghiselli Self-Description Inventory, and the Cornell Job Description Index. $N = 370$.

	PREFERENCE FOR THE "4-DAY, 40-HOUR" WEEK
GHISELLI SELF-DESCRIPTION INVENTORY	
Intelligence	−.05
Supervisory ability	.07
Initiative	.05
Self-assurance	.06
Perceived occupational level	.05
Decision-making	.09
Sociometric popularity	−.03
JOB SATISFACTION (JDI)	
Work	−.05
Supervision	−.21*
People	−.19*
Pay	−.16
Promotions	−.06
Total score	−.21*

* $p \leq .05$

Results

As shown in Table 1, there appeared to be a considerable amount of variability among the respondents in terms of their preference for the 4-day week. The mean response of the subjects to four of the five questions used in the survey was between 4 and 5 on the 7-point scale of disagreement-agreement, and the standard deviation in all instances was above 2.

In addition, none of the scales of the Ghiselli Self-Description Inventory was significantly related to the preference for the 4-day, 40-hour week. However, the JDI was related significantly to the preference for the new system. Thus as job dissatisfaction with supervision and people or co-workers increased, there was a significant decrease in the preference for the new system. The total score on job satisfaction—which includes satisfaction with work, supervision, people, pay, and promotions—was significantly and negatively related to the preference for the 4-day, 40-hour week.

Discussion

The present analysis has shown that individuals expressed great variability in reference to their preference for the 4-day, 40-hour week. Moreover, personality type was not related to the preference for the new system. However, as job satisfaction declined, preference for the 4-day, 40-hour week significantly increased. This result suggests that companies may experience short-term success but long-term failure in the implementation of the new system, for the basic determinants of dissatisfaction are not removed. In fact, the impact of the determinants of dissatisfaction may actually be exacerbated under the new system, for the individual may now be more fatigued due to the number of hours per day he must work.

While the present study is exploratory, it does suggest that there are some dysfunctional consequences associated with the introduction of the 4-day, 40-hour workweek that do not seem to have been taken into consideration in the available literature.

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A Test of the Two-factor Theory of Work Motivation in an Israeli Kibbutz

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In 1959 Herzberg and his associates asked 203 Pittsburgh engineers and accountants to think of times when they felt unusually satisfied or dissatisfied at work, and to indicate the causes. (Herzberg, Mausner, and Snyderman, 1959.) The findings of that seminal study indicated that work satisfiers and dissatisfiers are not the obverse of one another, but that satisfactions are related to the work itself, while dissatisfactions are related to the conditions surrounding the work. These were thereupon termed "motivators" and "hygiene-factors", respectively.

Among the questions raised concerning the two-factor theory, however, there is one which does not seem to have been given the attention which it might deserve. This is the possible effect of salary on work satisfaction or dissatisfaction. Conventional wisdom holds that salary is the prime factor in determining whether, where, and how men work. Herzberg acknowledges the importance of the salary aspect, saying: "Salary is the most visible, communicable, and advertised factor in all the world of work. Salary permeates the thoughts and expressions of people when they view their jobs" (Herzberg, 1966; 126-127). Nevertheless, salary as such emerges as a factor in work motivations in only one of the studies reviewed by Herzberg (Herzberg, 1966; 119).

It seems useful, therefore, to test Herzberg's two-factor theory under circumstances in which salary is not and cannot be a factor, with a view toward determining whether the distinction between motivators and hygiene factors holds, and whether the same factors are important. Such a setting is available in Israeli kibbutzim, and this report concerns a study of work satisfactions and dissatisfactions made in a kibbutz.

The Background

The study reported herein is part of a larger research project* which is probing work patterns in kibbutzim. The nature of a kibbutz is probably well-enough known to need little detailed explanation here (Weingarten, 1955; Leon, 1969), so suffice it that a kibbutz

* The study from which this report is drawn is supported by the Fritz Naphtali Foundation, whose aid is hereby gratefully acknowledged.

is a voluntary collective, originally based exclusively on agriculture but with the admixture of some industry in the last few years. Members of the kibbutz receive satisfaction for all their needs, including food, clothing, housing, medical care, education, recreation, care of parents, and pocket money; and contribute their work and their participation in the governance of the kibbutz. Differences in that which members receive from the collectivity are based upon their differential needs, and neither upon the amount nor the style of their work or participation. No individual work or production records are kept, and no distinctions based on this factor are or can be made. Hence, nothing that is or that can be construed as salary operates in the kibbutz.

Methodology

The larger study from which this report is taken was originally mounted at the request of the kibbutz, which made facilities available and released members from work for purposes of being interviewed. Eleven interviewers were used, almost all of whom were graduate social workers. Interviews averaged approximately an hour and a half, and the interviews were concluded within six days.

Two hundred and nineteen, or 86% of the members participated in the research. Seven percent were unavailable for various reasons, and 7% did not want to participate in the research.

This report is concerned exclusively with the responses to two of the open-ended questions which read as follows:

> "In general, what are the things which give you satisfaction in your present work?"
>
> "In general, what are the things which cause you dissatisfaction in your present work?"

It should be noted that these questions diverge from Herzberg's formulation in that they do not ask for a time when the respondent felt particularly satisfied or the reverse. This change was made because preliminary testing indicated that the interrelationship between the work/non-work aspects of kibbutz life was so close that periods of exceptional satisfaction or dissatisfaction—even if at work—contained large elements carried over from non-work events.

For purposes of this report, the responses to the questions listed above were classified—insofar as possible—along the lines of Herzberg's categories. Categorization was done by an independent judge who was not informed concerning the nature or goals of the study, but was simply given Herzberg's explanations of his categories (Herzberg, 1966), and the responses received, with instructions to fit the responses into the categories wherever possible. All responses which clearly did not fit a category as given were to be listed separately.

Results

The relative weights of the factors creating work satisfactions or dissatisfactions in the kibbutz under study, using Herzberg's methodology, are indicated in Table 1.

TABLE 1

	Dissatisfactions	Satisfactions
Work itself	14.8	41.9
Achievement	17.0	33.0
Interpersonal relations	20.5	28.0
Responsibility	2.8	21.4
Working conditions	28.4	18.1

The four factors which are seen to result in more satisfactions than dissatisfactions are thus seen to be the work itself, achievement, interpersonal relations, and responsibility; while the one factor resulting in more dissatisfactions than satisfactions is that of working conditions.

Discussion

In a setting in which salary cannot be an influence—hidden or open—as regards work satisfactions, four of five factors tend to support Herzberg's two-factor hypothesis. Three of the factors which lead to more satisfaction than dissatisfaction are the work itself, achievement, and responsibility, which are concerned with the nature of work and are therefore, in Herzberg's terms, motivators. The one factor in which dissatisfaction predominates is that of working conditions, which is clearly a hygiene factor.

Only the factor of interpersonal relations, which refers to the conditions surrounding work rather than the work itself, and thus should be a hygiene factor with dissatisfaction predominating, refutes the prediction. This, however, may be a reflection of the unique nature of work in a kibbutz, mentioned above, in which work and not-work are not clearly defined, and in which relationships are not divided between work relationships and outside-work relationships, or "at work" and "at home."

There is evidence in the larger study to support the conclusion that relationships play an extremely important part in all aspects of kibbutz life.

With the exception of this—perhaps unique—factor, the findings of this study support Herzberg's two-factor hypothesis: Satisfactions arise from the nature of the work itself, while dissatisfactions have to do with the conditions surrounding the work.

On the other hand, the difference in the amount of satisfactions and dissatisfactions arising from the same factors are in no case as great in this study as they were in Herzberg's studies and the replications. Despite some preponderance on one or the other side of the zero-point, the same factors seem to create both satisfactions and dissatisfactions to a much greater degree than they do in other studies.

Three possible explanations for this phenomenon suggest themselves: It is possible that the use of questions which did not require respondents to think of a particular time, but which allowed them to respond in terms of their general feelings, gave rise to different responses. In short, that release from the critical incident method produces somewhat different responses.

A second possibility is that the uniqueness of the kibbutz setting results in different reactions to work. In other words, that work satisfactions and dissatisfactions really are different in a kibbutz or, more precisely, in this kibbutz. Finally, there is the possibility that the absence of a salary factor resulted in differences in responses—that the importance of salary permeates the other studies in a manner not easily identified, and distorts the responses received.

Conclusion

Regardless of whether the more equal distribution of factors along the satisfaction/dissatisfaction continuum found in this study, as compared to previous studies, arises from methodological, locality, or substantive reasons, the two-factor theory of work motivations seems well enough supported by these findings to be given credence. In particular, the absence of salary as a factor to be taken into consideration did not upset or reverse the basis of the theory. It seems reasonable, then, to agree with Herzberg that salary in itself may often be highly overrated as a work motivator except when it is seen as an evidence of recognition and advancement, on the one hand, or a symptom of unfairness on the other.

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DISCUSSION

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Given the task of commenting on the three papers presented in this session, I find it difficult to generalize about the papers or to establish any useful relationship between them. The studies are done in quite different kinds of organizational settings—the hospital, government organization, and an Israeli kibbutz. Only the Macarov study attempts to provide the reader with the institutional characteristics involved and two of the studies claim to be exploratory in nature. Given the absence of any piercing insights on these studies, I should like to confine myself to some comments about their methods and findings.

The first study of Fottler tests hypotheses regarding expected relationships between skill level, patient work load, cost per patient day, and the measure of quality. This study does not use first hand data; rather, it massages reported data. The author suggests the virtue of using something other than impressionistic information. It is well established, however, that individuals act upon their perceptions of reality, however these perceptions may differ from objective reality.

Fottler uses the death rate adjusted for severity as a proxy for quality of hospital service. There are, of course, other measures for quality of service, and it would have been interesting to correlate death rate figures with such other measures. I am not familiar with his method for adjusting according to severity, but the proxy used compounded by the index for severity makes it at least questionable. It would have been helpful to see the correlation between two dependent variables in the study, cost and quality, since one of the more interesting findings is that skill level and work load were not related to hospital costs, but were related to quality.

Much is lost in the study by not placing the research into an institutional or theoretical rational and by not differentiating between technologies or task groups within the hospitals. The lack of increasing costs with higher skill level may be due to better management, different kinds of technology, or different mixes of capital or labor. Perhaps with higher skill levels more sophisticated equipment is utilized or perhaps more routine kinds of labor are replaced by mechanization. The author refers to an unstated affect of institutional factors and his statistics clearly indicate that there are important independent variables that are not included in the study. As a policy implication, the author suggests that administration in private hospitals should employ fewer employees per patient but a higher proportion of skilled employees. This conclusion seems overly simplified since the real source of efficiency may be in differentiated patient care, technology, management, organization structure or the like.

The second study by Gannon and Reece looks at attitudes toward the four-day week of engineering technicians in the Department of Agriculture. It investigates the relationship between personality characteristics and attitudes and tests the hypothesis that dissatisfaction will be correlated with preference for the new system. The proposed system is one of the four-day 40-hour week, although there are other variations including 4 days at less than 40 hours. The authors stage their discussion at the outset by suggesting that "it is plausible that negative consequences (from the 4-day week) may result, for the long work day may prove too wearing and tiresome for the majority of the workers." Such speculation is legitimate but it is not the focus of this research and is but one of several possibilities.

It would have been helpful to know more about when and how the scales used were administered, and it would certainly have been useful to indicate the actual work time of respondents. Their expectations would surely be affected by the number of hours which they work at present. It would also be helpful to know their perceptions about the attainability of the reward posited. One wonders, also, about the effect on the respondents of doing the survey since their expectations must surely be altered by the discussion of the 4-day week.

The results indicate that personality as measured is not related to preference for the 4-day week. They do find, however, that the more dissatisfied with the job, the more the individual prefers the new system. While the relationship is not strong in this study, this hypothesis is intriguing and seems worthy of further test. The authors discuss the short and long-run implications of their findings, indicating that fatigue under the now system may offset the presumed reduction of dissatisfaction. It should be pointed out that this is speculation derived from the staging premise early in the paper, and depends upon questionable logic.

There is anecdotal information which suggests that absenteeism and turnover are reduced in companies which install 4-day week work plans.

The Macarov study claims to be a test of the two-factor theory of work motivation in an Israeli kibbutz. However, as he notes himself, Macarov asks respondents to identify sources of work satisfaction and work dissatisfaction rather than asking for incidents as did Herzberg. The study is interesting because the absence of salary in the kibbutz controls for an issue which has been questioned in Herzberg's research.

In his initial review of theory, Macarov refers to Maslow's need hierarchy in explaining why salary does not emerge as a factor in work motivations in studies using the Herzberg methodology. Yet it should be noted that Maslow's theory is a need deprivation theory while Herzberg's is a need fulfillment theory. In general, the study uses somewhat different methods from Herzberg and gets different results. Yet given the battle raging right now about the two-factor theory, Herzberg may well cite the study as support for his position while his critics may cite it as disproof of the two-factor theory.

The criticisms of the Herzberg methodology are well known and need not be repeated here. In Macarov's study itself, it would have been useful to check on or report interviewer reliability as well as to check the reliability of the single judge who developed the a posteriori classification of statements. Again in this study one wonders about the difference in responses among subgroups within the kibbutz.

The results of the study indicate that there are some factors which do not appear in Herzberg's original list. Most interesting to me is the fact that of the five most frequently mentioned factors associated with satisfaction, four are also the most frequent sources of dissatisfaction. These are the work itself, achievement, interpersonal relations, and working conditions. Nor is the frequency of satisfaction and dissatisfaction for a single factor greatly different in some cases. This would seem to be strong evidence against a two-factor theory even though Macarov suggests that his research supports Herzberg's findings. I think that it is unfortunate that Macarov limits his information potential by utilizing this design and look forward to what should be an interesting larger study from which these data were drawn.

DISCUSSION

GEORGE STRAUSS
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Though seemingly diverse in their subject matter, the three papers here have much in common. All are in a sense case studies—dealing with New York hospitals, Israeli Kibbutz, and agricultural engineering technicians—and all have policy implications for the larger world. Each contains somewhat unexpected findings and each is based on a somewhat unique research site—New York, for example, is hardly typical of the U.S. generally. Finally, each raises more questions than it answers since in none of the studies are the data conclusive.

Let us start with the Fottler study of New York hospitals. His two main findings make good sense and are of considerable significance, at least as far as New York City is concerned. These are that there is no real difference in cost per patient between voluntary and municipal hospitals and that having more nurses can make a substantial difference in quality of care. But I would like to quibble as to implications he draws from his third major finding, i.e., that the higher the death rate, the higher the number of employees per patient.

This finding suggests for Fottler the "policy implication" that "administrators in private hospitals who are desirous of achieving higher quality service should follow a strategy of employing fewer employees per patient. . . ." Before accepting this as a valid policy recommendation, even just for New York City voluntary hospitals—before trying to cure patients by firing staff—I would like to raise some other questions as to the direction of cause and effect. Possibly the hospitals with the highest number of employees per patient were also the ones with the sickest patients. Fottler tries to avoid this by using Roemer's adjusted index. The paper says nothing about how the index is constructed, but I would suspect that constructing a really valid index of this sort would present extreme difficulties.

Fottler suggests that "the inclusion of other variables might have altered some of the relationships." Here we have a lead worth following. Is there a positive relationship between death rate and *all* classes of employees? Are there relationships between employee work load and classes of patients (other than those measured by the Roemer index)? Following Lipset's suggestion, can we find deviant cases, perhaps where the death rate is high and employee work load low? Thus we need intensive work, designed to tell us more about what happens in the little black box between employee work load and death rate in New York City. And, given the relatively-easy-to-obtain nature of the data in the pilot study, I would urge that there be further extensive work, extending the original study to other sections of the country.

Macarov tries to find out why salary is mentioned so rarely in Herzberg studies. He wonders whether salary might be a hidden influence not so far discovered. This is a researchable question, but I am not entirely convinced by the research approach here. Macarov went to the kibbutz—where presumably salary is unimportant—and obtained results which were in some ways similar and in some ways different from those found by the typical Herzberg studies. He suggests that the differences may be due to a combination of three factors: (1) very real dissimilarities between the kibbutz and other forms of organization; (2) the fact that his questions did not follow the standard Herzberg pattern, and (3) possibly the hidden influence of salary. (I note that advancement, which is closely related to salary, receives somewhat less emphasis in the kibbutz study than it does in the typical Herzberg study.) Because of the inconclusive nature of both the research findings themselves and their possible explanations, I am somewhat dubious whether "the two factor theory . . . seems well enough supported by *these* findings to be given credence" (my italics).

Herzberg's theory has been highly controversial. It has been well received by businessmen, but its huckster packaging tends to turn off psychologists. My own view is that his critical incident method is highly suggestive, even though his findings may not mean exactly what he says they mean. We badly need systematic research dealing with participation and motivation which cuts across technologies and cultures, perhaps following the schemes developed by Blauner and Etzioni. It is because Macarov's work is in this tradition that I look forward to his larger study.

Now let me turn to Gannon and Reece's highly topical research. I suspect the 10-hour day (but not the 4-day week) may be a flash in the pan. The study here is significant only for its negative and inconclusive results. Personality variables were not related to support for the concentrated work week; job dissatisfaction explains only 4 per cent of variance between those who do and do not support this innovation. But even had the correlations been high, I would have been dubious as to conclusions drawn from just one occupational work group and based on a hypothetical event, not real experience or even real alternatives.

To summarize: Each of the papers deals with an important problem in an imaginative fashion. But in each case we must conclude with the tired cliche, "More research is needed."

V

ISSUES IN INCOMES POLICY

Session Held Jointly with the American Economic Association

Albert E. Rees, Chairman*
Princeton University

* George H. Hildebrand, who served as chairman in arranging this session, was unavoidably detained and unable to be present at the session.

Incomes Policy and Inflation
Some Further Reflections

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Introduction

Incomes policy has come to mean different things to different people. I distinguish two basic types or, rather, meanings of the term, which I call incomes policy one and incomes policy two.[1] The first type is a generalized version of what used to be called in the 1960s "guideposts for non-inflationary wage behavior." The second is a collection of specialized measures designed to eliminate or reduce market or monopoly power and promote competition in the labor market and elsewhere. The second type works with and through the market, whereas the first substitutes Government regulations for the market mechanism.

It is the first type that one usually finds in practice. In recent years, most of the developed countries, and many of the less developed, have adopted or experimented with it. The second kind of incomes policy is an ideal type. It is the version formulated by Arthur Burns when, in 1970, he started to advocate the use of an incomes policy "to speed the transition to a non-inflationary situation."[2] Little has been done to implement it.

Incomes Policy One

The almost universally-used formula for wage guideposts, incomes policy one, is that money wages or, more precisely, the average wage level should rise in proportion to the rise in average labor productivity (output per man hour) for the economy as a whole.

This is a sensible target because, as is well known, in a smoothly working competitive economy the price level would, in fact, remain *approximately* stable if money wage growth were equal to productivity growth. The reason is that, as a historical fact (not a thoretical necessity), the share of national income going to labor is a fairly constant or very slowly moving magnitude. I say prices would re-

[1] See my study *Incomes Policy and Inflation, An Analysis of Basic Principles*, American Enterprise Institute for Public Policy Research, 1971.

[2] See *The Basis for Lasting Prosperity*, address by Arthur F. Burns, Chairman, Board of Governors of the Federal Reserve System, Pepperdine College, December 7, 1970.

main only "approximately" stable, because we cannot exclude the possibility that from time to time small changes in the equilibrium share of labor in GNP occur. This would be reflected in small price level changes if money-wage growth were kept equal to productivity growth. But given the historical stability of the labor share in GNP, relatively small price changes and small corresponding changes in *real*-wage growth would take care of the problem.

So far so good. But the trouble is that the average wage level is a theoretical abstraction and not a policy variable. Most economists would agree that the pattern of *relative* wages must be allowed to change in response to ever-changing conditions of demand for and supply of the myriad types of labor. Such changes are going on all the time in our economy and freezing or distorting the pattern of relative wages is bound to produce mounting inequities, inefficiencies, and slower growth.

A mechanical and uniform enforcement of the guidepost target, be it at zero percent in a wage freeze or at 3–4 percent corresponding to productivity growth, would freeze the pattern of relative wages (wage structure) with progressively deleterious consequences. The early statements of the wage guidepost theory by the Eisenhower Council of Economic Advisors, statements that were substantially adopted and elaborated in the reports of the Kennedy and Johnson councils, took cognizance of the fact that numerous exceptions from the rule would have to be made on grounds of equity and efficiency, and formulated some of these exceptions in general terms.[3] If an effort is made to allow for justifiable exceptions from the general rule, the incomes policy degenerates into more or less general and detailed wage and price fixing. (I add "price" fixing because one can take it for granted that it is politically impossible to control wages without also controlling prices. I shall return briefly later to the economics of price control.) If general wage and price control, as well as the bureaucratization of the economy that it entails, is to be avoided, incomes policy is apt to remain ineffectual preaching and marginally effective selective jawboning.

In the Eisenhower years, the policy was confined to mild preaching. Under Kennedy and Johnson, the preaching became more urgent and "jawboning" was added—in some cases, bordering on police state methods.

[3] On the evolution of the doctrine, see especially Thomas Moore, *U.S. Incomes Policy, Its Rationale and Development*, American Enterprise Institute, Washington, D.C., 1971. The most important annual council reports dealing with the guideposts were those for the years 1958 and 1962.

THE NEW ECONOMIC POLICY OF AUGUST 1971

The New Economic Policy of August 15, 1971 went all the way to a complete freeze of wages and prices, followed by comprehensive and fairly detailed wage and price controls. The long run disadvantages of this system are insidious and numerous. They include gradual distortion of the wage and price structure; creation of the nucleus of a new bureaucracy with a tremendous growth potential; wholesale diversion of entrepreneurial and managerial talent and energies from productive work to unproductive but time-consuming and tiring attempts to comply with, or to evade and circumvent, the controls; and growing uncertainty, reflected in lagging investment and the slump of the stock market, about the future course of the policy and its implications for the vitally important recovery of profits from present low levels. The policy of extensive controls is apt literally to exhaust and wear out whole echelons of top policy makers and administrators, diverting their energies from their proper functions.

The question arises, was such a radical change in policy really necessary? Politically it probably was unavoidable, for the pressures for a basic change in policy were terrific, coming not only from the political opposition but also from businessmen, bankers, economists, journalists and international agencies. But was it necessary to go all the way to comprehensive price and wage controls?

Doubts and second thoughts about the new policy have begun to multiply. A pragmatic objection to the new incomes policy is that price inflation was abating anyway. The rise in the consumer price index slowed from 5.7 percent in the fourth quarter to 4.4 percent in the third quarter of 1971 (measured from the corresponding quarter the year before), and there is a good chance that the rate of inflation would have declined further to, say, 3.5 or 4 percent in 1972. The target of the new policy is 2.5 to 3 percent for 1972. Is it worth setting up the heavy apparatus needed for controls to reduce the rate of inflation by one percentage point? Monetarists but also William Fellner and James Tobin, economists of rather different outlooks, have questioned the need for such a radical change.[4]

But let me turn to the more basic challenges of incomes policy. They come from two groups of economists who usually are not in agreement—the monetarists, who deny the reality of wage-push inflation, and the "new inflationists", as I call them, who argue that a "steady, accurately-anticipated inflation" is a "harmless" (Tobin),

[4] See William E. Fellner, *Aiming for a Sustainable Second Best During the Recovery from the 1970 Recession*, American Enterprise Institute, Washington. D.C., 1971.

non-accelerating affair that need not worry us as long as it proceeds at a moderate speed of, say, 5 or even 10 percent a year.

"Fully Anticipated Inflation"

During the last great debate on inflation in the 1950s, the late Sumner H. Slichter took the position that we have to resign ourselves to continued creeping inflation of about 3 percent a year. He blamed it all on wage push by trade unions. In our "laboristic society," as he called it, an intolerable amount of unemployment would be required to bring the rate of inflation down to near zero. But he was confident that the Federal Reserve Board would prevent inflation from accelerating. He recommended the issue of government bonds with a purchasing power guarantee and the use of escalator clauses in labor and other contracts to minimize the social consequences of steady inflation.

Slichter was criticized on the ground that unions would not be satisfied with say, a 6 percent rise in money wages when they saw that half of the rise was lost to inflation. They would soon ask for, say, 9 percent and the monetary authorities would once again be faced with the dilemma of either permitting inflation or "creating" unemployment. Given wage push and the fact that the so-called "fixed" incomes become flexible upward in a prolonged inflation, it was thought that the dilemma was inescapable. In other words, you cannot fool all the people all the time, and sooner or later—inexorably—"steady" inflation will accelerate.[5]

Recently, Slichter's theory of permanent but harmless inflation has been revived, provided with a new, up-to-date econometric foundation, and redecorated with Phillips curves, expectational analyses, and cost-benefit computations and what not.[6]

Whereas Slichter spoke modestly of 3 percent inflation, the new inflationists speak of 5 percent and mention no upper limit. They do not explicitly reject the theory of wage push and, in my opinion, cannot accept it without ruining their case. But they have not made their position quite clear, except perhaps for Tobin when he admits that

[5] See my pamphlet, *Inflation, Its Causes and Cures*, Enlarged edition, 1966. American Enterprise Institute, Washington, 1966, p. 95.

[6] The principal new-inflationist is Robert J. Gordon. See his "Steady Anticipated Inflation: Mirage or Oasis" in *Brookings Papers on Economic Activity 2-1971*, as well as earlier papers quoted there and Gordon's statement before the Joint Economic Committee, *Hearings*, July 21, 1971. James Tobin gave his approval to Gordon's "able testimony" (see *Hearings*, Joint Economic Committee, September 9, 1971, p. 377) and expressed similar sentiments in James Tobin and Leonard Ross "Living with Inflation," in *New York Review of Books*, May 6, 1971. Gordon's theory was criticized by William E. Fellner, "Phillips-Type Approach or Acceleration?" and Arthur M. Okun. "The Mirage of Steady Inflation." in *Brookings Papers* cited above.

his case depends on the assumption that *you can* fool all the people all the time.[7] Actually, Tobin puts it the other way around. The anti-inflationist, i.e. accelerationist, position "rests on an appealing but unverified assumption that you can't fool all the people all the time." Tobin does not exclude the possibility that "money illusion is a transient phenomenon" but he thinks that "the period of adjustment is measured in decades." In other words, you can fool all the people for decades! This, it seems to me, grossly underestimates the intelligence of the common man. But it is surely true that the speed of learning and reacting varies greatly from group to group and from individual to individual. This dispersion of anticipations and adjustments makes shambles of the theory of "accurately anticipated inflation." Inaccurately and not uniformly anticipated inflation is *not* harmless.

The new version of the theory draws the crucially important distinction between anticipated and unanticipated inflation which Slichter failed to make explicit. Only an "accurately anticipated" inflation (Gordon) is claimed to be harmless. It is fully realized that full or sufficient anticipation requires that all interest rates reflect inflation (which in turn implies legal reforms, e.g., authorization for banks to pay interests on demand deposits) and the introduction of exchange rate flexibility to avoid balance of payments difficulties,[8] that wages, salaries, pensions, welfare payments, et cetera, are "indexed," and that medium and long term bonds, securities, life insurance policies, mortgages, et cetera, carry purchasing power guarantees.

This is a tall order indeed. The inflationists speak as if we had already gone very far in adjusting to a steady rate of inflation of 5 percent. Gordon says "reducing the inflation rate below what people expect will cause an inequitable redistribution of income from borrowers to savers, just as increasing the rate above what is expected will redistribute in the opposite direction."[9] The implication is that since we have already gone far in adjusting the economy to steady inflation, we might just as well go the whole way and adjust fully.

It is true that people generally do expect further inflation and that there has been *some* adjustment to inflation. Such adjustment is reflected in high interest rates, the inclusion of escalator clauses in a few wage contracts, heavy pressures from unions for higher wages

[7] *Op. cit., New York Review of Books*, p. 24.

[8] These reforms would be quite sensible on general grounds. They have been demanded for a long time by the monetarist school and it is interesting to observe that on this point, as well as on the rejection of incomes policy and of the wage-push theory, neo-inflationists and monetarists are in broad agreement.

[9] *Hearings*, op. cit. p. 140.

as protection for expected rises in the cost of living. Admittedly, therefore, a reduction in the rate of inflation may cause some pain, bankruptcies, and unemployment. However, it is quite wrong, I believe, to give the impression that we have already gone halfway or more to full adjustment. With hundreds of billions of dollars in old unadjusted contracts, bonds, mortgages and life insurance policies et cetera outstanding, with the expectation of future inflation varying a good deal as between different groups and persons, with escalator clauses in only a few contracts and with no agreement in sight on various reforms such as abolishing legal restrictions on interest payments and introducing flexible exchange rates, however desirable these reforms may be—with all these adjustments still to come (or not to come), it is difficult to believe that it would be easier to adjust up to, say, a 5 percent inflation than to adjust down to a lower rate.[10]

But let us assume that momentarily the economy has more or less adjusted to an inflation of 5 percent. There are compelling reasons to expect that the rate of inflation will not remain steady and that there will be strong forces making for acceleration. The most important one is this: If the inflation has an element of wage push,[11] the unions will certainly not stand by and let the fruits of their struggles be whittled away by inflation. They will raise their wage demands and the monetary authorities will again find themselves in the dilemma of either resisting the acceleration of inflation and "creating" unemployment or giving in and accelerating inflation. In other words, after a while, holding an inflation to a steady rate of 5 percent causes the same difficulties as holding it to a lower rate (possibly a zero rate) would have had earlier in the game.[12]

This brings me to the problem of wage-push or, more generally, cost-push.

[10] Okun, too, reaches the conclusion that "after three years of fairly steady inflation at a rate close to 5 percent, the U.S. economy is nowhere in sight of fully anticipated inflation." (*loc. cit.* p. 491). (It should be kept in mind that the question is whether the rate of inflation should be reduced, hopefully to zero in the end, and not whether a compensating *deflation* should be attempted.)

[11] If it were a case of a pure "demand" inflation or what Keynes (in *The Treatise on Money*) called a "profit" inflation, and not a "cost-push" inflation (what Keynes called an "income" inflation), it would be comparatively easy to call a halt to rising prices by monetary measures. The reason is that in a demand inflation profits run ahead of wages (and other contractual incomes) and profits are easier to squeeze than wages, which are rigid downward and are pushed upward by powerful unions.

[12] This analysis implies a shift in the Phillips curve or, in other words, a change in the inflation-unemployment trade-off. Gordon and Perry have tried to show with the help of econometric analyses that the Phillips curve has *not* shifted in recent years. (See *Brookings Papers*, cited above.) Strictly speaking what these studies claim is not an unchanged (two-dimensional) Phillips *curve*, but what might be called an unchanged (more-than-two-dimensional) Phillips *structure*. For they introduce labor market factors other than wages into the picture. At this point I confine myself to saying that I find these studies unconvincing. (See Fellner's detailed criticism, *ibid.*)

WAGE-PUSH INFLATION

Wage-push by powerful labor unions is an obvious reality which largely, though not fully, accounts for the difficulties and painfulness of anti-inflation policy. No more would need to be said about the existence of the problems, if some monetarists had not denied the connection between inflation and the monopoly power of labor unions for so long.

The monetarists are right that inflation is baically a monetary phenomenon. With a loose monetary-fiscal policy, all other measures against inflation, such as any kind of incomes policy or anti-monopoly policy, would be in vain. They are also right that prolonged inflation strengthens the unions and intensifies the wage-push. But I believe that inflation is *not* the only factor. Admittedly unions would moderate their demands if monetary policy miraculously curbed inflation *without creating a lot of unemployment* and if prices stopped rising. But there are deeper institutional, historical, political, and psychological changes which account for increased union aggressiveness.

I am greatly impressed by the analysis of two British economists, Frank Paish and James Meade.[13] Until recently, Paish was very skeptical of the existence of wage-push and consequently of the need for incomes policy. But in the 1971 edition of his pamphlet, *Rise and Fall of Incomes Policy*, he added a postscript entitled "Cost-Push at Last."[14] According to his statistical analysis, the situation in the labor market—more specifically, the tradeoff between unemployment and inflation—has radically changed since about 1969. The Phillips curve has sharply shifted upward. (But he does not use that phrase nor does Meade.)

Meade, in his remarkable lecture, accepted Paish's diagnosis and amplified Paish's analysis of the reasons for the "dramatic change." Why has wage push become so much stronger in recent years? Why do labor unions now make so much more effective use of their monopoly power? Labor unions have existed for a long time and there is no obvious reason to assume that their monopoly power has been sharply increased in recent years.

Meade is frankly baffled, but he suggests several factors that have contributed to bringing about the pronounced change in the labor market:

(1) Liberal "redundancy payments" and higher unemploy-

[13] F. W. Paish, *Rise and Fall of Incomes Policy*, 2nd ed., 1971, and J. E. Meade, *Wages and Prices in a Mixed Economy*, Second Wincott Memorial Lecture, both published by the Institute on Economic Affairs: London. 1971.

[14] Another prominent British economist who has recently changed his view and believes that wage push has become a reality is Lord Robbins.

ment benefits have been introduced in Great Britain in recent years. These payments and benefits have "reduced the terror of temporary unemployment" and made it much easier for unions to engage in long strikes. In the U.S. a similar phenomenon occurs to the extent that the government finances strikes through liberal welfare payments and, in two states, unemployment benefits for strikes.

(2) Higher direct and indirect taxes, social security contributions and other deductions such as union dues from gross wages have reduced disposable income. It seems that workers are motivated by the latter, the take-home-pay, and try to make up for larger deductions by demanding higher wages. The greater social benefits that they receive for their higher contributions apparently are not regarded as part of income but are accepted as windfalls or manna from heaven.

(3) These recent developments, plus the effects of prolonged inflation, "may have given individual trade unions an unexpected glimpse into the very large monopoly powers which they possess for pushing up money-wages and which they have not fully exploited in the past. The consequences may have been a basic change in their attitudes."

There can be no doubt that these factors have greatly strengthened wage-push, but only because labor unions possess monopoly power. In a competitive labor market, there could be no wage push.[15]

Monopolistic Labor Unions and Business Monopolies

Meade and Paish make it quite clear, and I fully agree, that in practice it is the monopoly power of labor unions that threatens price stability. In comparison, business monopolies or oligopolies are of minor importance as far as inflation is concerned and relatively easy to handle. "Wage restraint is the basic problem," says Meade. Paish has this to say: "If it could be shown that the trade unions were in practice able and willing to use their monopoly power to hold the rest of the community to ransom, there could be no further argument about the desirability of a wage policy." A dock strike or a railroad strike that strangles the whole economy, or a coal strike that threatens widespread power shortages, or a subway strike that paralyzes a whole city can surely be described as holding the rest of society to ransom.

[15] What could happen in a free, competitive labor market is that the supply of labor would be affected by the first two factors mentioned. For example, when unemployment benefits are generous, workers could take more time looking for a suitable job, implying an increase in frictional unemployment. Or if deductions from gross wages become large, some workers may not care to work, implying our increase in voluntary unemployment.

But what has this to do with inflation? Briefly this: Apart from the immediate shortfall of output caused by strikes, high wage settlements for certain groups of workers do not only imply a misallocation of labor resources and gross inequity. More important from the inflation standpoint, such settlements also act as a spur to other unions to press for similar wage increases and tend to spread, although perhaps slowly and imperfectly, to non-unionized labor, thereby jacking up the whole wage level.

No business monopoly or oligopoly wields the power that many unions have acquired. Where there exist "natural" monopolies—as in the area of transportation, communication, and electric power—business is regulated anyway, usually overregulated. Actually the regulations often protect certain segments of the industry, hampering competition instead of enforcing it. The proper method for dealing with business monopolies is antitrust action, reform of the regulations that restrict competition and, above all, liberalization of imports. General price control is an entirely unsuited and ineffecient method for restraining monopolies and, for that matter, for redistributing income between the rich and the poor or between "business" and "labor." The only possible justification for price control is political expediency, i.e., that the restraint of union power is politically not feasible without similar controls on business.

Incomes Policy Two

But how should monopoly power of labor unions be restrained? This is, of course, a formidable but also a crucially important task. I do not pretend to have the full answer. But a few things can perhaps be said with confidence.

Wage freezes, guideposts, incomes policy one—these are not the answer, although we cannot exclude the possibility that along with much harm (which was detailed earlier) they may do some good by preventing a few outrageously large settlements and, perhaps, slowing inflationary expectations. It would be far better to search for methods of restraint which leave *relative* wages free to vary. (Meade thinks he has found such a method. But it would lead too far to describe it and I cannot judge its chances of adoption or, if adopted, of success.)

The mildest, technically easiest method would be to remove or reduce the numerous privileges and immunities which the state has showered upon the unions—the Davis-Bacon Act, the Walsh-Healey Act, direct or indirect public financing of strikes, minimum wage laws, et cetera. In the labor field just as in the business area, many or perhaps most monopolies have been created and are bolstered and protected by government action, and would disappear or be greatly weakened if government protection were withdrawn. Prohibition of closed shop and union shop agreements, as well as prevention of coercive picketing and intimidation of would-be workers, would go a long way to weakening monopoly power of unions and reducing wage pressures. Measures to increase labor mobility by training and retraining workers and by breaking down the numerous existing barriers to entry would reduce structural unemployment, restore competition and promote overall efficiency. Furthermore, liberalization of imports would not only lead to price reductions and keener competition in the commodity markets concerned, but would also have a restraining effect on unions by threatening them with the loss of jobs if they pushed their wage demands too far.

The totality of these and other measures to break down monopolies, increase competition and improve the functioning of our market economy I call *incomes policy two.*

If nothing is done along these lines, we shall have to brace ourselves for more inflation and, since inflation cannot and will not be allowed to go on indefinitely, we shall have to expect periodic spells of unemployment, or a combination of unemployment and inflation ("stagflation"). In other words, we shall see an intensification of the familiar stop-and-go cycle playing around a rising rather than a horizontal price trend.

Summary

The problem which incomes policy is supposed to solve is a real and pressing one—to make full employment or high employment compatible with reasonably stable prices. Inflation is a monetary phenomenon and monetary-fiscal restraint is indispensable. But in our time, these policies can solve the inflation problems only at the cost of more unemployment than modern society will tolerate. What is needed is to restrain monopoly power of labor unions. In comparison, business monopolies and oligopolies are a minor problem and are much easier to handle.

Incomes policy in the usual sense of generalized guideposts for wages, which I call *incomes policy one,* sets a sensible target, namely, that the average wage should not rise faster than average labor productivity. But the average wage is not a policy variable. Incomes policy is an unsuitable and highly inefficient method for dealing with the unemployment-inflation problem because it freezes and distorts relative wages.

It has recently again become fashionable in some quarters to recommend, as an alternative, acceptance of a certain measure of inflation. A "fully anticipated steady inflation" is said to be harmless. This proposal is analyzed and found to be a mirage and unacceptable.

What is needed to deal with cost-push inflation is a variety of specialized measures designed to curb monopoly power especially in the labor market, and to increase mobility of labor. This is what I call *incomes policy two.* The technically easiest method which may well be all that is required would be to withdraw numerous immunities and privileges which governments have bestowed upon labor unions. To deal with business monopolies or oligopolies, the withdrawal of protection by means of import liberalization would be the easiest and most effective method. Other instruments are anti-trust action and using regulations of public utilities, especially in the transportation field, so as to foster competition instead of impeding it as is now often the case.

If nothing is done along these lines, we have to resign ourselves to suffering more inflation and since inflation cannot and will not be allowed to go on indefinitely, to endure from time to time spells of unemployment. In other words, we have to expect the familiar stop-and-go cycle in intensified form around an ascending rather than a horizontal price trend.

Cost-Push and Some Policy Alternatives

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This paper proceeds first by considering certain aspects of the inflationary potential of market power in connection with certain limitations of monetary policy and demand management generally. It next considers some of the implications of applying the principle of Antitrust in the labor markets. Finally, it turns to incomes policies attempted to date, to suggest some conditions which might possibly be conducive to greater future effectiveness.

Monetary Policy and Demand Management

There is both a rather radical and theoretical case for monetary policy and a more pragmatic and traditional case for demand management in general. Advocates of the former either deny the existence of cost-push inflation or claim that it can be quickly made to disappear by appropriate monetary policy. Their own theory of inflation, however, assigns an important role to the expectations of private individuals: although misguided monetary policy is held responsible for arousing inflationary expectations in the first place, the latter, once aroused, can force the monetary authority up against the wall.

Wage increases generated under collective bargaining can exert even greater pressure. Collective bargaining may operate with a lag in responding to prior price increases (depending in good part on the timing of contract expirations), but, because wage increases under collective bargaining are generated primarily by strikes and the threat of strikes or of union organization, rather than by labor turnover, they can occur more readily and persistently after excess demand has been removed by fiscal-monetary policy. Thus collectively negotiated wage increases—especially those occurring sequentially in a decentralized system of collective bargaining—can be more difficult to damp down by monetary policy alone than can wage increases generated under what used to be known as "individual bargaining."

Moreover, conditions which monetary policy by itself are powerless to prevent can stimulate general wage increases under collective bargaining. People respond to a rise in the cost of living out of a desire to compensate for past or probable adverse effects on their real or relative incomes. Such effects can of course proceed from other causes as well as from increases in the general level of prices. They include changes in conditions of demand or supply for particular types of labor, which by themselves would induce changes in relative wages adverse to groups not directly affected. Such wage changes would not be generally inflationary in themselves except for their tendency to be transmitted to other groups, in excess supply situations, whether by unions or by nonunion employers seeking to maintain union-preventive wage differentials—and associated differentials in productivity. Thus potential changes in relative wages are converted, at least in part, into actual increases in the general level of money wages.

Indeed, a tendency to cost-push would exist even in the absence of any threatened disturbance to the distribution of labor incomes as well as in the absence of any threatened reduction in labor's share of the general income. The fact that potential adverse changes in relative wages can generate cost-push does not imply prior satisfaction on the part of all groups concerned with pre-existing income distributions. On the contrary, there need be no general tendency, even under static conditions, for union groups to cease attempting to improve their real or relative positions by pushing up on money wages, given employer resistance to union demands combined (perhaps in inverse proportion) with employer capacity to pass negotiated wage increases along in the form of price increases. As Samuel Gompers once put it,

> I would not want any man to believe that our movement is satisfied. There is not anything satisfying in what we have accomplished. It is gratifying but simply whets our appetite for better and better and still better things.

In view of this state of equilibrium dissatisfaction, a union can be counted on to maintain or increase its premium over the wage which would be sustained by competitive forces alone, even at some sacrifice of employment opportunity.[1] Two examples merit mention. The first, which seems to have been largely ignored in formal market analysis, consists in the alchemy by which collective bargaining transforms declining demand into rising wages when, as in the case of certain types of technical change, reduction in the level of demand is associated with reduction in labor cost ratios and, to this extent, demand elasticity. Declining labor cost ratios reduce the potential gain to the employer from taking a strike at the same time that they raise the costs associated with a shutdown. Wages increases directly generated by this process are in real terms, but, to the extent that they preclude price reductions and

[1] We might assume, as a generalization about actual behavior, a very low marginal rate of substitution between the relative wage and employment, at least down to some critical minimum level of unemployment usually characterized by a credible threat of permanent establishment closing.

to the extent that they ripple out to groups unaffected by the technical change in question, they have inflationary consequences.

The second example is provided by the fact that younger employees and members seem generally to have higher reservation prices than their elders. They are more adverse to drudgery, sweat, and imposed discipline; they are better educated and might have higher transfer earnings; and the union means less to them than it does to more senior members. To be responsive to the younger generation of members, the unions will have to try to raise their average wage premiums or to press for productivity-reducing conditions in the work place. This cloud is already bigger than a man's hand; and such by now familiar phenomena as higher frequencies of contract rejections by membership referendum and of electoral defeats of incumbent officers are serious portents. They also testify to the predictive properties of Gompers' statement; the problems posed by a new generation of union members can be viewed in the context of an underlying state of dissatisfaction.

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The more pragmatic case for monetary policy and demand management is less ambitious than the monetarist approach. While it holds that the avoidance or elimination of excess demand can mitigate cost-push inflation, the pragmatic approach implicitly acknowledges the existence of causes of cost-push other than prior increases in the cost of living. Thus, the pragmatists have tended to regard periodic deflation as the best that demand management alone could do to damp down inflationary pressures. That is what the British have called Stop-Go and what some members of an older generation of economists in this country meant by "creeping inflation."

This alternative has not been too unpalatable in a country where unemployment targets have been more modest than elsewhere. In fact, we seemed to accommodate our two-party system to its requirements, calling in one party when we wanted more price stability and the other when we wanted higher levels of employment. Moreover, the effectiveness of Stop-Go can be enhanced by the restraining influence of foreign competition in some of the major domains of collective bargaining (although, as the basic steel settlement of 1971 most recently illustrated, this source of restraint can be quite limited in a predominantly "closed" economy). However, there is reason to believe that the time of naked Stop-Go may be running out.

In the first place, repeated recourse to periodic deflation presumptively reduces its effectiveness. As uncertainty concerning official intentions is reduced, firms rationally react to deflation by hoarding labor. This makes for lower productivity and profits, and so, guided by the same set of optimistic expectations, they react to this development by raising prices—which of course helps to touch off wage increases. Such persistent inflation at reduced levels of activity inspires fiscal and monetary caution, which delays the re-attainment of high employment and normal productivity growth. The reduced effectiveness of the "policy recession" in damping down inflation might call for longer or more severe spells of deflation, but this prospect would (as it has done) weaken the resolve of even the political party with the greater willingness to trade off employment and output for price stability.

One reason why Stop-Go should no longer (even if it could) suffice as even a second-best solution is that it tends to saddle the poor, including the non-whites in disproportionate numbers, the unorganized, and the underemployed with a disproportionate share of the task of absorbing the shock of wage and price increases originating in the more protected labor markets. One of the distinguishing characteristics of these unprotected markets is that they cannot so readily react to wage and price increases originating elsewhere with sympathetic wage increases. Lacking the organizational potential of public employees (to whom they stand in vivid contrast) and of workers in protected private product markets, workers in these unprotected markets are more likely to be on the receiving end of the neoclassical adjustment mechanism. For them relative improvement is to be found in sustained high employment and rapid growth which afford escape into higher-paying jobs as well as increased employment opportunities and higher wages in the unprotected markets. But the wage and price increases which are thereby induced in unprotected markets invite wage and price increases elsewhere and help induce deflation.

Structural Reform

It has never been disputed that careful demand management constitutes a necessary condition for the restraint of cost-push inflation by curbing inflationary price movements to which the bargainers would otherwise respond. A similar role might usefully be performed by active labor market policies. On the other hand, the effectiveness of both types of policy is limited; and institutional influences in labor markets, combined with discretionary pricing in product markets, contribute to these limitations. Hence the attraction of other policies designed to restrain discretionary wage and price setting more directly, either by reducing the areas of discretion or by inducing underutilization of private market power. In recent years both types of policy have been subsumed under the heading of "incomes policy," but I shall reserve that label for the second type and designate the first "structural reform."

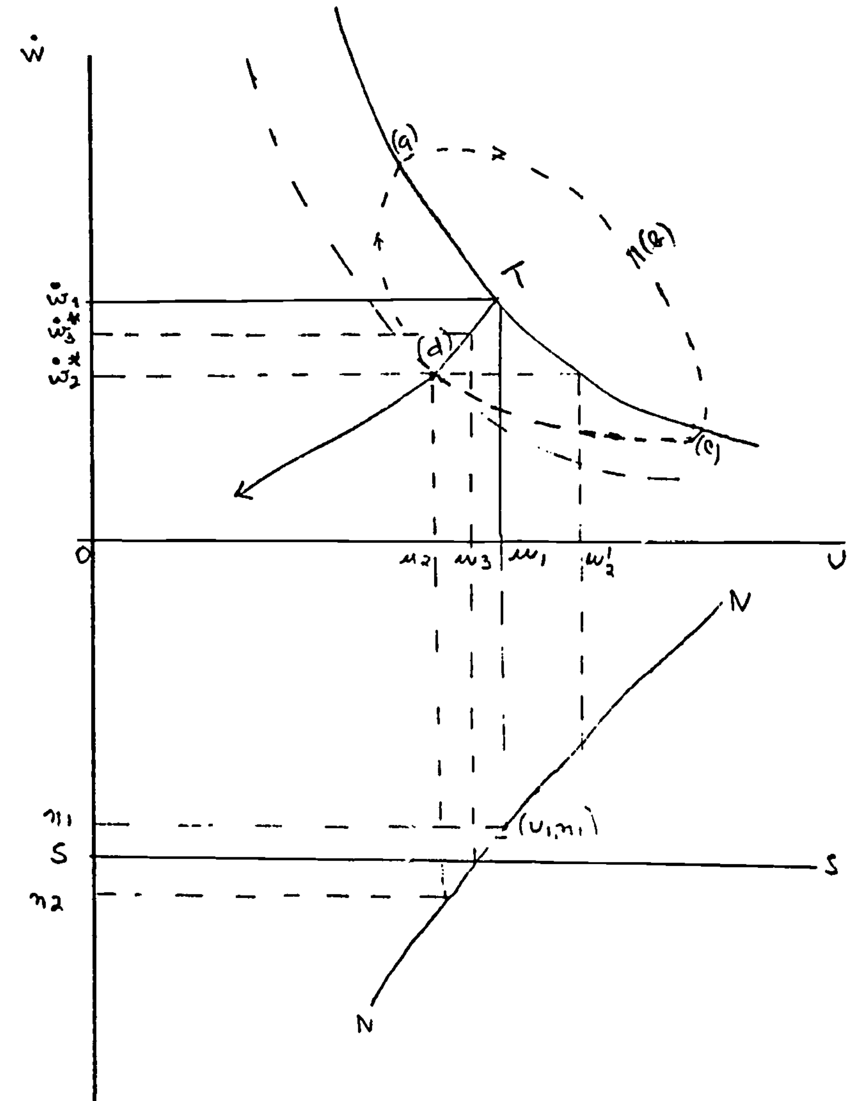
Structural reform presumably includes measures to reduce concentrations of power in both product and labor markets. In the past, this concept has embraced lgeislation designed to reduce the size of the bargaining unit or otherwise to reduce the power of the national unions; and, as we continue our quest for effective policy instruments, it is not unlikely that proposals of this type will be put forth again. I believe, however, that they are not likely to be effective and, indeed, that they might be counterproductive unless they are accompanied by a degree of decentralization in product markets—which in some cases might be excessive in terms of standard market criteria.

To the extent that decentralization means that one's competitors would continue to operate while he was shut down, it would raise the cost of a strike to the employer. To raise the gains from taking a strike, decentralization would have to reduce the probability that any price increase occasioned by a peacefully negotiated wage increase would be promptly followed by one's competitors. But this, as I have suggested, would require decentralization of product as well as of labor markets and the abandonment of all manner of legal price supports as well as legal wage supports. This in turn would mean that farm price supports, tariffs, tax preferences would also have to go, because the political process required for such dismantling would be roughly analogous to a successful multinational disarmament conference. Such domestic economic disarmament would indeed be effective in reducing inflationary pressures; but it is only natural that elected politicians should have passed up the radical solution of disarmament in favor of a ceasefire. Thus incomes policy—which is designed to induce underutilization, rather than reduction, of market power—has been regarded as the only game in town.

Incomes Policy

Incomes policy has enjoyed some success as a limited-duration instrument, mainly under conditions of excess supply and especially in the form of an absolute freeze on wages and prices. It has yet to demonstrate effectiveness in modifying deep-seated propensities that underlie inflationary institutional behavior and thus in bringing about a steady state of full employment. Its failure to date in this more ambitious role has been due in part in insufficient firmness or realism on the part of government but also to the lack of sufficiently effective incentives to self-restraint.

Assuming the existence of a set of stable Phillips relationships, these problems might be regarded in the following manner. The stabilization objective of incomes policy is to shift the Phillips curve downwards; the curve in the upper quadrant of the diagram, originating at T, the initial



position, and pointing to the origin might be regarded as reflecting the locus of points of tangency between alternative trade-off curves (relating unemployment to price changes), and policy-makers' indifference curves, and hence as the policy target curve.[2] Thus the policy-makers

[2] R. G. Lipsey, "Structural and Deficient Demand Unemployment Reconsidered," in A. M. Ross, ed., *Employment Policy and the Labor Market* (Berkeley and Los Angeles: University of California Press, 1965). pp. 211-213.

might set (d) as a wage norm on the grounds that this would be consistent with a desired rate of unemployment (w_2) as well as a lower rate of inflation. But whether point (d) is stable and on a new, more preferable trade-off curve depends on whether $\dot{w}_2$* is a sustainable wage norm. At any point on the target curve (or, for that matter, within the rectangle $o\dot{w}_1Tu_1$) below T, there is a gap between the targeted rate of unemployment and the rate of unemployment associated with the targeted rate of wage increase in the absence of an incomes policy. In this case the gap would be $u_2'-u_2$; and the lower the unemployment target, the wider the gap. Thus the wider the unemployment gap, the greater the required degree of wage restraint (R), which is thus taken as a decreasing function of the unemployment target (or NN) on the lower quadrant. However, it cannot be assumed that more restraint will be supplied as it is required. The willingness of the unions to cooperate depends on the distributional characteristics of the overall stabilization policy as well as on the rate of unemployment. With respect to the latter, a given decline in the level of unemployment would be associated with two opposite influences: a higher level of social welfare and an increase in bargaining power. The supply-of-restraint (S) curve can therefore be drawn perpendicular to the OR axis.[3]

Whether or not a given wage norm desired by the policy-makers is also a feasible norm depends on whether or not the degree of restraint forthcoming is equal to the degree required. This condition of equality is not fulfilled by the norm $\dot{w}_2$* which is associated with an "excess demand" for restraint denoted by the distance n_2—s on the R axis. Given such a deficit, two courses of action, or a combination thereof, are indicated. The first is to adopt a less ambitious wage norm. This presumes that such a norm exists—that SS intersects NN at some point below (u_1,n_1) permitting a wage target below the rate of increase ($\dot{w}_1$) prevailing in the absence of an incomes policy. On our diagram, such a feasible norm does exist, e.g., at $\dot{w}_3$*. Thus incomes policy should not be regarded as an all-or-none affair, but rather as the outcome of bargaining between the authorities and the private parties.

The second course of action consists in an attempt to increase the supply of restraint available at any given level of demand—to shift SS further from the origin. This might be done by adding or increasing legal compulsion, by providing more efficient inducements to the unions to support the policy, or by providing employers with incentives to resist union demands more strongly under given labor market con-

[3] In the absence of a policy, strike frequency has been a decreasing function of both the rate of unemployment and of real wage rates. See O. Ashenfelter and G. Johnson, "Bargaining Theory, Trade Unions, and Industrial Strike Activity," *American Economic Review*, March 1969

ditions. No one of these approaches can be considered in isolation from the others since compulsion, cooperation, and resistence are strongly interrelated. Thus union cooperation and legal compulsion complement one another. Under a decentralized system of collective bargaining where the cooperation of any particular autonomous group is heavily conditioned on compliance by the others, it must be possible to prod the rogue elephant back into the herd. On the other hand, any set of legal sanctions requires a sufficient degree of popular support to give it effect. Indeed, a policy of increased governmental sanctions can run into an area of negative returns unless an increased degree of cooperation can also be induced.

One need not be a student of foreign experience to appreciate that the discovery of incentives to union cooperation is not an easy task. However, the experience of other countries which have been experimenting with incomes policy, in most cases longer and more intensively than we have, is obviously relevant to this discussion. I shall hazard a few generalizations from that experience, based largely on research reported in the book *Wage Restraint* by Ulman and Flanagan.[4]

In the first place, persuasive evidence of the imminence or existence of a national emergency has proved to be an effective incentive to union cooperation, but, apart from war, sufficiently persuasive evidence is hard to come by and official appeals to patriotism are not taken at face value. Actual or threatened crises in the balance of payments have on notable occasions served this purpose well, but mainly as a temporarily effective incentive to union cooperation; and even these have been losing potency in recent years. To the extent that exchange rates become more flexible, it might be noted, this incentive to restraint will further diminish in importance.

In addition to furnishing a patriotic incentive to cooperation, the currency crisis has served as an important aid to incomes policy as a pedagogical instrument. It dramatizes and makes more credible the lesson that excessive wage increases will entail a higher rate of unemployment. It also helps incomes policy to get across another lesson: that excessive increases in money wages tend to inhibit economic growth and thus to slow down the rate of increase in real wage incomes. However, the ability of pedagogical effectiveness *per se* to shift Phillips curves (the premise on which the first Kennedy Guideposts were erected) is doubtful. Enlightenment need not bring forth self-restraint. For even if he is persuaded that the anti-inflationary alternative to wage restraint is more unemployment, the probability of job loss for the average union

[4] Lloyd Ulman and Robert J. Flanagan, *Wage Restraint: A Study of Incomes Policies in Western Europe* (Berkeley and Los Angeles: University of California Press, 1971).

member is likely to be very low. To him, the choice is between a low probability of income loss through unemployment and a high probability of income loss through wage restraint. (Since the probability of loss through self-restraint to any given group is partly determined by the capability for defection by others, the prospects for a policy based on cooperation tend, other things equal, to vary inversely with the degree of decentralization of authority within the union movement.) Nor would the message of growth through wage restraint hold out much appeal to a man, however rational and sophisticated, whom a relatively low level of income has endowed with a high rate of time preference.

Favored treatment of workers at the low end of the pay distribution has been almost invariably a characteristic of incomes policy and has formed the basis of appeals to the egalitarian tradition of trade union movements. The principle of differential treatment has been taken most seriously by the leaders of the central federations who are the guardians of that tradition—and are furthest removed from the rank and file. The latter are not unsympathetic to wage increases for the working poor, but neither are they above demanding and obtaining—often in the form of locally negotiated wage drift—compensatory increases for themselves—to redress inequities, restore traditional differentials, etc.

Indeed, incomes policy has failed to win friends and influence unionists in part because the hoped-for incentives to compliance involved redistribution of income adverse to those groups of wage-earners to whom they have been addressed.[5] Thus the policy itself has threatened to aggravate a problem which, as suggested above, would contribute to cost-push inflation in its absence. One remedy would be to substitute selfish incentives for appeals to the better nature and to make the former more specific and concrete. In the manner of the French, the Dutch, and others, such a policy might promise the unions a specified higher rate of increase in real wages under restraint than they had been able to secure during inflationary "free-for-alls." This would include the approval and even encouragement of cost-of-living guarantees. Among the hoped-for gains from this feature would be not only reduced inflationary hedging on the part of unions but also—assuming that escalation requires some direct price restraint—an increase in the "supply" of employer resistance to wage demands.

Another way to secure high rates of increase in real wages is through "pay and productivity bargains" whereby specific union groups, by surrendering restrictive working practices, enable management to realize above-trend increases in productivity. However, while productivity bargaining can contribute to the effectiveness of an overall policy of wage-

[5] *Ibid.*, pp. 224–230.

price restraint, it is obviously subject to abuse in the absence of an effective overall policy, as the British discovered.

Finally, it is becoming increasingly apparent that the effectiveness of wage restraint is dependent on the distributional implications of associated policies of demand management. In particular, it is probable that union leaders will increasingly look outside incomes policy proper for favored treatment of low-income groups; so must the authorities if they wish to hold down wage drift and other forms of wage increases powered by claims of "inequity."

It is thus apparent that the gains from incomes policies associated with more effective incentives to union cooperation and employer resistance will come at a price. Shifting the S curve will cost something in terms of economic growth, social harmony, and possibly industrial peace; and even if the costs are outweighed by the gains from increased effectiveness, the policy will lose some of its political appeal.

The most likely alternative to an incomes policy sufficiently effective to assure a steady state of relatively noninflationary high employment is a policy of short-term effectiveness designed to minimize the amplitude and duration of periodic "policy recessions" (as the latter become less efficient in curbing inflation on their own). In terms of our diagram, this would mean that (d) would no longer lie on a lower, stable, long-run Phillips curve but instead would represent a point on a clockwise "loop" (a, b, c, d). The policy might be more effective on the downswing than on the upswing, enabling the economy to trace out a path closer to (a) T (c) than (a) (b) (c). It might be more effective in controlling nonunion wages than negotiated wages, although, for reasons suggested earlier, this might result in an extension of organization. This would not be a heroic accomplishment, but neither would it be negligible. The prospect of an infinite series of controlled Stop-Go's is not cheering: it seems to imply incurring the cost of the method of price control without reaping the full benefits in the terms of improving the relative incomes of the unprotected. Yet, just as the laissez-faire policy cycle can breed destabilizing expectations, the price-controlled cycle might generate stabilizing expectations and, in time, less inflationary institutional behavior. But in order to minimize the interval involved, it would be necessary for the policy-makers to run risks and incur costs, as suggested above. It would also be necessary for practitioners and policy-makers in industrial relations together to reappraise some of the inherited rules and customs, as they did in 1935, in 1947, and in 1959. The social costs of an effective incomes policy and of constructive structural reform are not as disparate as policy-makers would like to think; nor are the two approaches mutually exclusive.

A Wage-Price Freeze as an Instrument of Incomes Policy; or the Blizzard of '71

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On August 15, 1971, President Nixon fired an economic broadside that was heard around the world. In announcing his New Economic Policy, the President initiated a variety of measures that left few chapters of the standard economic text intact. Although the New Economic Policy caused profound tremors in the United States and abroad, the initiative that had the most immediate impact on the American economy was the imposition of a ninety-day freeze on wages and prices. Acting under the authority of the Economic Stabilization Act of 1970, the President took this step as irrefutable evidence of his determination to resist, if not vanquish, inflation. The circumstances leading to this action and the course of events in the subsequent ninety days, provide some basis for an understanding of a wage-price freeze as a component of that vague array of governmental interventions known as "incomes policies."

Background to the Freeze

While the imposition of the wage-price freeze in August 1971 appeared to be precipitate, in fact, it reflected the "traditional" economic and political variables that often have led to the aggressive use of incomes policies in other Western nations.[1] For over two years, the Nixon Administration had sought to restrain price inflation with limited success. Wage rates continued to rise at a substantial rate despite the fact that unemployment hovered at the six percent level for over a year. A long-term balance of payments problem showed no signs of diminishing, and the prospect of adopting strong deflationary measures was unappealing because of their probable impact on employment and economic growth. The decline in the rate of increase in prices that had taken place in the first half of 1971 was too moderate for the normal acuity of political perceptions so that by the summer isolated sniping at the Administration's "game plan" had become a broad fusillade.

Against this background, the Administration's rhetoric continued to

[1] For a discussion of the factors that have contributed to the use of incomes policies in Western Europe see, Lloyd Ulman and Robert Flanigan, *Wage Restraint: A Study of Incomes Policies in Western Europe* (Berkeley, California: University of California Press, 1971), pp. 2-9, 216-224.

be sturdily negative to the idea of incomes policy although there had been some movement toward more direct efforts to deal with wage and price developments. On various occasions through 1970 and 1971 the Administration had issued "inflation alerts" and had engaged in mild exercises in jawboning in collective bargaining. A National Productivity Commission also had been established to focus attention on this long-term factor of economic growth.

It was a set of proximate causes in the international area that provided the decisive impetus for the imposition of a wage-price freeze. What was unpalatable when served up by itself became an important element in a more comprehensive menu for dealing with the economy's disabilities. With one great step, the Administration could seize the initiative in the domestic and international economc arenas whle dissolving political pressures at home.

The proximate developments were the steady deterioration of the balance of payments and the threat to the dollar in international money markets. In the summer of 1971, the United States registered major deficits in its balance of payments and the dollar came under heavy pressure abroad. At the beginning of August the President and his closest economic advisers started to put together a comprehensive plan of economic action that would deal with both the domestic and international incubi. The major elements in the plan were the levying of the surcharge on imports, the suspension of the convertibility of the dollar for gold and various tax measures. These measures might be expected to have a salutary effect upon unemployment; however, they offered little relief to the price predicament. Indeed, by imposing the surcharge and permitting the value of the dollar to float downward, the discipline on domestic product markets was bound to be loosened, creating a further environment for domestic price increases. Thus, an important short-term element in the New Economic Policy was the imposition of a wage-price freeze. On August 15, 1971 the Administration vaulted across ideological and historical barriers and imposed a comprehensive ninety-day freeze on wages, salaries, prices, and rents.

From an American perspective, the unique aspect of this exercise in incomes policy lies in the fact that so drastic a step was taken in peacetime when the economy was operating at significantly less than full capacity in the product and labor markets. To some extent, however, this circumstance made incomes policy more viable by permitting the government to exert downward pressure on wage and price fixing arrangements in an environment in which this pressure was less likely to be neutralized by other economic forces. In addition, if incomes policies have symbolic significance, the fact that the Administration previously had engaged in tentative forms of intervention with little effect meant that much stronger measures had to be taken to realize any political benefits from the intervention.[2]

Short-Term Effects, Long-Term Implications

The role of a wage-price freeze as an instrument of incomes policy may be understood in terms of short-term effects and long-term implications. There should be a legitimate concern over both the temperature that prevails during the freeze and the state of the topography when the glacier recedes. To some extent, the short-term and long-term effects can be treated separately. However, the primary significance of a wage-price freeze lies in its impact on other, more durable forms of incomes policy rather than transient changes in the course of the consumer price index.

Even as a short-run phenomenon, a wage-price freeze may have several different objectives. The purpose of the ninety-day freeze was not to manipulate subtle interrelations between economic variables. Rather, the objective of the freeze was to have a dramatic impact on the economy by putting a lid on wage and price changes. By checking the movement of wages and prices, it was further hoped that the freeze would achieve a significant change in expectations concerning the persistence of inflation beyond the ninety day period. To the extent that wage and price increases reflected the expectation that inflation would continue in the future, the freeze would alter these expectations so that this self-reinforcing process would no longer be effective. Also, the duration of the freeze could be used to build a consensus to implement a more durable system of restraints in what was quickly christened Phase II. It was recognized that while the public might endure a simple, stringent program for ninety days, any incomes policy with a longer time horizon would be more complex and would require a consensus more profound than the almost visceral enthusiasm that greeted the imposition of the freeze.

A review of the experience under the freeze reveals that these objectives are closely interrelated so that choices must be made during the process of planning and administration.

Impact of the Freeze

Although a conclusive assessment must await more detailed data, there seems to be little doubt that a wage-price freeze can be employed effectively to create a short-run discontinuity in the movement of wages

[2] For an analysis of incomes policies as political symbols see Murray Edelman and R. W. Fleming. *The Politics of Wage-Price Decisions* (Urbana, Illinois: University of Illinois Press, 1965), pp. 308–322.

and prices. Similarly, where a freeze is imposed with little prior notice it may *a fortiori* have a restraining influence on anticipatory price increases.

The best measures of the overall effectiveness of the freeze available at this time are the wholesale and consumer price indexes. For the three month period September-November, 1971, which is generally coterminous with the duration of the freeze, the Wholesale Price Index declined at a seasonally adjusted annual rate of .8 percent.[3] This compares with an annual rate of increase of 4.6 percent in the six months immediately preceding the imposition of the freeze.

In addition, the indexes for the three major commodity categories that comprise the WPI—farm products and processed foods and feeds, consumer finished goods and industrial commodities—either remained the same or declined during the period September-November, 1971. Perhaps most significant is the course of the industrial commodities component of the WPI during the freeze. This component encompasses many key industries in the economy, almost all of which were subject to the terms of the freeze. During the period September-Novmber, 1971, the industrial commodities index declined at an annual rate of 1.3 percent although it had experienced an annual rate of increase of 5.7 percent in the previous six months.

The actual decline in the WPI during the freeze exceeded reasonable expectations concerning the probable effectiveness of the program. Undoubtedly some prices would have fallen in the absence of the freeze. Moreover, the stability of the index of farm products, processed foods and feeds cannot be attributed in the large measure to the freeze since many farm products were exempted from price restraints. Nonetheless, there is a reasonable basis for imputing some of the decline of the WPI to the impact of the freeze. When the freeze was imposed many large firms had experienced increases in wage and raw material costs immediately before the freeze but had not yet raised prices to reflect these additional costs. Because the regulations developed during the freeze did not permit a pass-through of costs these firms' margins were severely squeezed. One reaction by those firms that were "caught" by the freeze was to renegotiate downward the prices charged by their suppliers. Such an approach could be effective where the buyer had some degree of monopsony power and there is at least anecdotal evidence that this happened in several cases.

Data concerning the effect of the freeze on the Consumer Price In-

[3] Data concerning changes in the Wholesale Price Index for September–November, 1971, are taken from the United States Department of Labor, *News Release USDL 71-642*, (Washington, D.C.: Bureau of Labor Statistics, December 3, 1971).

dex presently are less complete and compelling than those derived from the WPI.[4] Because nearly half of the consumer prices are collected once every three months it was not always possible to separate price movments that had taken place before the freeze from those that had occurred during the freeze. Overall, the CPI increased .3 percent on a seasonally adjusted basis in September and October, a major reduction in the rate of increase that prevailed earlier in 1971. When those items that were exempt from the freeze are removed from the analysis, the CPI increased .4 percent in September and .2 percent in October for a total of .6 percent over the two month period. This less auspicious performance of the CPI when limited to controlled items can be substantially explained under the rules applied during the freeze. That is, most of the increase involved items such as apparel and new cars where prices could rise above the level that prevailed in the thirty-day base period prior to August 15, 1971 under a special seasonality rule, although there is some probability that the rule was applied more elastically than intended. In addition, a special analysis of the prices of controlled items revealed that approximately ninety percent of the prices remained unchanged or declined during September and October.

The freeze also appeared to have had a significant impact on wage movements.[5] Between September and November 1971, the Index of Average Hourly Earnings in manufacturing, which is adjusted for overtime and interindustry shifts in employment, remained constant. In contrast, the index had increased by 3.2 percent from January through July, 1971. Similarly, data for average hourly earnings for the private, non-farm sector of the economy, which is a less refined measure of wage rates, showed a slight decline over the three month period. Thus, the overall freeze, reinforced by the policy preventing deferred increases from becoming effective during the freeze and normal employer incentives for wage restraint, seemed to have achieved its objective of temporarily checking the upward movement of wages—and—prices.

Designing a Freeze

The technical aspects of a wage-price freeze also are important in understanding or modifying its application. First, it is probably cor-

[4] Data concerning changes in the Consumer Price Index for September and October 1971 are taken from United States Department of Labor, *News Releases USDL 71-562 and 71-616*, (Washington, D.C.: Bureau of Labor Statistics, October 22, 1971 and November 19, 1971).

[5] Data from United States Department of Labor, *Employment and Earnings*, (Washington, D.C.: Bureau of Labor Statistics, December, 1971), Tables C-5 and C-15. The November Index of Average Hourly Earnings is preliminary.

rect that to be most effective, a freeze should be implemented with little or no warning. To be sure, there may be significant political costs in this approach since the element of surprise curtails the opportunity for consultation with major economic decision-makers in the economy. On the other hand, any extended discussions undoubtedly will result in anticipatory movements in wages and prices by those parties who believe that the preemptory application of a freeze will penalize them unfairly or by those who simply seek personal gain. Any extended discussion of the "rules of the game" inevitably will provide a forum for the airing of these inequities. For the political decision-maker, the problem is one of assessing the extent and magnitude of the latent consensus that will support such surprise or preemptive actions. The problem is an especially delicate one during peacetime when appeals to patriotism or other rallying cries cannot be expected to invoke the same degree of national unity as during wartime. In the summer of 1971 there was considerable evidence that such a latent consensus for the exercise of economic activism existed.

Second, the nature of a wage-price freeze generates great pressures for universality and uniformity of treatment even though this approach may be economically damaging or superfluous. Because a wage-price freeze literally seeks to stop the processes of economic adjustment which normally take place over time, such a program is inherently inequitable in the interpersonal sense. A landlord might raise rents to cover the cost of increased taxes, a producer of finished products might increase prices to cover increased labor costs, wages in one company might rise to maintain traditional relations with wages in other firms. All of these decisions based on technical adjustments or venerable considerations of self-interest would be transformed into administrative or even moral questions if they were dealt with during a freeze period which contemplates strong restraints on wage and price increases. Paradoxically, equity during a short period of severe restraint could best be achieved by treating all of the economic participants comprehensively and uniformly. If inequities are engendered in individual cases, they represent random occurrences based on the unit's status at the commencement of the freeze rather than any frail administrative judgment.

The fact that the freeze of 1971 was scheduled to last only ninety days minimized the necessity of making the differential rules that would be required to "manage" the economy over a longer period of time. The fact that the freeze enjoyed widespread public support made this dialectical approach politically feasible. "Uniformity" became the general defense against allegations of unfairness and the guiding principle of administration. Although only a few product categories and some income shares were exempted from the freeze bcause of statutory limitations or policy judgments, these omissions did create a political vulnerability and pressures to exact some form of redemption in the post-freeze period.

Third, while it is not possible to formulate precise guides, it seems clear that the duration of a wage-price freeze in an economy as complex as that of the United States should not be much longer than ninety days. Initial planning for the wage-price freeze of 1971 contemplated a duration of sixty days. The decision to extend the freeze to ninety days was probably a wise one. Because of the element of surprise, the opportunity for planning is limited and administrative arrangements cannot be put in place overnight. Nor is sixty days a sufficient period of time to carry out the complex negotiations within the government and with various interest groups to develop the consensus necessary to the formulation of a longer-run incomes policy. Conversely, the extention of so stringent a program as a freeze for more than five or six months is likely to leave enduring damage to the economy and the various institutional arrangements for price and wage decisions. As the freeze progresses, the technical problems of control become greater and the rules must become more specific. Collective bargaining situations operating under fixed term agreements that expire during the freeze are bound to suffer as a result of the uncertainty or suspension of needed adjustments. Moreover, the effects on the allocation of resources cumulate and the inequities inherent in a freeze become more difficult to bear. One of the added advantages of a short-term freeze is that it does not provide the time nor the incentives for the emergence of an industry of consultants, advisers, and miscellaneous finaglers who seek to finesse the system of controls and thus, ultimately, to subvert it.

Fourth, the need for sanctions to enforce a short-term wage-price freeze is not conclusive. The availability of sanctions, as was the case in the wage-price freeze of 1971, undoubtedly has some positive effect on compliance. On the other hand, the availability of sanctions makes the program more susceptible to accusations of ineffectiveness based on the publicizing of scattered cases of noncompliance. The economic significance of a wage-price freeze is its impact on the *overall* rate of price increase. But to the extent that individual instances of noncompliance are identified the consensus and broad commitment that is necessary to the success of the program will be eroded, even though the violations have a *de minimus* impact on price levels.

During the wage-price freeze of 1971, the Administration essentially tried to cover both bases; underneath the iron glove was a velvet fist. Heavy reliance was placed on voluntary conpliance while efforts were made to use the available sanctions so as to retain the broad support for the program. Thus the primary objective of the compliance program was not so much to have a direct impact on the economic effectiveness of the freeze, but to preserve the sense of equity and uniformity ncessary to maintain the underlying consensus. The continued high level of support for the program registered in national opinion surveys indicated that on a short-term basis this strategy worked; however, the fact that a significant number of people questioned the effectiveness of the program in controlling prices constituted a danger signal.[6]

THE FREEZE AND THEREAFTER

Perhaps the greatest significance of a wage-price freeze for incomes policies is the extent to which it may condition the post-freeze economic stabilization program. To the extent that a freeze is comprehensive, "tough," and appears to be "successful" a virtually irresistible expectation is created that the post-freeze mechanisms will be equally comprehensive and "tough." This expectation will limit the discretion of economic policy-makers in developing a post-freeze incomes policy that can provide for the discrimination that is necessary to deal with a particular set of economic problems. Although the theory and practice of incomes policy may not be as advanced as that of acupuncture, it is clear that a different mix of policies and mechanisms will be appropriate for different circumstances. A "tough," comprehensive system of direct controls may be appropriate to situations in which price inflation is the consequence of persistent demand pull, but greater discrimination and flexibility should be exercised in dealing with price inflation that reflects cost factors and developments in international trade or monetary affairs. Hence, one of the consequences of a wage-price freeze may be to determine a post-freeze program that is overly-elaborate for the problems that demand attention. To allay a growing concern that the post-freeze program would be "soft" and constitute a retreat from the advances made on August 15, Administration officials signaled early in the freeze that the post-freeze program would be comprehensive and would "have teeth."

Beyond the symbolism and political aspects of wage-price freeze, there are palpable economic consequences. The imposition of a freeze

[6] A special survey taken by the United States Bureau of the Census at the request of the Cost of Living Council one month after the beginning of the freeze showed that about forty percent of the respondents doubted that the freeze was restraining prices effectively. The results of the survey were made public.

will forestall a wide array of price and wage movements that otherwise were scheduled to take effect during the freeze. The more effective the freeze is, the larger the number of economic adjustments that are "dammed up" during the period of the freeze. Many of these adjustments must subsequently be permitted for reasons of equity and economic efficiency.

In this manner, the imposition of the freeze creates a set of conflicting forces which introduces considerable instability into the post-freeze program. On the one hand, a hard freeze creates pressures for the development of an elaborate and restrictive post-freeze program. On the other hand, by damming up many wage and price adjustments that must take place in the period subsequent to the freeze, conditions have been created which make it virtually impossible to maintain a "tough" approach. An effort to maintain a "tough" program will preserve inequities and inevitably will have misallocative effects; to permit these adjustments in the immediate post-freeze program will act to undermine general standards of behavior governing wages and prices that are more appropriate over a longer-run period and hence vitiate the effectiveness of that program. Under these circumstances, the policy-makers are forced to seek some middle ground that is not readily perceptible. Another, prior alternative may be to impose a moderate freeze even though there are short-term political consequences. If incomes policies have any substantial effect, these effects should be realized over a longer term.

Last, a less obvious consequence of a wage-price freeze is its effect on the nature of economic decision-making. Private economic decision-making is essentially the exercise of individual liberty in a framework of due process supported by law. Normal government interventions into the product and labor markets are also conditioned by the requirements of due process arduously developed over many years. Because of time constraints and the sweeping application of a wage-price freeze, important elements of this due process are mitigated in the course of administering the program. These administrative exigencies may create a strong sense of grievance on the part of individual parties that will undermine the cooperation necessary for a more durable program.

This consideration helps to explain the negative attitudes that often have been associated with efforts to implement an incomes policy in England and Canada as well as the United States—all are countries with a strong sense of due process. In any assessment of incomes policy in general and a wage-price freeze in particular, the terms of the trade-off must be expanded to include not only price stability, free collective bargaining, and orderly wage movements, but the preservation of basic protections from arbitrary actions as well.

DISCUSSION

Rudolph A. Oswald
AFL-CIO

This discussion is not about Incomes Policy. No one here seems to be concerned with people's income. Rather, along with the current Administration policy, the discussion centers on programs to curtail wages.

There is no proposed control of the incomes of the very rich, thusly disregarding the upper 20 percent who receive over 40 percent of total income (not counting capital gains). The President's program provides for only voluntary restraints on dividends, no restrictions on interest income, and a questionable control over rental incomes, but imposes compulsory controls on wages. The President's tax policy supports an income shift towards corporations with a tax program designed to increase profits, dividends, and capital gains.

There has been no move in the new Nixon policy to reduce the increasing numbers of citizens living below the poverty level. As a matter of fact, the poor were the first sacrificial lamb at the altar of the President's New Economic Game Plan, as he deferred his new welfare reform plan for one year.

In regard to the papers, specifically, Haberler states: "Wage-push by powerful labor unions is an *obvious reality* which largely, though not fully, accounts for the difficulties and painfulness of anti-inflation policy." A careful analysis of all the relevant statistical data and a review of the gaps in those data belie this glib generality.

There are only some 19 million union members in the United States and they account for less than a quarter of the labor force. (Besides that, employee compensation is less than 75 percent of total national income, not 100 percent.) Furthermore, the inflation rate in recent years was highest in the service sector, where less than 10 percent of the workers belong to unions, and lowest in the durable goods sector, where over two-thirds of the workers are unionized.

Wage-push inflation appears to be a tenable theory only because detailed data are not collected and published on the salaries of white-collar workers or on the capital gains of stockholders and property owners. However, fragmentary salary data for the 1960's do not support the thesis of the union villain.

The Bureau of Labor Statistics (BLS) surveys[1] indicate that professional salaries rose much faster during the 1960's than clerical, or blue-

[1] BLS—Professional, Administrative, Technical, and Clerical Pay—Annual Surveys.

collar salaries. From 1961 to 1970, the salaries of auditors and chemists rose 50 percent, accountants 48 percent, and engineers 45 percent, whereas the salaries of clerical and blue-collar workers rose only 41 percent to 44 percent during the same time period.[2] Gavett and Sackley[3] in their recent study concluded that in the 1960's "earnings of blue-collar workers advanced slightly less rapidly than those of white collar workers." Most of these professionals are not unionists.

A review of the real spendable earnings data of BLS reveals that production and non-supervisory workers have made no real gains in six years, and the heavily unionized manufacturing section has been the weakest segment.

It is odd that the thrust of Haberler's paper is at the monopoly power of unions—odd because it is supposedly derived from an analysis of "outrageous wage settlements"—yet the highest wage settlements in recent years have taken place precisely in the most fragmented unions—the building trades unions. As Ulman points out, the current British move is precisely in the opposite direction: they are attempting to strengthen national union authority.

Ulman says, "Incomes policy . . . has yet to demonstrate effectiveness in modifying deep-seated propensities that underlie inflationary institutional behavior and thus in bringing about a steady state of full employment." So he admits that inflation's roots are deep-seated but he clearly focuses on wage restraint and on wage controls as the solution for inflation; apparently accepting uncritically the cost-push theory of inflation without giving much weight, if any, to demand-pull theories.

Inflationary periods going back to the Civil War have been related to war-time spending and the after-effects of war-time spending. However, because the current war has become so abhorrent, a new whipping boy is sought. It is ridiculous to ignore the inflationary impact and after-effects of war-related fiscal and monetary policies.

Weber's paper deals only with Phase I—a freeze and not an incomes policy. His only reference to Phase II states, "A 'tough' comprehensive system of direct controls may be appropriate to situations in which price inflation is the consequence of persistent demand-pull, but greater discrimination and flexibility should be exercised in dealing with price inflation that reflects cost factors and developments in international trade or monetary affairs." However, he also states: "It was a set of proximate causes in the international area that provided

[2] Occupational data of BLS reported in their area wage survey program is methodologically comparable to the professional salary survey.
[3] Arthur Sackley and Thomas W. Gavett, "Blue-Collar/White-Collar Pay Trends Analysis of Occupational Wage Differences" *Monthly Labor Review*, June 1971, p. 5.

the decisive impetus for the imposition of a wage-price freeze." Taking these two statements together, I am led to believe that Weber thinks that the current Phase II program should be more flexible and discriminating than it currently appears to be.

In looking at the activities of the current Pay Board, we find it astonishing how little has been learned from the lessons of the World War II War Labor Board (WLB) or the Korean War Wage Stabilization Board (WSB). The present Pay Board approaches everything *de nova*. The Pay Board rejected the notion of sanctity of contracts, a notion blessed by the WLB and the WSB. But other contracts are left undisturbed. There is no tampering with mortgage contracts, corporate bond issues, sales contracts, or other forms of agreements. Only union contracts are abrogated.

All collective bargaining situations are to be put into a strict mold of 5.5 percent—or is it 7 percent? No one can be quite sure. There is no acceptance of a case-by-case approach that would allow an analysis of the particular circumstances surrounding a collective agreement, an approach that is particularly appropriate in the aerospace industry where settlements have been tied historically, as well as currently, to national productivity and cost-of-living increases, supposedly the same basis used by the Board in establishing its own guideposts.

Now let us put Phase I and Phase II into some "incomes policy" perspective. Union wages are subject to "hard line" controls. The dividend standard is "voluntary." Interest income is under futher, probably interminable study. Capital gains are ignored.

Prices are accepted by the Price Commission and processed within 24 hours. That's how long it takes to make a detailed analysis of permissible price increases to the fourth decimal place. The newspapers don't print the dozens of price changes that are approved daily. For example, on December 16, the Price Commission approved 21 price increases, 3 below 2.5 percent and 18 above. The increases ranged from 1.1 percent for canned peas and beans produced by Interstate Brands Corporation to 8.5 percent for cakes and pies produced by that same company. It is interesting to note that each of the price increases approved that day were precisely the increases sought by the firms. As a matter of fact, the Price Commission has been approving about 98 percent of all increases sought. In one recent exception, after Congressional concern was expressed, an increase in Blue Cross rates charged federal employees was rolled back from an increase of 34 percent to an increase of only 22 percent.

Tax policy is another part of the Nixon Administration's income policy. In 1969 a vast reduction in the tax rates on upper income recipients was enacted with minor changes to remove the income tax burden from poverty level families, but the Administration opposed any tax relief for middle-income workers. The Administration also backed the reduction in the corporate tax rate that took place. In 1971 the Administration, by re-writing (accelerating) the depreciation rules, gave a tax break of $3 to $4 billion a year to corporations. Then as part of Phase I, the Administration proposed still more tax breaks for business: the investment tax credit to give corporations an additional $3 to $4 billion a year, and the DISC proposal for Domestic International Sales Corporations, giving corporations another $1 billion a year. Another tax loss of $3 billion is expected from the repeal of the auto excise tax. And a one-year speed-up in the individual tax changes already scheduled for 1973 will produce a $1 billion tax loss. In order to make up for these tax cuts the Administration decided to make an example of federal employees by postponing their scheduled salary increases for six months and cutting federal employment by 5 percent, and by postponing welfare reform for one year.

This is the sort of "incomes policy" that labor opposes—taking money from the workers and giving it to the corporations, rather than to the unemployed and the handicapped. The current program is not equitable. It is one-sided. It helps the rich at the expense of the poor.

I am particularly shocked that a learned discussion on "incomes policy" among academics fails to rise above a one-sided tirade against unions and union-won wage increases. There is no analysis of the effects on the inflation rate of high interest rates, rising land costs, and exorbitant professional fees. Certainly this discussion should have focused on an integrated approach to incomes, all incomes, including the incomes of the 25 million persons living below the poverty level. And this discussion should have demonstrated some awareness that for economic reasons as well as for reasons of social equity and social justice any incomes policy must be integrated; it must deal with all incomes, not only union wage rates. Furthermore, this discussion should have demonstrated some awareness that fiscal, monetary, and manpower policies and human resources development policies are relevant to a discussion of incomes policy.

Finally, I ask: is no value to be placed upon a free society? Do we want to sacrifice the kind of private decision-making that we find in free collective bargaining to the specifications of an economist's model?

DISCUSSION

HARRY G. JOHNSON
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Incomes policy has been an active issue, though not as yet an overt policy, for a longer recent period in the United Kingdom than it has been in the United States, and my comments on the papers presented in this session will draw on thoughts derived from the British debates about it and past experiences with it. I might as well declare at once that I have an almost totally negative position towards it. The only possible case I can see for it is when the government is determined to stop inflation by macro-economic restraint policies, its determination to do so is credible to the public (a major problem, since unemployment is politically far more intolerable than inflation), and the incomes policy is intended to warn the public as to where the government intends the economy to arrive at, so that its role is informational and promotes efficient adjustment. Otherwise, an incomes policy is an attempt to fool the public into ignoring the monetary and market-demand signals that inflationary government policies are beaming at them, and to act as if they were living in a barter economy with money serving purely as a unit of account when they are not doing so in fact. Worse, the call for an incomes policy always comes when government cannot find a politically acceptable trade-off between unemployment and inflation, and hence is a substitute for a monetary policy; but the price for or substantive content of it is intervention in the fixing of relative wages and prices, onto which academics and the public attempt to load policies of social justice or efficiency in pricing that society is not prepared to accept in normal times, and which encumber the monetary-policy substitute with minority value judgments. In Britain under the now-defunct National Board for Prices and Incomes, incomes policy was a cloak for one man's desire to make the unions efficiency-conscious in wage bargaining, while paying lip service to the idea that low-paid workers have a moral claim on society for higher incomes; here, Gottfried Haberler and others see incomes policy as an exercise in union-busting. Both views represent opportunism parading under the guise of social responsibility. One further point: I do not see inflation as a major problem, and I do not think that unemployment of the kind experienced in the UK and US recently is a major problem either. The serious minority economic and social problems involved in both can and should be handled by appropriately-devised micro-economic policies. In my view, the heart of the problem is that we are stuck with a naive and narrow definition of economic welfare that identifies welfare with having a job—a concept inherited from the mismanagement of the British economy in the inter-war period and doubtfully relevant to the modern world; that pursuit of the employment objective as politically defined for us leads to inflation; and that, rather than question the objective—because to do so would raise some fundamental questions about the social efficiency of capitalism and the limits of its work-orientated concept of happiness—we are strongly tempted by, and yield to, the political pressure to pretend that economic theory and policy can solve a politically-created dilemma based on a totally inadequate welfare concept in which happiness consists on having a job and receiving wages in money of constant purchasing power. And since we all really know that that concept of human happiness is inadequate, we yield also to the temptation to write into the notion of an incomes policy our own more sophisticated concepts of happiness.

The argument for an incomes policy is entirely dependent on the validity of the concept of "cost-push" inflation. The best sense I can make of this concept is that wages and prices rise when the observing economist thinks they should not do so—and that makes it depend on the sense of the observer, which in my judgment is usually either conspicuous by its absence, or suppressed by his political pre-commitments. It is easy for an observer to judge that wage and price increases are unwarranted by the unemployment rate; and it is also easy for him, in what our next President has called "the new idustrial state", in which wage and price decisions are taken by committees, to blame the result on human wickedness and irresponsibility. But this seems to me to reflect the primitively unscientific character of economics, which despite much methodological debate remains uneasily poised between being a moral philosophy and being a social science. (Science looks for explanations; morality looks for a sinner to castigate.) The question for the economist should be why wages and prices rise contrary to the predictions of his theory; and time lags, expectations, and micro-economic circumstances provide a more scientifically satisfactory explanation than unaccountable wickedness and irresponsibility.

It is for this reason that I find the paper presented by one of my most influential teachers, and I hope friend, Gottfried Haberler, so unsatisfactory. He attempts to attribute inflation to the monopoly power of the unions. But the theory of monopoly as I learned it from E. H. Chamberlin at Harvard is a theory of the fixation of *relative* price to maximize profits; in the process, money is a numéraire standing for purchasing power over goods in general; and, once determined, the profit-maximizing money price should change only when the purchasing power of money changes. That is the only rational theory of monopoly fixation of money wages that I know, and it leads to a cost-push theory of inflation only if the real circumstances confronting the monopolist change—as may occur, as Haberler notes, if government policy reduces the costs or increases the possibility of exploiting monopoly power, or if changes in the structure of the labour supply and the labour market make exploitation of monopoly power consistent with a high overall unemployment percentage which the government tries to reduce by inflationary policies to which the monopolists react by raising money wages and prices. The important point is that such changes are once-over changes, which can produce an apparently "cost-push" inflation only if the government keeps trying to re-establish a disequilibrium situation by inflationary policies.

One other aspect of Haberler's paper deserves comment. He has a far more trusting confidence in the economic understanding of my British economist colleagues than I have. Their main trouble is that, following Keynes, they keep thinking of the British economy as a closed economy when it is not. I would expect workers whose real incomes have for years been allowed to rise faster than their productivity by a governmentally-allowed balance-of-payments deficit to resent it when an externally-forced change of policy obliges them to sacrifice both their experted future and their actual past gains, and to try to rectify their situation by increasing their money wage demands; and I would expect both workers and employers producing internationally-traded goods in a country that has just devalued by roughly fifteen percent to realize eventually that the marginal product of labour measured in domestic money has risen by fifteen percent, and agree to a commensurate increase in money wages. I would also expect that if the traditional union leadership refrains, out of loyalty to the Labour Government, from demanding such an increase, new militant leaders will arise to challenge the old, and once the Labour Government has been defeated by a Conservative one to feel no compunction about pressing their legitimate claims. In short, I think that the British evidence, so-called, for a new cost-push phenomenon reflects no more than British intellectual laziness and the propensity of British economists to believe the myths of their own political process—especially the myth that the British working man is at heart a loyal public-school boy who will be happy to pull in his belt for the good of the school as determined by the headmaster.

I found Lloyd Ulman's paper equally unsatisfactory, and for the same reason—theories as to why union members try to establish higher real prices for their labour than are consistent with "full employment" are incapable of explaining a general upward movement of money wages and prices without a subsidiary assumption that the political process will not tolerate and live with the resulting unemployment, and will instead attempt, under the guise of achieving "equilibrium," to perpetuate a monetary disequilibrium that converts the effort to achieve a real equilibrium of relative wages and prices into a continuing escalation of money wages and prices. As in the case of Haberier's paper, I am impressed by the scholarly quality of the paper and depressed by its failure to face what I consider to be the central issue, which is political and not economic. Given the irrelevance of the paper to the real issues as I see them, I would like to compliment Ulman on the thoughtful way is which he has examined the possibilities of achieving labour cooperation in incomes policy and the likely limited success of the effort to do so. If we are to seek political solutions to the economic dilemnas erected by the political process itself, we might as well try to be intelligent politicians; and I find Ulman's understanding of union structure and motivations more congenial than Haberler's dogmatic anti-monopoly stand.

Both Haberler and Ulman are much concerned with the probability that controlling inflation in existing institutional and political circumstances will involve a continuation of what British economists have termed "stop-go" demand management policies. Ulman spells out the wastes involved more carefully than Haberler. I would like to suggest two points about this. The first is that, on the limited evidence I have read, it is not all that clear that stop-go involves much economic loss as compared with the alternative of steady growth—the main loss I can see is the social and economic inequality between generations of young people entering the labour market in years of slack and boom demand for their services. The second is that, if one takes the UK and US as the prime examples of stop-go, the phenomenon seems characteristic of nations that are growing more slowly than the rest of the world and attempt to make up for it by policy-induced bursts of demand that lead to balance-of-payments problems and eventual reversal of the policy of demand-expansion. Other nations have had a better record because they have been able to let the slow-growing countries bear a disproportionate share of the burden of international adjustment. This in turn suggests that international monetary reform aimed at a more inflationary world monetary system, rather than finer tuning of domestic policy in the "stop-go" countries, might be the most relevant line to pursue to improve the situation. While this is not the subject of this session I am fairly sure that the settlement of the recent international monetary crisis precipitated by the "new economic policy" of August 15 will condemn the U.S. to a continuation of "stop-go" policies with all that they entail.

I turn finally to Arnold Weber's paper, which reveals new dimensions of the capacity of good economists recruited into government to lose their capacity for rational thought. The basic theoretical point that Weber seems to have overlooked is that an incomes policy is an alternative to a devaluation or a downward float as a means of keeping a country suffering inflationary pressure competitive in world markets. If the exchange rate is allowed to float downwards, there is no urgency about halting inflation, unless there are pressing domestic reasons for doing so, which Weber and the Administration may have had but which he does not spell out. Instead, he regales us at length with the information that the freeze on nominal wages and prices actually froze these magnitudes within reasonable statistical limits—in most other advanced countries I know the fact that legislative power actually works would be no occasion for either surprise or rejoicing—and that the Administration having responded to a popular demand contrary to its announced policy views, gratefully discovered that the public welcomed its actions. It is, however, interesting to know that the choice between a sixty-day and a ninety-day freeze is an issue of major scientific import, comparable to the choice between a four-year and a five-year planning period in more benighted countries; and also to have official confirmation of the naive prediction that once a freeze is imposed, there are certain difficulties in removing it, even though we are offered no guidance as to how the Administration proposes to do it. Instead we are offered the usual semantic substitutes Washington gives us in place of intelligent government: "short-term discontinuity" describes an emergency policy action; the word "perception" is used to encapsulate the idea that the Administration does not know what it is doing, but would like you to believe that it knows better than you do what is good for you; and the concept of "due process supported by law" is offered to comfort you with the idea that the Administration has deprived you of something so fundamental but so vague that you ought to put up with the sacrifice ungrudgingly.

Taken together these three papers might well cause one to despair of the future of American economics. It has been clear for many years that the international monetary system was heading for a crisis, in which the European Lilliputians would try to tie down the American Gulliver with their own thread-like bonds of incomes policy as a substitute for rational international policy. On August 15th, Gulliver flexed his muscles; but he used his strength mostly to tie himself up in knots of his own devising, rather than to free himself from the traps laid for him by his enemies. It is a great pity that his economists should be telling him either that he was right to do so, or that they can increase his freedom by tying a still better set of knots.

DISCUSSION

Reply to Harry G. Johnson's Comments

GOTTFRIED HABERLER

Harry Johnson's spirited comments call for a short reply. I fully agree with him, and have stressed it repeatedly in my paper and elsewhere, that inflation is basically a monetary phenomenon. It is therefore quite misleading to say that I "attribute inflation to monopoly power of unions." What I do say is that unions put the monetary authorities before the dilemma either to stabilize prices and thereby to "create" unemployment or, by keeping money sufficiently easy, to let prices go up and to stabilize employment. To the rising cost of living, unions later react by stepping up their wage demands which again poses the dilemma for the monetary authorities. Needless to add that these various actions and reactions are not instantaneous, but are spaced out in time with varying lags.

Actually Johnson says exactly the same things using different words: Theories which attribute to unions inflationary effects, he says, "are incapable of explaining a general upward movement of money wages and prices without a subsidiary assumption that the political process will not tolerate and live with the resulting unemployment." What he calls a "subsidiary" assumption I have made quite explicit right from the beginning. But intolerance to unemployment is fact of life in our times and calling it, reproachfully, "political and not economic" does not change its nature or relevance in the least.

Speaking of Great Britain Johnson says that "workers whose real incomes have been allowed to rise faster than productivity by a governmentally-allowed balance of payments deficit . . . try to rectify the situation by increasing their wage demands." He evidently believes that he thereby offers a different explanation. Actually, this is exactly the same what Meade said and what I repeated. Contrary to what Johnson thinks, it clearly is a case of wage push. If there were no unions the higher taxes that were designed to reduce home consumption to make room for larger exports could not be passed on by higher wage demands.[1] Thus, I find Johnson's characterization of the Meade and Paish theory as reflecting "no more than British intellectual laziness, etc." as unfounded and out of place.

[1] I should perhaps add that in a competitive labor market higher taxation could lead to a reduction in the supply of labor entailing a rise in the wage level—but it could also bring about an increase in the labor supply and a fall in the wage rate, depending on the shape of the supply curve of labor.

Johnson had difficulties with defining or visualizing the phenomenon of wage push. Perhaps the striking British coal miners in February 1972 have demonstrated to him *ad oculos*—in candlelight when electricity went off—what wage push is. "Holding society at ransom" as Paish put it, by progressively bringing the economy to a standstill, the miners forced the Government to grant them a hefty wage hike. Can anyone doubt that other unions will quickly get the message and take action to secure similar bargains for their members?

To be sure tight money could, theoretically, preserve price stability, but obviously at a heavy price in terms of unemployment. Johnson, on the contrary, seems to think that unemployment would be moderate. But he gives no reason for his implicit optimism.

Johnson asserts that "time-lags, expectations, and micro-economic circumstances" provide a better explanation "than unaccountable wickedness and irresponsibility" (presumable on the part of unions) of the fact that wages and prices often "rise contrary to the predictions of [the economists'] theory." (What he seems to mean is that, according to competitive theory, wages should not rise in the face of unemployment). He ignores the fact that the criticized theory which stresses monopoly power of unions is microscopic in character; that lags are essential, for if all actions and reactions were miraculously instantaneous and general equilibrium continuously established, the effect of higher money wages on employment and prices would be obvious which it is not under our decentralized, loosely-jointed system; that it is entirely unnecessary to assume irrationality or ignorance, let alone wickedness and irresponsibility, of individual unions. (The situation is somewhat different, if something approaching an all embracing union leadership responsible for overall wage policy exists. But I need not go into that for Johnson does not make that very important distinction). Johnson also ignores the fact that the kind of incomes policy recommended in my paper, "incomes policy two" as I call it, is microscopic in character.

VI

EUROPEAN LABOR IN TRANSITION

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Organized Labor and the Shaping of Economic Policy in Western Europe

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Wherever autonomous labor movements exist, they try to influence the economic policies that governments pursue. In their efforts to do so, naturally, they achieve varying degrees of success. The following discussion is devoted to an exploration of some of the factors that might underlie the variations in the ability of labor movements to influence economic policy.

The discussion is based essentially on a comparison of experience in three countries, Sweden, France and Britain, in recent periods. These countries have been selected because they seem to provide particularly clear illustrations of variations in organized labor's ability to influence policy, variations that are evident not only among the three countries but also within them over time. Accordingly, a comparison of experience in them would seem to offer the prospect of suggesting some ideas which might be worth exploring in the light of a wider range of cases. In order to compress the discussion within the specified space limit, it will have to be highly schematic and drastically oversimplified. Perhaps it can nevertheless stimulate further discussion.

We can begin by observing that the labor movements of Sweden, France and Britain differ widely with respect to a variety of characteristics that would seem to be relevant to their capacity for influencing economic policy. With respect to organized labor, as in the case of other interest groups, its capacity for influence may be conceived to be especially a matter of the bargaining power possessed by the national leadership, particularly of the peak associations, or federations, with which the component organizations, the unions, are affiliated. In large part, the leadership's bargaining power would seem to depend on characteristics of the labor movement's organization in the labor market such as its size and structure which, in turn, provide the basis for the leadership's relationships with actors whose roles are primarily in the political arena, particularly the leaders of political parties who are actual or potential holders of governmental office.

Using a variety of indicators concerning the characteristics of labor movements in both labor markets and political arenas, it might in principle be possible to rank the labor movements found in a group of countries with specified common characteristics along a scale, extending from a position of greatest to a position of least capacity for influence or, more briefly but more loosely, from "strongest" to "weakest." In practice, this would probably be impossible to do, for there does not seem to be any way of quantifying and weighting all the relevent characteristics in such a way as to be able to decide the relative positions of labor movements that are similar with respect to many characteristics. However, it should be possible to identify a few cases that would clearly fall on different points on such a scale.

It would seem that the Swedish, French and British labor movements provide such clear cases. If we compare them on the basis of the kind of indicators referred to earlier, it seems pretty obvious that the Swedish labor movement can be described as the strongest, the French as the weakest, and the British as weaker than the Swedish but stronger than the French. Indeed, these three labor movements probably span the range of variation in the strength of organized labor in all the countries that have in common the basic features of relatively industrialized societies with managed market economies and at least minimally democratic political systems. Thus, the Swedish and French labor movements would provide the limiting cases at opposite ends of the scale ranging from the strongest to the weakest, while the British labor movement would provide an intermediate case around which the others would be scattered.

The basis for this assessment of the relative strength of the three labor movements can only be illustrated here. With respect to labor market organization characteristics, data for 1960 or the nearest available year are used. Union members accounted for 60 percent of the labor force in Sweden, 11 percent in France, and 43 percent in Britain, making the "density" of union organization greatest in Sweden, least in France, and intermediate in Britain. The labor movements can be ranked in the same order with respect to degree of "amalgamation" if we take as our measure the proportion of the labor force in unions affiliated with the largest peak association. Thus, the LO in Sweden embraced 46 percent, the CGT in France 5 percent, and the TUC in Britain 35 percent. Although this would seem to be the politically most relevant measure of amalgamation, it must be noted that the TUC is the sole peak association in Britain while there are three important peak associations in addition to the largest, the LO and CGT respectively, in Sweden and France, so that in one sense the degree of amalgamation in Britain is greater than in either of the two other countries.

The salient facts concerning labor movement strength in the polit- ical arena can be most conveniently summarized for each country in turn. In Sweden, LO unions and union members provide the or- ganizational, financial and electoral basis for one party, the Social Democratic Party, which has been in office, alone or in coalition, virtually without interruption for nearly four decades. This labor movement party is the only "majority" party in the system in which there are also four "minority" parties, including a small communist party and three "bourgeois" parties; one of which has been a coali- tion partner with the Social Democrats in the past. In France, most union and non-union working class support has been divided among several parties, one or more of which had participated in govern- mental coalitions for brief periods in the past, but none of which has ever ruled alone, while all have been continuously in opposition since soon after the inception of the Fifth Republic in 1958, which has been dominated by a political formation in the process of becoming the first majority party in French republican history. In Britain, TUC unions and union members provide the political base for one party, the Labor Party, which has been in power much less than its Swedish counterpart but much more than any French party or parties com- manding or claiming working class support, and has remained one of the two major parties in the system even while it has been in opposition.

If such differences in the characteristics of the labor movements in the three countries do in fact add up to wide variations in their capacity for influence, we should expect to find these variations re- flected in some way in differences in the patterns of economic policy pursued in these countries. To get at this, we have to turn now to a brief survey of the patterns of policy in them. As in virtually all of the countries sharing the same basic social, economic and political features, economic policy in Sweden, France and Britain has been dominated by the so-called full employment-price stability trade-off dilemma throughout much of the period since the end of the Second World War. While different governments have been subject to the twin imperatives of full employment and price stability with different degrees of intensity at different times, depending on a variety of eco- nomic and political factors, most of them have had to cope with the difficulty of reconciling these two imperatives in some way, sooner or later. The combinations of measures with which they have tried to do so can be said to fall essentially into one of two broad types of strategy. One, which has been typical, consists of strategies that rely on some form of wage restraint to achieve a better trade-off between full employment and price stability than can be achieved by demand management alone. The other, which is atypical, consists of strategies which rely on manpower, or labor market policy, to do the trick.

Whether a government is able to pursue one or the other of these strategies, or neither of them, presumably depends at least in part on organized labor's attitudes towards the alternative strategies and its ability to translate its attitudes into effective constraint or support in the policy-making process. Illustrations of all three situations—in which governments could implement one or the other of the two types of strategy or neither of them—are provided in the three countries under discussion. Our task now is to see how these differences in patterns of policy are associated with the differences in the strength of organized labor in the three countries suggested earlier. As we shall see, what seems like a simple, straightforward relationship between variations in labor movement strength and the patterns of policy pursued in the three countries can be observed, but only during certain periods. In the light of developments in each of the countries during subsequent periods, it is evident that the relationship is not nearly as simple and straightforward as experience in the earlier periods suggests. In order to bring this out, we shall proceed in two stages, comparing the situations in the three countries in each of the two periods in turn.

In Sweden, where the labor movement was said to be strongest, the first period extends roughly from the late Fifties through the late Sixties. During those years, the Government carried out a pattern of economic policy that largely approximated the strategy for reconciling full employment and price stability advocated by the principal peak association of organized labor, the LO. Essentially, the LO had rejected any resumption of the wage restraint approach on which the Government had relied when it was first confronted by inflationary pressures in the late Forties. Instead, already in the early Fifties, the LO called upon the Government to adopt a strategy that relied on a manpower policy approach to improve the full employment-price stability trade-off. According to the LO prescription, an "active" labor market policy would make it possible to squeeze profits between the downward pressure of a restrictive fiscal policy and the upward pressure of a standard rate (or "solidarity") union wage policy, stimulating structural change and increasing the share of wages relative to profits, while the resulting decline of business savings could be offset by increased public sector savings. This policy mix, it was argued, could reconcile full employment and price stability on terms consistent with the unions' organizational and ideological stakes. When the Social Democrats' parliamentary position improved in the late Fifties, after having deteriorated steadily throughout the post-war period, they began to carry out a pattern of policy along the lines proposed by the LO, despite opposition to various aspects of it from the bourgeois parties and segments of the business community. In other words, the labor movement was apparently strong enough in the political arena as well as the labor market in order to assure the implementation of the type of strategy that was acceptable to it.

In France, where the labor movement was said to be weakest, the first period begins in the early years of the Fifth Republic and ends abruptly in May, 1968. During that period, the pattern of policy pursued by the Gaullist Government came to include measures designed to impose wage restraint on the unions despite their objections. In the early Sixties, the Government made several attempts to establish an incomes policy by trying to get the employers and unions to agree to voluntary price and wage restraint. Failing this, the Government imposed an incomes policy by a combination of techniques. It used its power as an employer to impose wage restraint in the public sector, in which the unions had most of whatever organizational strength they had. With respect to the private sector, where the unions were weakest, the Government used its authority to implement price control in such a way as to induce private sector employers to hold back wages, but to permit price rises for the purpose of increasing business savings to finance increased investment. This was coupled with restrictive demand management leading to some increase in unemployment that was not offset in any significant degree by labor market policy. The result was a response to the unemployment-inflation trade-off dilemma that was grossly unacceptable to the labor movement. But it had insufficient strength, either in the political arena or in the labor market, to block the Gaullist Government's policy.

In Britain, where the labor movement was said to be weaker than in Sweden but stronger than in France, the first period coincides with the years in which the second and third postwar Conservative Governments were in office, 1955-1964. During that period, the Government failed to sustain either a pattern of policy that was acceptable to organized labor or one that was unacceptable to it for any length of time. When the Conservative Government was first confronted by the unemployment-inflation trade-off dilemma to a serious degree in the mid-Fifties, it initially sought to bring about an agreement among producer groups for an incomes policy along the lines obtained by the Labor Government in the late Forties. Having failed to win the agreement of the TUC, the Government joined with employer associations in an effort to impose wage restraint on the unions, much as the Gaullist Government was to do later. But unlike the Gaullist Government, the Conservatives in Britain felt compelled to retreat in the face of the resistance the unions proved capable of mobilizing in the labor market. The Government was then thrown back onto lowering aggregate demand, but the resulting increase in unemployment led the Government to stimulate demand again in order to overcome the correspondingly increased prospect of losing the impending election to the Labor Party. The resulting boom succeeded admirably in averting defeat but presented the new Conservative Government with renewed inflationary pressures, to which it responded with a series of initiatives much like that of its predecessor, with some additions, each of which was also frustrated, culminating in yet another pre-election boom that was not sufficient to avoid defeat for a third time in a row. Unable to sustain a policy unacceptable to organized labor and unwilling to sustain one acceptable to it, the Conservatives were reduced to the "stop-go" pattern of demand management, the destabilizing effects of which aggravated the problem of reconciling full employment and price stability over the long run.

A comparison of the situations just described suggests not only a clear relationship between variations in labor movement strength and patterns of policy but also a general explanation of the difficulty that most governments have had in coping with the full employment-price stability dilemma. In order to cope with that dilemma, it seems that governments must be able to implement strategies relying either on manpower policy or on wage restraint. The former is likely to be acceptable to organized labor while the latter is not. However, the effectiveness of manpower policy strategies depends on the inclusion of some other measures that are likely to be unacceptable to other economic interest groups, including business. Consequently, governments will probably be able to cope effectively with the dilemma only in either of two kinds of situations. One is where organized labor is so strong, in the political arena as well as the labor market, as in Sweden, that it can support the implementation of a manpower policy strategy despite the opposition of other groups. The other is where organized labor is so weak, in the labor market as well as the political arena, as in France, that it cannot prevent the implementation of a wage restraint strategy despite its opposition to it. But these are probably atypical situations. The situations likely to be much more typical are those where, as in Britain, organized labor is not strong enough in the political arena to sustain the implementation of a manpower policy approach but strong enough in the labor market to prevent the implementation of the wage restraint alternative. To sum it up differently, most of the governments that have been faced with the full employment-price stability dilemma have not been able to deal with it effectively because they typically operate within a configuration of power that approximates a stalemate, making it very difficult to carry out either of the strategies capable of improving the trade-off between full employment and price stability.

So simple yet sweeping an explanation is certainly seductive, but is it valid? Even before it is scrutinized in the light of evidence from other countries, it is called into question by developments in the three countries subsequent to the periods in which the situations on which it is based were observed. Accordingly, we now have to take a quick look at the more recent developments and consider their implications.

In Sweden, a shift in economic policy was marked by a freeze imposed on food prices in August, 1970, and soon extended across the board. More recently, unemployment has risen to levels unmatched in the postwar period. Both of these developments signalled a breakdown in the Social Democratic Government's effort to implement the LO strategy. It happened mainly because the Government failed to make fiscal policy restrictive in the 1969-70 upswing and then made it restrictive after the peak of the boom in fall 1970. This perverse timing of fiscal policy was largely due to short-term considerations of political tactics, particularly the judgement that a tax increase prior to the 1970 election carried more risks than price increases in the same period. That election came only two years after the preceding one, instead of four as in the past, because of a previous decision to change from a bicameral to a unicameral legislature in 1970. While this happened to place the election in a phase of the economic cycle politically most difficult to manage, the Government did not have to make the tactical judgement that it did. That it was a mistake is suggested by the Government's response to price increases by a price freeze prior to the election and its response to a balance of payments deterioration by a restrictive fiscal policy after the election. The longer term, apparently unanticipated political costs of mistimed fiscal policy have now manifested themselves in polls showing the lowest support for the Social Democrats on record. While the

Government might have made other tactical judgements, the preoccupation with tactical considerations has necessarily been a persistent feature of Social Democratic rule, for its parliamentary basis has typically been narrow and at times extremely precarious. Although the Social Democrats have been in office for nearly four decades, they have rarely been securely in power. This has meant that their room for maneuver in economic policy has often been limited, so that, in effect, the LO's ability to influence policy has fluctuated, depending partly on how its Social Democratic colleagues have perceived the risks in the changing political context of economic policy. Thus, while Sweden's labor movement may be the strongest there is, it may still not be strong enough in the political arena to sustain the implementation of a pattern of policy acceptable to it.

In France, the Gaullist Government was forced to abandon its strategy of imposed wage restraint by the massive social upheaval of May-June, 1968. Without the extraordinary student revolt that triggered the nationwide strikes, the French labor movement could probably not have frustrated the previous pattern of policy. However, the conditions for both student and worker protest were probably created by the intensity with which that pattern of policy was pursued in order to meet the very high demands for price stability and a favorable balance of payments placed on economic policy by de Gaulle's ambitious foreign policy. The risks involved in the resulting sacrifice of expectations—e.g., in education and employment—built up over the preceding period of growth were obviously underestimated. Once the events of May-June occurred, such expectations were evidently accepted as a much greater constraint on economic policy than before, making it necessary to accept, among other things, a lowering of aspirations in foreign policy. Thus, while the Gaullists were able to parlay the situation into their greatest victory in the June, 1968, legislative election, reinforced by Pompidou's victory in the following year's presidential election, they did not use their strengthened position in the political arena to reimpose wage restraint. Instead, they pursued a policy of encouraging collective bargaining and of keeping unemployment down, even at the price of a devaluation which de Gaulle resisted to the bitter end. In other words, the 1968 events seem to have significantly altered the Government's calculus of risks in such a way that the labor movement's bargaining power has been enhanced despite its essentially unchanged size and structure characteristics.

In Britain, the Labor Party's return to office in 1964 seemed to end the stalemate that had hamstrung economic policy during the preceding Conservative Governments and to open up the possibility of implementing a strategy for reconciling full employment and price stability acceptable to the TUC. Instead, by the time Labor was voted out of office in 1970, it had imposed wage restraint, threatened to enact legislation containing criminal sanctions against union members, and allowed unemployment to reach levels higher than any since the Depression. The consequences were not fully clear until the new Conservative Government had been in office long enough to enact labor legislation that the TUC regarded as even worse than what Labor has threatened, and to let unemployment rise even higher. In effect, by carrying out, or proposing, policies unacceptable to the TUC between 1964 and 1970, Labor had destroyed its credibility as an alternative to a Conservative Government that tried to implement policies unacceptable to the TUC. This substantially altered the succeeding Conservative Government's calculus of risks, leaving it free to implement policies that the two preceding Conservative Governments could never have carried out. Most importantly, perhaps the Labor Government had significantly relaxed the severity of the full employment constraint that had operated on Conservative policy in the past. Thus, the full employment-price stability dilemma had been essentially redefined for the Conservatives in such a way as to make it much easier to deal with—at the higher levels of unemployment that were now politically safe, neither a manpower strategy nor a wage restraint strategy was necessary. In other words, Labor's return to office did indeed end the stalemate in the British political economy, but by substantially reducing organized labor's ability to influence economic policy rather than by increasing it.

In each of the countries, then, there has been a definite shift in the pattern of economic policy even though there has not been any marked change in the characteristics in terms of which labor movement strength was initially assessed. It is accordingly clear that such characteristics cannot suffice to account for organized labor's ability to influence policy. Between such characteristics and the policies pursued lie a variety of intervening variables. Those that emerge most sharply from the foregoing discussion are the changes in the political context of policy formation that occur independently of the necessarily slower changes in labor movement characteristics. Thus, in each of the countries the political context was changed in such a way as to alter the governmental decision-makers' calculus of risks, and with it the weight of the constraints and supports that organized labor could bring to bear. And among the most important sources of change in the political context are the choices, substantive and tactical, made by governmental decision-makers themselves.

A Note on Sources

This paper summarizes research in progress based on a mass of sources it would be futile to try to indicate in the space available. With apologies, then, no documentation is provided. In any case, most of the facts referred to are familiar to students of comparative labor movements and what is at issue is essentially the interpretations advanced.

The Transformation of Christian Trade Unionism: The Recent Evolution of the French CFDT*

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In its May 1970 Congress, the CFDT, France's second largest union confederation,[1] often called the Christian union, adopted a far reaching radical social and economic program. Even to some who have followed the changes in European Christian unionism in recent decades, the to revolutionary tone of this program case as a surprise. It is to the analysis of the forces underlying this recent change that this paper is devoted.

The changes in what used to be termed European Christian trade unionism have not, of course, been confined to France, and are by no means of recent vintage. So extensive have they been is recent years, however, that the world center of Christian trade unions changed its name from the International Federation of Christian Trade Unions to the World Confederation of Labor at its XVIth Congress in 1968, reflecting the desire of most of its affiliates to extend the appeal of the organization, and free it of any identification with the Church. The 1968 (and 1969) changes in the IFCTU-WCL were dramatic, and they seemed very sudden, but they had deep roots.[2] And the same goes

* Grants from the University of Wisconsin's Graduate School and its International Studies Program, which made it possible for me to be in Europe in the summers of 1970 and 1971 including some weeks in France, helped to finance this research. This paper is a highly abridged version of a larger study which will be published in full, later. For example, extensive discussion of the relationship of the CFDT with other French unions, including the Communist oriented CGT and the reformist FO, as well as CFDT's present relations with the Catholic Church, are to be found in the larger paper.

[1] Confédération Française Démocratique du Travail, hereafter to be called CFDT. This organization deconfessionalized and changed its name from French Christian Confederation of Labor-CFTC in 1964. A small group broke away from the CFTC reconstituted, and it now has around 100,000 members. The term Confederation, incidentally, is the equivalent of Federation in American labor parlance. Examination of a variety of French union election data leads one to believe the CFDT is probably second in size, but in any case we here follow what is the latest serious effort to measure French unions—namely, G. Adam, F. Bon, J. Capdevielle and R. Mouriaux, L'Ouvrier Français en 1970 (Paris: Armand Colin. 1970). Adam (pp. 15–17) estimates the CFDT at 600,000 members, the Communist oriented CGT at 1,500,000, the reformist FO at 500,000, the independent teachers federation (FEN) at 400,000, with several other organizations trailing behind. The political characterizations are mine. Adam indicates the difficulties of ascribing precise membership figures to any union organization in France.

[2] See from IFCTU to WCL: Report on the Proceedings of the 16th Congress of IFCTU (Luxembourg, October 1968), and the Proceedings of the 17th Extraordinary Congress of the IFCTU (Geneva, May, 1969). No date or place of publication are given, but it can be presumed to be Brussels (headquarters of the World Confederation of Labor) and 1970.

for the changes in the CFDT. The latter dropped any reference to Christian in its title as long ago as its 1964 Congress, but this was in a sense only the first climax of a shift which had been in process for many decades.[3]

Struggle to Deconfessionalize the CFTC

The struggle to "deconfessionalize" (i.e., eliminate all religious ties and references) the CFTC in the 1940's and early 1950's was largely inspired by the philosophy and programs set forth by the group associated with the journal and study group *Reconstruction*, whose intellectual leader was Paul Vignaux, long time president of the CFTC's teachers' union.[4]

The efforts of Vignaux and others were enhanced by profound changes occurring within the Church itself. In several European countries, many Catholic Church leaders entered the post-World War II era on the defensive for having cooperated with Fascist and other reactionary forces during the Hitler-Mussolini era.

Numerous voices began to speak out about the necessity for a transformation in the general social and economic views of the Church. Movements such as the worker-priests (Catholic priests who undertook to work and live with the working classes, often at the lowest level) gained considerable standing, and most notably in France. The Catholic "left" made significant gains within the Church. Of great importance was the increasing willingness of Catholics to examine and in some cases accept important ideas from non-Catholic sources. Related to this was the increased freedom of Catholics to work with (and sometimes within) non-Catholic groups and movements.

Most of the specific major economic and trade union programs advocated by Vignaux and his collaborators were not, however, directly inspired by left Catholic philosophy. The *Reconstruction* group sought, for example, to commit the CFTC to support "democratic socialism" against capitalism. They advocated industrial unionism as the most appropriate structural union form. "Democratic socialism" and "industrial unionism" were (and still are) part of the general beliefs of

[3] For details on the earlier transformation of the CFTC see: Gerald Adam, *La C.F.T.C., 1940-1958* (Paris: Armand Colin, 1964), and the same author's "De la CFTC a la CFDT," *Revue Francaise de Science Politique* (February, 1965) 87–103; also on the 1964 transformation, see Gerard B. Thormann, "The Ideological Evolution of Christian Trade Unionism Since World War II," *The Catholic Historical Review* (April, 1970), 68-93. In preparing this paper, I have found particularly helpful for the entire period 1900 to 1964, *Pour Comprendre L'Evolution de la C.F.T.C.*, Cahier Reconstruction, October, 1964.

[4] Vignaux's union (SGEN) was based exclusively in public, as opposed to religious, controlled schools. Vignaux, himself, seems to have been influenced by the years he spent in the U.S.A. during World War II, but his work goes back to the period before World War II.

most Western European union movements. They were, however, new in the CFTC, and it is doubtful if they would have found widespread acceptance among large sections of CFTC's membership, unless the Catholic Church itself was in a period of great ideological change. Change in the Church helped make CFTC members more receptive to change in their unions before and after 1964.[5]

Vignaux and his collaborators—and one must mention particularly the young trade union leaders who worked in metals, chemicals, construction, and other industries—struggled to deconfessionalize the CFTC throughout the forties and fifties.[6] Although they made gains, the *Reconstruction* group remained a minority in the CFTC in those decades (they were called the "minorité").[7] By the late fifties, however, they were gaining strength as a greater and greater proportion of the CFTC membership was to be found in the metal, chemical and building industries, and in 1961 Eugène Descamps, Secretary-General of the metal workers union (of the CFTC), long a leader of the *minorité,* was advanced to the post of Secretary-General of the CFTC itself. By 1964, the old *minorité* was quite transformed into a clear majority, and the organization took its new name CFDT, and made some major changes in its "principles" and statutes.

The CFDT Searches for a New Ideology

The new CFDT then began a "search" for its own philosophy and program. The 1964 Congress of the CFDC was largely devoted to the problem of deconfessionalization, although the report "Evolution at Perspectives" submitted by Secretary-General Descamps did discuss on the nature of the society which the CFDT sought to advance. A democratic order with full realization of "the human personality" was called for, and such a realization was "only possible in a social democracy."[8] While no concrete program was spelled out, Descramps' report reproduced a number of documents, including extracts from R. S. Crossman's essay on the future of the workers' movement from the *New Fabian Essays,* the new program of the German Social De-

[5] It is difficult for a non-Catholic, and in this case also a non-Frenchman, to "fit" the Church into any general social science "model." I freely acknowledge my difficulties here!

[6] Many of Vignaux's young collaborators had been educated in the famous JOC (Young Christian Workers), a socially-oriented Catholic youth organization.

[7] For the experiences of one major leader of the *minorité* during the resistance period in World War II, and in the next 25 years until his retirement from the position of CFDT General Secretary in 1970, see Eugène Descamps, *Militer: Une Vie Pour un Engagement Collectif en Toute Liberté* (Paris: Fayard, 1971). Unfortunately, this volume reached me too late for incorporation into this paper. I have however, benefited from conversations with Descamps over many years.

[8] Eugène Descamps, *Rapport sur l'Evolution et les Perspectives,* p. 59, Présenté au Congrés Extraordinaire de la C.F.T.C. (Paris: 1964), p. 10.

mocratic Party, and parts of the Papal encyclical "Pacem in Terris."

Finally, at its 1970 Congress a new, more comprehensive social and economic program, indeed a kind of ideology, was adopted by the CFDT. This 1970 program, as we shall see, was rather distinct from the conventional socialist references contained in the 1964 report.

It is, of course, in the tradition of French unionism, long divided politically and ideologically, for each group to set forth its own ideology. (Only recently, for example, the FO has devoted long debates to the question of the role of trade unionism in the society, and it has published several documents reflecting FO's conceptions and philosophy as to this role.[9])

The political coloration of the French system of industrial relations, including the major role played by the State also serves to politicalize and "ideologize" the French labor movement.

In the case of the CFDT, there have been some special pressures on the organization to articulate a more comprehensive program-philosophy-ideology. Coming as it has out of a Christian past, its members are accustomed to the idea that such an organization must have a distinct ideology.

The still lingering anarcho-syndicalist revolutionary traditions in French union life may have made the rather tepid reformist socialism, which has become typical in Western Europe, unattractive to some CFDT leaders and followers. The fact that the FO has more-or-less preempted the reformist position in France, while the CGT had long since appropriated the "Marxist" line on socialism acted as additional pressures on the CFDT to develop its own "new" program line.

The political triumph of De Gaulle which occurred in the late fifties and early sixties created a new atmosphere for French left forces in the years when the CFTC was evolving into the CFDT. By 1965 and 1967 there was considerable talk and some practice in the presidential and legislative elections of "the unity of all the left," against De Gaulle and his party. This reduced the "psychological distance" between the CFDT and CGT, and helped pull the CFDT leftward.

The general collapse of the traditional non-Communist French political left, including the venerable Socialist Party, during these same years had its repercussions on the CFDT. For a number of young non-Communist leftists, the reconstructing CDST seemed the most likely organization to fill the left political vacuum, and they moved into it.

[9] See, for example, FO's *Le Syndicalisme Dans La Société* (Paris, 1969), 63 pp., and *Le Syndicalisme Dans La Société, Débats du Comité Confédéral National. Lille* (April, 1970 [Paris, 1970]), 111 pp. FO was to adopt a final report on this subject at its November, 1971 congress.

The Influence of May 1968 on CFDT

Of enormous influence on the nature and character of the new CFDT program were the great events of May 1968 which have colored so much of the French left since then. These events, including a strike of as many as 10 million workers at one point, seemed like a revolutionary lashing out at the system. Over and over again CFDT leaders allude to the events of May as an explanation of their leftward turn.

It was the CFDT which became the home of many young "left" elements, including students, who felt betrayed by the more cautious response of other organizations during the May days. Included among these elements were young leftists already involved in the Party of Socialist Unity (PSU), as well as some more "orthodox" Marxists, disillusioned with the response of the Communist Party and the CGT.[10] These more extreme left forces generally have taken up positions in the left wing of the CFDT, critical of its program as not being sufficiently revolutionary.

In contrast to the CFDT, the CGT, during the events of May and subsequently, adopted a very cautious and, at times, almost critical attitude to some of the May upheaval. Indeed, the CGT took pride in the fact that it was the greatest force in helping to prevent a total breakdown in France, at the height of the May Days. CGT General Secretary George Séguy declared:[11]

> Public opinion, terribly upset by the troubles and violence, agonized by the complete absence of the authority of the State, has seen in the CGT the great clam force (la grande force tranquille) which came to restore order in the service of the workers.

In July 1968 Séguy sharply criticized CFDT leaders for supporting Cohn-Bendit, prominent left student leader. He noted that the CGT had to combat "the large leftist enterprise" toward which the CFDT was "complacent" or even gave its "support." He attacked an article by one CFDT leader as nothing more than "apology for anarchy, the black flag, and destruction for destruction's sake."[12]

For Force Ouvrière, the May events were less of a trauma. The organization makes no serious revolutionary pretensions. It tended,

[10] For the reactions of one such small but interesting left group, see Gabriel Enkri and Odette Poirrier, *Hachette Une Expérience Syndicale, CGT-CFDT* (Paris: Francois Maspero, 1970). (Adam notes the significant passage of former CGT adherents to the CFDT, *op. cit.*, p. 20.)

[11] *Le Monde*, May 23, 1968.

[12] Séguy's statement in *La Vie Ouvrière* (official weekly of the CGT), as quoted in *Trade Union Press*, Nos. 15-16 (1968). (This is a press review published regularly by the Communist-controlled World Federation of Trade Unions, to which the CGT is affiliated.)

in retrospect, to emphasize the youth-inspired charatcer of the May revolt, noting that this youth upheaval is a universal phenomenon.[13]

It was against this turbulent May 1968 background that the CFDT was undertaking to define its own, new program in time for its May 1970 Congress.

The 1970 Congress: A New Program

Held at Issy-les-Moulineaux from May 6 to May 10, 1970, the 35th Congress of the CFDT laid down a bold new program which has given the organization a sharply left-socialist program, in many ways unique in French union life today. A series of reports had been prepared in advance to help the delegates take their positions;[14] for our purposes, however, the most critical document was the general resolution, "Le Constat," adopted by the Congress itself.[15]

It begins with a sharp critique of "neo-capitalism" which, following the "law of profits," is engendering an "alienated" civilization. Unlike a conventional Marxian critique, which might concentrate primarily on the economic-exploitative elements of capitalism, that of the CFDT stresses the social and psychological side. It protests bitterly against capitalism's manipulating of human beings, and its "oppressing" of them by the continual development of the individual, consumer-oriented standard of living. (It is worth reminding the reader that the CFDT's great emphasis upon capitalisms' failings in the humanistic aspects of civilization is quite in harmony with traditional Catholic social doctrine, and likely to find a responsive chord among many CFDT members and leaders for this reason.)

This new capitalism hides its older exploiting character by an ever-increasing" flow of "individual consumer goods." But this same capitalism, of course, doesn't serve the real needs of the masses. The latter are the victims of the great differentials in salaries, the regional distortions which capitalism brings, the imbalance between enterprises, the inequalities of women, the special problems of the young, etc.

Even the great flood of individual consumer goods produced by this neo-capitalism is not the choice of consumers, but is rather manipulated by those who own and control the means of production. By control

[13] *Xe Congrès Confédéral Force Ouvrière, 1969* (Paris: 1969), pp. 23–27.

[14] See, for example, *Perspective et Stratégie, Inégalités et les Ségrégations, Pour une Démocratisation de l'Enterprise, Projet de Réformes des Structures, Classification Démocratique et Autogestion, Une Economie de Solidarité pour le Dévelopement du Tiers-Monde*, and *L'Action Confedérale, Rapport d'Activité* (the latter was the general report of activities presented by Eugéne Descamps). These reports were of large-sized pages, occasionally double-columned, with a page total running around 300.

[15] The full text is to be found in *Syndicalisme* (weekly journal of the CFDT [May 14, 1970]).

of the press, cinema, literature, advertising, etc., capitalists "succeed in conducting the consumer to desire and to accept what they have chosen to produce . . . ," and this becomes an "inexhaustable source of profits" for those who control production.

As a consequence, public services and public goods are neglected—collective needs are sacrificed for "individual consumption goods" dictated by this same neo-capitalism. Social security, public health, housing, public transport, etc., all tend to be sacrificed. This society, where economic power is concentrated in few hands, leaves the great masses "alienated," in a condition of subordination, in which "they are refused all opportunities of real responsibility."

The tone of this critique is not the traditional Marxist or even the European socialist one, but rather resembles that which has become associated with the "new left" of the Western world. And, indeed, at the conclusion of one of the major documents prepared for the Congress, the reporters quote approvingly, by way of summary in their critique of capitalism, André Gorz, well-known "new left" socialist critic of modern capitalism.[16]

The nature of this capitalism, also creates an inherent class struggle ("la lutte des classes") by dint of its inequalities, manipulation, neglect of the true needs of men and its unilateral decision-making. The theme of the class struggle is struck hard in many parts of different reports, and marks a major affirmation of the CFDT in this Congress. At a time when most labor movements in Europe have ceased to sound the theme of the endless class struggle under capitalism, the somewhat "new" CFDT seems driven to bring it to the fore in order to identify itself more closely to the traditional revolutionary working class history of France. This seems a kind of curiosity to some other unionists. As one FO official commented to me, "after all these decades the CFDT has discovered the class struggle! We must be forgiven if it seems somewhat belated!"

Revolution Not Reform

To meet the challenge of this new capitalism, the CFDT rejects any mere reforms—or reformist approach. Capitalism "in the developed countries has shown its capacity to adopt to pressures exercised by unions or democratic policies," and by a continued improvement in the material conditions and legal status of workers, "it is able con-

[16] See *Planification Démocratique et Autogestion, Syndicalisme,* Spécial No. 1229 (February, 1970), p. 35. On Gorz, in English one can consult his *Strategy for Labor* (1964 French text). English translation is 1967, Beacon Press, Toronto, Canada.

stantly to reinforce itself. No modification of this system can respond to the fundamental aspirations of liberty and the responsibility of the workers," and the CFDT therefore opposes mere reform. Here the "new" CFDT program seems to be part of a wider left movement in Europe today, which feels trapped or deceived by the relatively great material success of Western Europe in the past twenty years. This material triumph has not ushered in socialism, rather it has seemed to strengthen capitalism.

Rejecting reformism, the CFDT sets as its fundamental objective a complete substitute society for capitalism, "a democratic socialist society," which "assures each man and woman, the possibility of freely developing his personality" with regard to social structures, the type of production and consumption, a self-managed society, and one which will free men from the alienation which now shackles the development of their personality.

The three pillars of this new society will be: (1) "self-management" (*autogestion*) throughout the society, not only in factories and ships, but in all organizations; (2) "the social ownership of the means of production and distribution;" and (3) "democratic planning." These three indivisible and complementary elements "can only be achieved in a socialist society."[17]

The implications of such a comprehensive program are enormous for a trade union movement. For years scholars and politicians, as well as union leaders, have raised the question of how to define the role of trade unions in a society in which the means of production would be socialized, and one in which production and distribution would be centrally planned, as called for by the CFDT. If on top of this one adds a system in which the shops, factories and offices would be self-managed by their own employees (presumably in bodies separate from their unions), the complications for *free* trade unionism are enormous.[18]

The CFDT is, however, unequivocal on this point. The autonomy of the trade union is fundamental, and it well be preserved. The union's function of "struggle" (*contestation*), its "impulsive force" (*force d'impulsion*), of "safeguarding against arbitrary force," its role of "social critic," all these will be preserved, and "constitute a necessity and a fundamental guarantee of self-management."

CFDT does not spell out in detail the form of socialism or democratic planning it seeks, but it is important to note that fear is expressed

[17] All quotes are from "Le Constat," referred to above.

[18] My limited reading of the literature of the Yugoslavian union movement leads me to believe that the trade unions have been constantly trying to define and redefine their role in that country, which has been striving to extend workers' self-management everywhere.

of any excessive centralization or "statism"—the Soviet Russian model is clearly opposed. On *autogestion*, it is not developed in great detail, but at several points CFDT leaders go out of their way to criticize *cogestion* or codetermination as it is in practical or advocated in some European countries.[19]

CFDT on Collective Agreement: No Integration or Social Peace

The manner in which CFDT's new revolutionary ideology colors specific union activities can be observed in the area of the collective agreement. It should be recalled that the acceptance of the collective agreement itself had a more difficult path in anarcho-syndicalist France than in most other European countries. Being party to any kind of written compromise with the capitalist (and capitalism), even of a temporary nature, for a long time posed ideological difficutlies for French unions.

By the 1950's it appeared that this issue had largely been resolved, at least for the FO and the CFTC. In the wake of its recent left turn, however, the CFDT has returned to this issue with vigorous debate and exposition. It is somewhat difficult for any union organization which rejects "reformism" explicitly as does the CFDT today, to reconcile its insistence on "revolution" with signing agreements with capitalist employers (or the State which is also a kind of capitalist servant in this revolutionary view). There is almost inevitably in the very act of signing a written agreement, a degree of acceptance of "integration" of the union and the workers into the system itself! It is not surprising, therefore, to find such headlines in *Syndicalisme* (CFDT weekly journal) as "Negotiations Are Not Integration," or "Agreements Are Not to be Interpreted . . . as an Assumed Policy of Social Peace."[20]

The Confederal Council of the CFDT adopted a statement in December, 1969, that collective agreements are "limited in time, concluded for particular demands . . . they only constitute a stage in the daily struggle which converges in the direction of an overthrow of the capitalist society."[21]

The CFDT National Bureau returned to this issue of agreements in its October 1970 meeting. It recalled the action of the May 1970 Congress, which declared "collective agreements can only be compromises, revisable at any moment." These agreements must not, the CFDT argues, "compromise the obtaining of any new advantages. . . ."

[19] Point 53 in Le Constat. The main reference here is presumably to W. Germany, where the union movement supports joint labor-management control of the enterprise.
[20] *Syndicalisme* (December 24, 1969).
[21] *Ibid.*

And, "far from comforting capitalist society, they must contribute to disequilibrium in the system, and open the possibility of a new advance toward a socialist and democratic society." While it prefers no limits at all on the right to strike, the CFDT can accept an agreement negotiated by an affiliate which includes some modest limit, as for example a clause requiring a fixed notice of a brief period to precede an actual strike.[22]

While it is difficult to document precisely the effects of this policy or attitude toward collective agreements, some employers and most of the other unions reported that in many specific tactical situations in the past two years, CFDT leaders seem to have taken the most intransigent position in bargaining and, on occasion, refused to sign agreements that the other confederations found acceptable.

How much of this stems from the CFDT's newly-formulated ideology? How much of this reflects the ability of any single union to adopt, with relative impunity, a far-left bargaining stance is a plural union situation where it really has no great bargaining responsibilities with no great strike dangers, as long as the other unions sign? It is difficult to answer these questions; but it is interesting to recall that ten or fifteen years ago, it was the CGT which often played the role of the intrasigent left in many collective agreement negotiations.

Another example of how CFDT's fears of "integration" enter into "everyday" programs and policies, can be found in its reluctance to sign the national agreement on vocational training, reached between all the union federations and the French Employers Association (CNPF) in July, 1971. This agreement has been considered by most observers a major advance in providing workers the opportunity to upgrade their skills. Extensive allowances are provided for workers who undertake this training. Workers who are part of a "mass" lay-off can, for example, receive up to a year's allowance (equal to their former pay) while undergoing training. Among the labor unions, CFDT seemed the most reluctant to sign. They felt in too many instances the employers would be in command of the worker and the training. In case of a still-employed worker, for example, he could also request special training, but he would have to pursue a training course under the direction of his employer to obtain benefits equal to those of a laid-off employee in training. CFDT did finally join the other organi-

[22] *Syndicalisme* (October 29, 1970). It should be noted Paul Vignaux, leader of the minorité, his teachers union and some other groups are critical of this view of the collective agreement (as well as other aspects of the new program). See, for example, *Cahier Reconstruction* (Spring 1970), "Politique Contractuelle Syndicale," esp. pp. 3–4 and 10.

zations in signing the agreement, but it continues to have misgivings about the employers' power in this training program.[23]

Conclusion

To an American observer accustomed to more pragmatic unionism, the new CFDT program and posture seems surprisingly left-oriented. But this very pronounced leftism in many ways fits French social and political traditions. The CFDT is quite popular, almost one could say the "favorite union" in a number of French newspapers and popular weeklies.[24]

In private, even some top management association officials are sympathetic to CFDT's energy, its idealism, its broad vision, and its manifest will to avoid falling into any bureaucratic rut.

Moreover, while CFDT has set forth a far-reaching left program, in practice this is often translated into immediate issues of a more practical (one could say "reformistic"!) nature, as the improvement of urban transportation or a drastic overhaul of social security. To the extent that it can and does seize the initiative on more immediate pulbic issues like these, the CFDT may reinforce the general image it already holds among French workers of being the most "modern" of all union confederations.[25] Moreover moments of major social change or crisis, as in May 1968, this image or posture of the CFDT is likely to expand its role and importance with all workers, unionized and non-unionized.

Whether this can or will lead to any great permanent membership gains, especially those at the expense of the CGT, is another matter. My own biases lead me to believe that most workers (in Western Europe), even where they are increasingly militant today, adhere to a particular union for tangible benefits and objectives, more directly related to their own jobs and industries.

One can, of course, point to the general restlessness of Western European workers in recent years, and argue that some deep discon-

[23] See *Syndicalisme* (July 2, 1970). Also see "La Formation Professionelle: Problème Individual ou Problème Collectif?," in *Cadres et Profession* (October, 1970). The latter is the journal of the CFDT cadres' union.

[24] CFDT gets a very good press in such places as *L'Express*, *Le Nouvel Observateur*, and *Le Monde*.

[25] Adam, *et al.*, *op. cit.*, p. 51, find "modern" and "democratic" to be the most commonly held images of the CFDT, amongst French workers, against "powerful" for the CGT, and "independent" for the FO. Another recent study of over 1000 union "militants" (the nearest American equivalent would be "union activists"), of whom 284 were from CFDT, reinforces the view of CFDT as being the most "modern" of French unions in terms of its approach to *today's* major socioeconomic problems, as against day-to-day, more traditional union demands. See Claude Durand, *Conscience Ouvrière et Action Syndicale*, (Belgium: Mouton and Company, 1971), esp. pp. 236-238.

tent is on the increase, and that a more comprehensive left approach, such as the CFDT's new program epitomizes, can bring the union important new organizational gains.

But the CFDT does have a major problem to surmount if it is to make a substantial gain on the French left. No matter what any organization seems to do or say, the French Communist Party on the political side, and the CGT in the trade union world, seem to have a near monopoly of left power in France. For example: despite the fact that CGT seemed to take a relatively conservative position in the May 1968 days, in the months following that crisis CGT membership gains seem to have been as great (in proportion to its membership) as those of the CFDT.

Attempts to outflank the left identified CGT with a more "revolutionary" appeal appear almost inevitably doomed. In the national elections following the great strikes of '68, the government singled out the communists for blame and attack. This, in turn, probably redounded to the advantage of the CGT in the minds of most workers who had sympathized with these strikes.

Again, the sharp left turn of the CFDT might conceivably alienate part of its membership. Approximately one-third of the delegates at its 1970 Congress did oppose the new program. Even more important are general doubts that the rank and file members of CFDT have changed their political orientation and allegiances as drastically as the leaders have changed the organization's program in the past few years.[26] On the other hand, the opposition to the 1970 program seems more dispersed than it was during the Congress, and it was not even unified then.

To some extent, any future major successes for the CFDT's new program will depend upon political developments. Unless there is a significant revival of non-Communist political left forces in France, it is difficult to see how a program like that of the CFDT can advance.

The CFDT seems to stand almost as a crossroads institution in both French union and political life. This is perhaps the best tribute to the organiaztion. Its interesting recent evolution, its new program and vigorous leadership, make it an important factor in the future of French left politics, as well as in union life.

[26] It is difficult to find good data on how French union members vote or align themselves politically. The recent survey by Adam *et al.*, *op. cit.*, p. 202, which is based on a sample of more than 1100 French workers, turned up 57 CFDT members, about half of whom identified themselves with clearly left parties (including the Communist Party and the Socialist Party).

DISCUSSION

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The high priority problem of modern economics is how to reconcile trade unions and free collective bargaining with national economic goals for wage and price stability. Professor Martin's focus therefore couldn't be more timely: "What relationships are there between the ability of organized labor to influence economic policy formation and the patterns of economic policy that governments implement?"

A significant implication of Professor Martin's paper, even if not treated explicitly, is the emergence of a new model of trade unionism, as it were—a sort of *economic policy model*. Heretofore the major points of reference have been Marxist revolutionary unionism and Perlman business unionism. The union behavior which Martin deals with is perhaps a variant on the Perlman model but with this important distinction: Perlman stressed *shop* rights as the central concern of unionism while trade unions of western Europe have been "fac[ing] up fully to the implications of their actions for economy as a whole."[1]

Both types of unionism are still practicing business union protectivism but the unit of concern now comprehends the economy as well as the shop and industry. Western European economic policy unionism represents a reversal of the Marxist projection. Socialist consciousness seems to have preceded rather than to have followed trade union economism.

I would add the following to Professor Martin's variables affecting the efficacy of economic policy unionism: (1) whether the problems for which union consent is sought pose "a clearly perceived threat to the nation's economic health";[2] (2) whether the incomes policy has to bear the full burden of stabilization or is complemented by market-directed measures; (3) whether the specific policy, i.e. incomes policy or manpower policy, is compatible with the union's protective interests (incomes policy isn't, manpower policy is); (4) whether the trade union movement can mute ideologies which reject the kind of common purpose necessary to participate in economic policy making within a framework of reformist capitalism—the

[1] William Fellner and others, *The Problem of Rising Prices* (Paris: Office of European Economic Cooperation, 1961), p. 389.
[2] Lloyd Ulman, "Wage-Price Policies Abroad," *Industrial Relations*, Berkeley, May 1969, p. 2111.

French trade unions have had difficulty with this ideological constraint, the Swedes have not and there is possibly a stronger ideological element in the British case than is commonly perceived; (5) the duration of controls—temporary controls may be tolerable, longer-run controls are likely not to be; (6) the scale of the economy—economic policy is more manageable in the simple than in the complex economy: Sweden on the one side and France and Britain on the other are the contrasting cases.

There are a number of generalizations which, I think, I would formulate somewhat differently than Professor Martin: (1) Bargaining for economic policy does not always require the active presence of the state. Sweden is a case in point. West Germany which is not included in the sample is another. (2) "Reasonable effectiveness" considerably overstates the case for wage restraint except, perhaps, in the initial period of postwar reconstruction. (3) Market pressures, as much as, or more than the strength of unionism, can determine the efficacy of wage restraint. Indeed, it can be argued that strong unionism is a necessary condition of wage restraint. (4) It is not always clear whether managers of the economy are engaged in the presumptively rational economic process of Phillips curve manipulation or whether they are responding to international political pressures, "to be able to say [as a British TUC official put it] to foreign governments and to foreign bankers who provide . . . short term financial assistance: "Here is a Labour Government getting rough with the unions, keeping those people in their place. You can depend on us; we are following good orthodox policies. Your money is safe with us."[3]

The trade union behavior which Professor Martin is investigating suggests another line of inquiry: whether the involvement of trade unions in the making of economic policy with the state and the employers represents a species of corporatism—defined, for example, by Shonfeld as "[a shift] in the locus of decision in national economic policy from parliament to another economic body in which the representatives of the countrys' economic organizations deliberate in secret and bargain with one another."[4] This tendency has been subject to mixed reactions. The anti-pluralists denounce it as an erosion of the public authority. The pluralists endorse it as an essential condition for the dispersion of power in a democratic order. The neo-

[3] Lionel Murray, "Lionel Murray on Incomes Policy," *Bulletin*, Trade Union Advisory Committee (Paris), December 1969, Annex 2, p. 5.

[4] Andrew Shonfeld, *Modern Capitalism* (New York: Oxford Univ. Press, 1965), p. 161.

Marxists interpret it as additional evidence of the cooptation of trade unionism by the capitalist corporate state.

My own view is closest to pluralism. The kinds of controls required by an incomes policy, for example, are tenable in a free society only if the controls rest on a broad base of consent which is best attained through negotiation with interest groups of comparable power. This requires that the interest groups, in turn, perceive their interests broadly. The public interest in a given issue in served in part by the state of economic science but also by the processes of public discussion which are utilized to ventilate the pros and cons. Multilateral bargaining among the parties at interest including the public authority on such issues as incomes policy constitute an important part of this public discussion process.

The neo-Marxists correctly conclude that trade unionim has come to terms with capitalism when the unions join with employers and the state in bargaining for economic policy. But it does not necessarily follow that the unions have come to terms with capitalism from a position of weakness, which is what cooptation means. Rather, the unions have come to terms with capitalism from a position of power to maintain their bargaining effectiveness and to protect the work interests of their constituency.

The unions have the power to withhold their consent and have used that power increasingly. Whether they are right in doing so is another question. There is, however, cause for concern over the effect of successive confrontations on the balance of power between unions and the state and what this could mean for the stability of the society. This is just one other reason why a viable anti-inflationary policy must emerge.

DISCUSSION

Adolf Sturmthal
University of Illinois

I have only a few comments on the evaluation of the Confédération Française Démocratique du Travail (CFDT) as presented in Professor Kassalow's paper. They can be summarized in two points:

1. A word of warning on forecasting. France has often surprised its observers. You may remember Herbert Lüthy's so successful book—*La France—à l'heure de son clocher*—whose thesis was the innate tendency of French society to stagnate, and the cold reception which the Harvard-sponsored study "In Search of France" with its ethnographic tendency received by the French sociologists. These studies appeared just when France started on the longest period of economic growth in recorded history. Nor have the French done any better in forecasting, as demonstrated by the record of various French economic plans.
2. The separation of the Confédération Française des Travailleurs Chrétiens (CFTC) from Church domination had its first formal expression in 1944 after the liberation of Paris, when the "consultative theological committee" appointed by the Cardinal of Paris was not reconstituted. This committee in the past controlled the ideological evolution of the CFTC. Indeed, it would have been impossible to reestablish this relationship since the upper Church hierarchy during the Nazi occupation collaborated with the Vichy regime while the CFTC took an active part in the Resistance.

In addition, I should like to draw attention to some basic questions that arise out of this historic survey. The main issue, obviously, is that of the factors that led to the startling transformation of the Chrisian unions (CFTC) to the religiously neutral and strongly leftist CFDT. (A similar issue would be the one presented by the apparently impending merger of the three main Italian labor confederations, if the announced paper on Italy had been available.) Understandably, I can only present brief hints in answer to the question I am raising.

The principal factor, I believe, is the disappearance in the Fifties of the traditional division of France into "Republicans" and "Reactionaries." This age-old division referred to the social and political structure of France—with the Republicans endorsing a modern, democratic, industrial society, and its opponents, among whom the hierarchy of the Roman Catholic Church played a leading role, looking back longingly toward the "Ancien Regime" and its pre-industrial society. The rapid economic advance of France since World War II has definitely resolved this issue. No room was left for a trade union movement guided by principles hostile to modern industrial life. (For an American audience it may be useful to draw attention to the contrast between the social philosophies of the Roman Catholic Church in the United States and in France where, traditionally, it was the Church of the upper classes.)

This new situation compelled the Christian unions to find a new doctrine for themselves, independent of their tradition and even more of the upper hierarchy of the Church. Moreover, it had to find a place for itself in the world of labor, not yet preempted by either the Communist-led Confédération Générale du Travail (CGT) or the Socialist Force Ouvrière (F.O.).

Within this narrow frame, the role of the CFDT was determined by a large number of factors, two of which I should like to mention:

First, the rapid economic expansion of France, in sharp contrast to the long-term stagnation during the preceding quarter of a century, increased its Gross National Product (GNP) in real terms at an average annual rate of more than 5 percent since 1950. (For the period 1913-50 the comparable rate was 0.7 percent, the lowest among the leading industrial nations.) This, of course, was one of the reasons for the advance of the "Republicans," i.e., the acceptance of progressive industrialization and its social, cultural, and political concomitants.

Secondly, economic growth basically transformed the situation of the labor market. Labor shortage became the predominant factor, mitigated only by the transfer of labor from agriculture into industry and services, the return of French settlers (Pieds Noirs) from North Africa, and the importation of foreign workers. On the whole, this was a situation favorable to the development of an effective collective bargaining system. Government and public opinion welcomed it, employers increasingly came round to accepting it, and the unions found in it a useful instrument for the attainment of immediate economic advantages. (Compare the rather unhappy situation of employees in nationalized enterprises in France, whose wages are set by statute, with those in private employment under collective bargaining.) Since most of the foreign workers in Western Europe are of Mediterranean origin—in the case of France, the great majority comes from Southern Italy, Spain, Portugal, and North Africa—they are mostly unskilled and do not provide competition on the labor market for skilled native French workers who form the bulk of the trade union movement. The possibilities of substitution of unskilled for skilled labor are limited and declining, as the statistics on the evolution of the occupational distribution of the labor force in all advanced industrial nations suggest. Thus, the scarcity of skilled labor supplies persisted, except possibly in construction for which Italian workers as a rule are well prepared.[1] Indeed, in the absence of the large-scale influx of unskilled labor, economic growth and the demand for skilled workers complementary to unskilled labor might have been unfavorably affected.

The situation on the labor market was thus favorable to the expansion of collective bargaining and its extension into areas—such as vocational education and fringe benefits—previously reserved for legislation and administrative action. Neither the structure of French unionism, nor its strength were (and remain) such as to enable it to take full advantage of the opportunity. The lack of a plant-based organization, the poverty of most unions, their failure to acquire a major role in bargaining and grievance handling at the plant level, and last, but not least, the division of French unionism into several competitive organizations were major roadblocks, as were the reluctance of the CGT and later the CFDT to sign most agreements. Add to this the somewhat hypocritical but widely held theory that accepting a commitment not to strike during the lifetime of a contract would either contradict the spirit of French Syndicalism or the French constitution, which indeed contains a clause guaranteeing the freedom to strike.[2] Turning necessity into a doctrine, the CFDT has time and again expressed its skepticism with regard to collective bargaining and emphasized that it can become fully effective only in a Socialist society—a position that appears to place the CFDT even further left than the CGT.

While solving one difficulty for the CFDT, this posture has created an even greater theoretical problem for its program, one that no Socialist society has so far been able to solve. What is to be the role of unions in a society without private enterprise? More complicated still: the CFDT has revived old Syndicalist notions of workers' self-government while insisting upon the unfettered exercise of collective bargaining,

[1] "Les Travailleurs Etrangers en France," *Notes et Etudes Documentaires*, No. 3057, January 23, 1964, p. 24. See also Charles P. Kindleberger, *Europe's Postwar Growth; the Role of Labor Supply*, Harvard University Press, Cambridge, Massachusetts, 1967.

[2] Again and again some French unions have used this argument, as have, at times, French employers. They conveniently forget that since 1938 a statute is on the books—the Loi Paul-Boncour—permiting "requisitioning" striking workers into the armed forces in times of war or danger of war and assigning them to their normal jobs. In practice this law has been applied in peacetime and in the absence of any threat of war. A decree of 1959 has only slightly modified the law. Cf. Jean-Daniel Reynaud, *Les Syndicats en France*, p. 140.

including the right to strike.[8] In the light of the Yugoslav experience, the probability that these two systems can be effectively combined seems only slightly greater than that of squaring the circle. Wisely, the CFDT has so far refrained from spelling out how this system is to work in practice.

I am aware of the fact that Professor Kassalow's paper as well as my comments leave unanswered a question that keeps haunting both labor leaders and students of labor movements in Western Europe: how to explain the sharp leftist move of the workers in general at a time of unequalled prosperity and rapidly rising standards of living? It is worth pointing out that this "new leftism" is not limited to France, but has manifested itself with considerable vigor in Italy, West Germany, and Sweden—countries which in most respects differ widely among themselves. Moreover, where Christian unions exist—as is the case in Italy—they have demonstrated, though in varying ways, a similar trend as the CFDT. This new leftism, in spite of its invocation of Marx and Lenin, has in fact little to do with this intellectual ancestry, as Professor Kassalow pointed out. It is an anti-capitalism, based not on the misery of the masses, but on the contrary, on opposition to the uses to which we put our rich resources. Conceivably, this ideology serves important psychological purposes while the real action continues along the traditional lines of trade unionism, with only minor adjustments to the changing scene. It would not be the first time in history that a wide disparity exists between labor's words and its action. Yet, we cannot exclude the possibility that new forces are indeed coming into play and that the industrial relations system appropriate for a reformed capitalism with long-term high level employment, a highly developed social security system, and a high standard of living for organized workers will be quite different from the one that emerged out of the Great Depression of the Thirties.

If the Chairman is kind enough to let me add a few comments on Professor Martin's paper, I should like to connect this last thought with one of Professor Martin's main themes, namely the Phillips curve. This brilliant piece of research connects money wage movements as the dependent variable with the rate of unemployment as the indepen-

[8] For those interested in the finer points of Marxist doctrinal evolution and its most recent and peculiar interpretation, it may be worth pointing ou that the CGT differently from CFTD has now adopted the 1919 formula of the Austrian Socialist leader Otto Bauer regarding the management of nationalized enterprises: One-third each of the seats on their boards is to go to the government, to consumer representatives, and to those of the employees of the enterprise. With minor variations, this scheme has been implemented in France by the majority of nationalized enterprises, originally against the sharp opposition of the French Communists. The reversal of the Communist stand has caused the Chinese Communists to accuse their French colleagues of being followers of Otto Bauer who in turn is being described as a Hitlerite.

dent variable. While this relationship is founded on empirical data relating to a long period of British history, it has not stood up too well in the recent experience of either Britain or the U.S. Any number of refinements have been suggested to adapt the curve to the phenomenon commonly called "stagflation," and various policy proposals have been advanced under the label of "manpower policies" to shift the Phillips curve to the left, i.e., to produce stability at lower levels of unemployment. The plain implication of all of this is that the simple two-variable system embodied in the Phillips curve is inadequate for the analysis of recent experience and consequently for predicting the future. As long as we are uncertain about the factors which shift the curve at times to the left and at others—apparently more frequently—to the right, the Phillips curve is an unreliable guide for thought and action.

The ingenious distinction between countries in which wage restraint and those in which manpower policies are appropriate devices for shifting the Phillips curve to the left, unfortunately, does not stand up much better than the Phillips curve itself, in the light of recent empirical data. Thus wage restraint has been quite successful, most of the time, in countries with powerful labor movements such as Austria or West Germany. The weakening of this policy in West Germany in the last few years did not result from any decline in the power of German unions but rather from internal political strains in the unions, a rebellion of union members against the "statesmanlike" behavior of their leaders. Nor am I convinced that France really fits the scheme suggested by Professor Martin—not only because of the wage explosion of 1968, but also because the French government never even attempted to impose wage restraints on the private sector of the economy after 1950, even though, according to Martin, the French labor movement's weakness would invite that kind of policy. In fact, Pierre Massé's attempt to introduce a generalized incomes policy in France failed; in the main, the French government restrained wages only in the public sector and relied on price controls of one kind or another in the rest of the economy. Unemployment levels have remained low by any standard, and the cohesive force of employers' associations has helped to keep wage drift at low levels.

Finally, a brief remark on methodology. The number of union confederations is hardly a satisfactory measure of union concentration. To ascribe to Sweden and France the same degree of "amalgamation" is more misleading than enlightening. What matters is whether and to what extent the different confederations have overlapping and competitive jurisdictions. There is a qualitative difference between the relationship of Lands Organisationen (LO) the Swedish Professional Association (SACO), and the Central Organization of Salaried Employees (TCO) in Sweden on one hand, and of CGT, FO, CFDT and the Federation of Cadres in France on the other, which a mere counting of the number of confederations altogether disregards.

DISCUSSION

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As Chairman of this session, let me encroach briefly on the limited time available, to highlight some of the salient developments and trends that appear to suggest that European labor will be in transition for some time to come. It seems to me that this is inevitable, and will persist as long as unions in Western Europe continue to play, and in fact, in many cases, to expand, their role in the various forms and types of centralized planning that exist in most of these countries. Given the growing bread-and-butter instincts of union members in these same countries, such participation is bound to give rise to a number of conflicting dilemmas and risks from the point of view of their respective trade union movements.

Economically, by participating in whatever planning procedures exist, unions may become party to various kinds of incomes restraints programs, which almost inevitably lead to membership disquiet, militancy and even rebellion.

Politically, unions can become so involved with established governments that they tend to de-radicalize themselves even faster than many of their factions and members may be prepared to do, with all sorts of potentially traumatic ideological side-effects.

Finally, institutionally, unions can become so involved in participatory schemes of one kind or another as to jeopardize the traditional place and role of the trade union movement.

Although I have deliberately overstated each of the foregoing points, it does appear to me that there are ample signs of each of these developments and trends in many European countries. It is in this generally unsettling context that we are so fortunate to have two interesting contributors as well as discussants for this afternoon's session.

VII

THE UNION-MINORITY RELATIONSHIP*

Alvin Golub, Chairman
Equal Employment Opportunity Commission

* The discussion presented in this session by Donald Slaiman, AFL-CIO, is not included in the published *Proceedings*.

Craft Unions and Blacks: The View From Newark—The Need For Result Oriented Research*

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Industrial relations research should increasingly be applied to the quest for solutions to problems of employment discrimination. For too long, too much research has been almost exclusively descriptive. At this point in history, it is essential that more trained intelligence in the field of industrial relations research move from a description of existing situations, to proposals, in informed detail, as to how these situations should be changed to eliminate employment discrimination.

Such an approach is now practical, because the law concerning employment discrimination is becoming increasingly clear. The Supreme Court of the United States, in *Griggs v. Duke Power Co.*,[1] an outstanding opinion by Chief Justice Burger, has adopted a broad definition of discrimination under Title VII of the Civil Rights Act of 1964:

> "Under the Act, practices, procedures or tests neutral on their face, and even neutral in terms of intent, cannot be maintained if they operate to "freeze" the status quo of prior discriminatory employment practices. . . .
>
> The Act proscribes not only overt discrimination but also practices that are fair in form, but discriminatory in operation. The touchstone is business necessity. If an employment practice which operates to exclude Negroes cannot be shown to be related to job performance, the practice is prohibited. . . .
>
> . . . . good intent or the absence of discriminatory intent does not redeem employment procedures or testing mechanisms that operate as "built in headwinds" for minority groups and are unrelated to measuring job capability.
>
> . . . . Congress directed the thrust of the Act to the *consequences* of employment practices, not simply the motivation. . . .

* The views expressed are those of the author and do not necessarily reflect the position of any governmental agency.

[1] Griggs v. Duke Power Co., 401 U.S. 424 (1971).

With this broad foundation, and with the many court decisions determining the legality of specific aspects of employer and union conduct, the researcher need not fear that he may be utilizing his own judgment as to right and wrong in organizing his research. There is no dearth of illegal conduct, but there is a harsh shortage of good workable ideas as to how to remedy that conduct. The fact of the matter is that most remedies devised up to now, whether by administrative agencies or by the courts, have not yet proved effective in ameliorating discrimination in employment. They are either too soft or too slow; too complex or too simple minded; too political or too unrealsitic. It is a fit setting for result oriented industrial relations research.

This is the view from Newark, concerning the discrimination by some craft unions and many other aspects of employment discrimination as well. This paper will review the two basic facts of the Newark Situation: First the problems of discrimination by some unions persist today much as they did a decade ago. Second: efforts, ranging from gentle persuasion, through litigation, through administrative pressure and civil disorders, have not made a significant impact on the problem.

The history of struggles to open up the construction trades to minorities in Newark began in 1963, when Black organizations picketed a construction site at Barringer High School, complaining of the exclusion of minorities from the job, and from the trades. The Building Trades Council went into state court for an injunction against that picketing. At the hearing on the injunction, it was agreed that the picketing would cease, and negotiations for improving minority employment opportunities would be conducted between the community organization and the Building Trades Council, before the Mayor of Newark as mediator. These negotiations resulted in agreement to change some apprentice recruiting procedures, and to facilitate the processing of applications by minority applicants. The Black organizations, were not equipped either to supply applicants, to generate other sources for applicants, or to monitor compliance with the agreement. It fell into limbo and was never used.

In 1964, the first building of a new campus at Rutgers University in Newark was ready for construction. It happened to be my Law School. Sensing a responsibility to try to open some of the crafts, the Law School and the University made a major effort to put pressure, particularly with the Ironworkers local, to secure minority employment on the building. A number of minority young men were identified who were interested in becoming Ironworkers apprentices.

The Union had quietly decided to open an apprentice class. The young men went to the union hall to apply for admission to the program, with the assistance of a field representative from the New Jersey Division on Civil Rights. The Joint Apprenticeship Committee then discovered that there had been a fatal flaw in the procedure leading to the decision to have an apprenticeship program, and cancelled it. Thereupon, Rutgers, the State University filed a formal Complaint against the contractors and union trades who would work on the building of the Law School.

The case was lost in the morass of the then inept New Jersey Division on Civil Rights. A few minorities did work on the job, but there was no systematic change of exclusionary practices.

1967 saw the great civil disturbance in Newark. There were two immediate causes of the riots. One was the arrest of a taxi driver; and the other was a set of maneuvers in which the New Jersey College of Medicine and Dentistry, was invited into Newark, to occupy a vast area which consisted of substandard housing, occupied largely by Blacks. One positive result of the riot was an agreement, at cabinet level, that, in the building of the college, there would be substantial participation by minorities. The development of the plan for the Newark College of Medicine and Dentistry took two years. The first phase of the building went up without difficulty. The next was stalled during litigation over the Medical College Plan. The Federal Court, relying on the decisions upholding the Philadelphia Plan, finally upheld the Newark Plan, and construction began.[2]

Meanwhile, in 1970, the Department of Labor, Office of Federal Contract Compliance, conducted extensive hearings and investigations in Newark, and found substantial underutilization of minorities in the building trades. The findings could have been the foundation for a Newark plan with goals and timetables, but no such plan was imposed, partly because of legal questions surrounding the Medical School Plan.

Also in 1970, the Attorney General instituted litigation under Title VII of the Civil Rights Act of 1964 against certain trades. The litigation is still under way.

The state Division on Civil Rights instituted proceedings in 1971 against four locals of the electrical workers in Newark, found probable cause to believe that there was discrimination, and has not proceeded further.

[2] Joyce v. McCrane, 320 F. Supp. 1284 (D.C. N.J. 1971) relying on the Philadelphia Plan decision, Contractors Assn. v. Shultz, 311 F. Supp. 1002, aff'd 444 F. 2d 159 (2rd Cir. 1971).

When phase two of the Medical School Program got under way, the Labor Department gave $750,000 for training of minority persons who could work on the Project, without getting assurances from the Union that they would be allowed to do so. On the day, in October of this year, when the first trainee arrived on the job, some of the workers left the job, of course for reasons unrelated to the arrival of the minority person, and the unions sued to enjoin the operation of the Medical College Plan. The Federal District Court again upheld the Plan, but the construction has not resumed.[3]

What is the factual situation in Newark? In early 1970, according to the Labor Department minority participation in some of the trades was:

Electricians: 18 out of 1,130 Journeymen, 1.6%
11 of 211 Apprentices, or 5.2 per cent
Total 2.1 per cent.
Plumbers, etc.: 8 of 1.974 Journeymen, or 0.4%
5 of 204 Apprentices or 2.5%
Total 0.6%
Roofers: 0 of 247
Sheet Metal Workers: 2 of 1,103 Journeymen, 0.2%
4 of 212 Apprentices or 1.9%
Total 0.4%
Iron Workers: None of 546 Journeymen
5 of 22 Apprentices or 22.7%
Total 0.9%
Carpenters: 234 of 2,999 Journeymen or 7.6%
12 of 149 Apprentices or 8%
Glaziers: 2 of 165 Journeymen or 1.2%

Most of the Unions have formal or informal hiring hall procedures in which the employers agree to an exclusive or preferential referral procedure. Most employers get all of their workers from the Union. Most employers therefore get most white workers. The effect of the use of the hiring hall procedures is to minimize the opportunity of minorities to secure employment on construction jobs in the Newark area. Under the "consequence test" of the *Griggs* case, this situation is illegal. Yet no effective action has been taken.

This aspect of the situation is not unique to Newark. Assistant Secretary Samuel Simmons, testifying in 196_ in Chicago identified exactly the same type of conduct among the trades there. After nearly a decade of efforts which began with a Federal District Court opinion on the illegality of these practices in 1962.[4]

[3] Carpenters v. Conforti & Eiselle, Inc., 3 FEP 1218 (D.C. N.J. 1971).
[4] Blumrosen, Black Employment and the Law, 319-327, and see generally, id, Ch, 7.

The Labor Department hearings incident to the development of Philadelphia type plans, conducted in several cities throughout the country have reached similar conclusions. We deal, not with an isolated event, but with a pervasive national pattern rooted in the realities of the industrial relations of the construction industry. For collective bargaining purposes of the union, and for the convenience of the employer, the practically exclusive hiring hall is standard in most skilled trades in most places. The unions involved have few minorities, often don't seriously seek them, and have such a poor reputation within the minority community that they frequently lack minority applicants. Thus in the skilled trades virtually all of the employment opportunities go to white workers. All government programs designed to deal with the situation have been ineffectual.

Clearly, the case by case approach will not work. Either construction does not take place, as in the Medical School situation pending resolution of an issue, or the construction is over before the case is resolved. Where litigation has been aimed at knocking out exclusive or protective hiring hall arrangements, the course of it is so protracted as to make it not effective. The Philadelphia Plan approach, which is some improvement, nevertheless requires a city by city approach, and the "good faith" requirements have never been clearly spelled out. Furthermore, the sanctions of the Executive Order under which the Philadelphia Plan operates are rarely invoked, and are subject to Washington based pressures against their use.

The home town solutions, which emerged after the Chicago Hearings of the OFCC, represented another two years time mainly wasted seeking voluntary compliance in the context in which no such solution is possible, because the unions vital interests are at stake. In Newark, at any rate, no overall home town solution was attempted, because the tensions between the unions and the minority community were simply too great.

Thus all of the approaches of government and the community to dealing with the problem have failed. Yet the problem remains as a symbol of the perpetuation of employment discrimination. Our persistent failure to solve it casts further doubt on the ability of the government to provide, in fact, for those civil rights which are so clearly guaranteed in Constitution, Statute and Court decision.

And so we must go back to the drawing board; to think our way through the problem to the optimum solution. This necessity has given rise, at Rutgers Law School, in Newark, to some interesting industrial relations research in the last few years. The remainder of this paper will discuss the concepts of that research.

The first premise is that much discrimination results from the operation of industrial relations systems, not from evil motives or bad intent. This type of discrimination has now, in the *Griggs* decision been declared illegal. We have designed programs to identify such systems in recuitment and in the construction field.

The second premise is that, once a system is identified as having the effect of excluding minorities, there must be the exercise of broad rule making power by administrative agencies which will clearly inform all concerned of what conduct is required, and what standards will satisfy the law.

The third is that such rule making should be exercised so that the resulting rule is practical and enforceable.

Utilizing these general principles, at the Law School we have developed a variety of programs, to identify and deal with discrimination in recruitment by employers; to require landlords to report on the racial and ethnic composition of their tenants; to require landlords to engage in affirmative marketing practices; to develop the methods of fact gathering in individual cases of discrimination in the construction trades; to develop programs dealing with discriminatory discharges in private employment.

One aspect of our research has been to seek methods of more effectively enforcing the anti-discrimination obligation in the construction trades. This is the extent of our thinking on the matter at this time:

1. Minority employment goals for the construction industry cannot be set by the process used in the Philadelphia Plan, which requires some kind of hearing in every community. A more efficient formula must be evolved. We have developed the following theory.

We may assume, that, but, for the discrimination in the construction industry in a given labor market area, the percentage of minority journeymen and apprentices, taken together, would be roughly similar to the percentage of minority journeymen and apprentices in the rest of industry in the area. This is a general standard, which appears reasonable. It is possible to compute the percentage of minority craftsmen and operatives in the non-construction part of the industry by an analysis of the EEO-1 reports. Therefore, we can set a goal for minority participation in the construction trades in any labor market area. This goal will automatically take account of local conditions of labor supply. We need not wait for evidentiary hearing in every city in the land.

2. The obligation to meet the goals is a continuing one, which does not terminate when construction begins. This principle involves some understanding of the operation of industrial relations in the construction industry. If the union is not able to find sufficient

workers for an employer, the employer is permitted to find his own employees. But they are temporary employees, and may be replaced when and if the union produces a worker. The temporary employment concept then is imbedded in the industrial relations system in construction. It can be useful in the situation where, at the beginning of a project, the employer has not been able to find sufficient minority workers to meet his goal. The non-minority workers, or some of them, are to be considered temporary until such time as appropriate minority workers can be found. This will end the present practice of assuming that once workers have started on the job, that determines the allocation of employment opportunity for that job for its duration. This concept is more nearly related to industrial, than to construction employment.

3. In order to meet his minority employment goal, the employer must be clearly advised that if the union cannot supply sufficient minority workers, he is to disregard the hiring hall provisions of the contract, and seek workers elsewhere, through the State Employment Service, through private or public agencies, or through general public recuiting.

4. For this procedure to work, there should be a certification procedure, by which minority persons can have their status eligible for employment or for an apprenticeship program determined without going through union dominated procedures.

For example: Workers who have been certified by the Armed Forces, by city agencies, or have been given permits by unions to work as journeymen, should be able to have their status as journeymen attested to by a government agency, which would give them rights to employment in order to help an employer fulfill his minority manpower goal. Similarly, where an employer is willing to certify that a minority worker does work of journeyman quality, that certification should become the basis of an official qualification statement, which would entitle the minority person to employment opportunities under the goal program.

Now obviously, there are many difficult and complex technical problems in connection with the implementation of these principles. But the purpose of this paper is not to "sell" a specific program; but to point to an area where industrial relations research is needed very badly. The government agencies which are supposed to develop these programs frequently lack the technical understanding of the field to develop ones which will work. The industrial relations community has much understanding which can be of value in solving the problems of discrimination of our time. It should be put to that use.

Some Evidence on the Effect of Unionism on the Average Wage of Black Workers Relative to White Workers, 1900-1967

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The effect of the presence of trade unionism on the average wage of black workers relative to white workers may usefully be defined as the proportionate difference between the black/white wage ratio that actually exists at a particular date and what that wage ratio would have been in the absence of unionism.[2] If, for example, the average wage of black workers divided by the average wage of white workers were .51 at a particular date, and if it would have been .50 at that date in the absence of unionism, then the effect of unionism is to raise the wages of black workers relative to white workers by 2 percent [= 100(.51 - .50)/.50]. In general, when defined in this way the effect of unionism on the wage of black workers relative to white workers will depend on (a) the extent of unionization of black workers relative to white workers, and (b) the union/nonunion wage differential for black workers relative to white workers. That is, it will depend on the likelihood that a black worker will get into a union, and it will depend on the magnitude of the additional wages that a unionized black worker may expect to receive relative to the additional wages that a unionized white worker may expect to receive.

Empirical estimates of the effect of unionism on the black/white wage ratio during the last decade have only recently become available. In this paper we propose to offer some tentative evidence on the magnitude of these effects at selected points throughout the years since the turn of the century. Aside from general interest in the magnitude and variation in these effects over time, our purpose in doing this is twofold: First, we propose to examine in a time-series con-

[1] We are indebted to Helen Fairbanks, Librarian of the Industrial Relations Section, Princeton University, for her assistance at several points.

[2] That is, if we write R_b and R_w for the average wage rates observed for black and white workers at a particular date, and R_b^e and R_w^e for what these wage rates would have been in the absence of unionism, then the effect of unionism on the average wage of black workers relative to white workers is

$$\Delta = [(R_b/R_w) - (R_b^e/R_w^e)]/(R_b^e/R_w^e).$$

text the hypothesis that industrial unionization has had a more egalitarian (or less discriminatory) effect on the black/white wage ratio than craft unionization.[3] Since the bulk of unionization in the United States prior to the 1930's, and after the demise of the Knights of Labor in the 1880's, was craft (or "AFL") unionism, this hypothesis predicts that the effect of unionization on the black/white wage ratio should have been numerically smaller (less positive, or more negative) prior to the 1930's than later. Second, we want to shed some light on the hypothesis that the variability in the attitudes of black political organizations toward unionism may be explained as a result of the size and sign of the effect that the presence of unionism has on the earnings of black workers relative to white workers.

I.

Table I contains estimates of the extent of unionization of the black and white work forces at scattered dates since 1886. The estimates of the number of black unionists at each date, which are most crucial for our purposes, are from a variety of sources, as noted in the table. Though all of these estimates undoubtedly contain errors, the data for the years before 1930 are probably of reasonable accuracy because of the concentration of black unionists in a very small number of unions in these years. The most striking impression from this table is the substantial difference in the percentage that black unionists were of all unionists as between the years before and after the 1930's. With the exception of the industrial-style Knights of Labor unionism in 1886, black unionists were never more than four percent of all unionists before 1940 and never less than seven percent of all unionists after 1940. Moreover, the variation in the position of black unionists relative to all unionists between 1886 and 1930 was dominated primarily by the waxing and waning of the single large industrial union that existed in this period, the United Mine Workers. This evidence provides strong support for the hypothesis that industrial unions have been less discriminatory (more egalitarian) than craft unions. Second, it is also clear from the table that since 1940 the percentage of the black work force that is unionized has been growing relative to the percentage of the white work force that is unionized. Indeed, by 1967 the extent of unionization had become similar for the two groups.

[3] For more detail on the development of this hypothesis see Orley Ashenfelter, "Racial Discrimination and Trade Unionism," *The Journal of Political Economy*, (May/June 1972), and Ray Marshall, *The Negro and Organized Labor* (New York: John Wiley and Sons, 1965). For the cross-sectional evidence that craft unions are more discriminatory than industrial unions see Ashenfelter, *op. cit.*

TABLE I
Estimates of the Extent of Unionization Among Black and White Workers, 1886–1967, Selected Years.

Year	Total Unionists (1)	Black Unionists (2)	Percentage of Black Labor Force Unionized (3)	White Unionists (4)	Percentage of White Labor Force Unionized (5)	Black Unionists as a Percentage of Total Unionists (6)
1886	960,241	60,000	2.4	900,241	4.2	6.3
1890	540,454	3,523	.1	536,931	2.8	.7
1900	868,000	32,619	.9	853,381	3.5	3.8
1910	2,140,000	68,753	1.4	2,071,247	6.4	3.2
1926–28	3,500,000	61,000	1.1	3,439,000	7.9	1.7
1930	3,416,000	56,000	1.0	3,360,000	7.9	1.6
1940	8,717,000	600,000	10.7	8,117,000	17.3	6.9
1944	14,146,000	1,250,000	21.4	12,896,000	25.8	8.8
1955	16,802,000	1.500,000	21.3	15,302,000	26.0	8.9
1967	17,790,070	1,989,270	23.0	15,800,770	23.0	10.7
1980 (projected)	21,698,000	3,385,000	28.5	18,313,000	21.3	15.6

Sources: *Total Unionists:* from Leo Wolman, *The Growth of American Trade Unions, 1880–1923* (New York: National Bureau of Economic Research, 1924), p. 32 for 1886 through 1890; from Wolman's revised series in *Historical Statistics of the United States, Colonial Times to 1957* (Washington: U.S. Bureau of the Census, 1961), p. 97 for 1900 through 1930; and from the BLS series, *ibid.*, p. 98, for 1940 through 1955. The estimate for 1967 in column (1) is obtained by applying the percentage of the labor force figures in columns (3) and (5) to the appropriate labor force estimates for 1967 from *Handbook of Labor Statistics 1970* (Washington: U.S. Bureau of Labor Statistics, 1970), pp. 31–32. This procedure is used for 1967 so that the estimate in column (1) will be consistent with the estimates in columns (3) and (5), the latter of which are based on union membership among *private* wage and salary workers only. The implicit assumption behind this procedure is that the extent of unionization among government workers is similar to that among workers in the private economy for both black and white workers. The method of projection to 1980 is described in the appendix.

Black Unionists: for 1886 based on estimated black membership in the Noble and Holy Order of the Knights of Labor from Sterling Spero and Abram Harris, *The Black Worker* (New York: Columbia University Press, 1931), p. 42; for 1890 based on *American Negro Artisan* (Atlanta University Publication No. 7) as reported by Ira Reid, *Negro Membership in Labor Unions* (New York: Alexander Press, 1930), pp. 101–103; for 1900 based on Eric Hardy, *The Relation of the Negro to Trade Unionism* (Masters Essay, University of Chicago, 1911) as reported by Reid, op. cit.; for 1910 based on F. E. Wolfe, *Admission to American Trade Unions* (Baltimore: Johns Hopkins University Press, 1912) and reported by Reid, *op. cit.;* for 1926–28 based on Reid, *op. cit.;* for 1930 based on Abram Harris, *The Negro Worker* (New York: Conference for Progressive Labor Action, 1930), p. 13; for 1940 and 1944 based on Gessie Guzman, *The Negro Year Book* (Tuskeegee: Tuskeegee Institute, 1947) and George McCrary, "The Labor Movement, 1944–45," in Florence Murray (ed.) *The Negro Handbook* (New York: Current Books, 1947), p. 109; for 1955 based on Ray Marshall, *The Negro and Organized Labor* (New York: John Wiley and Sons, 1965), p. 311; for 1967 based on Orley Ashenfelter, "Racial Discrimination and Trade Unionism," *The Journal of Political Economy* (May/June 1972); for 1980 projection method see appendix.

Labor Force Estimates: for 1910, 1930, and 1940 from Dale Hiestand, *Economic Growth and Employment Opportunities for Minorities* (New York: Columbia University Press, 1964), p. 7; for 1926–28 and 1944 obtained by linear extrapolation between adjacent census years from *loc. cit.;* for 1955 and 1967 from *Handbook of Labor Statistics* . . ., p. 31–32; for 1890 and 1900 from *Historical Statistics* . . ., p. 72, series 27 and 28; for 1886 a linear extrapolation backwards using the implied growth rate from the labor force estimates in 1890 and 1900.

In order to use the data in Table I to compute estimates of the effect of unionization on relative wages (which we will denote by Δ), it is useful to observe that

$$(1) \qquad \Delta = BM_b - WM_w$$

where B is the proportion of black employment that is unionized, W is the proportion of white employment that is unionized, M_b is the proportionate difference between the wages of union and nonunion black workers, and M_w is the proportionate difference between the wages of union and nonunion white workers.[4] Estimates of $100 \cdot B$ and $100 \cdot W$ are contained in columns (3) and (5) of Table I, but estimates of M_b and M_w separately are available only since 1940 and during the year of a decennial census. In order to proceed it is useful to write the identities $M_b \equiv \overline{M} + (M_b - \overline{M})$, $M_w \equiv \overline{M} + (M_w - \overline{M})$ where $\overline{M}$ is the overall average union/nonunion wage differential, and substitute for M_b and M_w in (1) to obtain

$$(2) \qquad \Delta = (B-W)\overline{M} + B(M_b - \overline{M}) - W(M_w - \overline{M}).$$

Since white workers have always been around 90 percent or more of total employment it follows that $(M_w - \overline{M}) \approx 0$; that is, the union/nonunion wage differential for *white* workers cannot have differed by much from that differential for *all* workers. It follows, then, that even if W was not generally small $W(M_w - \overline{M})$ was, in which case we may write (2) as

$$(3) \qquad \Delta \approx (B-W)\overline{M} + B(M_b - \overline{M}).$$

We use (3) to provide estimates of Δ for 1940 and after. Estimates of $(M_b - \overline{M})$ are not available before 1940, however, so that (3) will not do for this earlier period. From Table I it is clear that B was exceedingly small prior to 1940, never larger than .014. Consequently, even if $(M_b - \overline{M})$ was large in this period $B(M_b - \overline{M})$ must have been very small, in which case (3) is simply

$$(4) \qquad \Delta \approx (B-W)\overline{M}.$$

We use (4) to estimate Δ in the periods before 1940.

Table II contains our estimates of the effect of unionization on the black/white wage ratio. According to these results the presence of unionism in 1900 may have lowered the black/white wage ratio by one-half percent at that date, but this effect seems to have grown steadily until at the beginning of the Great Depression unionism may have

[4] See Ashenfelter, *op. cit.*, for more detail.

TABLE II
Estimates of the Effect of Unionism on the Black/White Wage Ratio, 1900–1980, Selected Years

	$\overline{M}$	M_b	M_w	Δ
1900	.200	......	......	−.005
1910	.160	......	......	−.008
1926–28	.268	......	......	−.018
1930	.282	......	......	−.019
1940	.262	......	......	.029
1944	.062	......	......	......
1955	.171	......	......	.030-.001
1967	.117	.161	.113	.017
1980 (projected)	......	......	......	.029

Source: For 1967 see Orley Ashenfelter, "Racial Discrimination and Trade Unionism," *The Journal of Political Economy* (May/June 1972), but note that M, M_b, M_w, and Δ are computed from weighted averages of more detailed components by industry and race/sex groups and not according to the simple aggregate equation (1) in the text. For 1926–55 $\overline{M}$ is computed from H. Gregg Lewis, *Unionism and Relative Wages in the United States* (Chicago: The University of Chicago Press, 1963) by inserting the relevant data from his Table 61, p. 218 into the equation $\overline{M} = .163 + .032Z - 3.74X_2$ derived from his regression 8, Table 62. The same procedure is used to estimate $\overline{M}$ for 1900 and 1910, except that since these dates are prior to the period of fit for Lewis' equation we take Z, the unemployment rate, from Lebergott's series in *Historical Statistics . . .*, p. 73 and estimate X_2, the ratio of the actual to the expected wage level, from *ibid.*, p. 91, series 590.

caused the ratio of the black wage to the white wage to be some two percent lower than would otherwise have been the case. By 1940 the expansion of unionization among black workers relative to white workers and a significantly larger union/nonunion wage differential for black workers, resulted in the black/white wage ratio being some three percent greater than would have been the case in the absence of unionism.[5] As may also be seen from Table II, Δ apparently declined over the period since 1940 to around 1.7 percent in 1967. This evidence clearly provides rather strong support for the hypothesis that industrial unionization has been less discriminatory than craft unionization.

II.

If we assume that the general posture of the black political community with respect to unionism is based upon a rational calculation (perception) of the net economic benefits of unionism to that community, then we would expect that the black community would be favorably disposed toward unionism, on balance, when the effect of unionization on the black/white wage ratio was positive. On the other hand, we would also expect the black political community to be un-

[5] The estimate of $M_b - \overline{M}$ for 1940 is derived from Ashenfelter, *op. cit.*, Table 11. The estimate for 1955 is a range determined by the estimates from *loc. cit.* for 1950 and 1967.

favorably disposed toward unionism, on balance, when the effect of unionization on the black/white wage ratio was negative. According to the estimates in Tables I and II, therefore, we should find three fairly distinct periods in the history of the relationship between black organizations and the labor movement. During the period of the rise of the Knights of Labor, in and about 1886, we should expect blacks and organized labor to coalesce. Likewise, in the period following the decline of the Knights we should expect this coalition to come apart and for the black political community to become anti-union, and increasingly so, until the 1930's. The third period of a renewed coalition between organized labor and black groups should then begin following the Great Depression, but with some weakening in the decades immediately thereafter. In so far as we can determine from the available historical sources, this appears to be a generally accurate description of the overall course of the relationship between black political organizations and the labor movement.[6]

For example, Spero and Harris report that black workers "flocked" to the Knights of Labor and that relations between unions and blacks in 1886 represented "an unprecedented era of good feeling between Negro and white workingmen."[7] The disappearance of the KOL in the following four years apparently marked a turning point in the relation between unions and blacks. Anti-union sentiment became very strong amidst the black community over the period 1900-1930 and black workers frequently acted as strikebreakers to the accompaniment of the open encouragement of such prominent black leaders as Booker T. Washington[8] and Marcus Garvey.[9] Some black community organizations, especially the local affiliates of the National Urban League, even acted as a major source of black strikebreakers for white employers. During the late 1930's, however, the upsurge in industrial unionism was apparently accompanied by a dramatic reversal in relations. The policies and practices of the Congress of Industrial Organizations won the support of both the National Association for the Advancement of Colored People (NAACP) and the Urban League. The NAACP played an active role in the unionization of basic industries and where the Urban League had previously been a source

[6] Important references are Sterling Spero and Abram Harris, *The Black Worker* New York: Columbia University Press, 1931); Herbert Northrup, *Organized Labor and the Negro* (New York: Harper, 1944); Charles Wesley, *Negro Labor in the United States* (New York: Vanguard Press, 1927); and Ray Marshall, *The Negro and Organized Labor* (New York: John Wiley, 1965).

[7] Spero and Harris, *op. cit.*, p. 44.

[8] Booker T. Washington, "The Negro and the Labor Unions," *Atlanta Monthly* (June 1913), p. 756.

[9] Amy Jacques-Garvey, *The Philosophy and Opinions of Marcus Garvey* (New York: 1926), Vol. II, pp. 70–71.

of strikebreakers it now established local "Workers Councils" to urge blacks to join unions. We conclude, therefore, that the evidence on the historical posture of the black political community with respect to unionism is consistent with the hypothesis that this posture is determined as if it were based on a rational calculation of the net economic benefits of unionism to the black community.

III.

Our estimates of the effect of unionization on the average wage of black workers relative to the average wage of white workers provide historical support for the hypothesis that industrial unionization has been significantly less discriminatory (more egalitarian) than craft unionization. These results suggest that in 1930 the presence of unionism may have reduced the average wage of black workers relative to the average wage of white workers by some 2 percent below what it would have been in the absence of unionism. By 1940, after the expansion of industrial unionization in the 1930's, the effect of unionization may have been to increase the black/white wage ratio by as much as 3 percent above what it would have been in the absence of unionism.[10] This is fully consistent with the cross-sectional evidence presented elsewhere that in 1967 the ratio of black to white male wages might have been 5 percent *lower* in the craft union sector and 4 percent *higher* in the industrial union sector then would have been the case in the absence of unionism.[11] Second, the historical variation in our estimates of the effect of unionization on the black/white wage ratio seems to provide a satisfactory explanation of the variation in the attitudes of black political organizations toward trade unionism. Though our results are certainly still tentative, they do suggest that organized labor has received approximately the kind of treatment from the political representatives of black workers that it deserves.

Finally, the last rows of Tables I and II contain projections of what we believe is likely to happen to the extent of unionization among black and white workers, and the resulting change in the effect of unionization on the black/white wage ratio, during the next decade. These projections are based on the twin assumptions that

[10] We want to emphasize that this does not imply that most, or indeed any, American trade unions do not discriminate against black workers. Quite to the contrary, there is substantial casual evidence that virtually all American trade unions do discriminate against black workers. What these results do imply is that there is apparently less discrimination against black workers in the average unionized labor market than in the average nonunion labor market, but not that discrimination is absent from the former.

[11] See Orley Ashenfelter, *op. cit.*

(a) the extent of unionization among black and white workers in each occupational category remains constant at 1967 levels, and (b) the occupational shifts that have been occurring in the black and white work forces continue at the same rate during the next decade as they did in the last decade. Thus, the projections of extent of unionization in the last row of Table I reflect only the occupational changes that we may reasonably expect in the black and white labor forces over the next decade. As can be seen from the table, we expect the extent of unionization of the black labor force to continue to grow during the 1970's and the extent of unionization of the white labor force to continue to decline. As a consequence, we expect the percentage that black unionists are of all unionists to climb from around 11 percent in 1967 to perhaps 15 or 16 percent in 1980. Of course, it is possible that the extent of unionization among either black or white workers within occupations will change during this period, but this seems unlikely. It seems more likely that the extent of unionization among black and white workers will continue the course it has been following for the last three or four decades.

Appendix

If we let B_i represent the extent of unionization in 1967 among black workers in the 18 categories that result from the use of 9 occupations for male and female workers, P_i the predicted fraction of the work force of blacks that we expect to be in the i^{th} category in 1980, and L_m and L_f the projected sizes of the black male and female work forces in 1980, then our projection of the number of black unionists in 1980 is

$$L_m \sum_{i=1}^{9} P_iB_i + L_f \sum_{i=9}^{18} P_iB_i.$$

A similar procedure is used to obtain the projection for white unionists. The B_i are computed from the 1967 Survey of Economic Opportunity. The P_i are estimates obtained by taking the actual P_i as of 1966 and adding fourteen times the estimated average annual change in P_i over the 1960's as taken from Orley Ashenfelter, "Changes in Labor Market Discrimination Over Time," *The Journal of Human Resources* (Fall 1970), Table 10.

Unions and Title VII: Remedies for Insiders and Outsiders

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The discipline of labor economics has been heavily influenced by the study of the labor union as an institution in the operation of labor markets. Much of the literature in our field has dealt with the economic effects of unions, effects which show up in wage rates, annual incomes, resource allocation patterns and all the rest that comes from that bag of tricks called neoclassical economics. This paper is an attempt to expand on the effects of unions in a different context. I refer to the new context that flows from Title VII of the 1964 Civil Rights Act. And within this broad context the focus is on the methods that the courts are choosing in fashioning remedies for affected classes where the union or unions involved stand in violation of federal law.

The commonplace distinction between industrial and craft unions has often been supplemented by noting that the industrial unions take a union shop form while the craft unions usually operate as something akin to the closed shop. One can realize the strict legal limitations on the operation of a closed shop, and at the same time realize that many craft unions in fact do operate much as a closed shop would. It should be emphasized that it is not the existence of a craft per se that gives rise to an operation that looks very much like a closed shop, rather it is the existence of a hiring hall or a referral operation that is crucial in this regard. The roughly accurate dichotomy of industrial union/union shop and craft union/closed shop will be used here. However, following usage at the Equal Employment Opportunity Commission the broader expression of referral union[1] will be substituted for craft union.

* The views expressed in this paper are not necessarily those of the Equal Employment Opportunity Commission.

[1] A Referral Union is a local union which itself, or through an agent, (a) operates a hiring hall or hiring office, or (b) has an arrangement under which one or more employers are required to hire or consider for employment persons referred by the union or any agent of the union, or (c) has 10 percent or more of its members employed by employers which customarily and regularly look to the union, or any agent of the union, for employees to be hired on a casual or temporary basis, for a specified period of time or for the duration of a specified job.

Industrial Union Remedy

Two recent cases, each dealing with an investor-owned public utility, indicate the kind of solution that is open to an affected class under Title VII in an industrial union situation. The reference is to the Griggs versus Duke Power Company[2] case and the United States versus Virginia Electric and Power Company (VEPCO)[3] case. The fact that a union was involved in only one of these cases has no bearing on the point being made here. The kind of solution ordered by the court will be the kind that will affect industrial unions that stand in violation of the same provisions of Title VII.

In the Griggs case the employer had an operation that was divided into five departments. The violation was that a no-transfer rule denied access to promotion for members of the affected class who filed the suit. The mechanism by which this exclusion was effected need not detain us here. What is important is that the barrier, or illegal treatment, was ordered removed. For students of industrial relations the Griggs case was an instance of a judicial assault on a departmental seniority system in favor of plant wide seniority for purposes of bidding on jobs across the plant. Seemingly neutral systems may be discriminatory if they perpetuate the effects of past discrimination. The court has given the Commission a green light in moving against such systems, and Blumrosen has indicated that the task that lies ahead is the one of designing specific remedies that fit into the general guidelines of the court's rulings.

In the VEPCO case the court was quite specific about the manner in which the personnel system would be changed in order to provide relief for members of the affected class. Leaving aside some details of the case, the major change for our purposes was the elimination of a seniority system that narrowed job bidding to those in a line of progression within a department. In addition, promotions were reserved for the qualified employee who had the longest seniority in the job immediately below the opening. This rule, combined with a historical practice of segregating job assignments by race, was ordered dropped because its operative result was the perpetuation of past discrimination. In its place, the court ordered a seniority system that was district wide. In the VEPCO case the district is larger than a plant, but smaller than the company. There is a suggestion here that a court may order seniority to be determined

[2] Griggs v. Duke Power Co., *401* U.S. *424*, 91 S.Ct. 849 (1971).

[3] U.S. v. Virginia Electric and Power Company, et al. (DC Virginia. 1971) 327 F. Supp. 1034. Consent Decree entered DC Virginia 1971 — F. Supp. — 4 EDP Paragraph 7502.

on a company wide basis if that is necessary to provide relief for the affected class.

These two cases allow the student of industrial relations to trace out the framework of solutions that are likely to come from the courts in the near future. Specific remedies in industrial union cases will more than likely involve members of affected classes who are already on board with the employer. And it is also likely that in many cases the parties will be operating under a collective bargaining agreement that defines seniority rights in departments or lines of occupational progression in such a way that the provisions for job bidding will be neutral sounding, but discriminatory in operation. That is, the neutral sounding system will be perpetuating the effects of past discrimination. The remedy, at a minimum, will have the following provisions: (1) the new system will be broadened, usually from a departmental level or occupational line of progression to a plant wide or company wide system, and (2) close examination of lines of progression will likely reveal that some jobs in the progression are not necessary as skill builders for movement into higher-paying, more responsible jobs. In this latter case, it is likely that the courts will order some rung hopping for members of the affected class. That is, the rule that is being developed is skill related. If each job in the career ladder is dependent on mastering the skill in the next lowest rung in the ladder, then there will be no court ordered rung hopping. In the contrary case, the courts will order some accelerated skill development for members of affected classes.

Referral Union Remedy [4]

The harder cases will involve the referral unions, with the most difficult being found in those highly skilled trades that have operated under what is in effect a closed shop or a closed union in the past. Here the legal defense of the respondent union will likely be some variant of the argument that follows. The civil rights revolution, following the controversy about access to public accommodations, will be viewed as having its thrust in three main areas: voting, education, and jobs. The usual kind of plea will be that voting rights can be changed swiftly, since there are no particular skills involved in voting.

Second, the observation will be made that while there might be

[4] This section of the paper relies heavily on an in-house document prepared by Benjamin Wolkinson, formerly a conciliator with the Equal Employment Opportunity Commission and now an Assistant Professor of Industrial Relations at Michigan State University. The document is entitled *New Standards for Compliance in the Building Trades Industry*, 1970.

some community disturbances that attend upon the redrawing of school district borders and court ordered busing, sufficient skills exist for the implementation of the 1954 Supreme Court decision in Brown versus the Board of Education. Then comes the referral union bomb. At this point the legal defense argument will run to the effect that you cannot produce instant journeymen, hence the heavy influence will be on outreach programs that focus their attention on apprentice selection. This will be complemented with a decided aversion toward granting journeymen status to outsiders. The Commission has to meet this argument, and it has by arguing that there are methods to determine journeyman status other than exclusive reliance on union dominated procedures. Particularly revealing in this regard is a case involving a Plumbers' local[5] in Columbus, Ohio. In that case, the court found that the union had gone on record that the city licensure procedure for plumbers was every bit as demanding as the union test for journeyman ability. The result was that blacks who had been licensed by the city, but had not gained journeyman status in the union were put into the union and on the priority roster for job assignment. This last point raises another issue.

As all of you know, membership in a referral union is often a necessary, but rarely a sufficient condition for regular employment. The reference, of course, is to the time honored procedure of older dues paying members writing the rules on how jobs are allocated among members. In almost every referral union there are two or more rosters of qualified journeymen, and these are ranked so that members in one line get referred before any member in a subsidiary line is referred. These systems are yet another case of rules that are neutral on their face, but have the likelihood of perpetuating the effects of past discrimination. The Columbus Plumbers case is illustrative of just this phenomenon. In that instance, access to the preferred line required five years in the trade in the labor market covered by the collective bargaining agreement. Beyond that, the member who achieved top priority in assignment had to have had 1,200 hours of work in each of the five previous calendar years. In addition, this had to be experience gained with users of union labor. The historical pattern of exclusion practiced by the union local and the contractors against blacks made it impossible for any black plumber in Columbus to have such a record. Hence, the seemingly neutral rule which perpetuated the effects of past discrimination was struck down by the court.

[5] EEOC v. Plumbers Local 189 and Mechanical Contractors Assn. of Central Ohio, Inc. (DC Ohio 1970) 311 F. Supp. 468.

The thorny problem that must be resolved is the designing of a method that allows relief for the affected classes, that at the same time allows for an orderly disposition of the work done by the unions and the contractors. One court ordered settlement had to be rewritten[6] because the change initially ordered by the court turned loose a flood of nonminority applicants who came in under the relaxed rules that were designed to provide relief for the affected class. This has caused some re-thinking on the part of those whose task it is to design remedies. This re-thinking is taking form in two major considerations: (1) a method of providing relief for the affected class, and (2) retention of as much of the union's procedures as possible.[7] This can lead to a remedy that leaves untouched the procedure for the selection for membership and assignment to referral rosters for all non-minority journeymen and apprentices. This is coupled with a specific plank designed to provide relief for the affected class that calls for different rules. This gets sticky, but here is what such a court ordered settlement would look like. The guide in this kind of case may be found in Ironworkers' Local 86[8] case. If one may be allowed to generalize on the remedy laid out in this case, the future will likely see court ordered settlements that do the following: (1) the old rules for journeyman qualifications and placement on priority rosters are followed rigidly for nonminorities, and (2) a different set of rules are set up for members of the affected class. These rules for outsiders will be an amalgam of exceptions allowed to the old rules and certifications that depend on procedures not dominated by union influence. To add some specifics, it is likely that certification of journeyman status and eligibility for priority roster assignment for members of the affected class will be related to local licensure rules, experience in the armed forces, experience in non-union situations, experience in government employment, and in some cases to experience in related trades.

One of the stickier areas of this already sticky kind of remedy has to do with the provision in many union-contracter collective bargaining agreements whereby an employer may call for a jouneyman by name without honoring his place "in the queue." In some collective bargaining agreements that we have come across the contractor may select a journeyman out of queue for a foreman's job, may

[6] Dobbins v. Local 212, IBEW (DC Ohio 1968) 292 F. Supp. 413.

[7] The point needs to be made that this close scrutiny of collective bargaining agreements does not have a Right-to-Work law animus.

[8] U.S. v. Ironworkers Local 86 (DC Washington 1970) 315 F. Supp. 1202 Affirmed (CA 9 1971) 443 F. 2nd. 544; cert. denied — U.S. —, 40 LW 3264, (December 7, 1971) Doc No. 71-380.

select a journeyman by name who has worked for the contractor in some recent time period, say 90 days, six months and in some cases any time in the past. It should be obvious that this neutral sounding rule could have the effect of perpetuating the effects of past discrimination. The courts have had to deal with this one, and we can sketch the outline of the kind of remedy that will likely be imposed in the future. Courts have been rather consistent in their belief that the time period in which the out of queue selectee worked for the contractor has to be shortened, with 90 days appearing to be the mode. Beyond this modification, some courts have specified that a contractor may call for a member of a minority group out of queue, that is, a member of the affected class that gave rise to the litigation.

One would like to be able to spell out a remedy that would produce a once and for all change into compliance. One can suggest the possibility of this, and at the same time caution against the easy suggestion that all union violations of Title VII can be handled with a packaged remedy. An empirical example comes to mind. The example itself had nothing to do with Title VII remedies, but as you shall see it has great potential for such use. A trucking terminal in a Southern city serves a multi-state area as a breaking point. The terminal has a blue-collar work force composed of four job titles: (1) drivers, (2) forklift operators, (3) warehousemen, (4) dispatchers. The terminal operates around the clock and seven days a week. The collective bargaining contract specified shift differentials, but no wage difference among the four jobs. Some 130 positions are involved. Given some preference for shifts and job changing, a termination could give rise to a considerable amount of bumping, hence expense for the company. In order to preclude this kind of delay, the contract calls for the re-bidding of the entire shop upon notification of a termination. In about 2 hours the new structure and schedules are set. We could use this example by assuming that the personnel system had a characteristic that has been ruled against by the courts, namely that the shop had a neutral sounding rule which was discriminatory in operation. All that would be required for compliance would be (1) an identification of the affected class, (2) the elimination of the infraction that gave rise to the existence of an affected class, and (3) rebidding of the entire shop in the manner described above. The reason that this remedy cannot be packaged neatly, as suggested above, is that item number 2 will likely vary from case to case.

Summary

It is best to summarize these thoughts by resort to the insider-outsider distinction. For insiders, either in referral or industrial unions the identification of an affected class is comparatively easy. Those on board who are in an inferior position because of a Title VII violation are entitled to relief, and the likely result of obtaining that relief will be the re-writing of rights specified in collective bargaining contracts and/or rights to priority rosters for referral purposes.

Dealing with outsiders is a bit more difficult, because it involves identifying an affected class that is not now covered by an agreement. However, this has been done by a certification process that relies on processes not under the control of the union involved in the case.

Both kinds of cases will likely have some specified time period in which the new rules will operate. However, there will be an indication that the new rules, often one set for nonminorities and one set for the affected class, will operate only as long as the court deems it necessary.

Finally, no one argues that hammering out these kinds of settlements is going to be easy. Hopefully, everyone agrees that the debts to be paid are long overdue.

DISCUSSION

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In discussing Professor Blumrosen's paper, I shall restrict my remarks to two areas: (1) a discussion of the adequacy of present remedial policies, and (2) an examination of Professor Blumrosen's proposal for the administrative implementation of a building trades rule to rectify current discriminatory practices.

Professor Blumrosen emphasizes that "most remedies devised up to now, whether by administrative agency or by the courts, have not yet proved effective . . ." This I feel is an overstatement which fails to consider that the real problem is not the inadequacy of the remedies, but of the government's inability or unwillingness to apply them. The situation of the U.S. Equal Employment Opportunity Commission (EEOC) is illustrative. In cases involving building craft unions, the EEOC had developed broad remedies to correct discriminatory hiring hall arrangements and union policies designed to exclude minorities from admission into the union or into apprenticeship training programs. For example, to promote the referral of minority workers, the EEOC has sought to prevent unions from imposing upon minority workers referral requirements they cannot satisfy because of the local union's past policy of exclusion. Thus, the Commission in its settlement efforts has tried to eliminate referral requirements based upon work for a union contractor, union membership, or experience in a particular segment of the trade. Instead, the EEOC has demanded that a minority worker be placed in the highest priority referral category if that worker possesses the minimum experience necessary to perform satisfactorily in the trade. Have the EEOC's remedial efforts been successful? The answer is no, but not because of the inadequacy of the remedies themselves. The problem involves the refusal of building craft locals to execute settlement agreements providing effective relief to complainants and the affected class.[1]

Only the courts have been able to devise broad remedial policies and have them enforced. The federal court order in *U.S. vs Ironworkers, Local* 86,[2] exemplifies the remedial powers of the courts to rectify

[1] Statistics compiled by the EEOC's Conciliation Division for fiscal years 1966-1968 show that the Commission executed settlement agreements in less than 20 per cent of the cases involving building craft unions. This rate of success did not materially improve during the 18 months (February 1970-July 1971) the author was with the Commission.

[2] 2 FEP 741 (W.D. Wash 1970).

employment discrimination. Professor Blumrosen suggests that litigation is no solution since "the course of it is so protracted as to make it not effective." Judicial proceedings are time-consuming, but it should be remembered that once a remedial order is issued it may affect and regulate all future construction activity engaged in by the union and employer respondents. Thus, a remedial order need not be a one-shot affair pertaining to employment practices on a particular job site. Instead, it may call for a permanent restructuring of the union and employer's referral practices. Consequently litigation can produce results, although the particular construction activity which was the source of the complaint may be over by the time the case is resolved.

The key then is enforcement. The EEOC lacks such powers, while other government agencies have hesitated to exercise the powers they possess. The Department of Justice has filed few Title 7 complaints while the OFCC has rarely invoked sanctions against contractors for non-compliance.[3] Even if Professor Blumrosen's proposals were adopted, they too would succeed or fail on the touchstone of the government's enforcement efforts. Yet where is such enforcement to come from? I submit that only after Congress has provided the EEOC with enforcement powers will employment discrimination in construction be successfully attacked.

On its face, implementation of minority employment goals by administrative agencies such as the EEOC would seem to offer several advantages: (1) they place unions and contractors on notice that they are in violation unless they redress the statistical imbalance found in the area, (2) they present an efficient means of measuring the construction industry's progress in eliminating discrimination, (3) in contrast to OFCC monitored plans, they would encompass all contractors, private and public, who satisfied the jurisdictional standards of the Act. Moreover, enforcement of these goals by an independent administrative agency would eliminate problems of political interference with compliance efforts.

At the same time, Professor Blumrosen's remedial proposals raise many issues and problems, only a few of which can be treated here. First, the minority employment goal is based upon the percentage of minority journeymen and apprentices in the non-construction sector of the labor market. This formula constitutes an inadequate basis for the construction of an objective minority employment goal. The fact that minority workers may occupy a greater number of craftsmen positions in the non-construction sector does not mean that contractors

[3] U.S. Commission on Civil Rights, *Federal Civic Rights Enforcement Efforts* Washington, D.C.: U.S. Government Printing Office, 1971), pp. 68, 120.

will in the short run be able to recruit and employ a comparable number of minority workers for skilled building trades positions. On the other hand, this formula may suffer from a downward bias. This would occur in labor markets where the discriminatory hiring practices of employers have generated a gross underrepresentation of minorities in craftsmen categories in the non-construction sector. One may criticize the Philadelphia Plan because its implementation requires extensive hearings. Yet, it is precisely such evidentiary hearings that are necessary to provide us with an understanding of other factors which must be considered before realistic numerical goals can be objectively imposed upon contractors and unions. Those factors include: (1) availability of minority group persons for employment, (2) extent of minority group participation in the trade, and (3) existence of training programs.

Moreover, it should be recognized that national implementation of a minority employment goal would necessitate the creation of vast bureaucratic machinery to ensure compliance. As a first step, contractors and unions would have to be required to submit reports regarding their efforts to recruit minorities. Before sanctions could be imposed, evidentiary hearings would have to be held to determine whether or not contractors made a "good faith" effort to meet their numerical objctives. In short, achieving compliance could become a time-consuming and burdensome process.

Probably the most unique and controversial element of Professor Blumrosen's proposal involves the designation of temporary status to non-minority workers who are hired because the contractor and the union could not recruit a sufficient number of minority workers to satisfy the numerical goal. Once minority workers become available, the contractor would be obligated to dismiss his "temporary" white workers.

A justification given for the temporary employment concept is that it "is embedded in the industrial relations system in construction." This is debatable. I question whether a referral arrangement which allows a labor union to replace workers recruited by the contractor from outside the hiring hall reflects the general or dominant industry practice. In general, a wide variety of referral and employment practices exist in construction.[4] These include arrangements whereby: (a) contractors have full freedom to recruit and employ without resorting to the union hiring hall, (b) contractors utilize the hiring hall as one

[4] See, for example, U.S. Department of Labor, *Exclusive Union Work Referral Systems in the Building Trades* (Washington, D.C.: Government Printing Office, 1970).

source, among others, for employee recruitment and selection. Thus, the temporary employment mechanism as conceived by Professor Blumrosen is not one which is uniformly adopted by unions or contractors in the construction industry.

I am concerned that such a plan is unworkable. There is the danger that it will engender intense hostility between white union journeymen and newly employed minority workers so as to make their working together extremely difficult. While it is true that when compared to industrial employment, construction work is of a short-term nature, it is an oversimplification to argue that the craft worker has no real attachment to his job. Some construction jobs may last for months, and the workers hired carry the expectation of continued employment on the job site. Consequently, removing incumbent white workers may impose upon them severe economic loss with the result that their dismissal may generate friction between union workers and minority replacements. In a tight labor market situation, the temporary employment mechanism could impose serious supply shortages upon contractors if minority workers were unavailable, and union workers would refuse employment carrying a temporary designation. From a legal perspective, according minority workers a type of "super seniority" on construction jobs also seems questionable. In remedying discriminatory seniority arrangements, the Commission and the court have not adopted a policy of replacing white workers with Negro workers who have greater company seniority. Instead, their focus has been on promoting the movement of minority workers into vacancies as they develop.[5] A contrary approach in construction may be rejected by the courts because of its potentially punitive implications for both the incumbent workers and contractors involved.

Finally, Professor Blumrosen would require the contractor to take affirmative action to recruit minority workers. The local union itself should be obligated as part of any affirmative action guideline to establish contact with minority organizations. These contacts would include advertisements in minority news media and periodic meetings with guidance counselors of minority schools, and would be used to explain the employment opportunities available through union channels and the procedures individuals would have to follow to gain entry. In this manner, craft unions would dispel the discriminatory image that they helped foster and which operates to discourage minority entrance into the trade.

[5] See for example, Quarles v. Philip Morris, Inc., 279 F. Supp. 505 (E.D. Va. 1968) and U.S. v. Local 189, Papermakers, 282 F. Supp. 39 (E.D. La. 1968), *affirmed* 416 F. 2d 980 (5th Cir., 1969), *cert denied*, 397 U.S. 919 (1970).

While I have disagreed with some of Professor Blumrosen's proposals concerning the construction industry, it is obvious that the type of research he is engaged in is of utmost significance. If we are to resolve the problem of employment discrimination, then extensive research must be instituted to determine the means by which we can most effectively identify and remedy discriminatory employment patterns.

DISCUSSION

JEROLYN R. LYLE
The American University

Professors Ashenfelter and Godwin have provided a useful updating of aggregate historical trends regarding the shares of the black and white work forces that are unionized. Two conclusions emerge from their work: 1) We can expect the black work force to become more unionized while the white work force continues to become less so throughout the decade ahead; 2) Industrial unions, having a more discriminatory impact on blacks than craft unions, account for a reversal by 1940 of what previously had been a stable negative relation between the unionization of the work force and the ratio of black wages to white wages. The latter conclusion is extended to an even more encompassing argument that responses of the black political community, assumed to be represented by two black interest groups, the NAACP (National Association for the Advancement of Colored People) and the Urban League, have reflected postures consistent with a "rational calculation of the net economic benefits of unionism".

The second conclusion and its extension leave many questions unanswered. My contention is that the most important questions are those left unanswered. I offer three arguments supporting this contention: 1) The policy implications of this research are implicit only, leaving considerable ambiguity insofar as the basic question of economic parity for blacks is concerned; 2) The regression model from which the empirical evidence supporting the conclusions is derived postulates a perhaps overly simple theoretical relationship between the overall average union/nonunion wage differential and two aspects of the structure of the nation's labor markets; 3) More compelling support for the causal inferences made by our colleagues about the ability of unions to generate a positive impact on the aggregate ratio of black to white wages is required. What follows is a brief development of these points.

Are we to conclude that blacks can count on the American labor movement to raise their wages relative to those of whites? The relative income of the black male has fallen since 1947, while the relative income of the black female has risen. That is, these patterns hold when one compares blacks to whites of the same sex. Unionization may have a positive impact on the relative wages of all blacks, compared to all whites, but a disaggregate analysis may reveal reverse or insignificant relationships.

My own research indicates that black men have greater chances for economic equality in unionized cities and industries primarily because white collar jobs are somewhat more open to them, not because unions themselves do not discriminate. Moreover, I found that unionization neither helps nor hurts the black man's quest for a greater share of blue collar employment. My regressions yielded no significant relation between unionization and the degree of economic equality of the black female. Industries with highest growth rates in employment are those with large white-collar work forces where the impact of unionism is weakest. The demand for labor is expanding in only a few of the most highly unionized industries which include mining, construction, primary metals, petroleum refining, railroads, communications, motor freight, water transportation, and utilities.

Moreover, the high level of aggregation used in this study should not lead us to overlook the fact that both craft and industrial unions vary greatly both in terms of the size of black representation within them and in terms of their de facto behavior toward blacks. A reasonable hypothesis to test is that the crucial difference between craft and industrial unions insofar as their eventual impact on relative black wages lies in the point in the process of worker establishment at which their influence is strongest.

Craft unions probably have greatest influence in initial hire because of their referral function, typically manifest through the use of a hiring hall. On the other hand, industrial unions probably have peak influence through their ability to negotiate collective bargaining agreements which define seniority rights both in departments and in occupational lines of progression. Thus, job bidding and transfer procedures become critical determinants of the eventual relative wages of blacks covered by the particular collective bargaining agreement. As Dr. Liggett so correctly points out, the work to date in building the body of federal law under Title VII of the Civil Rights Act of 1964 where unions are concerned has focused on distinguishing neutral seniority systems from those which operate in a discriminatory fashion by perpetuating the effects of past discrimination.

The regression model used to generate the estimates on which the paper's conclusions are based, originally used by H. Gregg Lewis, may omit variables as significant as those which it includes. The model lets the overall average union/nonunion wage differential be a positive function of the unemployment rate and a negative function of the ratio of actual wage to expected wage. Both of these relationships make theoretical sense, except for the somewhat elusive meaning of the variable measuring actual wage as a percent of expected wage. What assumptions underpin the concept of "expected" wage? If these were explicit, we could evaluate the variable directly, because its meaning would be clear. If we take the unemployment rate to be a measure of labor market tightness, we certainly expect its regression coefficient to have a positive sign in this context. The size of the coefficient in Lewis's equation is surprisingly small, if it is a beta weight, rather than an unstandardized regression coefficient. Moreover the Ashenfelter-Godwin estimates of the "delta" variable are sufficiently erratic for years since 1900 to suggest the need for some explanation of the variance in the size of the coefficients themselves. It might be interesting to see what analytical power could be gained by using a wage dispersion variable in the basic regression model.

We must be careful not to overgeneralize our statistical results or to apply causal relations where only functional ones have been demonstrated. These useful estimates of the effect of unionization on the average wage of black workers relative to the average wage of white workers provide *some* historical support for the hypothesis that industrial unionization has been more discriminatory than craft unionization. No one would doubt that industrial unions affect the economic well-being of more blacks and more whites than craft unions. The term "more discriminatory" opens the door to knotty problems of defining and measuring degrees of discrimination. I think it overstates the case to argue that these estimates suggest the existence of a major difference in the degree of discrimination practised by industrial as opposed to craft unions. The thrust of such practices is not likely to be measured in an aggregate model such as this one, especially when the model relies on only two independent variables.

DISCUSSION

BERNARD E. ANDERSON
University of Pennsylvania

My comments will deal solely with the paper presented by Mr. Liggett. I suspect however, that much of what is said here will apply equally as well to the remarks offered by Mr. Blumrosen. In short, the search for effective remedies against discrimination is a broad issue that extends far beyond the question of the hiring hall, or the specific problems of minority workers in the construction industry in Newark N.J.

The current design of remedies against discrimination reflects an on-going evolution in the concept of discrimination. Three decades ago, public policy against discrimination dealt largely with overt acts of unequal treatment, but today, there is increasing concern and interest in the discriminatory effects of seemingly neutral employment systems. Indeed, we see the emergence of a sort of "freedom now" philosophy in which all present effects of past discrimination are deemed grist for the enforcement mill as we march toward full equality of results as well as equality of opportunity.

This change in focus has been most apparent in the courts. The judicial perception of discrimination, as revealed in the Griggs, Vepco, and Crown cases is that the mere absence of minorities from specific lines of progression, occupational classifications, and departments is a sufficient condition for finding a violation of Title VII of the 1964 Civil Rights Act. The result of this view has been a significant and increasing attack on hiring procedures, seniority systems, and promotion systems. In some cases, the courts have required wholesale revision of existing labor-management agreements.

While this practice may have the effect of improving the relative position of members of the affected class in a given case, the practice may have serious implications for protecting the rights and interests of minority and female workers in industry over time. Collective bargaining agreements exist to create due process, equity, and industrial democracy in the workplace. Whether the agreement, in fact, protects the rights of racial and ethnic minorities depends in part upon minority participation in union affairs. The proportion of minorities in industrial employment has been increasing continuously since the 1940's. The rights and opportunities of these workers will be heavily dependant upon the nature of the collective bargaining relationships in which they find themselves.

This brings us directly to the question of remedies against discrimination. No remedy is likely to be effective if it is not tailored to the needs of the industry and to some extent, the interest of the parties other than the aggrieved minority and female employees. If one could identify four criteria necessary for effective remedies, they probably would be:

a) remove, as quickly as possible, the present effects of past discrimination.
b) compensate members of the affected class for acts of discrimination since the passage of title VII
c) protect the legitimate, and non-discriminatory rights of employees under labor management agreements.
d) stimulate voluntary compliance and innovation on the part of unions and management in order to hasten the demise of all vestiges of discrimination.

Unfortunately, the discussion of remedies against discrimination often ignores the importance of getting the parties voluntarily to acquiesce in change, and indeed, to come forth with ways to expand employment opportunity for minorities and women. Mr. Liggett recognizes the difficulty of fashioning such remedies, and displays a healthy degree of caution in spelling out in detail just what the remedies should be. One thing is certain: there is no single, all purpose remedy that can be applied to all industries and labor market conditions. Indeed, very often the remedies promulgated by enforcement agencies and the courts have little effect in changing traditional employment patterns.

An example of this is the case involving the present effects of past discrimination in the paper industry. The Crown-Zellerback Company was required to undertake measures to upgrade black employees in unskilled jobs in order to prepare them for promotion to machine operator positions. In keeping with this remedy, the company contracted with several firms which provide basic education programs for industry. Despite the educational improvement among the black employees following participation in the basic education program, not one has yet been promoted to a higher job classification.

There is no more difficult and important task facing industry today than to correct the glaring deficiences of the past with respect to equal job opportunity. This task, however, is not likely to be achieved in a way destined to create long term gains for minorities and women by destroying trade unions and collective bargaining relationships. More effective remedies can be found and the search should proceed in that direction.

DISCUSSION

HERBERT HAMMERMAN
Equal Employment Opportunity Commission

No mention of minorities and unions can be complete without reference to the data on minority membership in referral unions that the Equal Employment Opportunity Commission has been making public since the middle of 1969. My purpose is to remedy the omission of discussion of these data by the previous speakers with a brief description of their coverage, their additions to our knowledge, and their potential usefulness.

The EEOC has required referral unions to report their membership by minority group and sex annually since 1967. At this moment, data are available for three years, 1967, 1968, and 1969. The Commission defines referral unions broadly to include all local unions with 100 or more members that have formal or informal referral arrangements which cover a signficant proportion of their memberships. More specifically, the term includes local unions which have hiring halls or hiring offices, have arrangements requiring employers to consider or hire persons referred by the local, or have 10% or more of their members employed by employers who customarily and regularly look to the union for referrals.

In 1969 about 3,600 local unions reported as referral unions, with a total of 2½ million members in referral bargaining units. This representation amounted to a little less than one-seventh of all union members in the United States and to 3% of the nation's labor force.

The building trades were the predominant industry group, with three-fifths of all referral union membership, about 1½ million. The remaining two-fifths of reported membership were distributed among a large number and variety of international unions that may be grouped in three industry categories: manufacturing; transportation; and trade and service.

In the aggregate, minorities were 17.4% of the total referral membership, distributed as follows: Negroes, 9.2%; Spanish Surnamed Americans (SSA's), 6.7%; Orientals, 0.9%; and American Indians, 0.6%. In comparison with nationwide employment data obtained by the EEOC from over 40,000 employers, referral unions had about the same percentage of blacks, and considerably higher percentages of the three other minorities.

However, in the building trades unions, the percentage of blacks (6.8%) was lower than in non-construction unions and lower than general U.S. employment. Furthermore, blacks were largely concentrated, three-fourths of them, in 4 of the 16 building trades internationals: Laborers, Roofers, Bricklayers, and Plasterers and Cement Masons. In 6 internationals comprising the mechanical trades, blacks were only 1.6% of the total; and in the other 6 internationals, they amounted to no more than 2.9%. Minorities tended to be concentrated in the larger locals, reflecting the fact that very substantial proportions of building trades locals had no minorities, or very few of them.

A 1967-1969 comparison reveals substantial percentage, but limited numerical, improvements in those internationals with very low base figures. But, non-minority membership also increased, and relative improvement was small. Apprenticeship data obtained by the EEOC shows blacks with significantly greater proportions of apprenticeships than union memberships in 1969, particularly in the first year of apprenticeship. This indicates that the various efforts to recruit blacks into the trades through the apprenticeship route, as mentioned by Mr. Slaiman, had begun to bear fruit by 1969. However, in many trades, even the first-year apprenticeship figures were far below black participation in the labor force.

To put the construction industry in its proper context, we are not talking about an overwhelming number of jobs for minorities. Unionized construction workers are one-eighth of all organized workers, and one-fiftieth of the total labor force. The industry has taken on a symbolic value which is certainly much greater than its ability to provide jobs.

Professor Blumrosen's "New Jersey Plan" would substitute EEOC employment figures combining skilled craftsmen and semi-skilled operatives for the Philadelphia Plan's population figures. Nationwide, such a goal would amount to 10.3% for blacks, higher than their total participation in EEOC-measured employment. To this, Mr. Slaiman responds that it is not fair to set this goal for the building trades, most of which are predominantly craftsmen's unions, and to ignore the fact that minorities are sparsely represented among craftsmen in all industries.

I suggest that Mr. Slaiman has a point, but I would turn his argument around. True, minorities are poorly represented among craftsmen in all industries, but not as poorly as in most of the building trades. For example, in 1969 blacks had 5% of all the craftsmen jobs as reported to the EEOC nationwide. However, five out of six referral unions in the building trades had a black membership of less than 5% that year. If the 12 international unions with low black participation, mentioned earlier, had had an average black membership of 5%, they would have had over 30,000 additional black members. As a result, the total number of black members of all building trades unions would have been 30% higher then it was.

Admittedly, an increase of this limited magnitude would not solve most of the problems of discrimination against black males in the nation, but using craftsmen figures might serve to set more realistic goals for the building trades than others that have been discussed.

VIII

CONTRIBUTED PAPERS*

Benjamin Aaron, Chairman
University of California, Los Angeles

* The discussion presented in this session by Garth Mangum, University of Utah, is not included in the published *Proceedings*.

The Choice Between Obstruction and Control in the New York City Newspaper Industry

DAVID C. HERSHFIELD
University of Utah

The negotiations between the major New York City newspapers and locals of the typographers, photoengravers, and stereotypers over the introduction of various forms of automation in the 1950's and 1960's provide an opportunity to reexamine Summer Slichter's theories of union responses to proposed changes in technology.

In *Union Policies and Industrial Management,* Slichter set forth three types of policies: obstruction, competition, and control. The policy of obstruction consists of attempting to prevent the use of a proposed process. The policy of competition consists of making concessions on wages and working rules on an old process in order to enable union employers to compete with non-union firms which use a new process. In contrast, the policy of control consists of allowing employers to introduce a new process while demanding control of the new jobs which are created.[1]

According to Slichter, "the classical instance of the successful pursuit of the policy of control" was the International Typographical Union allowing employers to introduce the linotype in the 1880's and 1890's in exchange for exclusive jurisdiction over its operation.[2] Two key reasons why this policy succeeded were carryover of skills from hand composition to machine composition and relatively low labor-displacing power of the linotype.[3]

In the New York City newspaper industry in the 1950's and 1960's, the policy of competition was ruled out by the pronounced superiority of the proposed processes and the absence of non-union competition. The choice of union policies toward technological changes was between obstruction and control.

According to Slichter, two conditions must be met for a union to adopt "the obvious and natural policy of obstruction": that the union be so strong vis à vis management that the policy seems to have a good chance of actually preventing change, and that no other policy

[1] Summer Slichter, *Union Policies and Industrial Management* (Washington: Brookings Institution, 1941), pp. 201–281.
[2] *Ibid.*, pp. 247–249.
[3] George E. Barnett, *Chapters on Machinery and Labor* (Cambridge: Harvard University Press, 1926), pp. 137 ff.

would serve the union's purpose.[4] The second condition would apply in the case of great potential displacement of labor or great change in the type of labor required.

Changes in Composing Room Technology

Typesetting methods were basically unchanged from adoption of the manually operated linotype in the 1880's to development in the 1930's of the Teletypesetter, which has a keyboard resembling that of a typewriter, with the addition of a perforator attachment to punch paper tape to "instruct" linotypes to cast lead type. In their 1954-56 contract with Typographical Union Number 6, the Publishers' Association of New York City agreed to postpone introduction of Teletypesetter equipment until joint agreement could be reached on the use of type which had been perforated outside each newspaper and the number of tape-fed linecasting machines which each journeyman could monitor, thus, as Slichter, Healy, and Livernash observed, "putting the union in an excellent position to block technological development if it so desires."[5]

A Teletypesetter operator, basically just typing, can produce over 30% more lines of type on a Teletypesetter keyboard than he could produce on a linotype. A monitor of three tape-fed linecasting machines, basically just watching for mechanical malfunctions, can produce as much metal type as seven or eight linotypists.[6]

In the late 1940's, phototypesetting machines were developed to compose "cold type" on a light-sensitive film. An operator strikes keys to combine or magnify numerous type faces etched onto glass lenses and expose individual letters on film. Makeup men then combine on cardboard the developed film and pictures submitted by advertisers, and photograph the entire page. Traditional skills used with the linotype are carried over: keys are arranged in typewriter fashion, but ad men still must decide how best to lay out items on the page. Because of the greater ease in changing type faces, advertising can be composed 40 to 60% faster at the New York *Times* on "Photon" machines than on linotypes.

Computerized typesetting systems are considered "revolutionary" by union typographers in dispensing with even the basic skills of hyphenation and justification (spacing of letters) which are needed to operate the "evolutionary" Teletypesetter and phototypesetting

[4] Slichter, *op. cit.*, pp. 213-215.

[5] Summer H. Slichter, James J. Healy, and E. Robert Livernash, *The Impact of Collective Bargaining on Management* (Washington: Brookings Institution, 1960), p. 353.

[6] Harry Kelber and Carl Schlesinger, *Union Printers and Controlled Automation*, (New York: The Free Press, 1967), pp. 94-96, 99.

machines.[7] Copy and editorial comments produced on an electric typewriter with perforator attachment can be run through a memory bank containing rules for hyphenation and justification, and a corrected tape automatically fed into linecasting machines. Except for monitoring the linecasters, no traditional typographical skills are required. An entirely new skill—programming—has to be acquired. Labor displacement would be far greater than with Teletypesetting or phototypesetting or when the linotype replaced hand composition. Computers which the *Times* and *News* installed in 1965 (but could not get union permission to use for typesetting) could set 4000 lines of type per hour, versus 200-300 lines per hour on manually operated linotypes.[8]

On the basis of possible effects on skills and displacing power, we would expect the typographers to be most likely to adopt "the obvious and natural policy of obstruction" toward computerized typesetting, whose adoption would involve severe job loss and having to learn the new skill of programming. They would also be likely to obstruct the use of Teletypesetter tape which had been perforated outside their jurisdiction, for fear of great displacement and downgrading to the status of machine tenders. The typographers would be more likely to allow "inside tape", which would be perforated by their own members, although also with some downgrading of skills. They would be most likely to accept phototypesetting, which utilizes traditional skills to turn out an attractive product in which they can take extra pride.

Changes in Photoengraving Technology

In contrast to the typographers, the New York City newspaper photoengravers were presented in the 1950's and 1960's with no major new devices, but a series of slight modifications of existing techniques, with one exception.

In the photographer and stripper branches of the local, faster strip cameras, darkroom emulsions and drying chambers reduced the time required to expose and develop negatives to 93 seconds, and the time for baking them onto glass to three minutes. Skill requirements were not affected.

In the etcher branch, the Dow Chemical Company's "rapid etch" process eliminated the need to apply powder to protect plate areas which weren't going to be etched, thereby making it possible to do

[7] David W. Crockett, "Automation and Job Security," *Monthly Bulletin of Typographical Union Number 6*, Vol. LXVIII, No. 1, Jan. 1966, pp. 11–12.

[8] Fred C. Shapiro, "A Reporter at Large: The Negotiations," *The New Yorker*, Vol. XLI, No. 8, April 10, 1965, p. 166.

in twenty minutes jobs which had taken an hour and forty minutes. The Chemco powderless etch machine further reduced the time to three minutes for halftones and twelve minutes for deep etch line plates, with only two minutes for each additional plate using the same solution. (The solution is changed from two to four times per shift.)

In the router branch, the Royal Router supplanted the cutting away of nonprinting surfaces with hand tools. The machine consists of a cutting bit controlled in horizontal and vertical movements by levers, and in downward pressure by a foot treadle. At the New York *Times*, a router can now rout in twenty minutes a full page advertisement which previously required one and a half hours of hand work.[9]

In summary, the newspaper photoengravers could have been expected to obstruct the use of the new process for fear of displacement in all branches and downgrading of the skills involved in routing.

Changes in Stereotyping Technology

During the 1950's and 1960's major technological changes completely did away with certain stereotyping jobs.

In 1955 "packless" mats eliminated the task of placing strips of heavy tape-like material behind those areas of the mats which had not had type pressed into them.

Prior to 1960, four different steps were required in order to cast curved plates from a mat: positioning it in an "Automatic" Autoplate casting machine, directing molten lead into impressions in the mat, moving the cooled-off cast to an "Autoshaver" machine, and shaving off excess metal. In 1960 the Wood Newspaper Machinery Company combined the Automatic and the Autoshaver into the "Supermatic", with only one set of levers and a moving platform between its two principal parts. Only two men were required in the new sequence.

In 1962 the New York *Times* installed a completely automatic "pre-melt system". Used plates from the pressroom are deposited by conveyor in a 25-ton "master pot" and melted by immersion heaters. As the molten lead is needed for new castings, it is pumped to "slave pots" attached to each Supermatic. The "pot man", who formerly fed used plates into each slave pot and tended the level of metal, is no longer needed.[10]

All of the stereotyping operations which were eliminated or com-

[9] "The Photoengraver on Newspapers," *Graphic Arts Unionist*, Vol. II, No. 3, March 1965, pp. 65–68.

[10] Hilton J. Wilson, "Processing Stereotype Metal Through a Pre-Melt System," *American Newspaper Publishers Association Research Institute Bulletin*, No. 771, September 7, 1962, pp. 229–30.

bined with others required fairly low levels of skill. However, the stereotypers could have been expected to obstruct the use of the new equipment for fear of great displacement of their members.

Policies Adopted by the New York Typographers, Photoengravers, and Stereotypers

Although all three unions in our study seem to have had reasons to try to obstruct new technology, only the typographers actually did so. Their responses to various forms of automation seem to have shaded from obstruction into control according to potential effects on skills and displacing power.

The typographers began to allow phototypesetting devices in 1956, in return for training programs which assured them control of the new jobs. However, they delayed teletypesetters until 1960, and then limited their use to "inside tape" (tape perforated within a newspaper plant covered by the contract). Any newspaper using Teletypesetters had to provide lengthy training and employ one journeyman monitor for every three tape-fed machines. In addition, typographers at all Publishers' Association newspapers received a new contract benefit of one day's sick leave.

In 1963 the union allowed the newspapers to set stock market tables with paper tape reperforated from signals received over the wires of the Associated Press or United Press International. All other "outside tape" was still prohibited. No current situation holder (regular five days per week journeyman) or current substitute who subsequently attained situation holder status was to be laid off for lack of work "because of the use of such outside tape". The number of man-hours required to set stock market tables by the old and new methods were compared and the difference multiplied by a straight-time wage rates. In 1965 it was agreed that one hundred percent of these savings were to be paid into a union-controlled "Outside Tape Fund", thus leaving the publishers only the minor gains of getting their product onto newsstands faster and avoiding the expenses of overtime premiums, vacation credits, and pension and welfare fund contributions on top of straight-time wages. The publishers, of course, also have to bear the full costs of the new equipment and wire service fees.

In 1964 the *Times* declined a union offer to allow computerized typesetting in exchange for payment into an automation fund of 63% of the direct labor savings for each of the first six years, and then 7%

less in each of the nine following years.[11] In 1965 the *Post* declined a similar offer which involved permanent payment of 50% of all direct labor savings.

President Bertram Powers of the New York City typographers has insisted that union consent to computerized typesetting will require not only payment of a share of labor savings into a fund for displaced workers, but also recognition of exclusive jurisdiction over programming for typesetting operations, in order to maintain control of all composing room skills. He also insists upon job guarantees for all current substitutes and apprentices as well as situation holders, with jobs disappearing only through natural attrition.[12]

In contrast to the typographers, the photoengravers and stereotypers have practiced only the policy of control. The photoengravers have accepted all proposed technological changes. The stereotypers accepted packless mats as a matter of course, and allowed the Supermatic to reduce four-man Automatic-Autoshaver crews to two men on each Supermatic, plus one "pot man" on each machine. They allowed the pre-melt system to eliminate the pot man's job in exchange for the employment of one "utility man" anywhere in the stereotyping department for each two Supermatics in the system.

Power to Prevent Technological Change

The photoengravers and the stereotypers did not adopt the policy of obstruction because they could not satisfy Slichter's second condition: that a union must be strong enough that "the policy seems to have a good change of success."[13] By the time the wave of technological changes reached the New York City newspapers, the bargaining power of these two unions had been severely eroded by developments in commercial printing and on newspapers in other cities. In contrast, the typographers had been affected only slightly.

Commercial printing, especially in New York City, is characterized by short production runs and attention to detail. When type sizes or styles must be changed frequently, Teletypesetting loses its advantage of having one man monitor many tape-fed linecasting machines. When frequent revisions must be made, phototypesetting requires resetting an entire page, or cutting and pasting corrected lines in place on the page.[14] Both types of systems, even without computers, cost

[11] A. H. Raskin, "The Great Manhattan Newspaper Duel," *Saturday Review*, Vol. XLVIII, May 8, 1965, p. 60.

[12] "New York City Papers' Future Is Discussed," *Editor & Publisher*, Vol. 99, No. 15, Jan. 29, 1966, p. 13.

[13] Slichter, *op. cit.*, p. 214 (paraphrased on p. 1 of this paper).

[14] Kelber and Schlesigner, *op. cit.*, pp. 197–98.

much more and occupy much more space than conventional equipment. New York City commercial printing shops made only minor use of new typesetting methods, and New York Typographical Union commercial branch membership increased slightly in the early 1960's.

Unlike the new typesetting methods, the new photoengraving devices saved time at little cost in money and space and were quickly adopted in commercial printing. In addition, many commercial and gravure photoengravers lost their jobs through introduction of an electronic scanner which made it possible to do seven color separations in one day, versus two or three by an older method. (No work in color is done in the newspaper branch.) Active membership of the commercial and gravure branches fell over 22% between 1956 and 1966, and more than 10% of those still active in 1966 were unemployed. Thus the dues base of the three-part local shrank while the burdens of unemployment payments and pensions grew.

In small commercial shops and on small newspapers in other cities, the entire stereotyping process has been bypassed by the offset process, in which type and illustrations are photographed and etched onto specially coated flat plates which "offset" images onto rollers which in turn "offset" them onto sheets of paper. The longer-lasting stereotyping plates are still cheaper to use than offset plates on the large production runs of the New York City dailies, but offset constitutes a long-term alternative to stereotyping in the event that the stereotypers' union doesn't cooperate in keeping down costs.

The typographers demonstrated their superior bargaining power in the settlement of the long 1962-63 newspaper strike. They were "charged" 36¢ out of an allegedly uniform $12.63 benefit package for an across-the-board 1¼-hour cut in their workweek, while the photoengravers were "charged" 35¢ for a 1¼-hour cut which, despite their protests, applied to only those photoengravers who worked on the late night shift. The stereotypers customarily ask only "a satisfactory wage increase" in their opening proposals for new contracts, knowing they will have to follow the pattern that is set by a stronger union. In 1965 they even settled tentatively for a $10.50 two-year package, which the typographers and photoengravers turned down. The typographers eventually obtained a $12.00 package, which was then extended to all the unions.

Conclusions

Slichter's formulation of union responses to proposed changes in technology retains its validity after three decades. To the extent that new devices resembled the linotype in their potential effects on skills and displacing power, the New York City typographers continued to pursue the policy of control. When now devices posed serious threats, the typographers obstructed them, at least until protection for their members could be arranged. The photoengravers and stereotypers pursued the policy of control toward all new technology, even at the expense of considerable job loss, because they lacked the bargaining strength to risk a long, drawn-out battle with the publishers.

As described elsewhere,[15] rising labor costs, due in part to typographical union opposition to automation, were only a minor factor in the demise between 1963 and 1968 of five New York City newspapers whose main problem was inability to attract sufficient advertising and circulation revenue in a fiercely competitive product market. The loss of jobs on these five newspapers did not weaken the typograhers' resistance to technological change because the three surviving major New York City newspapers prospered so much in a less competitive market that their need to automate became less pressing.

The "share of the savings" approach pioneered in the New York City typographers' "Outside Tape Agreement" offers employers a chance to reduce costs (if the share paid to the union is reasonable, taking into account capital costs), while providing support to displaced workers in proportion to their displacement. It may be helpful in resolving automation impasses in not only the New York City newspaper industry, but also other industries where unions possess the motivation and the power to obstruct technological change.

[15] David C. Hershfield, *Automation and Collective Bargaining in the New York City Newspaper Industry*, (Princeton University: unpublished Ph.D. dissertation, 1970).

Discrimination, Monopsony, and Union Power in the Building Trades: A Cross Sectional Analysis

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This paper elucidates some of the interrelations among wages, discrimination, market concentration, and union power and uses cross-sectional data for the building trades in 27 cities to test the consistency of labor market theory with the observed phenomena. Our empirical findings tend to confirm the predictions of labor market theory: (1) high wage rates are associated with discrimination; (2) monopsony in the labor market depressed the wage rate of unskilled labor relative to skilled; and (3) a climate favorable to collective bargaining has a greater impact on the wage rate of unskilled than of skilled labor.

I. Hypotheses

A. Discrimination

In Becker's analysis of discrimination in competitive labor markets, the relative wages of blacks and whites adjust to accommodate the employers' tastes for discrimination.[1] In the building trades, however, the union typically controls entry, which necessitates some modification of the analysis.[2] Since the union will not permit anyone to work for a substandard wage, discrimination will be manifest in exclusion.

The ability to exclude is dependent on "labor slack" (i.e., an excess supply of potential workers), which results from the existence of a wage rate in excess of equilibrium and necessitates some criteria for rationing membership.[3] The racial criterion for exclusion is likely to be adopted if any significant portion of the union membership has a

* The authors are grateful to the Research Program in Industrial Economics at CWRU and NSF Grant NU 03620 for support, but are solely responsible for all findings and interpretations.

[1] Gary S. Becker, *The Economics of Discrimination*, University of Chicago Press, 1957.

[2] Gary S. Becker, "Union Restrictions on Entry," *The Public Stake in Union Power*, Philip D. Bradley, ed., University of Virginia Press, 1959, pp. 209–224.

[3] Clark Kerr, "The Balkanization of Labor Markets," Labor Mobility and Economic Opportunity, E. Wight Bakke *et al.*, The Technology Press of M.I.T., 1954, pp. 97–102; George Strauss, "Apprenticeship: An Evaluation of the Need," *Employment Policy and the Labor Market*, Arthur M. Ross, ed., University of California Press, 1965. pp. 316–328.

"taste for discrimination."[4] We can thus take the exclusion of blacks as an indicator of labor slack, and hence of union power to raise wages.

We hypothesize, therfore, that the ratio of the wage rate for electricians to that for construction labor will be correlated with the relative degree of exclusion in a given labor market.[5] We use the difference between the percentage of construction laborers who are black and the percentage of construction craftsmen who are black as our primary measure of the degree of exclusion by different occupations drawing from the same labor market.[6] While not perfect in many respects, these measures are probably the best available.

B. UNION POWER

Supply conditions are important to an analysis of union power. By controlling apprenticeship, the electricians obtain some control over supply, but (as Strauss has shown) other ways to enter the trade are frequently beyond the control of the union.[7] Electricians and plumbers often obtain great power by controlling occupational licensing.[8] Laborers, of course, have no such advantage. Since their skills are not specialized, the supply to the construction industry is highly elastic in the absence of a strong union. Thus one would expect electricians to have considerably greater power to raise wages than laborers because of

[4] Ray Marshall, *The Negro Worker*, Random House, 1967, p. 63.

[5] Skill differentials are sometimes measured as the ratio of one wage to another and sometimes as the difference, in cents per hour, between one wage rate and another. Gary Becker has argued that the difference in earnings between skilled and unskilled workers is the significant measure on the supply side of the market; but that on the demand side, the ratio of the wages is more appropriate. (Human Capital, National Bureau of Economic Research, 1964, pp. 52-53). This follows from the logic of profit maximization which requires that the firm adjust its hiring until the marginal productivities of the two factors are in the same ratio as their wage rates. In some empirical work, therefore, the choice between the two measures would be difficult. We have assumed, however, that a strong union will raise its own wage sufficiently above the market-clearing rate to make supply considerations irrelevant. Accordingly, we have adopted the ratio form.

[6] At least two objections may be raised to the difference as a measure of discrimination. In the first place, it may be argued that since all unions discriminate the differential in discrimination between skilled trades and laborers is not important. The simple correlation coefficient between the percentage of blacks in the population of the S.M.S.A. and the percentage of construction workers who are black is .76 for our sample. The correlation between the proportion of blacks in the population and in the skilled crafts, however, is only .47. Thus it does seem sensible to consider difference in discrimination among areas.

A second objection is that blacks may not be qualified for the skilled trades because of lack of ability or education or because, as recent migrants to the cities, they have not yet moved through apprenticeship. We do not deal with the first possibility. The time required for apprenticeship should not influence the data noticeably because even the relatively short (three to five years) time nominally required for apprenticeship overstates the training of most skilled craftsmen (Strauss, *op. cit.*).

[7] *Op. cit.*, pp. 320–328.

[8] Simon Rottenberg, "The Economics of Occupational Licensing," *Aspects of Labor Economics*, Princeton University Press for the National Bureau of Economics Research, 1962, pp. 3-20.

both the inelastic demand and the relative ease of controlling supply. Laborers, lacking both an economic and a legal basis for power, should be more susceptible to external influences. Bargaining environment and degree of unionization should be *more* critical in determining the economic power of laborers.

We have approximated the degree of public support for collective bargaining (one aspect of the bargaining environment) by the percentage of all employees within the state who are union members. This is admittedly an imperfect measure of the likelihood that a contractor could obtain nonunion labor and the strength of the sanctions that might be imposed upon him for doing so. We hypothesize, nevertheless, that laborers' wages will be positively related to the degree of unionization in the state, and that the relationship will be stronger for laborers than for electricians.[9]

C. MARKET CONENTRATION

The relationship between market concentration and wage changes has been the subject of considerable attention.[10] The version of the hypothesis that makes the most economic sense is that greater concentration is associated with higher wages.[11] The most plausible motivation for the hypothesis is that firms in concentrated industries earn some monopoly profits of which strong unions manage to obtain a share. Alternatively one might argue that, even in the absence of unions, the utility maximizing management of a firm with monopoly profits will choose to spend some of the excess profits on high wages to obtain social approval and a congenial and contented work force.[12]

[9] Stephen P. Sobotka ("Union Influence on Wages: The Construction Industry," *Journal of Political Economy*, 1953, p. 134) found "a significant degree of correlation between the extent of organization and the relative wages of skilled building trades workers." In contrast to the skilled craftsmen, however, the proportion of construction laborers who were organized was not significant in explaining laborers' wages. This is consistent with our hypothesis that the laborers, lacking any inherent sources of strength, will be very sensitive to the bargaining environment. H. G. Lewis reworked Sobotka's data without significantly altering the conclusion regarding laborers. *Unionism and Relative Wages in the United States: An Empirical Inquiry*, (University of Chicago Press, 1963), pp. 63-73.

[10] See, for example,

Armen A. Alchian and Reuben A. Kessel, "Competition, Monopoly, and the Pursuit of Pecuniary Gain," pp. 156–185 of *Aspects of Labor Economics* (NBER, 1962); William G. Bowen, *Wage Behavior in the Postwar Period: An Empirical Analysis*, Industrial Relations Section of Princeton University, 1960; Harold M. Levinson, *Determining Forces in Collective Bargaining*, John Wiley & Sons, 1966; Albert Rees, *The Economics of Trade Unions*, University of Chicago Press, 1962; and Leonard W. Weiss, "Concentration and Labor Earnings," *American Economic Review*, March 1966, pp. 96–117.

[11] The alternative version associates degree of concentration with rate of change of wages [See, for example, Bowen, *op. cit.*, p. 70]. This would lead, however, to an ever increasing gap between wages in concentrated and unconcentrated industries [Rees, *op. cit.*, pp. 84–85]. For additional references see Weiss, *op. cit.*

[12] See Alchian and Kessel *op. cit.*

When the product market and the labor market are coterminous, as they frequently are in construction, however, one might argue that greater concentration implies greater monopsony power and hence lower wages. Most previous studies of concentration and wages have not been able to deal adequately with this problem because they have assigned a single measure of concentration to an entire industry, whereas monopsony in the labor market must vary from place to place. Monopsony in local labor markets has been shown to be associated with depressed wages for occupations as disparate as public school teachers and the printing trades in the newspaper industry.[13] Thus, both theory and empirical evidence would lead us to expect greater monopsony in the construction industry to be associated with lower wage rates. Nevertheless, the frequent association of greater concentration with higher wage rates in inter-industry studies and the special structural characteristics of the construction industry make the outcome less than fully certain.

II. Empirical Results

We tested the above hypotheses using various combinations of the variables in the following equation:

$$R = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu.$$

Where: R = Ratio of union scale rate for electricians divided by the union scale rate for laborers.

X_1 = % of laborers who are black (in the building trades).

X_2 = % of craftsmen who are black (in the building trades).

$X_3 = X_1 - X_2$.

X_4 = the percentage of non-agricultural employees in the state who are unionized.

X_5 = the natural log of the calculated index of employment concentration (monopsony).[14]

μ = residual (assumed to be well behaved).

[13] John H. Landon, "The Effect of Product-Market Concentration on Wage Levels: An Intra-Industry Approach," *Industrial and Labor Relations Review*, January 1970, pp. 237–247; and John H. Landon and Robert N. Baird, "Monopsony in the Market for Public School Teachers," *American Economic Review*, December 1971.

[14] Our measure of concentration is a Herfindahl Index, the properties of which are discussed in Morris A. Adelman, "Comments on the 'H' Concentration Measure as a Numbers-Equivalent," *Review of Economics and Statistics*, February 1969, pp. 99–101; and I. M. Grossack, "Toward an Integration of Static and Dynamic Measures of Industry Concentration," *Review of Economics and Statistics*, August 1965, pp. 301–08.

Our index treats all firms in the construction business as part of the same labor market. This calculation understates the degree of monopsony (monopoly) in construction since there in a great deal of specialization by function (electrical, plumbing, stone work, painting). Our measure of monopsony is thus more appropriate in the market for laborers than it is in the markets for skilled crafts.

Since this paper focuses on the impact of monopsony and discrimination on relative wages, we include in each regression equation a measure of these parameters and vary the other inclusions to test their effect on these values. The complete specification of a single equation to describe these ratios was not attempted. Indeed, a single equation model would be inappropriate for this task.

The Table presents the results of these cross section regressions for our 27 city sample.[15] The remainder of this section will be devoted to the analysis of the results summarized there.

A. Market Conentration

Our measure of monopsony relates positively, and in most cases significantly, to the ratio of the electrician's to the laborer's wage. In every equation its coefficient exceeds its standard error and in four of the six is statistically significant at the 99% confidence level. The addition of the union variable reduces the size of the monopsony coefficient and increases its standard error.

The positive influence of monopsony on the ratio (R) may reflect the strength of the more tightly organized electrical workers in exploiting ability to pay where the industry is relatively monopolistic and/or a greater monopsony effect on the wages of the less well organized laborers.

The negative effect of the addition of the unionization variable on the significance of monopsony (taken with the negative sign of this addition) may indicate that unionization acts as an offset to monopsony. That is, laborers benefit more from an environment favorable to union power than do electricians, as is suggested by our earlier theoretical discussion.

B. Discrimination

The percentage of laborers who are black is highly and positively correlated with R. Since electricians are generally white, with token integration if any, the implication is that laborers are paid a higher proportion of the electrician rate when they are white than where there is a large black component. This variable is significant at the 99% confidence level in each equation in which it appears.

This result is consistent with a hypothesis that unions and management tend to negotiate lower relative pay for black than for white

[15] While market organization information was obtained for 59 cities, racial composition of the labor force was available for only 27 of these. The cities included in this study are Chicago, Detroit, Los Angeles, New York, Philadelphia, Baltimore, Cincinnati, Cleveland, Houston, New Orleans, St. Louis, Atlanta, Columbus, Denver, Indianapolis, Kansas City, Louisville, Memphis, Newark, Tampa, Tulsa, Charlotte (N.C.), Jacksonville (Fla.), Little Rock, Richmond (Va.), Birmingham and Dallas.

workers. This may indicate discrimination against blacks in areas where they compose a large segment of laborers or the relative weakness of the unions outside the electrical trade. While the electricians tend to be white and well organized laborers may be too weak in some areas *either* to keep out non-whites *or* to negotiate favorable pay for their members. This also explains why the percentage of the state unionized is highly and negatively related to R—reflecting the greater ease of organizing the laborers where unions are strong in the state. The unionization variable, however, does not lessen the significance of the percentage black.

Equations 2 and 4 use the percentage of craftsmen who are black as the measure of integration in the building trades. The results are essentially similar, with a strong positive relation to R. The regression coefficients are larger (reflecting the smaller size of the percentages) and are significant at the 99% level in one, and the 95% level in another. These results may seem surprising since consistent discrimination should reduce R as the craftsmen admit blacks in larger proportion.

One explanation for this finding is the extreme position of electrical unions with respect to black membership. Of all the construction trades, electrical workers are among the least likely to have significant black

Dependent Variable		Constant	Laborer % Black X_1	Craft % Black X_2	BL-BC X_3	% Union in State X_4	Log of Monopsony Index X_5	R^2
1.	R =	1.588	+.0055[a] (.0017)				+.206[a] (.056)	.59
2.	R =	1.733		+.029[a] (.077)			+.262[a] (.049)	.66
3.	R =	1.903	+.0043[a] (.0013)			−.015[a] (.003)	+.087[c] (.051)	.77
4.	R =	1.989		+.018[b] (.007)		−.012[a] (.004)	+.159[a] (.058)	.73
5.	R =	1.617			+.006[a] (.002)		+.205[a] (.060)	.55
6.	R =	1.617			+.005[a] (.002)	−.016[a] (.003)	+.072 (.053)	.77

a, b, and c represent significance at the 99, 95, and 90% confidence level respectively. Standard errors are in parentheses. Percentages of laborers and craftsmen who are black are taken from the U.S. Equal Opportunity Commission, Equal Employment Opportunity Report No. I: Part III *Job Patterns for Minorities and Women in Private Industry, 1966,* Washington. Unionization from the U.S. Department of Labor, *Directory of National and International Labor Unions in the United States* (Bulletin 1596), 1967. Changes in population from the U.S. Department of Commerce, *Statistical Abstract of the United States 1969,* Monopsony index calculated from county data from the U.S. Department of Commerce, Bureau of the Census, *County Business Patterns,* and Union wage taken from the U.S. Department of Commerce, *Construction Review,* September 1969.

membership.[16] Therefore, a *relatively* large percentage of black craftsmen in an area does not imply a sizeable black presence in the electrical union. The average participation of blacks among the craftsmen in our sample was only 6% compared to 49% among laborers. The proportion of blacks in the electrical trades would be considerably below 6%. The ratio of electricians' to laborers' compensation correlates positively with the low levels of black participation in the crafts which in turn is correlated with black participation among laborers (simple correlation coefficient of +.61).

As our preferred measure of discrimination we use the difference between the percentage of black laborers and the percentage of black craftsmen. A positive sign for the coefficient would indicate greater relative pay for electricians where the craftsmen are less racially integrated relative to laborers. In equations 5 and 6 the difference between the percentages is in the predicted direction (positive) and significant at the 99% confidence level. This is strong confirmation of the negative relationship between integration and relative pay. As the percentage of black laborers becomes large relative to that of black craftsmen the latter receive a higher proportion of the laborers' wage rate.

C. Union Power

The percentage of the state's non-agricultural workforce that is unionized is highly significant and negative in each equation in which it appears. This reflects the ability of the unions to effectively organize construction laborers in states where unions in general are relatively strong. Without the legal sanctions of state or municipal licensing, or the high skill level of the crafts, laborers apparently need this kind of support to increase their relative wage. Discrimination, however, retains significance when unionization is taken into account, thus indicating that discrimination on racial grounds itself may be related to wages even where unionization occurs.[17]

III. Conclusion

The empirical findings of this study confirm the suspicion that relative wage rates of construction trades are sensitive to their racial

[16] Marshall, *op. cit.*, p. 64.

[17] It is, of course, possible that the significance of the unionization variable is purely illusory reflecting merely the differences between regions of the country which are the real causal variables. While this is possible, we think it rather unlikely. When we tried substituting such other regional variables as income per capita for unionization the results were much less significant. We conclude from this that strong unions in the state provide a significant degree of support for the laborers, which raises their wages relative to electricians. With the addition of this variable, our equations explain about 75% of the variation in R.

composition. In particular, we find a consistent association between high absolute and relative black participation among laborers and low relative pay for this trade. A relative increase in the black composition of the crafts is associated with lower relative wages for laborers. This indicates to us a tendency for union power to be associated with both exclusion of minority groups and relatively high pay for the unskilled laborers.

Relative wages among construction trades are also sensitive to product market concentration and the extent of union influence in the state. We find a consistent tendency for monopsony (which in this industry accompanies product market concentration) to result in lower relative wages for laborers and for union strength in the state to relate positively to their relative compensation. From this we conclude that laborers lack the bargaining strength to offset monopsony (or take advantage of monopoly) and that union strength in the state facilitates organization of this trade.

Training Avoidance: Manpower Waste and Skill Shortages*

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There currently is much concern about the high rate of unemployment, which is a form of wasted manpower during periods of slack economic activity. A more subtle form of manpower waste affects both employed and unemployed persons who could be more productive if they were given nonuniversity training that would better qualify them for existing jobs. Industry training is a method of increasing productivity that is not given enough attention. The effects of industry training—or its avoidance—on the quality of the labor supply are vital matters for manpower policy.

Significant gaps exist in our knowledge of both the supply and demand sides of the manpower ledger. Most training takes place in private industry, where information about manpower planning, recruiting, and training is most fragmentary. Without this information, it is difficult to formulate successful government-supported manpower programs which involve industry yet do not duplicate its training efforts.[1] This article attempts to fill some of these information gaps by discussing the reactions of employers in both private industry and government to skill shortages and how they attempt to meet their manpower requirements by emphasizing either training or its avoidance.

The article is based on a broad study which was conducted in 1968, and the report was completed in January 1970.[2] In early 1966, unemployment went below 4 percent and remained there until the end of 1969. Skill shortages appeared; some previously unemployed

* This research was supported by the Manpower Administration, U.S. Department of Labor. The interpretation and views expressed are those of the author and do not represent the official position or policy of the Department of Labor.

[1] U.S. Department of Labor, *Manpower Report of the President*, 1967, pp. 162–63; 1968, 75–76; 1969, 94–96, 155–65; 1970, 61–64, 79–85; 1971, 50–52, 179–84. Although somewhat incomplete, much detailed information on the supply side is available for many government-supported training programs with record-keeping requirements that provide information for the Manpower Report. On the demand side, the Department of Labor began publishing rough job vacancy data in 1970. During its investigation in 1968, the Task Force on Occupational Training in Industry encountered many gaps in information on the extent, cost, and quality of ongoing occupational training.

[2] See John L. Iacobelli, *Training Programs of Private Industry in the Greater Cleveland Area*, PB 191 706 (Springfield, Va.: Clearinghouse, U.S. Department of Commerce, 1970), for a more comprehensive report on employer policies, attitudes, and practices in training regular and disadvantaged labor.

persons obtained jobs; but this period revealed, for the first time, that economic expansion alone was insufficient to employ many disadvantaged persons.[3] This period was an ideal time to test components of our manpower system under stress to see how they responded when operating at close to full capacity while confronting the twin challenge of shortages of skilled workers and surpluses of poorly qualified persons.

The sample of 131 Greater Cleveland employers to be interviewed was selected using stratified random sampling. It closely approximates the national distribution of employers by size and percentage of total employment in major industries including government.[4] Interviews were conducted at various management levels, ranging from the president of an establishment to the personnel director, using a lengthy structured questionnaire designed to allow ending on any of the detailed questions after the first page.

Skill Shortages

During this study there were over four establishments experiencing shortages of workers with the necessary skills for every one that was not.[5] Although individual employers experienced their greatest shortages at different skill levels (skilled, semiskilled, or unskilled) and for different types of workers within blue-collar, white-collar, managerial, or technical groups, the most frequent shortages were at the upper level of technical skills and at all levels of blue-collar workers.

Some employers were forced to initiate new training programs in order to overcome skill shortages. Other employers, especially the very large ones or those requiring very specialized skills, stated: "We get along pretty well by training our own,"[6] or "For three years

[3] There is no sharp dichotomy between disadvantaged and regular labor. There is an area where the two shade into each other, yet it is necessary to dinstinguish between them. Employers identify disadvantaged labor as persons who do not meet their minimum requirements for entry level jobs; therefore, this criterion was used as the bench mark.

[4] The industry strata and their percentage of total nonagricultural employment in the Cleveland SMSA are: contract consruction, 4.0; manufacturing, 38.4; transportation and other public utilities, 6.2; wholesale and retail trade, 20.5; finance, insurance, and real estate, 4.7; service and miscellaneous, 14.0; and government, 11.9. The final sample of 131 employees also was almost equally divided among small, medium, and large establishments (less than 50 employees, 50–249, and 250 or more, respectively), in line with national patterns. Firms employing less than six were excluded, and the sample of large firms favored those with more than 350 employees.

[5] In this study, the term "skill" means any physical, mental, or technical abilities that a person must have in order to fill a job vacancy. Since this definition was most widely used by employers in this study, this was the one given to all employers who raised a question about the meaning of skill shortages.

[6] A grinding job shop with medium employment.

there has been a shortage, but we are only mildly concerned because our company has the ability to train for our needs."[7] There tended to be less concern over skill shortages among employers with long established training programs than among employers who had new training programs or who did very little training.

But an increase in training activities was not the only reaction of employers who were concerned with the future labor supply. Some employers admitted that "we are dragging our feet on doing more training, but we are worried."[8] Other employers tended to keep a surplus of one to three people on a shift or in a critical skill. In general, very few employers were not concerned about the future labor supply at the time of the study, even those who had not experienced any skill shortages in the past six months.

Government Manpower Programs

Given the great concern expressed by employers about the severe shortages of both skilled and unskilled labor, one would suspect that employers might be anxious to participate in government manpower training programs in an attempt to alleviate some of their manpower shortages, especially for unskilled and semiskilled labor. But the findings showed weak interest or participation in government-supported training programs by employers.

Among the group of employers who responded, 53 percent had been consulted about federal, state, or local training programs. Of those consulted, less than half were participating in any of the area manpower programs. This means that approximately 25 percent of the employers in the area were participating in a government manpower training program. The very large employers have been the main participants in government manpower training programs in the Cleveland area. The small to medium size employers were not actively participating in area manpower training programs even after they had been contacted.

Among employers who were participating in area manpower programs, participation was minimal. Most of it tended to be the hiring of some graduates of a local program. Very few employers were conducting government-related manpower training programs on their premises. Employers were not very enthusiastic about participating in government manpower training programs;

[7] A manufacturer of aircraft accessories and parts with large employment.
[8] Establishments with small to large employment in varied industries such as institutional food distributor to manufacturing.

they were not using the vast untapped supply of disadvantaged labor to meet their acute manpower shortages.[9]

Industry Training Programs and Recruitment

Employers also have options concerning the hiring and training of regular labor to meet their manpower needs. One of the 112 respondents admitted that his firm left all training to the union, which had its own extensive program. Training programs which they finance and conduct were classified as "extensive" by 12.5 percent of the 112 respondents, "combined" by 25 percent, and "learning on the job" (LOJ) by 62.5 percent.[10] One of the objectives of this study was to see if, in the prevailing tight labor market, employers reacted to prolonged shortages of trained and qualified employees by attempting to increase their company training programs or by trying to avoid additional training with practices aimed at recruiting experienced workers.

Employers ranked the method or action which took precedence over other activities used to overcome skill shortages. Table I shows that employers with the three different types of training programs used quite different approaches to overcome skill shortages. The three methods used most by LOJ employers were increased recruiting through methods (f) help wanted advertising, (b) employment agencies, and (c) by "word of mouth." Method (e) increasing company training programs or activity was the fourth most popular, whereas (h_j) working overtime was the only other method used by as many as 10 percent of the LOJ companies. The 28 employers with combined programs placed greater emphasis on increased company training, although they relied as much on the same three recruiting methods as did LOJ employers. Employers with extensive programs behaved quite differently than those with the other two types of programs by concentrating on (e) increased company training and (d) recruiting through high schools, colleges, or private schools. The three recruiting methods prevalent among employers with LOJ and combined programs were not popular among employers with extensive programs, who also were most likely to use area manpower training programs.

[9] See also John L. Iacobelli, "A Survey of Employer Attitudes Toward Training the Disadvantaged," *Monthly Labor Review*, June 1970, pp. 51–55.

[10] The three different types of training programs are defined as follows: (1) Extensive, for very extensive training programs having formal training programs for a very wide range of positions or for most positions in the establishment, ranging from entry level jobs up to top management; (2) Combined, for programs having formal training combined with learning on the job; (3) LOJ, for programs where learning informally on the job was the only type of training conducted.

TABLE 1
Ranking of methods of overcoming skill shortages, by type of employer training program

		70 Employers with Informal LOJ Training				
			Percent[2]			
		Total number in all ranks[1]	In all ranks	Ranked precedence of action		
	Method			First	Second	Third
a	Lower job requirements	4	5.7	4.3	1.4	....
b	Actively recruit through employment agencies	20	28.6	7.1	14.3	7.1
c	Actively recruit by "word of mouth"	16	22.9	2.9	12.9	7.1
d	Actively recruit through high schools, colleges, or private schools	4	5.7	4.3	1.4	...
e	Increase company training activity	14	20.0	14.3	4.3	1.4
f	Increase "help wanted" advertising	28	40.0	27.1	5.7	7.1
g	Use area manpower programs	2	2.9	1.4	....	1.4
h_i	Contact Ohio Bureau of Employment Services	4	5.7	2.9	1.4	1.4
h_j	Work overtime	8	11.4	7.1	1.4	2.9
h_k	Display sign outside or walk-ins	4	5.7	1.4	4.3	....
h_l	Increase hours of supervisors without extra pay	3	4.3	2.9	1.4	....
h_m	Make deliberate decrease in business	1	1.4	1.4	....	....
h_n	Increase pay scale	2	2.9	2.9	....	....
h_o	Use or apply for government or civil service register	1	1.4	1.4	....	....
h_p	Pirate or recruit from other employers	2	2.9	1.4	1.4	....
h_q	Support private education for employees	2	2.9	1.4	....	1.4
h_r	Use own agency, State training center graduates, intra-company, or contact union	2	2.9	2.9	....	....
h_s	Hire for short term, use "moonlighters" for part time, or subcontract work	4	5.7	2.9	1.4	1.4
h_t	Hire at lower level and train, hire married women, or contact Bureau of Apprenticeship and Training	1	1.4	1.4	....	....
h_u	Install computer or redesign jobs	2	2.9	....	2.9	....

[1] Number of responses exceeds number of employers because each employer could mention and rank more than one action.
[2] Number of responses divided by number of employers in group, not total number of responses.

TABLE 1 (Continued)
Ranking of methods of overcoming skill shortages, by type of employer training program

	Method	28 Employers with Combined Formal and LOJ Training				
			Percent[2]			
		Total number in all ranks[1]	In all ranks	Ranked precedence of action: First	Second	Third
a	Lower job requirements	1	3.6	....	....	3.6
b	Actively recruit through employment agencies	9	32.1	10.7	7.1	14.3
c	Actively recruit by "word of mouth"	8	28.6	7.1	7.1	14.3
d	Actively recruit through high schools, colleges, or private schools	5	17.9	3.6	7.1	7.1
e	Increase company training activity	14	50.0	28.6	10.7	10.7
f	Increase "help wanted" advertising	11	39.3	17.9	10.7	10.7
g	Use area manpower programs	0	....	....	....	....
h_i	Contact Ohio Bureau of Employment Services	3	10.7	....	7.1	3.6
h_j	Work overtime	3	10.7	3.6	3.6	3.6
h_k	Display sign outside or walk-ins	1	3.6	3.6	....	....
h_l	Increase hours of supervisors without extra pay	1	3.6	3.6	....	....
h_m	Make deliberate decrease in business	1	3.6	3.6	....	....
h_n	Increase pay scale	2	7.1	7.1	....	....
h_o	Use or apply for government or civil service register	2	7.1	3.6	3.6	....
h_p	Pirate or recruit from other employers	1	3.6	....	....	3.6
h_q	Support private education for employees	1	3.6	....	3.6	....
h_r	Use own agency, State training center graduates, intra-company, or contact union	2	7.1	3.6	3.6	....
h_s	Hire for short term, use "moonlighters" for part time, or subcontract work	0	....	....	....	....
h_t	Hire at lower level and train, hire married women, or contact Bureau of Apprenticeship and Training	2	7.1	3.6	....	3.6
h_u	Install computer or redesign jobs	0	....	....	....	....

[1] Number of responses exceeds number of employers because each employer could mention and rank more than one action.

[2] Number of responses divided by number of employers in group, not total number of responses.

TABLE 1 (Concluded)
Ranking of methods of overcoming skill shortages, by type of employer training program

	Method	14 Employers with Extensive Training: Total number in all ranks[1]	Percent[2]: In all ranks	Ranked precedence of action: First	Second	Third
a	Lower job requirements	1	7.1	....	....	7.1
b	Actively recruit through employment agencies	2	14.3	....	14.3	....
c	Actively recruit by "word of mouth"	1	7.1	....	7.1	....
d	Actively recruit through high schools, colleges, or private schools	7	50.0	14.3	28.6	7.1
e	Increase company training activity	12	85.7	64.3	14.3	7.1
f	Increase "help wanted" advertising	2	14.3	....	14.3	....
g	Use area manpower programs	2	14.3	....	7.1	7.1
h_i	Contact Ohio Bureau of Employment Services	1	7.1	....	7.1	....
h_j	Work overtime	2	14.3	14.3	....	....
h_k	Display sign outside or walk-ins	0	....	....	....	....
h_l	Increase hours of supervisors without extra pay	0	....	....	....	....
h_m	Make deliberate decrease in business	1	7.1	....	7.1	....
h_n	Increase pay scale	0	....	....	....	....
h_o	Use or apply for government or civil service register	1	7.1	7.1	....	....
h_p	Pirate or recruit from other employers	1	7.1	....	....	7.1
h_q	Support private education for employees	0	....	....	....	....
h_r	Use own agency, State training center graduates, intra-company, or contact union	1	7.1	7.1	....	....
h_s	Hire for short term, use "moonlighters" for part time, or subcontract work	1	7.1	....	7.1	....
h_t	Hire at lower level and train, hire married women, or contact Bureau of Apprenticeship and Training	0	....	....	....	....
h_u	Install computer or redesign jobs	0	....	....	....	....

[1] Number of responses exceeds number of employers because each employer could mention and rank more than one action.
[2] Number of responses divided by number of employers in group, not total number of responses.

The recruiting activities of employers with extensive programs focused on people with limited or no work experience with their newly acquired skills, whereas employers with combined and LOJ programs were recruiting from sources that emphasized experienced and currently employed workers.

Employers with extensive programs were hiring the people with the greatest potential for the future of their individual company; they were skimming off the cream of the labor supply. By recruiting the most desirable graduates of schools and colleges, they are able to attract people with proven ability to learn who can be further developed in the company's own training program. Although most employers attempt to hire people with the greatest potential, employers with extensive programs are most likely to succeed for two reasons. First, they often pay the highest wages in the industry, either at entry levels or at upper levels for successful graduates of their training programs who stay with the company. The other reason is that they enjoy great prestige in the area because their large size and extensive training programs give the impression that talented employees can rise as high as their abilities and aspirations allow. Little is known, however, about the actual linkage between an extensive training program and a company policy of promotion from within by upgrading employees through training.

Having extensive training programs seems to influence the employer's choice of other methods to overcome manpower shortages. Items a through g suggest that employers with extensive programs tend to overcome manpower shortages by using methods that indicate a leaning toward a policy of giving training, while employers with combined and LOJ programs use methods that indicate a policy of avoiding training. In order to further test this, all methods were classified according to whether they tended toward a policy of avoiding training, giving training, or had no strong tendency toward either (mostly neutral). Table 2 shows that among the 70 employers with informal LOJ programs, training-avoidance policies outnumbered training-giving policies by almost 4 to 1; and among the 28 employers with combined programs, the ratio was almost 2 to 1. In sharp contrast, the 14 companies with extensive training programs had a reversed ratio of 1 to 2. Hence, although all three groups of employers use some training-avoidance policies, employers with extensive training programs use them much less than either of the other two groups that rely on them. Instead, they place a disproportionate emphasis upon various training-giving policies. This becomes more apparent when the use of training-giving policies by the

TABLE 2

Employer reliance on training avoidance policies or training-giving policies to overcome skill shortages, by type of employer training program

Type of Training program and total number of employers	Number of responses[1] indicating— Training-Avoidance policies[2] Actual number	Training-Avoidance policies[2] Adjusted number[4]	Training-giving policies[3] Actual number	Training-giving policies[3] Adjusted number[4]
70 employers with informal LOJ training	89	89	23	23
28 employers with combined formal & LOJ training	39	97.5	22	55
14 employers with extensive training	11	55	21	105

[1] Number of responses exceeds number of employers, since employers could mention more than one policy.

[2] Policies tending mostly toward avoiding training, especially the hiring of experienced people. Includes items b, c, f, j, k, l, m, n, o, p, and s from table 1.

[3] Policies tending mostly toward giving additional company training, especially to new entrants into the labor force. Includes items d, e, g, q, and t from table 1.

[4] Adjusted for different size of sample in each group: the actual number of responses for the 28-employer group was multiplied by 2.5 and those for the 14-employer group by 5 in order to make the totals comparable with those for the group of 70 employers.

three groups of employers is compared after adjusting for different size samples. Employers with extensive programs used training-giving policies five times as much as employers with LOJ programs (105 to 23) and almost twice as often as employers with combined programs (105 to 55).

Almost all of these establishments with extensive programs are very large employers. Except for one company, each had at least 1,700 employees. Included were some of the most successful companies in the United States. This group of 14 employers is not restricted to any one industry: three are highly diversified establishments, one is in construction, four in manufacturing, three in transportation and public utilities, two in government, and one in wholesale and retail trade. This group included less than half of the large employers, so training is not just a function of company size. It depends on other factors, especially employer attitudes about manpower.

In addition to having extensive training programs, these employers also consider manpower as a resource worthy of long term specific planning which, as was shown in another part of this manpower systems study, focuses upon individuals as the planning period lengthens.[11] Twelve of the fourteen employers in this group made manpower projections for 1 to 10 years, with nine of them doing it for 5 to 10 years. This consideration of manpower as a precious resource worthy of company development—as shown by both the planning and training practices of employers with extensive programs—is the opposite of manpower considerations by most other employers, who showed less concern about the path by which individuals acquire skills and who acted as though they could always recruit a sufficient supply of qualified labor instead of having to train workers for their companys' specific job demands.

The correlation between successful establishments, extensive training programs, and manpower planning was not apparent until the research had been completed and summarized. The topic needs further research beyond the scope of this study to determine if there is a causal relationship, and if so, whether training causes success or vice-versa. However, this study does show clearly that (a) training avoidance is widespread even in a tight labor market, and (b) training is emphasized by only a small group of large employers who operate the most prestigious, exclusive, and successful business establishments.

Manpower Policy Recommendations

The above findings are invaluable insights for improving national manpower policy. Since training avoidance is so widespread except for the few companies with extensive training programs, one component of federal manpower policy should focus on recruiting these companies to participate in government manpower programs and an industry-government training system. The JOBS program is a partial step in this direction, but a much broader approach is necessary. The federal government should maintain full employment because an extended tight labor market causes some employers to increase their training activities to overcome prolonged skill shortages. Federal financial assistance should also be available for some establishments in private industry to train regular labor because the firms with extensive training programs already do a disproportionate share of the nonuniversity training. This federal assistance should be tied to a commitment from the employer to train an equal number of disadvantaged workers (possibly with greater financial

[11] See U.S. Department of Labor, *Training in Private Industry: Policies, Attitudes, and Practices of Employers in Greater Cleveland*, Manpower Research Monograph No. 22 by John L. Iacobelli, 1971. See also Herbert G. Heneman, Jr., *et al.*, *Manpower Planning and Forecasting in the Firm: An Exploratory Probe*, PB 179 078 (Springfield, Va.: Clearinghouse, U.S. Department of Commerce, 1968).

assistance). These firms might thus be induced to become trainers for a larger share of private industry or to increase the quality of the labor force and the total supply of well-trained manpower. Better training of the regular labor force could be an easy way to increase productivity, lower labor costs, and stimulate economic growth for the American economy by making our goods and services more competitive in world markets.

Effects of NLRB Jurisdictional Change on Union Organizing Activity in the Proprietary Health Care Sector

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Introduction

In recent years it is well known that union growth has been slow or nonexistent. Bastions of union strength have declined in economic significance and other sectors have increased in importance. One which has increased rapidly in importance is health care. Given the growth of this sector it is conceivable that unions might seek to recruit new members in this area. One segment of the health care complex has recently been the focus of attention by the National Labor Relations Board. At the end of 1967, in two cases decided the same day, the Board changed its former policy and decided to assert jurisdiction over hospitals and nursing homes privately operated for profit.

This paper presents developments that have occurred since 1967 in the proprietary health care area with respect to union organizing efforts. The paper has four parts. The first is an overview of the health care industry and the place of the proprietary facility. The second part discusses the changing labor law status of proprietary facilities dating from the end of 1967. The next is a presentation of NLRB election results in this sector from 1967 through 1970. The material in this section is broken down into totals for all unions and then a discussion of those unions which have demonstrated interest in this area. This section also contains data showing the relationship between union organizing activity and geographic area. The last part of the study draws some conclusions from the record of the past several years and assays a prediction for future developments.

I. Structure of Health Care Industry

The health care industry in the United States is of great size and importance. Moreover, it is increasing in size and scope at a rapid rate. In 1970 total employment in medical and other health services averaged 3,082,100, up from 2,868,800 in 1969[1] and 1,548,000 in 1960.[2] Expenditures on health care have increased at a rapid rate reflecting

[1] Bureau of Labor Statistics, *Monthly Labor Review*, April, 1971, p. 96.
[2] Bureau of the Census, *Pocket Data Book*, 1969, p. 134.

increased consumption and rising prices. The Consumer Price Index for Medical Care increased to 120.2 in February, 1971 from 113.7 in February, 1970.[3] From 1960 to 1969, the CPI for Medical Care rose from 109.1 to 168.9.[4] Expenditures increased from $12,130 billion to $60,312 billion from 1950 to 1969.[5] In terms of Gross National Product, medical care now amounts to 6.7% up from 4.6% in 1950.[6] It is estimated medical care expenditures will amount to $100 billion by 1975.[7]

Medical care in the United States is rendered in several types of facilities in addition to the physicians's office. There are two main types of institutions offering such care, hospitals and nursing homes. Within these two types of facilities there are several subclassifications. Hospitals may be classified as to their form of ownership or control. Such forms are Federal Government, State and Local Government, Voluntary Nonprofit, and Nongovernment for Profit. Some important characteristics of these control types are presented in Table I.

TABLE I
Type of Hospitals by Control Status 1970

State & Local Government Short Term General		*Voluntary Nonprofit Short Term*	
No.	1,704	No.	3,386
No. of Beds	204,000	No. of Beds	592,000
No. of Admissions	6,273,000	No. of Admissions	20,948,000
No. of Employees	444,000	No. of Employees	1,387,000
Total Expense	$4,328,000,000	Toal Expense	$14,163,000,000
Nongovernmental Short Term For Profit		*Federal*	
No.	769	No.	408
No. of Beds	53,000	No. of Beds	160,969
No. of Admissions	2,031,000	No. of Admissions	1,741,379
No. of Employees	97,000	No. of Employees	216,412
Total Expense	$1,068,000,000	Total Expense	$2,482,853,000

Source: *Hospitals*, August, 1971, pp. 462–463.

Nongovernment for Profit or Proprietary hospitals are operated to produce a profit for their owners. In recent years, a number of private corporations have entered this segment of the health care industry.[8] Such concerns have generally expanded rapidly. The proprietary sector has grown somewhat in recent years when measured by such

[3] Bureau of Labor Statistics, *Monthly Labor Review*, April, 1971, p. 110.
[4] Bureau of Labor Statistics, *Handbook of Labor Statistics, 1970*, p. 287.
[5] U.S. Department of Commerce, Bureau of the Census, *Statistical Abstracts of the United States, 1970*, pp. 62–63.
[6] *Ibid.*
[7] *New York Times*, April 27, 1971, p. 28.
[8] Among such concerns are: Hospital Corporation of America; American Medical Enterprises; Hospital Affiliates; American Medic and National Medical Enterprises. In 1970, these firms operated 83 hospitals.

characteristics as number of beds, admissions and total expenses, though the number of facilities has declined modestly.[9]

State and local hospitals are funded by state and local tax monies and patient payments for services rendered. Such facilities were generally established to care for indigent people but in recent years, with the expansion of third party coverage of health care expenditures, their clientele has changed somewhat and become more diverse. In relation to other types of ownership, this category has had the greatest increase in number of facilities, number of admissions and total expense.

Hospital facilities operated by the Federal government have declined recently as measured by the number of such facilities and the number of beds. In 1969 there were 415 Federally controlled hospitals, the bulk of which were operated by the Veterans Adminstration. Total expense of all Federal hospitals was $2.4 billion in 1969. This expense figure has increased the least of all control types despite the demands placed on V.A. hospitals by the Indochina war.

Voluntary nonprofit hospitals are the largest single category of facilities in the United States. There were 3,428 such institutions in 1969 with total expense of $12.1 billion. Such hospitals account for two-thirds of the admissions in the U.S. These facilities are often operated by religious groups and fraternal orders.

While the hospital sector is dominated by nonprofit institutions, whether state or local government, federal or voluntary, the nursing home sector is overwhelmingly operated for profit. In 1968 there were 18,185 nursing homes in the United States. Of these, 14,048 were operated for profit. The remainder were largely run by religious or fraternal orders or government agencies.[10]

Employment in hospitals and nursing homes has expanded greatly in the post war era. Total employment in the U.S. hospitals was 830,000 in 1946. It was 2,426,000 in 1969.[11] In 1968, nonsupervisory employment in nursing homes was 424,000.[12] It is estimated that health manpower needs will increase greatly during the 1970's. Total employment of health workers is expected to increase to 6.35 million by 1980.[13] Growth in demand for health care will be stimulated by increasing

[9] *Hospitals*, August, 1970, pp. 472–474. All material in this section is from this source.

[10] *Statistical Abstract, 1970*, p. 68.

[11] *Hospitals*, p. 472.

[12] U.S. Department of Labor, Bureau of Labor Statistics, *Industry Wage Survey, Nursing Homes & Related Facilities*, Oct., 1967 and April, 1968, BLS, Bulletin 1638, p. 1.

[13] U.S. Department of Labor, Office of Information, *News*, USDL, 71-122, March 3, 1971, p. 1.

coverage of health care costs by third parties, government or private, by the increasing scope of medical services and by population increases, particularly among the elderly. As is shown in Table II, employment, in all types of hospitals has increased steadily in recent years.

TABLE II
Hospital Employment by Form of Control

Nongovernmental Short Term for Profit			Voluntary Nonprofit Short-Term General and Other Special		
Year	Personnel (000)	Number Facilities	Year	Personnel (000)	Number Facilities
1950	41	1,218	1950	473	2,871
1960	48	856	1960	792	3,291
1965	70	857	1965	1,011	3,426
1966	77	852	1966	1,104	3,440
1967	81	821	1967	1,175	3,461
1968	84	769	1968	1,251	3,430
1969	88	759	1969	1,330	3,428
1970	97	769	1970	1.387	3,386

All Federal			State and Local Government Short Term General and Other Special		
Year	Personnel (000)	Number Facilities	Year	Personnel (000)	Number Facilities
1950	169	404	1950	148	942
1960	186	435	1960	241	1.260
1965	199	443	1965	306	1 453
1966	206	425	1966	352	1.520
1967	214	416	1967	363	1.568
1968	210	416	1968	382	1,621
1969	213	415	1969	407	1.666
1970	216	408	1970	444	1.704

Source: *Hospitals*, August, 1971, pp. 462–463.

Earnings in both hospitals and nursing home facilities for nonprofessional employees have been low. Straight-time hourly earnings of nonsupervisory employees in private (nongovernment) nursing homes and related facilities averaged $1.64 in April, 1968.[14] Earnings of more than 90% of the industry's nonsupervisory employees ranged from $1.15 to $3.00 per hour. The largest cluster of workers (nearly one-fifth) earned between $1.15 and $1.20.[15] Employment in proprietary facilities accounted for slightly more than 0.04 of all employment.[16] Earnings in hospitals have also been low. As of March 1969, licensed practical nurses earned slightly under $100.00 per week. Nursing aids

[14] *Industry Wage Survey, Nursing Homes & Related Facilities*, p. 1.
[15] *Ibid.*
[16] *Ibid.*

TABLE III

Average Hourly or Weekly Earnings of Employees in Selected Nonmanufacturing Industries: Nongovernment Hospitals, March, 1969.	
Nursing Aids	$[illegible]9.00
Practical Nurses	98.00
Kitchen Helpers	1.81
Maids & Porters	1.86
Average Hourly or Weekly Earnings of Employees in Selected Nonmanufacturing Industries: Nursing Homes and Related Facilities, April, 1968.	
Nursing Aids	$49.70
Practical Nurses	57.44
Kitchen Helpers	1.41
Maids & Porters	1.45
Average Hourly Earnings for Proprietary Nursing Home Facilities	$1.64

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics, 1970*, pp. 264–265, 268.

earned $74.00 per week.[17] Data on average earnings in nongovernment hospitals and nursing homes is presented in Table III.

II. Development of Labor Law Toward Proprietary Hospitals and Nursing Homes

The National Labor Relations Board has only recently asserted jurisdiction over proprietary hospitals and nursing homes. The Board's historic position, expressed in several cases was to refuse jurisdiction on the grounds that such facilities were primarily local in nature. In *Central Dispensary and Emergency Hospital*,[18] the Board accepted jurisdiction over a proprietary hospital located in the District of Columbia. In addition, the Board asserted jurisdiction over proprietary hospital facilities where the hospital was a vital part of national defense[19] or an integral part of an establishment that met the Board's jurisdictional standards.[20] Thus, the Board accepted jurisdiction in *Kennecott Copper Corporation* since the record demonstrated the intimate relationship between a hospital facility operated by the company and the firm's main business, the mining of copper. In 1960, in *Flatbush General Hospital*,[21] the Board declined to assert jurisdiction over proprietary hospitals as a class. The Board noted that while opertions of such facilities were not unrelated to interstate commerce, their business was essentially local in nature. Such hospitals were assumed to serve local residents and to be under close regulation by the states. Proprictary facilities were licensed by the state and all

[17] U.S. Department of Labor, Bureau of Labor Statistics, *Industry Wage Survey Hospitals*, March 1969, Bulletin 1688, p. 14.
[18] Central Dispensary and Emergency Hospital, 44 NLRB, 533 (1942).
[19] Hospital Hato Tejas, 111 NLRB, 155 (1955).
[20] Kennecott Copper Corporation, 99 NLRB, 748 (1952).
[21] Flatbush General Hospital, 126 NLRB, 22 (1960).

employees, professionals and nonprofessionals alike, were required to meet qualifications imposed by the state. The Board felt that those circumstances made it likely that the states would act to regulate labor disputes. Consequently, the Board expected no substantial interference with interstate commerce from labor disputes in this sector and declined to assert jurisdiction.

The Board's refusal to assert jurisdiction remained in effect until the end of 1967. In two cases resolved the same day, November 16, 1967, the NLRB revised its previous policy. In *Butte Medical Properties*[22] and *University Nursing Home*,[23] the Board decided to assert jurisdiction over proprietary hospitals and nursing homes.

The NLRB found that hospitals generally and, more specifically, those operated for profit did have a substantial effect on interstate commerce. While their patients were predominantly from the local area, this was not true of hard-to-secure personnel such as nurses, dieticians and therapists who often came from other areas. The aggregate purchases of such facilities clearly have substantial impact on interstate commerce the Board found. The NLRB also noted the high participation in health insurance programs, government and private, which are interstate in nature. The employer in *Butte* received fifty percent of his revenue from such insurance plans. Contrary to its finding in *Flatbush*, the Board found that while states regulate many aspects of hospital operation, such regulations were limited in scope and had little, if anything, to do with the matter of union representation, collective bargaining or maintenance of industrial peace. With these findings in mind, the NLRB declared its policy in *Flatbush* overruled. It decided that it would assert jurisdiction over proprietary hospitals with gross revenues of at least $250,000 per year.

At the same time *Butte Medical Properties* was decided, the Board concluded it should assert jurisdiction over proprietary nursing homes. In reaching this decision, the NLRB relied on the same rationale set forth in the *Butte* case. In *University Nursing Home Inc.*, the Board declared that "the conclusions we reached with regard to the operations of proprietary hospitals apply with equal force to the operations of proprietary nursing homes providing skilled health care and convalescent services."[24] The opinion of the Board stated that operations of nursing home facilities were much like those of proprietary hospitals in that they are both intimately connected with the public health and welfare of the nation and that both affect interstate commerce in

[22] Butte Medical Properties. 168 NLRB, 52 (1967).
[23] University Nursing Home, Inc., 168 NLRB, 53 (1967).
[24] University Nursing Home, Inc., 1968-1, CCHNLRB 21, 916.

substantially the same manner. For these reasons the Board decided to take jurisdiction over those facilities that receive gross revenue of $100,000 or more per year.

III. Changes in Union Organizing Efforts in Proprietary Health Care Sector

Union organizing efforts in the proprietary health care field prior to the *Butte* and *University Nursing Home* decisions were few and far between. In 1967 the NLRB conducted only four elections in the health care and related industry.[25] None of the unions active in 1967 were involved in more than one election and elections were not concentrated in any particular state or geographic area. In 1967, the unions won three of the four elections conducted by the Board. Of the total of 323 employees eligible to vote in 1967, 112 voted in favor of organization while 183 were opposed. The one sizeable election, involving the Office and Professional Employees in Baltimore, Maryland, was lost by the union. The vote was 67 in favor and 174 against in a unit of 256 persons.

Immediately after the decisions in *Butte* and *University Nursing Homes* union activity in this field increased markedly. In contrast to the four elections of 1967, 185 were conducted by the NLRB in 1968. Of these, the unions won 134 or 72.5% while losing 51 or 27.6%. Eight thousand four hundred sixty-nine people were eligible to vote in 1968. Of these, 4,366 voted in favor of the union and 2,438 voted against. A large proportion of the total number of elections were conducted on the West Coast. Californiz had 69, Washington 26.

In 1969, there was a slight drop in union organizing efforts. There were 124 elections. The unions won 79 and lost 45. Of the 7,183 people eligible to vote, 3,036 voted in favor of the union, 2,480 were opposed. Union activity was less geographically concentrated. There were 34 elections in California; 12 in Washington; ten in Michigan and nine in Massachusetts.

Activity in this sector increased in 1970 with a new high reached in the number of people eligible to vote. Ninety-six hundred thirteen people were eligible in 1970, the previous high was 8,469 in 1968. There were one hundred seventy-seven elections that year. The unions won 120 and lost 57. There were 4,482 votes in favor and 3,080 votes opposed.

In the period 1967-1970, the unions won approximately sixty-nine percent of the elections in the proprietary health care field. This is well above the customary union experience which has found unions successful approximately fifty percent of the time in recent years.

[25] All data is taken from the *NLRB Monthly Election Summary.*

TABLE IV

Union Election Activity in the Proprietary Health Care Sector

Year	Number of Elections	Union Wins	Union Losses	Number of People Eligible	Number in Favor	Number Opposed
1967	4	3	1	323	112	183
1968	185	134	51	8,469	4,366	2,438
1969	124	79	45	7,183	3,063	2,480
1970	177	120	57	9,613	4,482	3,080
TOTAL 1967–1970	490	336 68.6%	154 31.4%	25,588	12,023	8,181

Among those eligible to vote during this period, the union was preferred by approximately forty-seven percent of those eligible to vote while almost thirty-two percent opposed organization. See Table IV.

DISTRIBUTION OF ACTIVITY AMONG UNIONS

There have been many different unions active in the proprietary health care sector in the past four years. The most active organization by far has been the Service Employees International Union. The SEIU did not contest any elections in this field in 1967. When the NLRB changed its policy, however, the Service Employees undertook a vigorous organizing effort. In 1968, they were involved in 122 elections, in 1969, 70 and in 1970, 94. The SEIU has been very successful in their organizing efforts to date. In the 1968-1970 period, they won 67.5 percent of election contests they were involved in. Broken down by year, the SEIU won 85 of 122 contests in 1968; 44 of 70 in 1969 and 64 of 94 in 1970. Of the 14,673 people eligible to vote in election contests involving the Service Employees during this period, 6,907 voted for the SEIU, 4,576 voted against the union.

Another measure of the high degree of activity displayed by the Service Employees Union is the fact that in the 1967-1970 period that union was involved in 286 of the 490 contests in this sector or 58.4 percent. Of the 336 union victories, the SEIU accounted for 193 or 57.4 percent. It was involved in 93 of the 154 defeats or 60.4 percent.

Another union that has demonstrated an interest in this area is the Retail, Wholesale and Department Store Workers. The activity shown by the RWDSU is not, however, of the magnitude demonstrated by the Service Employees. Compared to the total of 286 contests entered by the Service Employees, the RWDSU was involved in 54 elections from 1967-1970. They won 39 elections for a success rate of 72.2 percent. Based on 1970 data, it appears that the RWDSU is increasing its activity in this sector. Last year it contested 27 elections, up from 14 in 1969 and 13 in 1968. There were 1,260 people eligible to vote in elections involving the RWDSU in 1970, a substantial increase from the 446 eligible in 1969 and 524 of 1968.

Other unions that have shown an interest in the health care sector are the AFSCME and the Hotel and Restaurant Workers. The Hotel and Restaurant Workers contested ten elections in 1968, winning seven and losing three. Their activity diminished in 1969 and 1970. The AFSCME has maintained a consistent low level of activity since 1967. That year they were involved in one election in this field. They were in five contests in 1968, eight in 1969 and four in 1970. They have won fifteen and lost three from 1967 through 1970.

GEOGRAPHIC DISTRIBUTION OF UNION ORGANIZING ACTIVITY

Union organizing efforts in the proprietary health sector have been concentrated in the nation's large urban centers. Using the Ranally Metropolitan Area[26] system of classification, it is found that of the 490 elections in this sector since 1967, 260 have been in RMA's of one million or more. When elections in areas of 500,000 to one million and 100,000 to 500,000 are added, the total rises to 334. Since urban areas often are the focus of union organization, it is not unexpected to see this pattern of union activity prevail in this sector.

Among the states, California has experienced the greatest amount of activity by a wide margin. There have been 148 elections in California. This is not surprising in view of the fact that California leads the nation in the number of licensed nursing homes and in the number of beds. In 1969, California had over 1,100 licensed nursing homes. The second ranking state had 959 such facilities in 1969.[27] Another state on the West Coast that has experienced considerable activity is Washington. Thirty-two elections have been conducted in that state through 1970. Other states that have experienced relatively high levels of election activity are Michigan with 45, Massachusetts with 29, Missouri with 24, Connecticut, New York and Illinois with 15, 14 and 13 elections respectively. Somewhat surprising is the relative lack of activity in Ohio, the state with the second largest number of nursing homes. Only 7 elections have been conducted there. States with large proportions of elderly people such as Iowa and Florida have had little election activity in this sector. Iowa has had no elections, Florida six. Iowa and Florida both have large numbers of nursing homes,

[26] The RMA classification system includes one or more central cities plus satellite communities and suburbs. RMA boundaries are not restricted to following county lines. As a rule, a RMA includes, in addition to the central city or cities, all communities the bulk of whose population is supported by commuters to the central city.

[27] American Nursing Home Association, *Nursing Home Fact Book, 1969*, p. 14.

Iowa has 511, Florida 290.[28] Perhaps one explanation for the low level of activity in these two states is to be found in the fact that both have Right-To-Work laws.

IV. Conclusions

From the data presented in this paper, it seems evident that the decision of the NLRB to assert jurisdiction in the proprietary health care sector has had substantial impact. The decisions in *Butte Medical Properties* and *University Nursing Homes* have evidently opened new avenues for union growth in a rapidly expanding sector of the economy. As is indicated in this study, the unions that have been active in this sector have enjoyed remarkable success. Nevertheless, they have only scratched the surface of those employees potentially organizable. Based upon the record to date, it is reasonable to expect increased attention to be given this sector. As yet, only one union, the Service Employees, has made a substantial effort in this field. Given their success, plus the relative decline of the goods producing sectors, it seems reasonable to expect that more unions will devote attention to the proprietary health sector.

The population aged 65 or older is projected to increase greatly by the end of the century. Estimated at 19 million in mid 1968, it is expected to increase to over 25 million by 1985 and reach 28 million by the year 2000.[29] At the same time, per capita health care expenditures on health care for persons 65 and over are increasing rapidly, rising from approximately $400.00 in fiscal 1966 to almost $600.00 in 1968.[30] These factors would seem to insure the growth of the nursing home segment of the health care sector, an area dominated by the proprietary form of control. Indeed, the number of nursing homes has increased from 6,539 with 172,000 beds in 1954 to 13,047 with 762,465 in 1969.[31]

The advent of Medicare and Medicaid has served to increase the accessibility of health care to segments of the population that formerly were often unable to afford it. Currently, it appears likely that some form of government health insurance will be extended to other groups in the population in the not-too-distant future. If this is true, the already rapid growth of the health care sector may accelerate. The development of the well capitalized corporation in the proprieatry hospital sector is likely to mean that this area will certainly not lag

[28] *Ibid.*
[29] U.S. Department of Health, Education and Welfare, Administration on Aging, May 1970, pp. 4–5.
[30] *Ibid.*
[31] *Nursing Home Handbook*, pp. 4–5.

behind the growth of the hospital field. The action of the Board, plus the economic situation of the proprietary health care sector discussed above, seems to indicate that we can expect more union activity in this sector in the years ahead.

DISCUSSION

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This is a set of interesting papers, diverse in subject matter. If there is a single comment that can be made about all of them, it is that their authors have not drawn some of the public policy conclusions that seem warranted.

Perhaps the most intriguing of the four is that by Landon and Peirce, partly because it seems to be the most analytical and partly because its subject may seem to be pressing upon us most importunately. While the paper arouses the most interest, I am uncertain about my comments. I would have liked the paper to be a bit longer, since there are several aspects of it that could stand further development. I would like to know more, for instance, about two of their variables: monopsony and their measure of strength of union organization in the states in which the cities they studied were located. I am doubtful about their use of a monopsony measure in the construction industry. On the basis of what little I know about construction, I would expect that collusion among employers is more important. Also, I wonder whether the measure of strength of union organization in an entire state is significant. In some of the areas they studied, union organizations in general may be weak, perhaps as a reflection of right-to-work laws, but building trades organization may be strong despite this.

Also, I am uncertain about what is cause and what is effect in their conclusions. Although they found a correlation between large proportions of black laborers and a high ratio of craftsmen to laborers' wages, I wonder whether the relationship is significant. That is, laborers' wages are a reflection of local labor market conditions while craftsmen's wages are at least strongly influenced by national market conditions. Therefore, I would expect larger proportions of blacks in laborer than in craft classifications in the South although the cause may be broader than discrimination.

Iacobelli's paper emphasizes lack of training programs (training avoidance) by a large portion of employers, mostly among those with fewer than 250 employees. This finding is about what one would expect. There are many obvious economies of scale in training programs of which few small employers can take advantage. On the basis of my own limited administrative experience, I would also expect to find a correlation between training avoidance and the breadth of skills required in any enterprise, as well as the extent to which the employing organization is decentralized into small autonomous groups. That is, I would expect to find training avoidance, on grounds of economic self-interest, in employing organizations which have a large number of widely varying skills, unless the organization is so huge as to make a training effort economically feasible. Conversely, even a small organization that uses only a few skills (such as a local police or fire department) can operate a training program economically.

Likewise, an organization composed of small, relatively autonomous employing units, like a large university, would be unlikely to have a training program. Thus, while I think Mr. Iacobelli has identified an area where more employer training would be desirable, I am not sure that it is reasonable to expect that it will be or should be carried on within employing organizations.

The significance of the Graham paper is in showing how this latter day change in public policy by the National Labor Relations Board in the coverage of proprietary hospitals and nursing homes has brought about a dramatic increase in the efforts of unions and non-professional employees in this low earnings industry to organize themselves. The inference from his study is that here is additional evidence of the need for the great bulk of employees in the health service industry to be protected by collective bargaining. The proprietary hospital portion of the hospital industry in terms of numbers of employees, however, is only about 6 percent of the total of non-government hospital employment. What Graham has demonstrated is additional evidence, if that is needed, that the Congress should override the American Hospital Association lobby and repeal the non-profit exemption clause in Section 2 (2) of the National Labor Relations Act. I fail to see why there is any more reason for that exemption than there would be for an exemption that would exclude all the Federal, state and locally run hospitals from collective bargaining. (And although the non-profit nursing home category is a small part of the total, Graham might also have pointed out that in 1970 in the Drexel Home, Inc. case, 182 NLRB No. 151 (74 LRRM 1232) the Board also asserted jurisdiction over that additional category of nursing homes.) Graham's research may hit only the tip of the iceberg. In Wisconsin, for instance, there are 200 hospitals of all kinds, only one of which is proprietary. During the period of June 30, 1967 to June 30, 1970, the same period he studied, there have been more than fifty representation cases among state and municipally operated and non-government, non-profit hospitals. Of these half resulted in elections and the unions were victorious in 15 of them. This would appear to indicate that in states where there are labor boards, union organization of hospitals excluded from the coverage of the National Labor Relations Act is moving ahead rapidly. State labor relations boards also have jurisdiction over many of the proprietary nursing homes.

I should also comment on Table III of Graham's paper where he lists the earnings for several classifications of hospital and nursing home employees. Earnings in the medical service industry are not only low, they are inequitable between men and women in ways perhaps even more pronounced than in other sectors of the economy. The U.S. Department of Labor has been citing hospitals under the Equal Pay Act. This is an area where the unions could do a great deal (if they would) through collective bargaining to redress the inequities, another reason for amending the NLRA to eliminate the exclusion of non-profit hospitals.

Hershfield's paper can be characterized as a virtuous (in the sense of being efficacious) performance. He sets out to demonstrate that Slichter's taxonomy of union responses to technological change continues to hold up thirty years after publication of his book, *Union Policies and Industrial Management,* when applied to the actions of the typographers, photoengravers, and stereotypers in response to technological changes of New York newspapers during the 1950's and 1960's. He accomplishes his objective with an economic use of words in an excellent short paper. In the process he also points out that the obstruction and control devices used by Local No. 6 of the New York Typographical Union have been far less responsible for the reduction to three operating newspapers there than other market conditions.

To return to my original comment about drawing policy implications from these papers, it seems to me that their writers might well have emphasized that in three of the cases public policy intervention is called for and that in the fourth the prescription should be non-intervention.

IX

PUBLIC SERVICE EMPLOYMENT

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Public Employment and the Secondary Labor Market*

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The Theory of the Dual Labor Market

A number of young economists are in the process of developing a new theory of the structure of urban labor markets. This "theory of dual labor markets" (or, more generally, the "theory of labor market stratification") integrates the work of students of underdeveloped countries (such as Albert Hirschmann, Harvey Leibenstein, and Gunnar Myrdal) and urban sociology/anthropology (e.g. Oscar Lewis and Elliot Liebow) with the models of low-income urban black behavior embedded in a number of recent autobiographies (including those of Claude Brown, Eldridge Cleaver, George Jackson, and Malcolm X).

The central characteristic of the new theory is a rejection of the neoclassical assumption of homogeneous behavior across labor markets. In the domestic version of the theory of economic dualism, individual behavior, economic conditions and even technological constraints are assumed to vary significantly among different labor markets. By acclimating themselves to "local" conditions, and by developing lifestyles supportive of these "local" work arrangements, workers find it psychologically as well as technically difficult to move from one stratum of the economy to another. These sources of factor immobility, in addition to the well-known impediments created by race, sex, and class discrimination, explain a wide variety of phenomena, including grossly unequal income distributions (even as, for example, the interracial distributions of human capital become less disparate) and the simultaneous existence of inflation and unemployment in the macroeconomy.[1]

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[1] Cf. David M. Gordon, *Theories of Poverty and Underemployment* (Lexington, Mass.: Heath-Lexington Books, 1972) and Bennett Harrison, "Human Capital, Black Poverty, and 'Radical' Economics," *Industrial Relations*, Vol. 10 (October 1971), pp. 277-286 for bibliographic reviews of the literature. Two recent papers which explore different aspects of the linkages between this work and mainstream economics are Bennett Harrison, *Education, Training, and the Urban Ghetto* (Baltimore, Md.: Johns Hopkins Press, 1972), Chapter Five: "Education, Poverty, and the Theory of the Dual Economy," reprinted in U.S. Senate, Committee on Labor and Public Welfare, *Readings on Public Employment* (Washington, D.C.: U.S. Government Printing Office, 1972; and Howard M. Wachtel, "Capitalism and Poverty in America: Paradox or Contradiction?," *American Economic Review/Papers and Proceedings*, Vol. 62 (May 1972). The relationship between market segmentation and Phillips Curve phenomena is currently under study at the New School for Social Research (by Thomas Vietorisz), at the Office of Economic Opportunity (by Michael Barth and Edward Gramlich), and at the Urban Institute (by Charles Holt and his associates).

Most of these efforts at constructing a new theory of labor markets and income distribution have their origins in what began as relatively straightforward evaluations of the manpower programs and the War on Poverty. These studies—and a number of subsequent doctoral dissertations—showed the returns to investments in the human capital of the urban poor to be extremely low, if not nonexistent. Enrollees in government training programs typically earned no higher wage after "graduation" than before "matriculation". Many refused to take the programs seriously at all, remaining in them for short periods of time, earning the small stipends, and then dropping out. In fact, many enrollees told the evaluators frankly that they thought of the manpower training system in the same way they thought of any other form of low wage, marginal activity: as a temporary source of income, a place to go for short periods of time to supplement family income. They entertained little hope or expectation of actually acquiring decent permanent employment as a result of their participation in the program.

At about the same time, other researchers discovered an important flaw in the conventional wisdom about welfare recipients. It was popularly held that there exists in the economy a large, permanent "welfare class", consisting of individuals and families who themselves remain on the relief rolls for long periods of time and who not infrequently raise their children to become similarly dependent on public assistance. The researchers found, instead, that people tended to move on and off the welfare rolls, over and over again, in a fashion reminiscent of the behavior of the manpower trainees. Moreover, when attention turned from the size of the gross Welfare Bill to the interfamily distribution of welfare income, it was found that those families in even the richest states whose incomes derived entirely from welfare were "enjoying" a seriously deficient standard of living. High turnover and low rates of income seemed to characterize both of our major anti-poverty programs!

The biographies of black activists like Claude Brown and Malcolm X then led students of urban poverty to realize that illegal and quasi-legal "hustles" are themselves organized into "markets", and that ghetto workers might logically be assumed to allocate part of their labor time to "work" in the irregular market at the expense of time spent in other forms of income-bearing activity. When the structure of this "market" was explored, it was quickly found to be characterized by high turnover, unstable participation, and (after accounting for the high risks involved) relatively low average "wages". The similarity to the training and welfare "markets" was unmistakable—and quite dramatic.

Taken together with the continued existence of an enormous number of perfectly legal jobs paying less than a poverty-level wage,[2] and the discovery that public institutions such as the school systems and the employment services were actually recirculating the poor among the very low-paying, unstable jobs which the poor already held,[3] these findings led to the conclusion that poverty and underemployment were endemic to urban labor markets. What appeared as "subemployment" from the conventional perspective of an essentially unified economy was now seen to reflect the *normal* state of affairs in a backwater of that economy.

In one version of the theory of dualism,[4] urban jobs are divided into two behaviorally and technologically disparate strata, within which mobility is common but between which it takes place infrequently and only with difficulty. The "core" stratum is dominated by a "primary labor market" in which employers possess a high degree of market power, have much of their sales "guaranteed" by government contracts, and are therefore able to generate sufficient profits to be able to pay non-poverty wages. Their economic power permits them to pass much of these costs along to consumers in the form of higher prices. Their profitability permits them to invest in both physical and human capital, which in turn increases the productivity of labor which translates into increased profits, *ad infinitum*. Labor effort is assumed to be an increasing function of wages and benefits (in contrast to the neoclassical model in which productivity and earnings are analytically independent). The magnitude of the latter induces workers to value these jobs, while the high fixed costs associated with the aforementioned investments encourage employers to value stable job attachment by their workers. These factors converge to ensure that jobs in the primary labor market will be *stable* as well as relatively high-paying.

The "periphery" of the economy contrasts in every respect with

[2] By my estimates, there were 11.3 million *full-time* workers in 1970 who were paid less than the minimum wage of $1.60 per hour when they worked. If even half of these were farm workers (which is extremely unlikely), the total would still be shocking. Computed from distributions published in U.S. Bureau of the Census, *Current Population Reports*, Series P-60, No. 80, "Income in 1970 of Families and Persons in the United States," U.S. Government Printing Office, Washington, D.C., 1971, Table 52.

[3] For example, in Fiscal 1969, "over sixty percent of [non-agricultural U.S. Training and Employment Service] placements [were] in positions receiving less than $1.60 per hour." Lawyers' Committee for Civil Rights Under Law and the National Urban Coalition, *Falling Down on the Job: The United States Employment Service and the Disadvantaged* (Washington, D.C.: National Urban Coalition, 1971), p. 45.

[4] Harrison, "Education, Poverty, and the Theory of the Dual Economy," *op. cit.*

the "core". It consists of at least four identifiable "segments". The "secondary labor market" is defined by a class of employers whose labor-intensive technologies and lack of market power restrict their ability (and their need) to pay high wages. Low wages and the virtual absence of benefits combine with undesirable work conditions to discourage stable job attachment by the labor force. Low fixed costs (due especially to low rates of human capital investment in the form of specific training) induce a similar lack of concern for stability on the part of employers. These jobs therefore display low pay and high turnover.[5] Inadequate capital formation causes low productivity, which in turn prevents these firms from expanding and—in the process—acquiring market power of the kind possessed by core firms (and reflected, for example, in relatively inelastic product demand curves).

The three other segments of the periphery consist of activities which, although seemingly far removed from the "world of work", are in fact quite similar to work in the secondary labor market. Dual market theorists speak of the "training economy", the "welfare economy", and the "irregular economy" (or the "hustle"). Individuals in each segment receive poverty-level income payments in return for the investment of time. The low level of these payments, the high risk of engaging in some of these endeavors, the bureaucratic complexities involved in obtaining the payments, and the social stigma often attached to the role of petitioner all combine to encourage unstable behavior. Thus, researchers have learned that the same people tend to be found moving back and forth, in and out of the four peripheral strata. Many hustlers work periodically in low-wage legal jobs, move on and off the welfare rolls, and are not infrequently participants in one or another government training program. Finally, city school and job placement institutions whose ostensible function is to "upgrade" the urban poor (or, in terms of the above model, facilitate intersectoral mobility) in fact perpetuate poverty by recirculating these individuals and their children among the segments of the periphery.

Public Employment and Urban Poverty

Having presented an outline of the emerging theory of economic dualism in the United States, it is now possible to turn to the theme of this session: is there a special role in anti-poverty and manpower

[5] The first to observe the crucial importance of job stability as a dimension of labor market stratification were Peter Doeringer, Michael Piore and their colleagues. Cf. Doeringer and Piore, *Internal Labor Markets and Manpower Analysis* (Lexington, Mass.: D.C. Heath, 1971).

development policy for public service employment? How does the public as an employer fit into the segmented market model?

By each of the criteria of primary labor market activity—relatively high wages and job stability, for example—public service employment may be shown to fall squarely within the core of the economy.[6]

Public Sector Wages. Among all full-time, year-round workers in 1968, over 12 percent of those who were employed in the private sector of the economy earned less than $3,000 in wages. Among full-time *public* sector employees, however, only 5 percent earned less than that amount. For black men, the two figures were 16.3 percent and 7 percent respectively. For black women, they were 49.3 percent and 15.5 percent. These private sector-public sector comparisons hold up with threshholds at least as high as $6,000. For example, nearly 28 percent of all full-time, year-round male private sector workers in 1968 earned less than $6,000; among public employees, the figure was only 15.9 percent. For both sexes and races, there are apparently fewer poverty-level jobs in the public than in the private sector, even after education workers have been removed from the public sector totals. This is confirmed by a recent National Planning Association (NPA) study of a 1966 sample of poor persons, using unpublished Census data. For individuals aged 16-64 and living in poverty, NPA found that only 1.6 percent of those who were employed full-time in 1966—the "working poor"—worked in the public sector, contrasted with 20.5 percent in manufacturing and 23.5 percent in other (private) services. My own studies of low income workers living in central city ghettos, non-ghetto central city neighborhoods, and suburban communities show that, for whites and nonwhites of both sexes (and regardless of where in the metropolitan area they happen to live), public sector jobs pay significantly higher weekly wages and salaries than do private sector jobs.

Recently, the Middle Atlantic Bureau of Labor Statistics Office conducted a comparative analysis of public and private sector wages in New York for the year 1970. Among the conclusions of this study was the finding that "the pay rates for 1,350 maintenance workers employed by the city—carpenters, electricians, automotive mechanics, painters and plumbers—were 51 percent above the private industry average". Moreover, "city employees here received better holiday, vacation, health insurance and pension benefits than those in similar occupations in private industry". The study noted that

[6] For a more complete exposition of the following materials, with tabular documentation, see Bennett Harrison, *Public Employment and Urban Poverty* (Washington, D.C.: The Urban Institute, June, 1971, Paper No. 113-43).

all municipal workers in New York City receive four weeks' paid vacation after only one year of service. After 15 years, only one-fourth of the plant and one-third of the office workers in New York's private industries are eligible for such a long vacation.[7]

Public Sector Job Stability. With wages and benefits as high as they are, relative to the private sector, it is not surprising that turnover rates in government employment are considerably smaller than the rates in the private sector. In 1970, for example, State and local turnover averaged 18.9 percent, compared with a rate of 60 percent in private manufacturing.

"The great majority (89 percent) of state and local government personnel systems follow the federal practice of requiring employees to serve a one-year probationary period", which is followed in 90 percent of the jurisdictions by the granting of tenure.[8] While precise figures on this variable are not available for private industry, there is no question that this enormously attractive and stabilizing benefit is not so readily available to most private employees, particularly those who do not belong to unions (as is the case for most workers in the secondary labor market).

Indeed, the civil service system which operates in 85 percent of the State and local governments in the United States acts as a kind of "internal labor market" institution itself. The best example of this is the finding that, in jurisdictions covered by civil service, two-thirds of all skilled, unskilled and administrative-professional-technical workers, and seven-tenths of all office-clerical workers, are eligible for upgrading under well-defined internal promotion procedures, and enjoy hiring preference over workers trying to enter the system from outside. This is one of the principal distinguishing characteristics of the "manorial" industry with an internal labor market—the dominant institution in the core of the economy.[9]

[7] Damon Stetson, "Public Employees Top Private in Pay," *The New York Times*, June 28, 1971.

[8] Jacob Rutstein, "Survey of Current Personnel Systems in State and Local Governments," *Good Government*, Vol. 87 (Spring 1971), p. 6. For a brief summary of this extensive study, see Bennett Harrison, "State and Local Government Manpower Policies," *Industrial Relations*, Vol. 10 (February 1971), pp. 110-114. It may also be observed that public employment displays a secular stability which the private sector has lacked in postwar America. "Since 1948, there have been at least three major downturns in the percentage rate of growth of private employment: 1948-49, 1953-54, and 1957-58. The civilian public sector has, by contrast, experienced no downturns: the trend of percentage growth of public sector employment has been uniformly positive throughout the period. Current estimates by the Bureau of Labor Statistics indicate that these patterns have held through the current recession. . . . The percentage rate of growth of private employment between 1969 and 1970 was only barely positive; for the public sector it remained substantial." Harrison, *Public Employment and Urban Poverty*, p. 32.

[9] Cf. Doeringer and Piore, *op. cit.*

Implications and Conclusions

Locked out of existing primary jobs by discrimination, class bias and the institutionalized prerogatives of primary labor, and segregated into the peripheral economy with its secondary jobs and "irregular" means of supporting a family, the urban poor (and indeed the working poor everywhere) need *new jobs*. These jobs must offer adequate pay, promotional opportunities, and attractive benefits. They must be *stable* jobs, and this stability may be exactly what is needed to motivate the development among the disadvantaged of new attitudes toward the "world of work". Finally, the new jobs must be accessible to the poor, in terms of both location and skill requirements.[10]

Public service employment may be able to provide a major share of the new jobs that are needed. This is already the fastest growing sector of the economy.[11] Federal subsidization in order to assure the continued expansion of this sector (as in the new Emergency Employment Act of 1971, which will fund $2.25 billion in public sector wages and benefits over the next two years), and federal efforts to "broker" a share of these public service jobs for the poor (as in the Office of Economic Opportunity's Project PACE MAKER),[12] constitute an essential part of what ought to be a concerted national effort to reduce the degree of segmentation in American labor markets.

By providing non-poverty jobs for workers now employed in the secondary labor market, a public service employment program will unquestionably compete with secondary private employers for the services of the secondary labor force. Those workers who actually move from secondary private to primary public employment will benefit directly.[13] Moreover, there is every reason to expect that

[10] In 1966, within the largest metropolitan areas, an average of two-thirds of the public service jobs (federal, state and local) were physically located within the central city, where most of the urban poor live. Harrison, *Public Employment and Urban Poverty*, p. 35. According to the 1960 Census, at least 60 percent of the public sector jobs in that year were nonskilled (office and clerical and blue collar), and one recent study of Chicago municipal employment expansion plans indicates that perhaps as many as 70 percent of the new jobs planned for the next three years in that jurisdiction will be nonskilled (aide, subprofessional, clerical, unskilled blue collar and custodial). *Ibid.*, p. 19.

[11] "A fifth of all wage and salary employees in America already work in federal, state and local government, and . . . one out of every four new jobs in the economy is in the public sector . . . in the nation's cities . . . one out of every *three* new workers is engaged in the delivery of such crucial services as education, health protection, recreation, waste disposal, police and fire protection." *Ibid.*, p. 2.

[12] For a discussion of PACE MAKER and other federal experiments in opening up public employment for the poor, see the *1971 Manpower Report of the President* (Washington, D.C.: Government Printing Office, 1971), pp. 171–176.

[13] Comparison of the existing wages of a sample of 15,000 ghetto workers with the entry-level salaries obtaining in municipal government indicates that "those ghetto residents who can be moved into the public service agencies in their respective cities might expect to increase their wage incomes by a factor of between one and three times." Harrison, *Public Employment and Urban Poverty*, p. 23.

those who are left behind will benefit from the upward pressure exerted on secondary labor market wages and benefits by the competition.[14] And in the process—as Harold L. Sheppard has tirelessly argued for many years[15]—the production and delivery of public services which are now in critically short supply will be expanded.

[14] For an elaboration of this argument, see Barry F. Bluestone, "Economic Theory, Economic Reality, and the Fate of the Poor," *Social Policy*, Vol. 2, (January-February 1972).

[15] Cf. Harold L. Sheppard, *The Nature of the Job Problem and the Role of New Public Service Employment* (Kalamazoo, Mich.: W. E. Upjohn Institute, January, 1969), reprinted in U.S. House of Representatives, Committee on Education and Labor, Select Subcommittee on Labor, *Hearings on H.R. 17, H.R. 29, and H.R. 3613—The Emergency Employment Act of 1971*, 92nd Congress, 1st Session, March 3, 1971, pp. 156–188. See also Sheppard's testimony in the same volume, pp. 151-155 and 189–203.

Public Jobs: The Need for National Policy

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The major trends in public employment are well documented. Public is growing more rapidly than private employment. Already federal, state, and local political units list on their payrolls a fifth of the labor force and that proportion seems fated to rise in step with an expanding demand for public sector services. As statisticans and social prophets have with varying emotions noted, America's post-industrial economy has progressed or perhaps only moved from a predominantly goods-producing to a substantially service-generating stage. Within this increasingly massive service sector, public provision of a wide variety of educational, sanitation, health, housing, community protection, and transportation services is all but certain to continue its career as the country's major growth industry.

The viability of the economy of our major cities is tied particularly closely to public sector prosperity. In recent years many and, in some instances, most of the new jobs which have been created are publicly financed. As my copanelist Dr. Harrison has elsewhere written, the average annual rate of change in public sector employment as a percentage of changes in total employment for eighteen Standard Metropolitan Survey Areas during the period 1962-1969 amounted to an impressive 34.6 per cent. Still more striking was the situation in individual labor markets. For New York the figure was 52.2 per cent, for Philadelphia 50.2 per cent, and for New Orleans 46.6 per cent.[1]

The facts are known to all. Their interpretation is something else again, for of all advanced modern societies the United States is quite probably the most suspicious of communal enterprises, contemptuous of public employees, and nostalgic for the individualism of a frontier heritage no man now alive can recall, if in truth reality ever approximated myth. Yet, in liberal Democratic as in conservative Republican administrations, public employment expands. The unpalatable moral seems to declare that in complex human associations, the alternative to increasingly sophisticated intervention by politically responsible governments is anarchy.

There is a closely related point. For many Americans their anachronistic prejudices against the public sector jar discordantly with their detailed and rising expectations of local, state, and national gov-

[1] Bennett Harrison. *Public Employment and Urban Poverty*, An Urban Institute Paper, June 1971, p. 3.

ernment performance. A dozen years after *The Affluent Society*, its author's crucial charge of social imbalance has been incompletely accepted, save in certain liberal, urban circles. The very men and women who clamor for better schools, cleaner air, safer streets, and freer flowing traffic, often judge *general* expansion of public activity as at very best a necessary evil. They are little inclined to evaluate public activity more kindly either as an ideologically neutral or at least technically innocent opportunity to satisfy publicly some of the wants that private markets manifestly fail to handle.

These attitudes help to explain what would otherwise be a puzzling state of affairs, the presence of large numbers of unemployed persons, the availability of large quantities of public work for them to do, and the glaring failure of political will to bring together idle people and unfilled jobs. What renders the situation still more tantalizing is the circumstance that many of these jobs require little skill and the bulk of those which demand rather more of those who fill them are readily within the capacities of unemployed men and women after a reasonable amount of appropriate training. As months pass into years and measured unemployment refuses to sink below the 5-6 per cent range,[2] this almost wilful social failure is all the more glaring.

As such matters go, the failure is not especially recent. In 1965, President Johnson's Commission on Technology and Social Change (the Automation Commission) estimated, by methods that it did not fully describe, that at then current levels of staffing more than five million vacant positions existed in public service provision for health, education, environmental protection, welfare and home care, public protection, sanitation, and urban renewal. As any urban dweller will from the heart attest, today's service deficiencies have since 1965 grown. Yet budgetary crises have compelled cities and states to curtail services, slash payrolls, increase student-faculty ratios, and contract promising programs which for a spell enlisted growing numbers of paraprofessionals.[3] Dr. Harold Sheppard, this session's Chairman, discovered that in 1968 130 cities each with a population in excess of 100,000 could readily have set to work, were the funds only available, 279,415 persons in activities which ranged from anti-pollution enforcement, through public safety, to sanitation and welfare. Moreover, non-

[2] If course decent attention to the subemployment index would readily add 2 per cent or so to measured unemployment and raise the number of unemployed to, perhaps, seven million.

[3] A mark of national perversity is President Nixon's decision to reduce federal payrolls by 5 per cent just about the time the Emergency Employment Act went into effect.

professionals could have filled half of these positions.[4] Who would doubt that a repetition of Sheppard's survey would in 1971 yield substantially larger numbers of vacant public jobs?

Neither Congress nor, perhaps, the public have come to terms with the emerging geography of the labor market. Those who guess in this area estimate that between 1966 and 1975 the growth in public service jobs in likely to be approximately 4 million. By contrast, in the same decade, private and nonprofit services jobs may rise by some 8.5 million and goods-producing jobs by a mere 2 million: There is little question that somehow these jobs will be filled. Nevertheless, American schizophrenia about the public sector has damaging effects.

One is violent fluctuation in Administration and Congressional policy. In its more enlightened moments, Congress is capable of treating government employment as a rational path of social and vocational mobility for poor people. In their days of glory, OEO Community Action Programs opened a variety of managerial, clerical, and semiprofessional positions to blacks and Puerto Ricans in the cities. CAP vocational favoritism to members of indigenious population did no more than continue and apply to some latecomers to the American celebration traditional patterns of entry by new and aggressive ethnic groups into one or another of the government services. In New York City it is history not accident or coincidence that Italians strongly influence the sanitation services, Irishmen the uniformed police, and Jews public school teaching. These are important facts of political life. Moreover, once the new groups have consolidated their bureaucratic position they are prone to favor civil service rules and credentials barriers which shield them from the invasion of outsiders. How explicitly the poverty warriors recognized the traditional nature of their job-creating programs, one cannot say. It is nothing less than an urban tragedy that an unsympathetic national Administration has practically slaughtered this once-promising initiative.

Indeed it was a characteristic of Great Society programs in the urban field to emphasize the promise of public employment as an entry point into the vocational structure, preferably with full civil service status. Section 103 (a) of the 1966 Demonstration Cities and Metropolitan Development mandated ". . . maximum opportunities for employing residents of the area in all phases of the program."[5] Regrettably the statute stopped short of guaranteeing civil service coverage to the new employees. Understandably, if not especially commendably, local civil service groups have successfully enough resisted

[4] Harold L. Sheppard, *The Nature of the Job Problem and the Role of New Public Service Employment*, W. E. Upjohn Institute, January 1969, pp. 24–25.
[5] Harrison, *op cit*, pp. 44–45.

certification of Model Cities workers so that a parallel occupational structure has tended to rise. It is to the credit of Secretary George Romney that HUD policy since November 1970 does insist that "In the case of public employment generated in components of the comprehensive city demonstration program, financed in whole or in part by supplemental or other HUD funds, such jobs will be incorporated into the community's regular civil service system within a reasonable period of time not to exceed two years from the point that the positions were filled."[6]

In the present national climate, Mr. Romney is an honorable exception, for legislatures, Congress, state governors, and the President himself have sponsored a swing to the opposite pole of national policy to the poor, black, unskilled, unemployed, and urban. These are no longer benignly perceived in Great Society terms an individuals enmeshed in various kinds of personal and social misfortunes from which they can be rescued by a moderate amount of encouragement, counseling, training, and financial assistance. It is an additional paradox of the new mood that it parallels high unemployment while the relatively humane perspective which preceded it accompanied a time of generally high employment and business activity. The sour political climate of 1969-1971 has nurtured a variety of emphases upon the personal deficiencies of the impoverished. Governors like Ronald Reagan and, of late, Nelson Rockefeller discover a chance to save money in the propensity of the poor to prefer (so these critics say) hustling to regular employment. Social scientists on occasion discover that inability to defer gratification, Edward Banfield's preferred hypothesis, or a hampering matriarchal family structure, Daniel P. Moynihan's incendiary explanation, explain the plight of poor black urbanites better than mere shortages of jobs and public services.

Three contemporary examples of the new malignity will suffice. It may be, as I shall later suggest, that they are even indicators of an emerging national policy. Consider, first, President Nixon's Family Assistance Program. Although socially concerned people whom I respect have endorsed FAP as a breakthrough to general income maintenance, others, including myself, are convinced that the repressive features which accompany and vitiate this innovation amount to evils larger than the promised benefits. FAP treats public service jobs not as opportunities and escape routes from poverty and unemployment but as sheer punishment for personal failure. The emphasis is upon coercing the mothers of young children to leave them, on pain of benefit denial, in day-care centers, of which far too few in any case

[6] Harrison, *op cit*, p. 45.

exist. These women are in effect compelled, next, to accept whatever employment is provided, conceivably at rates which violate established minimum-wage standards. In Skinnerian terms, people are "encouraged" to work by negative reinforcement—the presence or the fear of punishment.

Similar conception of the motivations and the consequently desirable treatment of the poor were blatantly evident in New York States abortive[7] experimental program of welfare benefits. This so-called "Incentives for Independence" scheme began by reducing welfare payments for families of four from $313 to $200 per month. The state then offered the family the "opportunity" to return to its old level of financial maintenance (but not to improve upon that level) by adopting certain approved behaviors and refraining from certain other disapproved ones. A complex point system awarded the parents of school-age youngsters between 5 and 15 a point, worth $12.50, for each two weeks of school attendance with good behavior for each child. For children over 15, the incentives were halved. A parent or parents could amass additional points for locating a deserting sexual partner, establishing a child's paternity, attending a self-improvement course, enrolling a son in the Boy Scouts, and so on. Such were the carrots, the positive reinforcers.

The negative reinforcers focused upon work. A family could lose as much as one-third of its *reduced* scale of benefits, declining from $200 to $133, should one of its adults refuse a job. An individual might be required to work without pay in public service jobs, should a shortage of private sector opportunities prevail. New York proposed to test this benign device on 27,000 persons grouped in 7,000 families units located in three counties—rural Franklin, suburban Rockland, and a portion of black and Puerto Rican Manhattan. Of the plan, the New York State Department of Social Services solemnly averred, it endeavors to "provide for the needs of the poor while encouraging a speedy return to independence and self-sufficiency." Rather more aptly, the Columbia University Center for Social Policy and Law judged the proposal "a primitive form of coercion," designed "to compel a parent to take certain actions by the manipulation of her child's basic means of survival—the welfare grant."[8]

The present suspicious, sour public temper is, finally, epitomized by the rhetoric and the real limitations of the Emergency Employment Act of 1971, Public Law 92-54, enacted by Congress July 12, 1971.

[7] It was all too much even for the Nixon Administration. Health, Education and Welfare in the end refused New York permission to implement the plan. One has the sense that variants of the same principles will be with us for some time.

[8] See an excellent account by Nick Kotz, *Washington Post*, October 9, 1971, A 1.

In fairness to Congress, it should be recalled that President Nixon had already vetoed a somewhat less restrictive measure. Public Law 92-54, accordingly, was tailored to the President's taste. All the same Congress must be held responsible for its work, particularly since it can, when suitably indignant, override a presidential veto.

What did Congress do? Confronted with high and continuing unemployment, it supplied the therapy of at most 130,000 new jobs to the 7 million or so unemployed and underemployed. Why so little, so late? The statute's language is instructive. Throughout the drafters stress the relationship of new public service jobs to periods of high unemployment. As the Preamble phrased it, the Act aims "To provide during times of high unemployment programs of public service employment for unemployed persons to assist States and local communities in providing needed public services, and for other purposes." Section 2 plays some variations on the theme: "times of high unemployment severely limit the work opportunities available to the general population, especially low-income persons and migrants, persons of limited English-speaking ability, and others from socio-economic backgrounds generally associated with substantial unemployment and underemployment." Further, "expanded work opportunities fail, in times of high unemployment, to keep pace with the increased number of persons in the labor force" and "in times of high unemployment, many low-income persons are unable to secure or to retain employment." These wise words recall Calvin Coolidge's classic insight that when people are out of work, unemployment results.

The next four subheadings examine "needed public services" and "unmet needs for public services." The familiar shopping list is presented: "environmental quality, health care, housing and neighborhood improvements, recreation, education, public safety, maintenance of streets, parks and other public facilities, rural development, transportation, beautification, conservation, crime prevention and control, prison rehabilitation . . . ."

Here too the sponsors quickly reassure their audience that the occasion for the program is unpermanent, and all employment to be financed is only "transitional." Here the language is the tongue of the business-cycle analyst: "providing resources for transitional public service employment . . . during an economic slowdown can help as an economic stabilizer both to ease the impact of unemployment for the affected individuals and to reduce the pressures which tend to generate further unemployment." Accordingly, "It is . . . the purpose of this Act to provide unemployed and underemployed persons with transitional employment in jobs providing needed public services during times of high unemployment, and wherever feasible, related training and manpower services to enable such persons to move into employment or training not supported under this Act."

On the supposition that a fragment of bread is better than none, a good many persons lukewarmly welcomed this measure, in spite of its crippling inadequacies. Odd things have already happened. New York City and probably other communities as well apparently rehired regular civil servants, furloughed in anticipation of the Act's enactment. In Kentucky, the state collared the lion's share of the allocation and the outgoing governor, Mr. Louis Nunn, hired state employees in the traditionally helpful pre-election categories—384 highway workers, 63 driver-license examinees, 50 state patrolmen, and so on.[9] Loose drafting and encouraging federal administrative regulations appear to have converted EEA from its stated desire to supply jobs for poor people into a minor form of general revenue sharing with the states and cities. The outcome was facilitated by Congressional limitations upon expenditures for training purposes. The natural tendency of many public officials to favor the already skilled was thus encouraged.

II

The drift of my remarks is toward the conclusion that recent political evolution is toward a significant, undesirable shift in manpower policy. Its premises are unliberal and unrealistic. On the first score, increasing reliance in placed upon coercion, deprivation, and income penalties as mechanisms efficacious in driving the unemployed into second-class work situations. The echo across the years is that of the English New Poor Law Act of 1834. As for the realism of the new policy, it presumes the long-run capacity of the private sector to generate enough jobs of the right varieties to reduce unemployment to an only occasional problem. We must all hope, but, I for one, do not believe in the private sector's dynamism.

One can write the headings for a more humane and more realistic policy almost by taking the direct opposites of each of the major Nixon-Rockefeller-Reagan attitudes to the poor and the unemployed. In the space and time that remain, I shall try to do just that: barely outline the standards that ought to govern at least the public employment sector of a national manpower policy.

Structural Unemployment is Alive and Well

The decline in unemployment to 3.3 per cent just before Mr. Nixon entered the White House raised some false hopes in our profession and

[9] *Washington Post*, September 27, 1971, A 1. Mr. Nunn's efforts were fruitless. The voters elected a Democrat campaigning on straight anti-Nixon economic issues.

disguised the quantity of concentrated unemployment in inner cities, rural backwaters, and depressed areas, and among minorities and teen-agers, even when officially measured unemployment fell below 4 per cent. I was among the economists who erred and I here formally repent.

The exceedingly modest 5 per cent unemployment goal of the current Administration implicitly registers the conviction of its economists that structural unemployment is a long-term problem.

Public Service Job Programs should be Permanent not Temporary

A 4.5 per cent or any other unemployment trigger for the funding of public service job programs, as in the current Act, generates uncertainty of tenure among the holders of new positions, weakens the at best difficult process of placing them in civil service categories, and stigmatizes as inferior employees the people who get the jobs. Temporary or transitional programs ignore the rising needs of the public sector and the endemic understaffing of public services even during spells of relative fiscal prosperity.

Permanent Jobs Deserve Status and Career Ladders

Whether civil service association and public service unions resist or accept public service job programs depends upon the scale of their funding, the training facilities provided, the sincerity of official efforts to equip recruits with realistic credentials (not necessarly the ones currently in favor), and the promotion opportunities for old as well as new workers. Logically large-scale programs which enhance vocational opportunities for everybody are the most promising. Meager temporary efforts simply encourage resistance to new workers, fatally damage efforts to convert existing credentials requirements into sensible job qualifications, and facilitate unseemly scrambling among communities and states for the fiscal crumbs.

Job Creation should Focus Upon Poor Communities

Hence substantial funds must be provided for training and social services, the very opposite of the policy written into the Emergency Employment Act.

Public Services should be of High Quality

The issues here are partly the self-respect of new and old public workers and partly the desperate need to improve the quality of public sector output.

Minimum Wage Law Should be Observed

The temptation to breach minimum wage rates is a corollary of the use of public work as punishment. Once the attitude changes, the temptation will disappear.

Community Accountability is Desirable

At best, public service programs are a vehicle for the rehabilitation of neighborhoods and entire communities. Community accountability accelerates a benign process.[10]

One should avoid the inebriation of ones' own enthusiasm for good works. Nothing I have sketched is politically plausible until the political environment is drastically improved and the political environment changes only as and when public attitudes toward poor people, large cities, public jobs, and the legitimacy of the public sector itself shift. Until that happy epoch, we can expect, at best, only jerry-built temporary programs like the current exercise in futility.

[10] I have drawn upon James Farmer's "A Ten-Point Public Service Program" in *Social Policy*, July/August, 1971, pp. 3-5.

Public Service Employment: A Congressional Perspective*

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The most recent saga of public service employment and the Congress began in May of 1969 with the introduction of comprehensive manpower legislation by Congressman James O'Hara of Michigan—one of the few real manpower experts in the House. O'Hara's bill contained two new wrinkles. One was a title dealing with occupational upgrading; the other was a title authorizing a permanent program of public service employment. In August, the Administration weighed in with its own manpower reform package. It did not include a public employment program except as a transitional training program involving work experience in the public sector. They called this public service careers.

It was clear to almost everyone who knew anything about them that our manpower programs weren't working well. One school of thought, which I suppose I'd call the "management systems" approach, viewed the problem as essentially administrative. The programs, it was argued, could be made to work and work well if only they were administered in a more rational manner. The canons of this faith were decategorization, elimination of duplication, overlap and jurisdictional conflicts, improved coordination, and a drastic reduction in the number of grantees.

The other school felt that the major reason the training programs weren't yielding better results was that they were totally dependent on the existing job market which, in turn, was simply not producing a sufficient number of attractive, entry level vacancies. Their argument was that it made no sense to talk about manpower reform unless you included in it a program of job creation.

We recognized that improvements in the delivery mechanism were desirable but, from our perspective, the "management systems" approach embodied in the Administration's proposal not only missed the main target but also struck us as specious.

Despite the anguished howls from the Labor Department for decategorized manpower programs, the fact was that the Congress had

* Edited to comply with space requirements.

given them exactly that in 1967. We were convinced that the people who were principally responsible for maintaining categories were in the Department itself and perhaps the Budget Bureau. As for eliminating duplication and jurisdictional disputes and improving coordination, this is the sort of thing that sounds eminently rational, but is a complete waste of time and breath. What those high sounding words usually mean is that you are grabbing for a piece of someone else's action. In Washington, as in state capitols, city halls, and, I am told, even academic senates, everyone fights to protect his turf. These struggles are almost invariably destructive things in which everyone gets pretty badly cut up and no one stays the victor for very long. It's best to just accept the fact that there's going to be a certain amount of overlap and lack of coordination and make the best of it. Besides, I'm not so sure that a certain amount of duplication is necessarily bad.

But to continue; the Administration's reaction to O'Hara's job creation proposal was initially derisive. George Shultz was quoted as saying that the government shouldn't be in the business of "job invention." Others decried the potential cost of such an undertaking.

Even the National Manpower Policy Task Force could only summon up a heavily qualified endorsement of the public job creation concept, calling specifically for "a reasonable amount of experimentation, closely monitored and thoroughly analyzed." Launching a large-scale program of public service employment (such as the one called for in the O'Hara bill), they maintained, would involve "taking unknown and possibly large risks."

In the face of this determined opposition we decided to play a waiting game. We made it clear that if the Administration wanted manpower reform—and they seemed to want it very much—then they would have to deal with us on public service employment. Our people felt quite strongly about this. They couldn't see any reason to spend vast sums of money to train people for jobs that simply did not exist. And, being politically realistic, we knew that we could only get public service employment through the House at that time as a part of a larger manpower package.

The Administration thought that it could generate enough pressure for action through the governors and mayors, who were to be the principal beneficiaries of their reform package. And they tried also to sell the mayors, who were very much in favor of job creation, on the political impossibility of ever getting public service employment passed by the House. But, then, in a series of meetings throughout the country, the Labor Department found itself under attack from the mayors who felt that the Administration's bill gave the governors the lion's share of power and that the Standard Metropolitan Statistical Area "lead city" approach pitted mayor against mayor for control of the programs and funds.

All during this time the unemployment rate was going steadily higher and the congressional Republicans were growing uneasy about the situation. By then it was 1970, an election year. The Senate had started hearings on manpower in early January and was uncovering a surprising amount of support for the notion of public job creation from businessmen. Many of these had been participants in the National Alliance of Businessmen's J.O.B.S. program who were now having to lay off workers.

Finally, we started passing the word that manpower reform, so far as the House was concerned, was dead for the 91st Congress. The Administration knew their bill didn't have much support and that we could make the threat stick; and we fully intended to.

It was at this point that a comprehensive manpower bill, including a public service employment program, passed in the Senate. As we studied the Senate provisions we realized that they had held intact what we considered to be the important features of such a program. That being so, we had some room to bargain. At the same time the Administration sensed the possibility of achieving some of their manpower reform goals. With the congressional elections less than two months away and unemployment still on the rise, the House Republicans were eager to try to work out a compromise. In the end, they gave us our public service employment program but exacted language in return that required the Secretary to set "objectives" for the movement of persons employed under this program into "non-subsidized" employment within certain periods of time. It further required the Secretary to reduce the federal contribution to any grantee who did not meet these objectives unless economic conditions in the area prevented their accomplishment.

For us that was a major concession. We had argued all along that no one should be forced out of public service employment after a certain period of time. Furthermore, we knew through our sources that the Department intended to set the time limit at one year, turning the program, in effect, into a "public service careers" type of program, which was to their liking all along. We had serious reservations about that. It seemed to us that any program that was so temporary would not be taken seriously by either the employees or the employers.

But we were over a barrel too. We couldn't get a public service employment program through the House without Republican votes and they knew it. It was our hope that we could get a good bill in the eventual House-Senate conference and sustain it in the House if we brought it back with no opportunity for amendment.

This is what happened, although it was a squeaker, and in mid-December the Congress sent an enactment down to the White House with a permanent public service employment program in it. On December 16th the President vetoed it.

The veto message made clear what we had known all along: the Administration was unalterably opposed to permanent public service employment. The President accused us of creating "dead-end . . . W.P.A.-type jobs." "Public employment," he said, "that is not linked to real jobs is not a solution."

First off, isn't it about time to drop the notion that the only so-called "real" jobs are in the private sector because they have been created in response to the forces of a "freely operating" economy. What rubbish! Does anyone any longer seriously argue that a job with Lockheed which is 99% federally financed is a "real" private sector job, but that a job as a sanitary engineer with the Los Angeles County government which is 90% federally financed is not?

I think what thoughtful people must have in mind when they use that clumsy term is this: that a job which is created simply for the sake of creating a job is unreal. I suppose that's true, although even that has its uses—as witness the outstanding success in our rural areas of Operation Mainstream. But that is beside the point because we were emphatically *not* creating jobs for the sake of creating jobs in this program. I could show you study after study, some of them commissioned by the Labor Department itself, some of them the result of Presidential commissions, and perhaps the best of them authored by Hal Sheppard of the Upjohn Institute. They all conclude essentially the same thing. There is a quantifiable, demonstrated need for more jobs in the public sector so that essential services, and I am talking about health, education, environment, public safety, sanitation, etc., can be adequately provided to our citizens.

Our own concern that these jobs be real *in every sense* led us to our next basic disagreement with the President. He wanted strictly "transitional and short term" employment. We were convinced that if both the employer and the employee knew that their marriage was to be a brief one that neither one of them would take it very seriously, and the jobs would tend to be makework. Furthermore, we didn't want anyone to be forced out of a job funded under this act. What it all boiled down to was this: were we creating *jobs* or just another category of training slots? The President was opting for work experience and training in the public sector. We wanted jobs.

Finally, the President accused us of creating "dead-end" jobs with "no requirement that these . . . jobs be linked to training or the prospect of other employment opportunities." Despite our insistence that an individual should not be *required* to leave a subsidized job we were not opposed to the idea that he might *choose* to do so. We hoped that perons hired under this program would be absorbed by transfer or promotion into the regular workforce of an employer, or that more attractive alternative employment might become available as economic conditions improved. To that end we required (1) assistance in finding other employment if desired, (2) a separate, additional pot of money to be used for in-service training of participants, and (3) a provision, section 304(b)(14), requiring, and I quote, "that the applicant shall, where appropriate, maintain or provide linkages with . . . other programs under this Act, and other Federal or federally supported manpower programs."

The whole message struck me as the economic equivalent of catch-22. Here was the President accusing us of creating "dead-end, WPA-type jobs" and at the same time insisting on a "transitional, short-term" program, which would insure that his criticism became a self-fulfilling prophecy.

Well, to resume. There we were, Christmas 1970. A year of hard work down the drain; unemployment at 6%, 5,000,000 people out of work, and a vetoed job creation bill.

We didn't know what we were going to do when the 92nd Congress began. There didn't seem to be any real hope for getting a decent public service employment bill and many of us wondered if it was worth the effort to repeat the exercise, just to be vetoed again. True, we'd get some political mileage out of it, but people tend to have short memories.

I think what finally convinced us to go ahead was the attitude of the new Speaker, Carl Albert. He wanted to have a Democratic legislative program, and he wanted public service employment to be one of its major features. Unemployment was definitely not getting better and the Republicans were growing increasingly leery of the Administration's game plan. They were vulnerable, feeling defensive, and the Speaker zeroed in on it. His active support changed out thinking. With him behind it, and with some changes that would accommodate some of the southern Democrats, we had a chance of passing a bill with little or no Republican support.

The Senate had seized on the President's word "transitional" and made the whole program transitional through the device of a trigger mechanism. We thought this was an imaginative response and decided to incorporate it in our bill. What it meant was that the whole program shut down once the national unemployment rate went below 4.5 percent for three consecutive months. We were gambling that by the time unemployment reached those levels the program would have had sufficient opportunity to prove itself and that popular support for it would have grown to the point where a permanent program would be authorized.

As the Republicans pondered the situation they obviously concluded that they couldn't stop us without an alternative proposal. Unemployment was not showing any signs of getting better, and politicians get uneasy when that happens. They want to have something to point to that *they've* done to make things get better. I'm sure the Republican leadership felt it would be difficult to prevent many of their own members from deserting them if the vote were simply yes or no on jobs.

The Administration's response was manpower revenue sharing. Since our subject is public service employment I won't go into an analysis of that proposal. Suffice it to say that it did permit *transitional* public service employment (a maximum of 24 months per participant) leading to non-subsidized jobs. There were problems with the formula allocating the money which produced a serious shortfall for the cities, and there wasn't enough money budgeted to both continue existing training programs and add a major job creation program. It was also defective from the point of view of the vocational educators and employment service people, and their opposition cost manpower revenue sharing important support.

On the first test of strength, which came on a procedural matter, we were defeated by about 20 votes. In this the Republicans were aided by an alliance with a large group of southerners put together by William Colmer, Chairman of the Rules Committee, and Joe Waggoner of Louisiana, a frequent broker for southern conservatives. Happily for us, the test was merely procedural. We still had time to regroup and do some more work. Here is where the Speaker, Wilbur Mills, and Chairman Carl Perkins of the House Education and Labor Committee delivered the goods. They busted up the Republican-Dixiecrat alliance and inside of two weeks had the situation exactly reversed. The Administration's proposal to substitute manpower revenue sharing for public service employment was defeated by 20 votes.

So we had our bill and the Senate had theirs. In a curious reversal of our normal postures, this time the House had produced the better bill. The House conferees, having been through a rough and bloody battle, were in no mood to compromise and everybody assumed it would be a futile exercise anyway, for the President, so we were told, would certainly veto the bill no matter what we did in conference. But eventually, when the Administration indicated it would veto the also–just-passed accelerated public works bill and wanted to negotiate seriously about ours, we became convinced that their interest in our bill was genuine. Eventually, those conferees that wanted a bill were able to prevail on the others to compromise. Essentially, the Administration wanted the word "transitional" stuck before the words "public service employment" wherever it appeared in the bill. We finally agreed to do this with the understanding that this was not to be construed to authorize the removal from a job of any individual after a certain period of time, nor was it to preclude approval of certain types of jobs which were permanent in nature. We also shortened the life of the bill to two years so that the whole issue of what happens at the end of a 24 month period was neatly side-stepped. A lot of people on both sides of the job creation issue weren't happy with the result, but at least we had an act which the President signed into law.

So, where do we go from here? What lessons have we learned for the future? One seems clear enough, and that is that in times of high national unemployment Congress will support public job creation legislation.

But what happens in 1973 when the current legislation expires? Will it be extended, made permanent, eliminated or what? The answer to that depends basically on two variables: (1) what is the national unemployment rate at that time, and (2) what are the policies of the man who is the President. If the President, whoever he may be, is convinced of the need for a permanent program of public job creation then Congress will probably go along with him. Judging from his past statements it is certainly fair to assume that if Mr Nixon is reelected we can reasonably anticipate strong opposition to a permanent program. On the other hand, all of the leading Democratic candidates have strongly endorsed public service employment. Whether or not they would continue to advocate it if economic conditions improved substantially remains an open question.

So the real question is what kind of public service employment can we obtain when unemployment goes down below 4% or even 5%. Because we'll still have one hell of a problem in eastern Kentucky, or Watts, or right here in the city of New Orleans for that matter where, in 1966, underemployment was at 44% in the poverty neighborhoods.

We've already got the beginnings of a response in section 6 of the new legislation. That authorizes a special permanent program to operate in local areas which have a 6% rate of unemployment or more without respect to the trigger mechanism governing the rest of the bill. This program continues no matter what the national rate is. So that's a start, but is it enough? What are we going to do about providing jobs for people who live in those rural and urban areas where decent jobs simply don't exist?

It's really too early to handicap the future of public service employment. One thing I do know, though, is that the reaction of the economics profession may make a real difference. I don't want to overdo this now, for it shouldn't have escaped your attention that the first public service employment legislation since 1935 moved through the Congress despite the attitude of most economists, not because of it.

But you do possess a good deal of influence in the executive branch and that just may be where the next important round in this contest will be fought. And you can create a climate of either basic approval or disapproval. All of these things will become increasingly important when unemployment goes down. You have got to decide whether or not public service employment makes sense as a component of an economically sound full employment policy.

None of us is under any illusion that public job creation is the *only* answer to unemployment, nor do we think it should be. We have no intention of reducing our efforts in education and training. We understand the need for a balanced approach. But we are also saying that juggling aggregate demand just won't get the job done. We think we have a partial solution. If you don't like it, what's yours?

We are also aware of the attachment of the social scientist to models and working hypotheses. You can surely see that our *modus operandi* in the Congress is never likely to produce a result that will "test out" well. I hope you will understand this and accept our limitations. It does precious little good to denounce the efforts of those of us who are trying to achieve the best results that are politically obtainable—from your point of view as well as our own—and stand idly by while the same man, whose pious pronouncements about "dead-end", "make-work" jobs you readily champion, slips a public service employment program that can *only* produce dead-end, menial jobs into his FAP legislation.

I want to make it clear that there are times when you just have to bite the bullet and say you'd rather have no bill than to meet the White House's conditions for avoiding a veto. We've done that. But we should never surrender to the idea that we shouldn't do something because it may be disappointing, or only a partial solution, on the alleged ground that the problem is just too big to tackle piecemeal. I don't think we should ever do that.

I think we must go ahead with things that are intrinsically worthwhile, and make them *more* worthwhile by recognizing their need for support from other sources.

With your help and understanding we will do just that.

DISCUSSION

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The papers presented by Professors Lekachman and Harrison both deal with a crucial topic and share the same general theme: The need for an expanded public sector which will provide needed jobs and at the same time, better public services. As Lekachman notes, the co-existence of needed services along with underutilized resources reflects a "glaring failure of political will to bring together idle people and unfilled jobs". As he further remarks, attitudes toward the public sector are still (and, indeed, increasingly) sour and are largely responsible for this seeming paradox.

As both papers (and particularly Harrison's) point out, the public sector is the fastest growing area for new jobs and offers tremendous promise as a means of creating the needed jobs for the future—and, indeed, the present. The case for job creation efforts is particularly strong at the present time with unemployment ranging in the six percent neighborhood. Of course, even this unacceptably high figure understates the problem since it fails to take into account falling labor force participation rates, subemployment, hidden unemployment, and similar deficiencies in the conventional measure of joblessness.

Furthermore, as Lekachman rightly indicates, "structural unemployment is alive and well". Nowhere is this more true than in the cities. Here the BLS estimates that the number of non-white teenagers increased by almost three-fourths in less than a decade (1960-1969)[1] while job opportunities are increasingly in the white-collar, skilled categories. As a result, we cannot expect a recovery from the "planned recession" of 1970-1971 to solve the nation's unemployment problem. If a serious attempt is to be made to reduce poverty, a large scale job creation effort is required. And, to a great extent, these jobs will have to be created in the public sector.

An additional reason for emphasising job-creation programs rather than manpower training and retraining efforts (which, of course, are still vital), is that the emphasis on jobs has the effect of viewing the problem from the demand rather than the supply side of the labor market. Regardless of their necessity and intent, manpower training programs implicitly place the "blame" for unemployment on the unemployed. That is, the deficiency is seen to reside within the person out of work, due to a lack of education, too low of skill level, or some maladjustment. Such an emphasis thus perpetuates the traditional belief

[1] U.S. Department of Labor, *Manpower Report of the President*, 1971 p. 85.

that the fault for being unemployed lies with the individual and not with the economic system. Such a view is unjust as well as unwarranted. The problem, or at least a large part of it, is a lack of *jobs*. It is a lack of jobs created by what Lekachman has dubbed the "glaring failure" of the political system. And, although educational and training efforts will continue to be important, a recognition of the inadequacy of the economy in providing sufficient employment opportunities would do much to alter the negative attitudes toward the public sector.

Professor Harrison employs the very useful technique of dividing the economy into two distinct sectors of "primary" and "secondary" labor markets. Based upon a rejection of what he terms the "neoclassical assumption of homogeneous behavior across labor markets", Harrison sees the secondary labor force as consisting of low-paid persons (if they're working at all) with a very tenuous connection to the labor force as opposed to the strong attachment and high wages of the "core" or "primary labor force". (It might be noted that this "Neoclassical Assumption" was far from universal by recalling J. E. Carnes' exposition of the theory of non-competing groups in 1874).

In my opinion, Professor Harrison is unquestionably right in asserting that persons in this secondary labor force are quite mobile among different types of employment—legal, illegal, and welfare—*within* the secondary group but relatively immobile concerning movement between this and the primary labor force. Furthermore, I believe that a more explicit recognition of these dual labor markets and the relation between them represents a distinct movement forward in the analysis of the labor market characteristics of the poverty-unemployment enigma.

At the same time, I think that Harrison's paper suffers from a lack of analytical precision in differentiating between these two markets. Admittedly, such a differentiation is not easy but even considering the complexities involved, I find his explanation somewhat unsatisfactory. Harrison states that "The core stratum is dominated by a 'primary labor market' in which employers possess a high degree of market power, have much of their sales 'guaranteed' by government contracts, and are therefore able to generate sufficient profits to be able to pay non-poverty wages." Furthermore, "Their profitability permits them to invest in both physical and human capital . . . ." Finally, he stresses that "These factors converge to ensure that jobs in the primary labor market will be *stable* as well as relatively high-paying". On the other hand, positions in the "secondary" labor market display characteristics just the opposite from these.

The problem comes in attempting to fit large segments of the economy into these sectors. For example, if the "primary" labor market is characterized by employers with large amounts of market power, where does this leave the construction industry? Few persons would argue that most contractors have significant market power. Nor is this simply an isolated exception that proves the rule. Where do retail workers fit in? Most retail establishments do not possess significant degrees of market power nor are they large investors in human capital. Furthermore, few of their sales are "guaranteed" by government contracts. Thus, by his definition, Harrison would supposedly include retail workers in the secondary labor market. If so, the concept loses relevancy as a means of analyzing unemployment and poverty.

Similarly, the construction industry exhibits high wages (along with unstable employment) and large amounts of human capital investment in conjunction with small amounts of market power on the part of the firms. One wonders where it fits into Harrison's model.

Furthermore it is questionable as to just what sectors he has in mind when he speaks of sales that are "guaranteed" by the government. Even allowing for the obvious fact that this is not meant as an *absolute* guarantee, its application, if relevant at all, is limited. One would think that the closest industries to fit this criterion would be those that depend almost exclusively on the government for their livelihood. The present state of the defense industry and, in particular, aerospace, indicates that even in these areas the "guarantee" of sales (and, consequently, of employment) is extremely limited.

Indeed, given these characteristics of the dual economy, it would appear that a far larger portion of the labor force resides in the secondary than in the primary labor market. Providing public service jobs for all of these secondary workers would be a Herculean task indeed.

Another disturbing aspect of Harrison's analysis is his rather unabashed admiration for State and Federal Civil Service Systems. Since these institutions possess most of the characteristics of his primary labor market, he seems to imply that this type of labor market institution should be expanded to provide increased employment. Many persons, myself included, find serious flaws in Civil Service bureaucracies and would hesitate to use this as a model of exemplary labor market behavior.

Although it was not the purpose of either of the papers to discuss in detail possible areas for expansion in the creation of public service jobs, it is disappointing that they did not at least point toward some promising areas. Many economists, including myself along with Messrs. Harrison and Lekachman, will agree that the public sector holds tremendous potential for easing the problems of unemployment and poverty. Even after stating this, however, one is still left with the classic economic problem of allocation: Where do we spend the money? Of course, if there are sufficient funds, infinite jobs can be created and all social problems can be tackled. Unfortunately, even if attitudes toward the public sector change significantly (which seems unlikely in the near future) it will still be a long time before the magnitude of the funds approaches that of the problems.

Thus, economic choices of allocation must be made. And this is particularly vexatious when the criteria for the expenditure of the funds are in conflict. This is often precisely the case with a conflict arising between better services and more jobs. It may be objected that these criterion are not in conflict. Hiring more persons will also create better public services thus promoting the achievement of a dual public goal. At times, however, the goals are in serious conflict and a choice must be made.

For example, should public funds be spent on a capital-intensive project that may benefit the public a great deal such as increased mechanization within the postal service or should the funds be used instead to hire more postmen? Engaging in the latter activity would undoubtedly create more jobs per unit or expenditure but (especially in the long run) the former may create a more efficient postal service. The question becomes even more intractable when considering expenditures on different types of public projects. Should funds be allocated to mass transit systems (capital intensive) or used to hire more traffic cops (labor intensive)? Again the goals of improved public service and increased jobs are in conflict. Finally, the newest public concern—pollution—creates another difficult choice. The technology of pollution reduction is, unfortunately, quite advanced and of a capital-intensive nature. Monies expended on this activity, while very useful from a clean air and clean water standpoint, may have little value from a job creation viewpoint and even less value in terms of poverty reduction.

Such dilemmas should indicate that, even where there is general agreement such as on the need to channel more resources into the public sector, there still remains the crucial problem of resource allocation. And even within the public sector these allocative problems must be faced.

DISCUSSION

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I share Harrison's concern over the plight of the 11 million and more in our society who work full time for poverty-level incomes and below. These unfortunate workers make up what he terms the secondary labor market. There is no disagreement between us on the compelling need quickly to improve their wages, fringe protections, security, working conditions and chances for advancement. But reduction of the secondary labor market, and the improvement of standards for those who remain in this market, should not rest primarily on expanded public employment. Furthermore, Harrison asserts that government jobs would give these workers higher pay, stable employment, opportunities for promotion and greater security.

It is true that many governments jobs have these characteristics but it is an unfortunate fact that all do not. In 1970, for example: 700,000 government workers—most of whom were state and local government employees—on a year-round, full-time basis, earned less than $4,000. Another 600,000 earned between $4,000 and $5,000. Thus, a total of 1.3 million workers for a full year's work received under $5,000, hardly a princely sum.

None of this should be surprising. Up until 1966, no state and local government employees were covered by Federal minimum wage legislation. In that year, it should be remembered, 28 states, led by Maryland, fought bitterly against extending FLSA coverage to state and local employees in educational institutions and hospitals. Thus, any discussion of public service employment must recognize the crucial need to set a decent minimum wage level for all government employees.

Nor is government work all that stable. Harrison points to turnover rates on *ALL* governments jobs, not just those at the lower level were emigres from the secondary labor market would surely be placed. On these jobs, turnover in government is quite high, comparable in fact to turnover rates for low-pay jobs in the private sector.

Clearly then, there is need for improved personnel and administrative procedures including collective bargaining to provide better working conditions and higher wages and fringe benefits, all of which would reduce turnover.

Harrison claims also that expansion of public service employment would result in improved status for workers who remain in the secondary market. This is questionable. To have such an impact would require an expansion of public service employment too massive to be politically or economically feasible. Even granting the effectiveness of such a measure, shifting workers to public service jobs is a circuitous method of improving the status of those left in the secondary market. A much easier and more direct way would be to increase minimum wages, extend coverage of the Fair Labor Standards Act and provide the same kinds of legislation which protect other workers.

Public service employment is far too important to be viewed principally as a lever to improve the lot of the disadvantaged in the private sector, particularly when there is a far better way to accomplish these desirable ends.

Lekachman notes the many deficits in public service—in health, education, transportation, the environment. He points also to the vast pool of unemployed, stressing that while many of these have low skills, much public service work can be performed by the unskilled.

Lekachman further emphasizes the failure of the economy to grow sufficiently to provide jobs for all who want to work and the distressing fact that even in periods of relatively full employment, many—minority group members in inner cities, the rural poor, the young—are unable to find jobs. An expanded program of public service employment would aid in the solution of both of these problems.

Finally, he believes the American people are opposed to programs of public service employment. This may have some validity if one were to ask Americans whether they favor the creation of dead-end, WPA-type, leaf-raking jobs (a designation of public service employment used, regretfully, by the President and many other high officials).

On the other hand, there is considerable evidence to support the notion that the American people favor public service jobs, when the nature of those jobs is understood. National opinion polls, for example, show strong support for improved public services and for Federal government financing of jobs as opposed to Federal financing of a guaranteed income. Moreover, the Senate and House, both of which generally reflect the more obvious wishes of their constituents, adopted a manpower bill which incorporated a major public service component. (Had the 1970 bill, passed by the Congress, not been vetoed by the President, we would have provided virtually twice as many jobs at state and local government levels than are called for in the Emergency Employment Act of 1971.) Finally, there is the simple fact that government employment continues to grow at a pace far greater than private employment.

Lekachman's arguments in support of expanded public service employment are in line with the context set by the Automation Commission (the National Commission on Technology, Automation and Economic Progress) in February, 1966. The Commission made a series of recommendations regarding basic government policies for a healthy economy.

First, the Commission endorsed completely, and urged the government to actively implement, the commitment of the Employment Act of 1946 which called for "useful employment opportunities . . . . . for those able, willing and seeking to work." To do this the Commission called upon the government to adopt tax and spending programs which would contribute to a strong demand for labor and high employment. Most pertinent to this discussion was the recommendation by the Commission that the government hire directly those workers who were unemployed because of a shortage of jobs or because they could not compete successfully for existing jobs.

(It is particularly interesting to note that during the deliberations of the Commission in 1965, unemployment for the last half of the year averaged just *under* four percent. Even with that rate of unemployment, the Commission recommended a five-year program of public service employment, with an initial 500,000 jobs and with the level to be increased each year depending upon labor market conditions. In contrast, the Emergency Employment Act of 1971 was adopted when unemployment was about *six percent* and provides only 130,000 jobs for a fixed two-year period, with the jobs regarded as "transitional." At virtually the same time the President called for a five percent cut in Federal payrolls, which would have an almost equal adverse impact on the number of jobs and compensation.)

Failure of the private economy to generate sufficient jobs should be underlined. For without expansion there, the transition to other jobs which EEA contemplates is an illusion.

In June, 1971, just prior to the signing of the Emergency Employment Act, employment totaled 667,000 above the level of two years earlier (June, 1969). But, the private sector was in no way responsible for the gain in jobs. In fact, the change was attributable entirely to state and local government employment, which increased by more than 800,000 in the same two-year period.

Further, if we look at workers on a full-time schedule, we see that their numbers remained virtually unchanged in the two-year period. The gain in overall employment came about exclusively from workers employed voluntarily on part-time schedules.

While the employment picture has improved somewhat during the months since June, the pace of the improvement has been slow.

Close to five million are still without jobs. Moreover, among certain groups, particularly the nonwhite, fewer persons are working today than were two years ago. (So, for example, in October, 1971, 82,000 fewer nonwhite male workers held jobs than in October, 1969, offset only in part by a gain of 29,000 in nonwhite female workers.)

Another important aspect of public service employment as a principal feature of manpower policy is the relative advantage of using a public rather than private setting for the first job to be held by a disadvantaged worker. The pressures of competition often impose too great a cost on private firms when they hire workers who are short of skills and education and who are less productive. The public sector can provide an environment which does not have the pressures of the private marketplace. And certainly, as in the current period, employers do not hire the disadvantaged despite the lures of generous manpower training funds. The failure of the JOBS (Jobs in the Business Sector) Program to come close to its original goal is proof of this.

X

THE WORKMEN'S DISABILITY INCOME SYSTEM

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The Chronology of Disability

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Despite the obvious importance of the events surrounding the onset of disability, there has been little study of the timing and nature of onset. The age at onset of work limitation affects the development of the disabled person's marital, family, work and social adjustment. The type and conditions of onset may also influence the adjustment to disability, its severity and its economic consequences (Melvin and Nagi, 1970; Safilios-Rothschild, 1970: 103-109, Rusk and Novey, 1957).

This paper examines two aspects of the development of disability—age at onset of disability and the cause of the disabling condition, with particular reference to work accidents. Limitations resulting from work accidents are also examined in terms of the work settings at onset of disability, and in relation to their work adjustment and income maintenance consequences.

The data for this study are based on a national survey of the noninstitutionalized civilian population aged 18-64 conducted by the Social Security Administration. A multiframe area probability sample was selected to represent the noninstitutionalized civilian population ages 18-64. The data were collected in personal interviews with 8,300 disabled adults; 30,000 households were screened by mail questionnaire to identify these disabled adults. Field work was completed in 1966 by the Bureau of the Census. The survey methods, disability definitions, and sample design of the study have been described in previous reports (Haber, 1967; 1968; 1971).

Age at Onset of Disability

The age at onset of disability may have a basic effect on the development of the capacities of the individual. Family responsibilities, work involvements and social expectations differ in accordance with the age and sex roles in which the individual participates and which he anticipates at the time the limitation first occurs. Disabling conditions having an onset in infancy may, for example, interfere with biological and socially expected maturation. On the other hand, an early onset permits more flexibility in anticipatory

* The interpretations and conclusions expressed in this paper are the author's and are not intended to reflect the policy or position of the Social Security Administration.

socialization, through education and the organization of achievement expectations. Capacity losses late in the life cycle preclude many of the socially adaptive means for training and adjustments, particularly when the restricted job opportunities of older workers are considered (Haber, 1970). However, job and pension security should be greater and the age-structured anticipation of retirement may minimize the economic and social consequences of disability.

The survey found 17.8 million adults of working age disabled for longer than 6 months. Approximately one-third were severely disabled, that is, unable to work altogether or regularly; the other two-thirds had occupational or secondary work limitations, affecting the kind or amount of work they could do (see Haber 1967, 1968).

As shown in table 1, there is no characteristic or dominant age of onset for disability. Disability is almost equally likely to start in childhood, early adulthood, middle-age, or later in life. The median age at onset of disability, 37 years, was only slightly higher than the age at onset of the condition. Most frequently, disability starts at the same time or shortly after the onset of the precipitating chronic condition or impairment.

With the passage of time, the disabled population becomes concentrated in the older age groups. The change in age distribution of the disabled is, of course, largely a function of attrition and of increased risk. As the population ages, the opportunities, or probability, of disability also increases. Only those 45 and over, for example, could have had an onset of disability after age 44.[1] All surviving adults have had an equal opportunity of disability during childhood, however; by controlling for age, the effects of attrition on the prevalence of disability may be examined for the population at risk.

As shown in table 2, the younger age groups have higher disability prevalence rates (per 1000 population) for early onsets than the older age groups. Although total disability rates increase directly with age, the prevalence rate for childhood disability is about twice as high among the age 18-44 population as among those aged 45 and over.

The population aged 45-54 and 55-64 also have had the same risk of exposure to disability before age 45. The prevalence rate for onsets between ages 18-44, however, is consistently higher for the 45-54 age group than for the 55-64 age group.

These data suggest a relatively high level of attrition between

[1] Since the survey does not include disabled people 65 years or older, disability onsets in the later years among the aged population are not included.

onset and the later years, either by reason of death or recovery.[2] The death rates for social security disabled worker beneficiaries are extremely high relative to those of the working age population—about seven times that of the total population aged 18-64. Data on private insurance company employees also show a relatively high death rate for those with long-term disabilities—12 percent of the men disabled 2 years died, (or an annual average of 60 deaths per 1000 men). At the end of 5 years, 22 percent of the men had died—about 5 times the death expectation of the population (Metropolitan Life, 1968).

The beneficiary data indicate that recovery is relatively rare among disability beneficiaries (Goff, 1971). The higher recovery rates of the insurance company employees, however, suggests a greater adaptive potential in this population than among social security beneficiaries. However, in both groups, death was a more common cause of attrition than recovery, for the severely disabled.

On the average, the disability had lasted 8 years. Only one-fifth had been disabled less than 3 years (table 3). Persons with a disability onset after age 35 were, of course, more likely to have a relatively recent onset than those disabled during childhood or as young adults.

Musculoskeletal and cardiovascular conditions are among the most frequent underlying causes of disability; they account for more than half of all major disabling conditions. Cardiovascular disorders were most likely to occur among those disabled late in life. Musculoskeletal conditions, particularly back or spine impairments, were more likely to become disabling during the early and middle adult years, ages 18-54. Childhood onsets were most frequently associated with nervous system disorders, mental disorders, primarily mental retardation, and respiratory disorders, such as asthma. These diagnostic groups, of course, include a variety of conditions with different etiologies and onset patterns. Arthritis, for example, typically became disabling after the thirties, while impairment of the limbs most usually started before the thirties. Mental illness generally became disabling during the early adult years, 18-34, while strokes typically start in the fifties and later.

Only a small proportion of extended disability was caused by work accidents—about 6 percent. In most cases, the disabling con-

[2] There is also the possibility that the conditions of life have in some way changed so that the younger people are more susceptible to disability than the older age groups at the same age. Improvement in medical care and the relative affluence of the recent past, however, render this conclusion suspect or at least difficult to support.

dition was not work related. Persons disabled in childhood generally were not employed at the onset of disability; older people were less likely than young adults to have disabling conditions caused by work accidents.

Men constituted an overwhelming majority of those involved in disabling work accidents; men, of course, also have much more exposure to work hazards than women. Work accidents resulting in extended disability were more than 12 times as frequent among men as among women (table 4).

Work Accidents and Disability

Most work accidents resulted in musculoskeletal impairments, in contrast to other onsets, which were largely the result of chronic degenerative disorders. Men disabled because of work accidents also had more extensive work limitations whan those whose condition was not related (tables 5 and 6).

Work at onset.—About 15 percent of the men employed at onset of disability had a major disabling condition caused by a work accident. Craftsmen, operatives and farm workers were most likely to have had a work related accident; men in professional, managerial, clerical, sales and service occupations were least likely to have had work accidents. This is, in part, related to the nature of the work in these occupations. The frequency of work accidents was directly related to the extent of heavy labor—men in jobs requiring regular heavy labor were three times as likely to have a disabling work injury as those in jobs with no heavy labor. These work injuries were concentrated in agricultural and mining industries; public administration also had a high frequency of work accidents, through the inclusion of injuries resulting from military service (table 7).

Work accidents, however, were generally not as severely disabling as non-work related conditions. Even when compared by occupation, industry and work requirements at onset of disability, men with work accidents were, with few exceptions, less likely to become severely disabled. This was also true when severity of disability was compared by major disabling condition, functional limitations and age at onset of disability.

Consequences of work accidents.—Workers disabled as a result of work accidents are often considered in some way more "worthy" or more "deserving" than people disabled by chronic conditions, such as arthritis, heart disorders or mental illness. This may, in part, be attributable to the development of workmen's compensation as insurance against the risks of industrial accidents (Sofilios-Rothschild, 1970: 15-20). Veterans' programs also provide an analogy for differential treatment, as recognition of injury incurred in service. Both obligation and familiarity suggest a more favorable consideration of the injured worker than of workers whose performance capabilities are limited by conditions unrelated to the work situation. Certainly this distinction is observed in hiring practices, of which it is reported that" . . . a sort of unconscious distinction (exists) between the person who has acquired an impairment after entering the service of the company and the impaired applicant seeking employment." Employers ". . . are seemingly less reluctant to rehire a person who was disabled in their employ" (Jaffe, Day, and Adams, 1964:182).

As an extension of this reasoning, we would expect to find that men whose work limitations stem from work accidents were more likely to be reemployed by their former employers than those with conditions unrelated to their prior employment; that there would be more flexibility in job adaptation and that, in general, these men would have made more satisfactory work adjustments.

The availability of workmen's compensation programs would also suggest greater access to public income maintenance programs as a wage replacement resource for men disabled through work accidents.

These assumptions are examined in tables 8-10. The data on work adjustments after disability does not, however, indicate any more favorable treatment of the work injured than of the disabled with other chronic conditions. A smaller proportion of men with work accidents than of those with non-work related conditions returned to the same employer (table 8). Although approximately the same proportion stayed with or returned to the same employer in a different job, fewer of the men with work accidents were able to return to the same work.

Disabled men with work accidents were more likely to find other jobs, with different employers, after the onset of disability.

Annual earnings and work experience also show little or no difference between men whose condition was caused by a work accident and those whose condition was not work-related (table 10). In each case, about a fifth were not regularly employed and the annual earnings of the employed men were roughly the same (of those not receiving social security benefits). It would seem therefore that work accidents provide no better basis for work adjustment than disability from other causes, for men employed at the onset of disability.

It is true, however, that men with work accidents were somewhat more likely to receive benefits from public wage replacement programs. Close to half of the men whose disability onset was related to a work accident received some form of public income maintenance benefits, compared to somewhat more than a third of those with non-work related conditions. This difference was largely accounted for by workmen's comepnsation benefits; about 12 percent of the disabled with a work accident received workmen's compensation payments in the preceding year. It is interesting to note, however, that their median income from all public income maintenance sources was about the same as that of the other disabled men.

In total, more than one-third of the men whose condition was caused by a work accident had received workmen's compensation at some time after the onset of disability. Some of this may have been due to later or subsequent accidents, however; of the men with non-work related conditions, for example, 7 percent reported receiving workmen's compensation at some time after onset of disability. Few of the men who have not received workmen's compensation have ever applied since onset. These facts raise questions about both the nature and extent of their work injury and the extent and effectiveness of the coverage for workmen's compensation. The study, however, answers neither of these questions. It should also be considered that accidents and injuries in military service are not included under workmen's compensation. Veterans' payments, however, are one of the major sources of public income maintenance. Many more disabled men received veterans' payments than received workmen's compensation (Swisher, 1971).

Men with work accidents were also less likely to receive social security benefits than those with non-work related conditions and more likely to receive income from other wage replacement programs, such as veterans' payments, workmen's compensation and public employee pensions (table 9).

Summary

In this study, we have examined factors associated with the onset of disability in an attempt to establish some of the basic parameters of extended or long-term disability and to gain a better understanding of its development. The age at onset of disability obviously conditions many aspects of disability, as well as its consequences. Among other things, the type and causes of the major disabling conditions change with age. Persons with childhood onsets are more likely to have respiratory, mental and nervous system disorders; those disabled later in life are more likely to have cardiovascular and arthritic conditions. Although the proportion of all disabled persons with conditions caused by work accidents was small, close to one-sixth of the men employed at onset did have a disabling condition caused by a work accident, generally an orthopedic or musculoskeletal condition, with some degree of permanent impairment and functional activity limitation.

Disabling work accidents tended to occur more frequently among workers involved in regular heavy labor, and in agriculture and mining industries; public administration employees also had a high proportion of work accidents, largely through the classification of military service. Craftsmen, operatives and farm laborers were most likely to have their disabling condition caused by a work accident.

Contrary to our expectations, work accidents leading to long-term disability did not result in better work adjustment than nonwork related conditions. On the other hand, men disabled as a result of work accidents had no worse work adjustment than those with nonwork related disability onsets.

The workmen's compensation system largely functions as a short term or temporary injury indemnification program (Cheit, 1961: 28-31, 64). Few of the long-term disabled receive or have ever received workmen's compensation at any time since the onset of disability. Among the relatively small proportion of the long-term disabled whose limitation was attributable to work accidents, however, a sizable proportion have received workmen's compensation at some time after the onset of disability.

The study findings raise questions about the nature of the work accidents involved and the income maintenance functions of the compensation programs which are, unfortunately, beyond the capacity of the available data to resolve. They suggest the need for more extensive study of the events surrounding the onset of disability and of the attributes related to entitlement to workmen's compensation and other wage replacement programs.*

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Some Measures of the Adequacy of Workmen's Compensation*

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The purpose of this paper is to provide some information on the adequacy of benefits provided to disabled workers under workmen's compensation. The paper is divided into two sections: the first relates some state benefit level maxima for temporarily and totally disabled workers to other forms of transfer payments made in the states. The second portion of the paper deals with benefits paid to permanently and partially disabled workers for certain well-defined disabilities. There, the principal concern is one of equity rather than adequacy and I shall approach the matter by making certain interstate comparisons of different, relative, intrastate payments.

Temporary Total Payments

Limitations of space require some arbitrary choice regarding which program to examine here. I settled on temporary total disability as the program to describe because the benefits paid thereunder lend themselves to direct comparison with some other readily available and relevant measures. To discuss the adequacy of permanent total disability and death benefits would require more detail than space permits. For example, benefits under those programs should be examined along with some consideration of Social Security benefits and the offset provision, private insurance, the age of the worker and of other beneficiaries, and so on. Temporary total benefits, on the other hand, are much less likely to be supplemented by other insurance benefits, and they are made for a shorter period of time.

The inadequacy of temporary total benefits appears fairly obvious when they are viewed alongside the opportunity cost of being disabled, and compared to some other forms of transfer payment besides workmen's compensation. A rather lengthy table has been prepared (and is available) that make such comparisons, but space limitations prevent it from being shown in the paper.

Column I of the table lists the maximum weekly benefit as of July 1, 1971 for a temporarily totally disabled worker who heads a four

* The views are the author's own and not those of the Commission.

person household. For 25 of the 50 states (including Washington, D.C. and excluding the State of Washington) this maximum is below $70 per week, and it exceeds $100 per week for only four jurisdictions.

A calculation was made of the poverty level income threshhold for a four person, non-farm, male-headed household as of July 1971. The figure, $4102, or a weekly income of $78.88, suggests that the maximum weekly benefit under temporary total disability exceeds the poverty figure in only 16 of the 50 jurisdictions.

A second measure of adequacy relates the maximum benefit to earnings in the state. Columns II and III of the table show, by state, the average weekly wage in employment covered by unemployment insurance and an estimate of the average weekly earnings of unjured workers, respectively. The data show that only one State—Arizona—has a maximum benefit level exceeding either the average wage in the state or the average wage of injured workers. For 20 of the 50 jurisdictions, the maximum payment is less than one-half of the average weekly wage in covered employment, while 38 do not come up to two-thirds of this measure.

Column IV lists the largest weekly payment made in the state during March 1971 to persons in four-member families receiving public assistance under Aid to Families with Dependent Children (AFDC). The data show that these welfare maxima exceeded the tempory total maximum in four states. In 10 other states, the maximum under temporary total exceeded the welfare limit by 20 percent or less. That workers who suffer disabling injuries that prevent them from earning wages can count on receiving benefits so close to those paid under public welfare would seem to attest to the inadequacy of benefit levels. This is not to raise the issue here of whether welfare is a right, but is simply a reminder that unlike public assistance, workmen's compensation is an insurance program.

The welfare payments shown here must be viewed with some care. Such payments may vary substantially among counties within the state. Data on the number of individuals receiving this maximum, or very close to it, are not available. Moreover it is also possible that for the month that the data represent, a higher, potential benefit than the one shown existed in the state but was not paid out.

A final measure of the adequacy of temporary total benefits compares them to the maximum payable under unemployment insurance in the state. One might expect that an injured worker who suffers a temporary job loss would be better compensated than a non-injured worker who also is without work. Yet, in 15 states, the maximum benefit under unemployment insurance exceeds that paid to a disabled worker, and in eight other states, the maxima are precisely the same. Why some states offer so small a premium, if any, to temporarily disabled workers in comparison to unemployed workers is puzzling. Presumably, maxima do not differ because of cost of living differences, and both types of insurance are paid directly by the same employer. One possible reason that some states offer low workmen's compensation benefits relative to unemployment insurance is that they tend to experience lower levels of or narrower swings in their unemployment rates.

A second possibility is that some trade-offs occur in the legislative disputation about raising either of these maxima. If this is so, does the presence of well-organized worker groups typically cause one of these two programs to be favored? Using the ratio of the temporary total maximum to the unemployment insurance maximum in the state as a dependent variable, we regressed the following variables on this ratio: (a) the proportion of workers that are organized in the state; (b) the 1970 unemployment rate in the state; (c) the mean unemployment rate for 1968-70 in the state; (d) (a) and (b) jointly; and (e) (a) and (c) jointly. Nothing close to statistical significance was estimated. Next, in order to better understand their relationship, we regressed the unemployment insurance benefit, U, on the temporary total benefit, T, and estimated: $T=12.83 + .91U$, ($R^2 = .28$ and a t-value $= 4.8$). Additionally, simple regressions were run on T, using each of the three other standards noted above. None of these had a coefficient higher than .68, and the coefficients were all positive and significant at the 99 percent level.

In general, our results confirm what is perhaps the obvious; i.e., that states with high workmen's compensation benefits tend to be the higher wage states and those which are liberal with respect to benefits under Unemployment Insurance (UI) and AFDC.

With the coefficients estimated below 1.0, it suggests that as states raise benefits absolutely under either UI or AFDC, compensation benefits do not go up by as much. The conclusion would appear to be that the more liberal a state is, the less liberal its compensation benefit is relative to UI or AFDC benefits.

Permanent Partial Payments

This section of the paper deals with the benefits provided to workers who have suffered permanent and partially disabling injuries. Somers and Somers have compared the importance of permanent partial cases to temporary only, permanent total, and death cases in five states. They establish the significance of permanent partial cases by noting that these cases absorb more cash indemnity payments than any other class of cases in four of these five states.[1] Despite this, most of the attention that is focused on the question of adequacy seems to be directed to other disability areas. Two possible reasons for this seeming neglect are: (1) in permanent partial cases it is likely that the injured worker has returned to work and, therefore, compensation does not represent a wage replacement program, and (2) complex formulae used to determine benefits are largely, but not solely, tied to the degree of the disability. Thus, there is less of a relationship between the amount of compensation and the pre-accident wage than there is in cases of death, permanent total, and temporary total disabilities.

Permanent partial disabilities can be classified into scheduled and non-scheduled disabilities. Although the kinds and degrees of disablement are limitless, a state may schedule perhaps 10 to 20 unambiguous injuries, and by statute stipulate the award or range of awards for each of these. With few exceptions, states schedule benefits by setting a payment for a fixed duration that varies only according to the type of disability. For example, an injured worker in Maryland receives two-thirds of his average weekly wage (up to a maximum of $35.00 per week) which is paid for 100 weeks for the loss of a thumb, 40 weeks for the loss of an index finger, 250 weeks for the loss of a hand, and so on. Although the bulk of disability cases under permanent partial do not fall under the schedule, it still serves customarily as an upper bound for the duration of payments. Thus, in Maryland for example, injuries to the hand resulting in some permanent and partial loss of function will be compensated up to a maximum of 250 weeks, depending upon the degree of the physical loss.

The benefits paid for permanent partial disabilities differ somewhat from those paid for other injuries because no wage loss may be involved. Indeed, there may even be no time lost in some accidents that result in scheduled injuries, yet benefits are paid just the same, presumably to recompense the worker for a loss that renders him no longer a whole man.[2] How can the notion of a rigid benefit schedule be tied to the concept of wage loss replacement? The argument could be made that tying a specified loss to a specified benefit, on the *average*, replaces a desired proportion of the potential and actual wages lost. Thus, while some workers fare better or worse

[1] H. M. and A. R. Somers, Workmen's Compensation, (New York: John Wiley and Sons, 1954), Table III-E, p. 79.

[2] A qualification here is that in 29 states, temporary disability benefits can be received with no effect on benefit awards under permanent partial, and in 17 other states such temporary total awards, with limitations, can be added to the full benefits awarded on the permanent partial schedule.

with this technique, few resources presumably are lost from the system due to uncertainty and to the likelihood of extensive and expensive litigation.[3]

Our uncertainty regarding the extent of wage losses, if any, suffered by permanently and partially disabled workers suggest the difficulty in speaking to the question of the adequacy of permanent partial awards. It is not so difficult, however, to examine their rationality or consistency. Regrettably, only a few observations have been made on this subject to date. Brodie, for example, comments on the two most commonly observed measures of disparity by pointing to the wide differences existing at that time in (a) payments for the same loss; (e.g., a lost arm in Wisconsin was worth almost $22,000 but only $6,300 in Maryland) and (b) the period of time for which payment will be made; (e.g., 150 weeks of benefits paid in Alabama for a lost hand compared to 400 weeks in Wisconsin).[4] Indeed, the disparity with respect to duration of payments is still substantial. Yet, this issue would seem to be an unimportant one by comparison with the total amount of payments made, especially in cases where states permit lump sum settlements. Surely, one can find some payment level, to be made weekly for only one year, which a worker would view as the precise equivalent of five years of reduced payments.

The wide variations in maximum total benefit levels across states for similar scheduled losses reflect the capriciousness of the states according both to Brodie and to Somers and Somers. This criticism, by itself, may be unfair to the states, since the variations may be accounted for by such things as differences in costs of living, trade-offs that result in higher benefits to be paid in cases of death or permanent total disability, differential premium rates that lead to higher real wages to employees in states where benefits are low, the availability of better services at public rehabilitation centers, the welfare situation in the state, etc. And maximum benefits differ across states for each of the other workmen's compensation categories as well as for UI. Thus, a simple comparison showing substantial differences in the maximum benefits for a scheduled disability in various states is hardly conclusive that the schedules are capricious. There are, however, other ways to demonstrate that they are.

Whatever the reasons for states setting different maximum bene-

[3] For a more detailed discussion of this issue, see Arthur Larson, "Compensation Reform in the United States," ed. E. F. Cheit and M. S. Gordon, *Occupational Disability and Public Policy* (New York: John Wiley and Sons, 1963), pp. 40–41.

[4] Abner Brodie, "The Adequacy of Workmen's Compensation as Social Insurance: A Review of Developments and Proposals," Wisconsin Law Review, (Jan. 1963), pp. 57–91.

fits for the same scheduled loss, theoretically the relative value of one kind of scheduled disability to another should be invariant across states. For example, the value of an arm relative to a hand ought to be the same in Georgia as in Alabama or New York. It is not. To demonstrate the consistency, or lack of it, of the scheduled benefit maxima, the following calculations were made:

1. States were classed into their geographic region (by Census definition). The mean and standard deviation of the average weekly wage in manufacturing were calculated for every region. States from the three most homogeneous regions, (i.e., where the ratio of the standard deviation to the mean was smallest)—East North Central, West North Central, and New England were selected for study.

2. Nine commonly scheduled disabilities were chosen. The loss of a foot in almost every case was the fifth most serious (and fifth least serious) of the nine disabilities selected.

3. Using the loss of a foot as a base, we calculated indexes of the extent of physical impairment associated with each of the eight other scheduled disabilities.[5] Thus, for example, the American Medical Association (AMA) judges the physical impairment associated with the loss of a leg as 142.9 percent more than that of the loss of a foot.

4. Y, the actual value of the benefit in a state for a given disability is known. $\hat{Y}$ was calculated by multiplying the index number for a disability by the dollar amount for a foot. To measure how accurately $\hat{Y}$ was estimated, we calculated $\dot{Y} = \left|\frac{\hat{Y} - Y}{Y}\right|$. If all states in the sample used physical impairment as the sole basis for their benefit schedule, $\dot{Y}$ would always be zero. Where states use other criteria for determining benefit levels, but do so uniformly, $\dot{Y} \neq 0$, but the standard deviation of $\dot{Y} = 0$. To illustrate, the index for total loss of hearing is 125.0 percent. Based on the $10,950 maximum in Maine for the loss of a foot, we project that the State would schedule $13,687 ($\hat{Y}$) for loss of hearing. Actually, the maximum paid for this disability is $7,300 (Y) and the difference, $6,387, is 87.5 percent ($\dot{Y}$) of the actual maximum in Maine for this disability. By contrast, in New Hampshire $\dot{Y}$ is only 11.8 percent, and in fact $Y > \hat{Y}$.

5. The means, standard deviations, and the coefficients of variation of the $\dot{Y}$'s were calculated to determine the disparity in relative valuations of the 17 states. Table I in-

[5] The source for this was the American Medical Association's, *Guides to the Evaluation of Permanent Impairment* (Chicago 1971).

TABLE I
Dispersion in the Valuation of Permanent Partial Benefits

		Arm at Shoulder	Hand at Wrist	Leg at Hip	Total Loss Hearing— Both Ears	Foot at Ankle	Total Loss One Eye	Thumb	Index Finger	Great Toe
		[a] Ŷ (%)								
Illinois		10.7	57.4	19.5	55.0	100.0	17.0	74.0	93.8	26.6
Indiana		50.0	68.8	11.1	9.4	100.0	14.3	129.2	118.7	16.9
Michigan		29.1	45.3	7.7	......	100.0	14.3	95.9	113.2	40.4
Ohio		42.9	65.3	7.2	50.0	100.0	2.8	96.5	114.3	43.0
Wisconsin		7.2	20.6	28.5	4.6	100.0	22.1	57.2	108.3	13.6
EAST NORTH CENTRAL	[b] $\overline{Y}=$	28.0	51.5	14.8	29.8		14.1	90.6	109.7	28.2
	$\sigma Y=$	17.0	17.4	8.1	22.9		6.2	24.3	8.6	11.9
	$\sigma Y/\overline{Y}=$	.606	.338	.550	.769		.439	.268	.078	.424
Iowa		39.8	65.3	7.2	7.1	100.0	2.8	96.5	114.3	7.3
Kansas		27.6	60.8	10.7	42.4	100.0	10.7	63.8	68.9	19.2
Minnesota		31.0	44.7	7.2	21.3	100.0	11.6	99.5	106.2	34.8
Missouri		38.5	65.3	3.5	11.6	100.0	8.2	96.5	66.7	7.2
Nebraska		42.9	65.3	0.3	87.5	100.0	2.8	96.5	114.3	43.0
North Dakota		28.6	44.7	8.4	6.3	100.0	14.3	81.4	87.5	43.0
South Dakota		33.9	60.7	10.7	4.2	100.0	7.1	96.5	78.6	19.1
WEST NORTH CENTRAL	$\overline{Y}=$	34.6	58.1	6.9	25.8		8.2	90.1	90.9	24.8
	$\sigma Y=$	5.5	8.7	3.5	28.0		4.0	12.1	19.1	14.4
	$\sigma Y/\overline{Y}=$	.158	.150	.512	1.088		.492	.134	.210	.579

TABLE 1 (Continued)
Dispersion in the Valuation of Permanent Partial Benefits

		Arm at Shoulder	Hand at Wrist	Leg at Hip	Total Loss Hearing—Both Ears	Foot at Ankle	Total Loss One Eye	Thumb	Index Finger	Great Toe
		$\dot{Y}$ (%)								
Connecticut		29.2	43.9	12.9	50.6	100.0	31.5	55.5	74.1	28.0
Maine		83.7	92.9	22.5	87.5	100.0	28.5	135.8	134.4	71.6
New Hampshire		51.2	66.4	0.8	11.8	100.0	2.7	137.4	143.5	66.7
Rhode Island		40.1	62.1	6.1	28.1	100.0	9.8	114.8	122.9	54.3
Vermont		74.4	92.9	16.3	1.7	100.0	20.0	175.1	173.4	100.2
NEW ENGLAND [c]	$\overline{Y}=$	55.7	71.6	11.7	35.9		18.5	123.7	129.7	64.2
	$\sigma Y=$	20.5	18.9	7.6	30.6		10.9	39.3	32.4	23.5
	$\sigma Y/\overline{Y}=$	.368	.264	.649	.852		.594	.317	.250	.367
ALL STATES	$\overline{Y}=$	38.9	60.1	10.6	29.9		13.0	100.1	107.8	37.3
	$\sigma Y=$	18.6	17.0	7.3	28.0		8.5	30.3	27.2	24.9
	$\sigma Y/\overline{Y}=$	.479	.282	.685	.937		.656	.303	.252	.666

[a] $\dot{Y} = \left|\frac{\hat{Y}-Y}{Y}\right|$, where

Y = Actual Maximum Schedule Payment, and
$\hat{Y}$ = Estimated Payment Using AMA Valuation of Impairment.
[b] $\overline{Y}$ = Mean Value of $\dot{Y}$'s.
[c] Massachusetts eliminated for lack of data.

> dicates that some very large disparities in valuation are evident. For example, the mean of $\dot{Y}$ in New England for the loss of an arm is approximately 56 percent with a standard deviation of almost 21 percent. Substantial variations occurred within each of these seemingly homogeneous regions as well as when all states were pooled.

In addition to measuring dispersion, the calculations yielded some insights into the relationship between scheduled benefit levels and physical impairment. For four disabilities—the loss of an arm, a hand, a thumb, and an index finger—in every state $\hat{Y} > Y$. This indicates that although a substantial variation exists across states, every state judged the economic value of these losses, relative to a foot, to be less severe than the AMA's judgment of the degree of physical impairment. In that limited sense, some interstate consistency occurred. By contrast, however, the value either of the loss of a leg or an eye was overestimated by us, using the AMA-derived indexes, ten times and eight times respectively and underestimated seven and nine times respectively. These deviations reflected some additional and some very obvious inconsistencies by the states.

Further, the values of the $\dot{Y}$'s reveal that states do not make much use of the degree of medical impairment (as determined by the AMA, at least) as the basis for awards. For two of the disabilities, the average value in all 17 states of $\dot{Y}$ exceeded 100 percent. If the schedules do not reflect some measure of the degree of physical impairment, they presumably are derived from some estimate of the average economic loss involved for each disability. Yet, it appears that only a handful of states have made more than the most cursory assessments of the economic loss associated with specific physical impairments.

The derivation of the schedule can probably be traced in many cases to a combination of political horsetrading, and some seat-of-the-pants judgements as to the degree of economic loss and physical impairment incurred.

My quarrel here is not necessarily with the use of a benefit schedule. Rather, it is to question the techniques used in the development of the schedule and the inequities that are implied by such differing evaluations of relative losses. Perhaps the costs associated with removal of the schedule exceed all the potential benefits, but this is not known. If so, and should the states wish to retain a schedule, it would seem that some uniformity of relative valuation is called for, not for conformity's sake, but as a consequence of a serious inquiry into the true economic losses suffered by disabled workers. The states might begin such an effort by consulting a recent Veterans' Administration study[6] that reports on a massive survey of the income lost—regrettably for but a single year, and many years after the injury occurred—by disabled veterans with precisely defined disabilities, relative to a control group.

[6] Committee on Veterans' Affairs, U.S. House of Representatives "Economic Validation of the Rating Schedule," Doc. 109, prepared by the Veterans' Administration, 1971.

Allocation Effects of Workmen's Compensation

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Introduction

It is the thesis of this paper that if the alternative to workmen's compensation is social security when we consider distributional aspects, the alternative is occupational safety and health legislation when we consider allocation effects. The proper business of workmen's compensation is to reduce the number of accidents to some optimal point.

In support of this thesis, I plan to show:

1. Industrial accidental injuries and diseases are an unwanted byproduct of industrial production. Sone portion of the resultant losses are true externalities. Industrial accidents have been declining over time. This trend is compatible with the notion that since accidents are more expensive, employers demand less of them.

2. Conceptually workmen's compensation amounts to a tax imposed upon the firm and graduated in accordance with a measure of losses. Such a system should impel firms to operate at optimal points in a least-cost fashion.

3. The alternatives to workmen's compensation, safety and health regulations, have all the disadvantages associated with government specification and enforcement of standards. They are expensive to administer, technologically inflexible, and necessarily inefficient.

4. The economist must be humble as he observes his theoretical constructs being fired in the crucible of practice. Those who advocate pollution taxes or effluent charges would be well advised to put the workmen's compensation experience under a microscope. An examination of the practical requirements to make this system work raises questions about whether the real world can be relied upon to produce results expected by the theory.

5. Lastly, I conclude with some notions of what might be done to help make workmen's compensation achieve its theoretical purpose.

Industrial Accidents Viewed as External Diseconomies

In Figure 1, it is assumed that work injury losses are somehow due to the production process and are a constant function of output. When the firm need not take these costs into account, it operates where MC is equal to MR, or at point X_2. If the losses due to industrial injuries are imposed on the firm the marginal cost curve shifts to MC′, and production should now cease at X_1 instead of X_2. If the firm were offered an inducement equal to the worker's losses, it still could not be persuaded to cease activity before X_1. Beyond X_1, however, the marginal costs of injuries, combined with other costs, are greater than marginal revenue. If the employer is forced to take these into account he will not produce past X_1.

The worker would lose as much as ABCD (the extra costs that the workers incur if they must pay for the losses), if production moves from X_1 to X_2. The employer, on the other hand, would lose only ABC if production is not increased the extra amount. The Pareto optimal point is at X_1 where neither the worker nor the employer could be made better off without one being worse off.

In Coase's world where there are no transaction costs it would appear to make little difference how the optimal point was reached.[1] The employer's costs could fully reflect the higher social costs of production by a risk premium in the wages, by a tax, or by some form of loss-sharing arrangement. Alternatively, the workers could bribe the employer to operate at a lessened rate of production and hence a lower injury rate.

The Reduction in Industrial Accidental Injuries

Apparently for one reason or another industry is choosing methods of production which are increasingly less destructive of human beings. If we contrast the 1930's with the 1960's the decline has been more than half in metal mining. In all manufacturing, rates declined approximately a third, whereas in iron and steel they are down as much as 80% over this period of time. Without claiming knowledge of the exact reasons for the decline, we can note some trends which are compatible with this decline. Consider what happens when a worker

[1] R. H. Coase, "The Problem of Social Cost," *The Journal of Law and Economics*, Vol. III (October 1960) p. 144. This is a fundamental article in the field which seems to have survived fairly well the attacks that have been made on it. The extent of the literature on externalities can only be hinted at here. See for example:

J. M. Buchanan and W. C. Stubblebine, "Externality," *Economica* Vol. 29 (1962) pp. 371–384.

Ralph Turvey, "On Divergences Between Social Cost and Private Cost," *Economica*, Vol. 30 (1963) pp. 309–313.

W. J. Baumol, "External Economics and Second Order Optimality Conditions," *American Economic Review*, Vol. 54 (June 1964) pp. 358–372.

Ronald N. McKean, "Products Liability: Trends and Implications," *The University of Chicago Law Review*, Vol. 38 (1970) pp. 3–73.

E. J. Mishan, "The Post War Literature on Externalities: An Interpretative Essay," *The Journal of Economic Literature*, Vol. 9 (March 1971) pp. 1–26.

Arnold C. Harberger, "Three Basic Postulates for Applied Welfare Economics: An Interpretative Essay," *The Journal of Economic Literature*, Vol. 9 (September 1971) pp. 785–797.

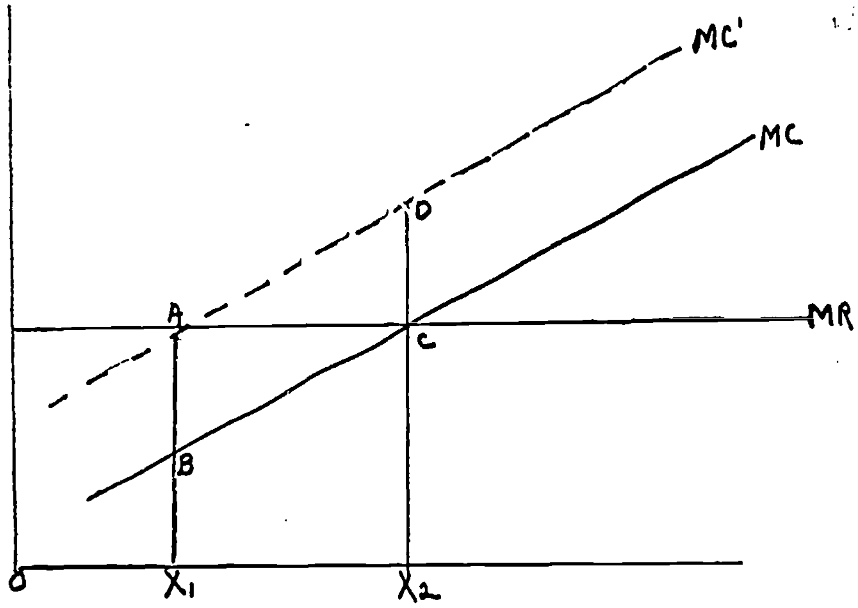

Figure 1

in whom the firm has made a specific Beckerian investment becomes totally and permanently disabled. The firm expected to recoup by paying him his opportunity marginal product which is less than his worth to the firm because of the assumed positive returns from specific training which the firm financed. That investment is lost when the worker is forced out of the labor force due to the injury.[2]

[2] The concept of specific training is that developed by Gary Becker, *Human Capital*, (New York: Columbia University Press, 1964) pp. 18–29.

TABLE 1

Industry	Average Annual Work-Injury Frequency Rates 1930–39	1940–46	1950–59	1960–68	Percentage Reduction Between 1930–1939 and 1960–1968
Metal Mines	68.1 [1]	58.1	39.0	31.6	53.7%
Bituminous Coal	71.9	59.8	45.3	43.1	40.1%
Manufacturing	18.3	18.6	12.0	12.7 [2]	30.6%
Iron & Steel	16.2	9.6	4.3	3.0	81.5%
Non-Metal Mining and Quarrying	41.0 [1]	37.4	25.6	20.3	50.5%

[1] Data are for 1931–1939
[2] New series based on 1957 SIC
Source: Historical Statistics of the United States, Annual Issues of Minerals Yearbook, Annual Statistical Reports of Iron and Steel Institute, Monthly Labor Review.

A rational entrepreneur is induced to spend on safety devices or education, if the increased costs are justified by the losses prevented at the margin. To the extent that the firm loses specific investments by workers' accidents, some of the losses, and I would argue an increasing amount, have become internalized. In addition, the firm has been forced by law to pay an indemnity graduated according to some estimate of the worker's loss. As labor has become more productive and wages have increased, the liabilities have become larger. All this has forced production in a relatively safer manner.[3] Workmen's compensation may therefore be entitled to a portion of the credit. Since it is almost illegal to say anything complimentary about this program, let us examine the matter further.

Workmen's Compensation and Optimality

The rule in workmen's compensation is not quite that the employer is obligated to pay the full extent of the worker's losses in the event of an injury. In most jurisdictions he is compelled by law to insure his liability for whatever payments are required. The firm will pay a manual rate based upon the experience of all employers in the state in the same classification. Only if the firm is large enough to pay an annual average premium of at least $750, will it be experienced rated.[4]

Each additional work injury should add to the costs of the experienced-rated firm which should seek to avoid these costs. It is reasonable to conclude that the marginal cost of reducing accidents will vary from firm to firm. The lower the marginal cost of reduction of accidents, the greater the number of accidents it will pay the firm to plan not to have in order to avoid payment of increased premiums. This will be so even in the absence of perfect competition and even without requiring the firms to be profit maximizers. Just assuming the firms wish to produce whatever output they produce at minimum cost to themselves will guarantee the desired result. The accidents will be reduced to the given level chosen at a minimum total cost to all firms combined.

[3] Some crude evidence of the relationship between decline in industry accident frequency rate and increases in real average hourly earnings is presented in Monroe Berkowitz, "Aspects of Economics of Workmen's Compensation," *Report to the National Workshop on Rehabilitation and Workmen's Compensation*, National Institutes of Rehabilitation and Health Services, (Washington, D.C. 1971) pp. 21–24.

[4] C. Arthur Williams, *Insurance Arrangement Under Workmen's Compensation* (Washington, D.C., U.S. Department of Labor, Wage and Labor Standards Administration, 1966) Bul. No. 317, pp. 67–82.

The Alternative—Occupational Safety and Health Legislation

Traditionally factory legislation has been the concern of the individual states which have legislated standards in the area of safe and healthful work practices.[5] The difficulties with the state inspection system constitute an almost classical example of what tends to be wrong with all regulatory systems. There are about 1600 state safety inspectors to protect over 80 million workers, but over 2800 fish and game wardens. We do not seem to do much better at the federal level. When asked why Walsh-Healey Act standards were being enforced less rigorously, a representative of the AFL-CIO responded, "You can't administer an act covering 25 million persons with anywhere between 18 and 30 inspectors."[6]

The Occupational Safety and Health Act of 1970[7] contemplates standards which will require a whole system of enforcement, review procedures, and penalties. Willful or repeated violations of the law will call for a penalty of not more than $10,000 for each violation. Ordinary citations carry a penalty of $1000. If any person gives advance notice of any inspection to be conducted under the act, the penalty is $1000 fine or imprisonment of not more than 6 months.

There is a great deal to be said for the Occupational Safety and Health Act. The notion of enlarging our knowledge about the effective levels of dust emission, or other aspects of occupational disease, is unassailable. We will learn a good bit about appropriate standards, and we should have an improved source of accident information. However, nothing in our experience with record keeping laws, inspection procedures, or other government regulatory agencies would seem to support the notion that this law will be administered efficiently or financed adequately. Time passes, enthusiasm diminishes, interest groups alone have staying power and this agency too may go the way of the ICC, the FCC, or the state safety laws.[8]

Even if the law were financed adequately, if the corps of inspectors

[5] A brief history of activity in the field can be found in: Herman M. Somers and Anne Somers, *Workmen's Compensation*, (New York: John Wiley and Sons, 1954) Chapter 6.

[6] *Hearings*, Subcommittee on Labor of the Committee on Labor and Public Welfare, United States Senate. 91st Congress, 1st and 2nd Sessions, p. 402.

[7] Public Law 91-596, 91st Congress.

[8] Insofar as the appropriations go, one of the witnesses before the Senate Subcommittee on Labor, Mahlon Z. Eubank, pointed out that some 43 safety bills had been enacted by Congress in the last eight years, but Congress has not provided enough money to make them effective. "For example, although the Highway Safety Act was passed in 1966 with an authorized $267 million to fund it through fiscal 1969, only $92 million was actually appropriated for the three years. The Flammable Fabrics Act was amended in 1967, and $1.5 million was authorized for fiscal 1968 and $2.5 million for fiscal 1969. No money was actually appropriated for 1968, and the 1969 was 1/10th the amount authorized." Hearings before the Subcommittee on Labor, U.S. Senate, Occupational Safety and Health Act. (1970) op. cit. p. 376.

were maintained, and if record keeping was enforced, nothing in the law would stimulate the least cost and most efficient methods of accident reductions. Imposing the costs or the full value of society's losses on the firm would perform this function.

The Difficulties in Transforming Workmen's Compensation

If workmen's compensation is to bring about optimum allocation effects, several conditions are necessary. Space does not allow discussion of each of these.

1. The costs of the accident should not previously be taken into account, either by payment of higher wages or by direct losses to the firm.
2. Losses should result from the activity and, not a chance event.
3. Increased firm expenditures must somehow be capable of reducing losses.
4. The true Pareto optimality solution requires assessment of full losses against the firm.

This is not even the avowed objective of workmen's compensation. Pain and suffering aside, the laws do not call for replacement of full wage loss but call for 60% or 66⅔% of it. This goal is not met for several reasons. Chief among them is the existence of limitations, most commonly in the form of a maximum weekly payment. In addition, there is no adjustment of wages for future expected increases in earnings. Consequently, the percentage recovery of estimated losses in death cases, to use an example where estimates can be made, is a dismal one. In over half the jurisdictions, a widow with two children would receive less than 20% of the estimated loss net of taxes and consumption.

Some Policy Prescriptions

Workmen's compensation is an admittedly imperfect method of internalizing externalities, but I would support all measures designed to improve its functioning. I do not look for perfect measures. I look for movements in the correct direction. Among them may be the following:

1. A simple federal standard requiring all jurisdictions to pay 66⅔% of current wages in the event of an injury plus full medical costs would go far towards assessing costs against the firm. No maximum is necessary, but to protect the system against the movie starlets I would agree to some maximum limitation which would still allow the standard to be met for all ordinary workers.

There is no excuse for different state benefit standards. They only contribute to geographical misallocation of resources.[9]

2. Concern over allocation effects is the only reason to bother about the division of losses between the work-connected accidents and all others. This is another area where second best solutions must suffice. A great deal could be done with division rules based upon probability. More could be done with simpler assessment schemes. If distinctions could be made in some reasonable fashion and full cost or something approximating it assessed against the firm, rehabilitation would apparently be much less of a problem. Rehabilitation, if it has any meaning, is one way of reducing losses. Very little is said here about incentives for workers. Except in unusual cases, the worker receives less than he could expect by participating in the labor force.

3. Experience rating schemes could be amended to do a better job in stimulating health and safety expenditures.[10]

The problem here is a formidable one. If the number of cases are quite small, the experience in any one time period is not an accurate reflection of the true accident experience of the firm. It is at least interesting to note that the $750 figure has been used now for several years as premium costs have gone up.

In effect experience rating has been extended to smaller and smaller firms. A great deal more experimentation is needed to see whether or not we can combine more years or even combine firms. Admittedly, if the conbination of firms is not the economic decision making unit, optimality conditions are violated.

Conclusions

I start with the notion that conservation of human life and the reduction of accidents is an important value. I note the amazing drop in injuries and deaths in industry and attribute it to the fact that it is becoming increasingly expensive to damage workers.

In our understandable dissatisfaction with what appears to be an archaic system, I would not want to see its contributions in stimulating an appropriate amount of safety expenditures thrown out.

The kinds of difficulties we experience in workmen's compensation are similar to the difficulties we would have in imposing a tax on

[9] The argument is also made in this connection for federal rather than local antipollution standards. Jerome L. Stein, "The 1971 Report of the President's Council of Economic Advisors: Microeconomic Aspects of Public Policy," *American Economic Review*, Vol. LXI, No. 4 (September 1971) pp. 531–537.

[10] For some tentative evidence that they operate in the correct direction see Andrew Kalymkow's testimony in Hearing before the Subcommittee on Labor, Bills on Occupational Safety & Health, *op. cit.* pp. 353–359.

effluents being discharged into a river or pollutants into the air. In some partial imperfect way the problems are solvable in each of these areas.

As you run down the list of what is wrong with workmen's compensation I will nod my head in agreement and may even claim that I said it first. The only virtue of workmen's compensation is that when it comes to the task of prevention of injury, this most important allocation test, this imperfect program is to be preferred to its best alternatives.

DISCUSSION

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Dr. Haber has presented some valuable new information on the relative importance of disabilities caused by work accidents, the characteristics of disabled workers, and the consequences of work accidents. His observation that only about half the men disabled by work accidents returned to the same employer is particularly disturbing because rehabilitation experts favor such a return. He disagrees with Professor Berkowitz and apparently Professor Barth on one fundamental point. Dr. Haber questions the need for a separate income maintenance system for job-related disabilities.

A frequent critic of workmen's compensation himself, Professor Berkowitz has stated in past writings that there "is much that is appealing in the idea of integrating workmen's compensation into some general scheme of social insurance."[1] He is reluctant, however, to give up the cost allocation effects of a separate workmen's compensation program, particularly its incentive for industrial accident prevention. Although he supports the Occupational Safety and Health Act, he doubts for a variety of reasons that safety programs can replace workmen's compensation as a cost allocator. Instead he favors higher workmen's compensation benefits that would assess a larger and fairer proportion of the wage losses and medical expenses against employers, some improvements in determining whether losses are work-connected, and an extension of experience rating to smaller firms.

Professor Barth has documented the inadequacy and inequity of certain workmen's compensation benefits. His analysis contains persuasive arguments for liberalizing and rationalizing existing laws. The immediate effect of such changes would be an improvement in workmen's compensation's ability to serve its major function of income maintenance. One by-product would be the improvements in the cost allocation effect sought by Professor Berkowitz.

I will limit my discussion to some comments on the cost allocation effects of the present system which, like Professor Berkowitz, I believe merit closer attention. My major point will be that these effects differ according to the type of loss-compensation payments or other costs—involved.

For most employers workmen's compensation costs are distributed

[1] Monroe Berkowitz, *Workmen's Compensation: The New Jersey Experience.* (New Brunswick: Rutgers University Press, 1960), p. 273.

according to their *expected* (average) losses, not their *actual* losses. Most employers must purchase insurance to secure their compensation obligation and insurers price their product on the basis of expected losses plus an expense and profit loading.

Over three-fourths of the insured employers, paying annual premiums under $750, are class rated. All such employers engaged in similar business operations pay the same rate per $100 of payroll. For rating purposes there are over 650 classes of business operations. The class rates per $100 of payroll range from a few cents to over $30.

These employers have no direct incentive for accident prevention except that if they incur too many accidents insurers will refuse to insure them directly, thus sending them to an assigned risk pool which in most states means an 8 percent increase in the premium paid. Employers in an industry, however, have reason to encourage loss prevention measures by all members of their industry.

Although most employers are rated this way, these small employers pay only 15 percent of the total workmen's compensation premiums and probably employ about the same proportion of covered workers. Larger employers are experience-rated or retrospectively rated. Experience rating is a complicated process, much more sophisticated than its unemployment compensation counterpart. The basic principle, however, is that employers should pay lower or higher premiums than the average employer of the same size in the same business depending upon (1) the extent to which their experience during the most recent three-year period for which records are available was better or worse than that for the average employer and (2) the statistical reliability of that experience. The objective is to improve the estimate of the *expected* loss for this individual employer on the basis of his individual experience and price the insurance accordingly. The Law of Large Numbers suggests that the experience of larger firms is more likely to be indicative of their underlying loss potential than the experience of small firms and should be weighted more heavily in the rating process.

Retrospective rating, which is limited to very large employers, permits quasi-self-insurance. These employers, therefore, suffer the consequences of *actual* losses as do self-insurers. However, because they employ so many persons, their annual experience tends to approximate their expected losses.

Because of insurance pricing methods, therefore, workmen's compensation costs are distributed largely on the basis of expected losses. Through the substitution of the certainty of expected losses for the uncertainty of actual losses insurance produces many significant benefits for mankind, but one of its drawbacks is a reduction in financial incentives for preventing losses. Experience rating counteracts this effect to some extent by having the insured's actual losses affect the expected loss estimate, but relatively few employers qualify for experience rating. Professor Berkowitz suggests two ways to make more employers eligible. First, he would include more than three years in the experience period. The danger is that earlier years may not be representative of current loss potential. Second, he would combine firms with some common bond other than common majority ownership for experience rating. Such combination is prohibited under present rules on the assumption that firms owned by different persons may have different loss potential. Some precedent exists, however, for combining small employers together for dividend determinations based on their joint experience during the policy year. Although Professor Berkowitz does not mention this possibility, the $750 premium requirement may be too high. Not all employers can be made eligible but insurers have assigned some credibility to small exposures in other lines such as automobile insurance.

Industrial accident costs other than workmen's compensation payments are distributed according to *actual* losses. According to one classic study by H. W. Heinrich,[2] these other industrial accident costs are four times compensation costs. One need not accept this ratio literally to understand the importance of these "hidden costs" which include such items as time lost by other employees; damage to machines, tools, or materials; interference with production; failure to fill orders on time; and overhead costs that continue while the injured employee is a non-producer. Heinrich noted that this four to one ratio should be a powerful stimulus to preventive action. He mentioned specifically its effect on "employers who do not worry about accident cost because they believe themselves to be fully compensated by insurance."[3]

Which is more desirable—to allocate costs on the basis of expected losses or actual losses? For large firms the result may be the same but for small firms the distribution would be much different. For the purpose of alerting society to the cost of each business and each industry in terms of workers' injuries, another advantage claimed for a separate workmen's compensation system, allocating costs according to expected losses is more accurate and more equitable. The task then

[2] H. W. Heinrich, *Industrial Accident Prevention*, 3rd ed. (New York: McGraw-Hill Book Co., Inc., 1950), pp. 49-66. In a more recent study, Simmonds and Grimaldi have argued effectively that the uninsured costs are only about twice the insured costs on the average. They have also proposed a more sophisticated way to measure total loss. R. H. Simmonds and J. V. Grimaldi, *Safety Management*, rev. ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1963), Section III.

[3] Ibid., p. 51.

is to improve the allocation of expected losses. For the purpose of encouraging loss prevention efforts by small employers, however, the threat of actual losses is a much more powerful incentive than some small change in expected losses. Exposing small employers to sizeable compensation losses, however, is not practical nor desirable. Under the present system they do bear large hidden costs which may provide the necessary incentives but also distort the distribution according to expected losses.

Several options exist. Three illustrations follow. First, accept the present system as a reasonable compromise solution. Second, encourage insurers to include protection against the hidden costs as well as compensation costs, thus producing a complete expected loss allocation. For many reasons insurers are not likely to find this approach appealing. It would also lessen loss prevention incentives. Third, require that all workmen's compensation policies include a small deductible or percentage participation provision which would require the employer to share in compensation payments. The employer's share should not be so large that it would threaten his solvency but it should be large enough to stimulate him to think more about the safety of the employees. Such a deductible would pose some administrative difficulties but would not be impossible. Under this option more weight would be assigned to actual losses in allocating workmen's compensation costs than at present. If the major reason for a separate workmen's compensation system is its cost allocation effects, the proper weighting of actual and expected losses is a subject worthy of more research. Even if workmen's compensation disappears as a separate system, its income maintenance function being served by a comprehensive disability income and medical expense program, it may be desirable to allocate the cost of work-related benefits according to current workmen's compensation methods. If so, the distinction between expected loss and actual loss cost allocations will remain an important issue.

DISCUSSION

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Professor Berkowitz properly insists that resource-allocation aspects of Workmen's Compensation are important, that we *should* put a market price on safety, to encourage more of it, or, failing that, to charge consumers more for a product which may disable the workers who produce it. It is important, however, to note that there are *two* ways to improve resource allocation, one, direct incentives for reducing work accidents, the other, raising the cost and the price to discourage activities that cause accidents. It is useful in analyzing situations like this—no fault auto accident insurance is another case—to distinguish between inevitable and evitable accidents, because with the former, only the second way of improving resource allocation is possible.

Whether the charges are based on actual experience (and hence serve both purposes) or only on expected accident experience (and hence are not very effective in inducing individual firms to reduce accidents), a second question arises whether they need necessarily be tied to the compensation of the injured workers. We should think broadly of possible future systems, particularly if we get universal medical insurance coverage, that put accident charges on firms or industries, much like the currently discussed effluent charges, to solve the resource allocation and pricing problem, while leaving it to some entirely separate regime to deal equitably with the compensation of disabled workers. Such a system would require much thought, and we might end up agreeing that for many years to come it would be better to stick with Workmen's Compensation.

There remains the problem which system of compensation should be the residual legatee, paying only where no other system pays. Since, as Mr. Haber's paper shows, a large fraction of disabilities are not work-connected, it cannot be Workmen's Compensation, but the problem of overlap and the resulting inequities requires attention.

Dr. Barth's renewed documentation of the inexcusable variance in standards of compensation is welcome, and useful. It is an interesting speculation whether irrelevant aspects of programs account for the differential levels of compensation, for instance between workmen's compensation, unemployment compensation, and OASDHI. Does it matter whether the system is "contributory", or financed by a payroll tax, or a compulsory insurance program? Who ultimately pays the cost may be less important, perhaps because it is uncertain anyway, than the formal arrangements.

I have a minor quibble with the suggestion that interstate differences in costs of living may account for different benefit levels. There are very small, and often exaggerated, differences in costs of living. It is mostly standards or *levels* of living that differ and we need to pay more attention to the resulting policy issues. Do we want uniform income maintenance standards, even though living standards (and to a lesser extent living costs) vary? I think we do, allowing people to take their compensation and go wherever it provides the most enjoyment. Uniformity becomes more urgent if it is standards only and not costs that vary.

Mr. Haber's report of some of his data is important and intriguing. You must keep in mind that he is reporting on a sample of people who are *currently disabled.* People who became disabled and got well are not included. Hence it is all the more startling to discover how many became disabled at an early age. If we added those who were temporarily disabled at each age, the probabilities of becoming disabled will be even more steeply related to age—very high among the young. I understand that the Social Security Administration is collecting some data on disabilities from which people have recovered. This will allow the estimates of probabilities which we need, and also provide validity cross-checks for possible memory biases.

A second intriguing question is why so many work-related disabilities seem to have occurred with no compensation from Workmen's Compensation. Even though they are only a fraction of total disabilities, it seems important to pursue this matter further with another study to find out why. Is there really such wholesale avoidance of the Workmen's Compensation system? If so studies based on work accident reports or on samples or reported accidents will be badly biased, and only a broader study of injuries or disabilities will allow a proper assessment of the system.

A third intriguing finding is that people with work-related disabilities are less likely to go back to work for the same employer than those injured off the job. This seems like a confirmation of one of the long-standing objections to experience rating—that one injury makes a man a worse risk and hence decreases his chances of reemployment. Second injury funds were set up to reduce this problem. But it remains a difficulty that one of the hidden costs of an accident is that it may leave the individual with one eye, or a higher probability of a bad back recurrence, reducing his potential income without any compensation for it.

It is unnecessary for me to tell Mr. Haber about methodological problems—he has been hard at work on them all along—but it is useful to put into the record a caveat that disability is a difficult thing to define and measure. The data reported here are on functional disability, but with an emphasis on economic impairment. Medical disability may be a different thing. The relation between functional impairment and economic problems is loose. An impairment may have economic effects if it affects the individual's capacity for self care, or his ability to earn income, and the latter may depend on his occupation and education.

Furthermore, disabilities may be persistent, or even progressive. They can be stochastic, with recurrence at uncertain intervals. They can be vague, as when substantial numbers say, "I cannot work I'm nervous". In a Michigan follow-up study, we found that lump sum settlement did not cure bad backs, and without attempting to determine whether any disability is physically real or imagined, we can still argue that it is psychologically real, and will explain behavior. If man says he cannot work, he is not likely to work, whatever we may think about it. Finally, of course, the connection between a man's self image of his disability and reality involves the problem of standards. The legitimate answer to many questions we ask (including: how is your wife?) is, "Compared with what?" Each person has his own standards of comparison, and if his problem is loss of memory, or there are legal or institutional reasons for him to present a public image—for example, to assure a large settlement of a court suit or insurance claim—we have problems.

But Mr. Haber knows all this, and it is good that he has been willing to forge ahead and start to study the problems with the best methods we can devise.

XI

THE LOWER-MIDDLE INCOME WORKER*

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* The discussion presented in this session by Irving M. Levine, American Jewish Committee, is not included in the published Proceedings.

Behind the Averages: A Closer Look at America's Lower-Middle-Income Workers[1]

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It has become popular of late to express alarm about the sorry plight of the "middlemass" American worker, the "forgotten men", the "silent majority", those bearing the burden of the "blue collar blues". This paper aims to express the popular stereotype of the middlemass worker and his "blues" in the language of measurable variables, and to explore the validity of the associated conceptions, assumptions and implications.

The several current versions of the matter involve three distinct propositions. The first proposition (Level I) is that the cluster of psychological attitudes and beliefs that constitute the "blues" is especially prevalent in a particular segment of the workforce defined by demographic characteristics: male, middle income, middle age, low or intermediate education, blue collar employment, head of household. The second proposition (Level II) is that a recognizable cluster of psychological attitudes and beliefs "go together" as a syndrome and constitute the immediate experience of "the blue collar blues"; these include (among others) generalized job dissatisfaction, belief that the working conditions and workplace standards are unnecessarily deficient, dissatisfaction with the amount or equity of financial return, low satisfaction with the intrinsic interest and challenge of the job, belief that advancement opportunities are inadequate, and belief that one is locked into the situation with limited opportunity for mobility. The third proposition (Level III) is that the possession of this syndrome called the "blues" is consequential—i.e., that undesirable conditions or behaviors follow. The often mentioned undesirable consequences include, for example, generalized dissatisfaction with life, alienation from one's society and social role, blunted aspirations, aggressive feelings toward other kinds of people, low sense of political efficacy, mild paranoiac reactions, and mild but debilitating psychogenic health reactions.

In this inquiry we seek to explore the associations among these three categories of variables. To this end we draw primarily upon

[1] The full paper on which this summary is based will be published elsewhere. The inquiry was supported in part by the Employment Standards Administration of the Department of Labor. The opinions and conclusions offered are the exclusive responsibility of the authors and are not necessarily those of the sponsor.

data from a national probability sample interview survey of employed adults. We attempt to see whether the demographic variables (Level I) are in fact associated with the "blue collar blues" (Level II) and with generalized consequences at Level III.

Blue Collar Blues Index

Main reliance in this analysis rests upon an index of the Blue Collar Blues (BCB) constructed from measures available in our main set of interviews and chosen to represent as best we can the prevailing popular conception of the set of evaluative perceptions, attitudes and beliefs that constitute the "blues". The six components used are those mentioned earlier as part of the definition of the "blues". When combined with equal weights, an index of useful reliability is obtained. The components have low or moderate correlations with one another and each contributes some unique variance to the index. On a five-point scale, the overall mean score is 2.72, with standard deviation of .70. The index does *not* have syndromatic properties, and thus is applicable as an index to the whole of the working population.

Comparison of Sex-Income-Collar Subsets

The initial analysis sought to test the proposition that the "blues" are most prevalent in that segment of the workforce that is male, middle income, and of blue collar occupation. Our sample of 1,095 respondents (after deleting the self-employed and the part-time employed respondents) provided eleven discrete subsets for comparison, with the results shown in Table 1. There are small, although statistically significant differences among the compared subsets defined by sex, collar and income. The highest (least favorable) scores go to the low income blue-collar workers, both male and female; the lowest scores (most favorable) to the high incomes sets of diverse sex and collar. Our target subset of workers fitting the blue collar blues demographic stereotype has a mean BCB index of 2.78, a score exceeded by five other groups and falling below five other groups. The main observa-

TABLE I
Mean Blue Collar Blues Scores for Sex-Income-Collar Subsets[1]

Male						Female					
Lo		Mid		Hi		Lo		Mid		Hi	
B	W	B	W	B	W	B	W	B	W	B	W
3.03	2.91	2.78	2.66	2.55	2.43	3.05	2.79	2.92	2.63	......	2.47

[1] Middle income is $5,000 to $9,999. Index scores are on a five-point scale, with mean of 2.72 and a standard deviation of .70. The overall F for between-group differences is 8.2, p = .001.

tion is that the three key demographic characteristics, each known separately to be significantly correlated with BCB, display when combined a modest association with the index and associations not patterned in the manner prescribed by the "blues" demographic stereotype.

Comparison of Middle-Income Stereotypic Groups

The foregoing analysis may have been deficient because important defining characteristics were left out—e.g., educational background, age, number of dependents, etc.—or because they were not combined in a realistic manner. To explore this possibility, we sought to locate some complexly-defined subsets that would more realistically reflect the prevailing conceptions as to distinct "types" of workers in the workforce. Some such types sprang to mind immediately with total consensus. For example, we noted that a commonly recognized type is composed of young females, unmarried, with no dependents, often not a "career girl" but rather oriented toward an expected and preferred role as housewife and mother. The colloquial and unfortunately derogatory characterizing label: "Birds Waiting for Mates". In this manner we selected and defined seven such discrete types of full-time employed adults, and compared their status on the Blue Collar Blues index. The types, their definitions, and their mean BCB scores appear in Table 2.

The outcome is plain of this test of the proposition that the "blues" are distinctively associated with certain segments of the workforce and not others. There are modest between-group differences of marginal

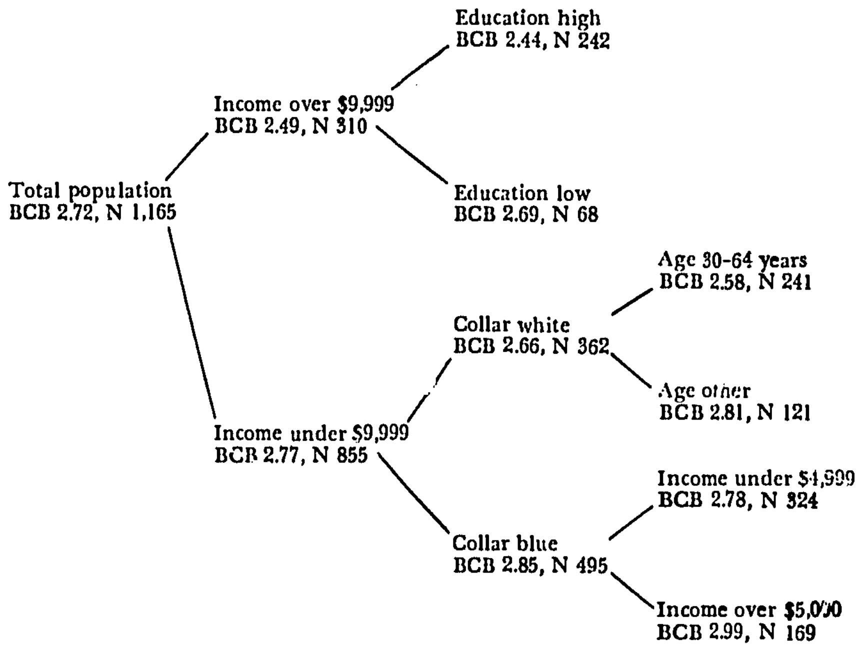
TABLE 2

Mean Blue Collar Blues Scores for Stereotype Groups[1]

BCB	N	Type Characterization
2.74	68	"Hardhats": Male, blue collar, high school education or less, under 50 years, married and/or major support of children, sole or major wage earner of a household.
2.90	23	"Future Hardhats": As above, but under 30 years of age and without dependents.
2.77	87	"Coasters": Male, 50 years of age or more, 10 years or longer with present employer.
2.64	33	"Cratchitts": Male, white collar, high school education or less, age 25–49, married and/or major support of children.
2.79	28	"Birds": Female, under 30 years of age, unmarried, no dependents.
2.99	13	"Matriarchs": Female, major wage earner for a household, one or more dependents.
2.59	68	"Supplement Earners": Female, married, not sole or major wage earner for a household.

[1] Analysis limited to middle-income workers, full-time employed. "Middle-income" is \$5,000 to \$9,999 from respondent's own job. The overall F for between-group differences is 1.5, not significant.

Figure 1: Optimal Divisions on Blue Collar Blues Index with Seven Demographic Predictors[1]



statistical significance. Moreover, it is not the stereotypic Hardhat who has the "blues"—it is, if anyone, his younger and unmarried brother (Future Hardhat, BCB 2.90) or his widowed sister with a couple of kids to support (Matriarch, BCB 2.99). We again have not succeeded in locating any demographic segments of the workforce that are singularly vulnerable to the "blues", and our "target" subset, the Hardhats, hold a relatively favorable position.

Search for Natural Groups

A final effort to test for demographically defined populations subject to the "blues" invoked a procedure called the Automatic Interaction Detector.[2] This procedure searches a given set of predictor variables (demographic variables, in this case) in relation to a given criterion (BCB) to locate the optimum variables, *and* their order, *and* their optimum scalar or category dividing points, to maximize differences on the criterion. If natural subsets or types exist in the data, this procedure will help to find them. The results, Figure 1, support

[1] Total criterion variance accounted for 11%. Predictors not shown because not significantly operative are race, sex and number of dependents.
[2] Described in Sonquist, John A., Elizabeth Baker and James N. Morgan, *Searching for Structure* (Ann Arbor: Institute for Social Research, 1971).

the conclusion from the previous analyses that the associations between demographic categories and the Blue Collar Blues are neither strong nor of a pattern that makes sense in the context of prevailing suppositions about the workforce segments that are vulnerable to the "blues". The extreme groups located by this procedure are at the top and bottom positions in the figure. Low BCB associates with high income along with high education; high BCB associates with relatively low income and also having a blue collar job. This outcome is not very informative. A similar analysis with the same criterion and same predictors, but restricted to the middle income population proved to be equally uninformative, and accounted for but 4% of the criterion variance.

We conclude that vulnerability to the Blue Collar Blues is endemic in the whole of the workforce and rests only slightly upon the demographic characteristics, or combinations of them, invoked by the stereotype of the middlemass worker.

Quality of Work and Blue Collar Blues

If vulnerability to the "blues" rests only slightly on demographic characteristics, then where can one look for explanatory and predictive variables? Perhaps to: (1) Individual differences in needs, values and motives—i.e., "personality," or (2) Qualities of the job itself and the work environment, or (3) Some combination or interaction between them. Our survey data permit exploration of associations between various quality of work indicator and the Blue Collar Blues. The predictors used are derived from responses to a series of questions descriptive of the job itself, of the social and physical environment of the job and the rewards and risks associated with the job. These data were analyzed by use of the Automatic Interaction Detector procedure, and also by a procedure known as Multiple Classification Analysis.[3] Since the results of both procedures are compatible, we represent here only a condensed version of the MCA results, Table 3.

These quality of work explanatory variables account for a satisfying thirty per cent of the BCB variance. The relative importance of the several predictors can be judged from consideration of both the "raw" correlations with BCB (Eta coefficients) and the adjusted Beta coefficients. The eye is struck by the prominence of job characteristics pertinent to having a demanding job, a job that permits good performance, supervisors and associates who encourage high performance, opportunity for variety, and the like. These can be interpreted to represent the "intrinsic" satisfiers and motivators, as compared with the

[3] Described in Frank Andrews, James N. Morgan and Kendra Head, *Multiple Classification Analysis* (Ann Arbor: Institute for Social Research, 1967).

TABLE 3
Correlations between Twenty-Seven Quality of Work Indicators and the Blue Collar Blues Index[1]

Quality of Work Indicators	Beta	Eta
Job does not use my available skills	.195	.261
Number of types of fringe benefits received	.166	.230
My supervisor knows his own job well	.125	.213
Enough machinery, tools, equipment to work my best	.124	.185
Job allows me to do a variety of things	.120	.223
Supervisor insists that subordinates work hard	.112	.036
Risk of being adversely affected by automation, mechanization	.110	.167
Job requires high level skills	.107	.259
Supervisor encourages new ways of doing the job	.094	.269
Supervisor has high performance standards for self	.088	.234
Have enough time on job to do what others expect	.088	.167
Supervisor leaves subordinates alone unless they want help	.084	.192
Have enough help from others to work my best	.078	.197
Annual full-time income rate from job	.077	.227
Can control the amount of overtime I work	.074	.196
Job requires that I be creative	.069	.232
Normal hours of work per week	.067	.073
Job requires that I work hard	.067	.072
Job allows freedom as to how I do the work	.066	.230
Travel time to get to place of work	.063	.076
Job suited to my level of education	.062	.196
Job requires that I keep learning new things	.045	.234
Have enough authority to work my best	.043	.199
Job requires that I work fast	.036	.130
Have enough facts and information to work my best	.040	.133
Employer provides training programs to improve my skills	.028	.160
Can make a lot of decisions on my own	.024	.218

[1] Quality of work indicators are from respondents' replies to questions about own job. Questions are here paraphrased for brevity. Eta coefficients represent unadjusted correlations with the Blue Collar Blues index; beta coefficients represent residual correlations after removal of effects of other predictors. Total criterion variance "explained" is 30%. Number of cases is 1,173.

"extrinsic" variables. Among the prominent "extrinsic" variables are number of classes of fringe benefits received and risk of displacement by automatization. Income from job ranks ninth in importance as to Eta coefficient and fourteenth as to the adjusted Beta coefficient. The related analysis using the Automatic Interaction Detector procedure gave even greater relative prominence to the "intrinsic" quality of work indicators as compared with the "extrinsic" indicators. The relatively poor showing of income in this context can be interpreted speculatively to reflect the fact that income level is so interwoven in—implicit in—the other variables that it has little chance to display great weight as an independent factor in causing or moderating the "blues."

Middlemass Political and Social Values

The inquiry here summarized also addressed itself to the concern often expressed that the lower-middle-income American worker may be driven by the "blues" toward a set of political and social values that are super-conservative, ethnocentric, aggressive, hostile and exceptionally dominated by self interest rather than general societal interests. The general proposition tested is that income, a Level I variable in our conceptual scheme, is associated with various of our Level III outcome or consequence variables. The data used for this phase of the inquiry come from two different national sample surveys concerned respectively with attitudes towards violence and attitudes regarding race relations.[4] The analytic procedure was to compare lower-income, middle-income and upper-income respondents (all white and male adults) with respect to their position on a number of attitudes thought most likely to reveal the hypothesized effect of middle-income status. The effect, if present, should be revealed by finding the middle-income men to be either higher or lower than *both* of the comparison groups on attitudes said to be associated with the middle-income "blues."

Twenty-six attitudes were so tested. Paraphrased examples of the selected attitudes: "The way to prevent riots is to 'get tough'", "I prefer my own children to have only white friends", "I approve of violence as a means to achieve needed social changes". The resulting data are too voluminous to represent here. In sum, of the 26 attitudes tested, only three show the hypothesized effect to a degree beyond the likelihood of sampling and measurement error, 6 others show the effect in trivial degree or in a direction opposite to expectations, and 18 show the white, male middlemasser to hold views cosily intermediate between their higher and lower income fellow citizens. The weight of the evidence suggests that the middle-income workers are generally influenced in their political and social views in the same ways and by the same forces that apply to others; the deviations appear to be specific to certain issues.

Some Conclusions, Reflections, Suggestions

1. The "blue collar blues" appears to be a concept of some meaning, although a badly misnamed one. We have shown that a crude index of the "blues" can be constructed that has some internal coherence, that fits the conceptual substructure, and that is strongly associated with the possessors' conditions of life at work.

[4] Monica Blumenthal, Robert L. Kahn, Frank M. Andrews and Kendra Head, *Justifying Violence: The Attitudes of American Men* (Ann Arbor: Institute for Social Research, 1971).
Angus Campbell, *White Attitudes toward Black People* (Ann Arbor: Institute for Social Research, 1971).
Angus Campbell & Howard Schuman, *Racial Attitudes in Fifteen American Cities* (Ann Arbor: Institute for Social Research, 1968).

2. The blues are only slightly associated with the demographic and socio-economic indicators most frequently advanced as defining the location if not the causes of the "blues" in the American workforce. The experience of the "blues" is not inherent in one's sex, age, middle-income status, collar color, or other relatively fixed attributes. We suggest that this result of our inquiry should be accepted with gratefulness and hope, for if it were otherwise then there would appear to be little chance of effective action to moderate the blues except through some radical change in the composition of the workforce.

3. The "blues" are strongly associated with specific features of the job and the work setting as they are perceived and experienced by the workers. The causes of the blues can reasonably be supposed to include those features of the job and the job setting that insult the ego. Granted the importance of adequate and equitable pay, reasonable security and safety, reasonable comfort and convenience, it still remains that for the American worker in the 1970's these do not insure against the blues. Potent factors are those that impinge upon the worker's values concerning self-respect, chance to perform well in his work, chance for personal achievement and growth in competence, chance to contribute something personal and unique to his work—in short, his self actualization. It appears that only such an idealistic view is realistic, as the workers see it.

4. It is grossly in error to remain fixed on the idea that the blues are the exclusive property of the stereotypic hardhat. He shares it equally with his neighbors of disparate personal backgrounds, occupations and incomes.

5. While the middle-income male workers do appear to hold some distinctive and worrisome views on political and social issues, the prevailing pattern of our results suggests that these are responses to specific experiences and issues, *not* a consequence of a generalized alienation of middle-income workers from our society.

6. Strong association between an array of specific conditions at the workplace, on the one hand, and the set of perceptions and beliefs we have called the "blues" on the other, provides strong support for those who seek to improve our society by improving the conditions of work. We must pay attention to those who argue that, even in those industries and occupations most ossified by their technological and capital investment characteristics, there are feasible, low-cost and low-risk means for improving working conditions in those respects that matter most for the workers. It is time we put our collective mind to the task of improving the quality of jobs.

Blue-Collar Prospects—Grey, White, or Green Collar?

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Not very long ago when the nation thought of its blue-collarites it thought of them with warmth, good humor, and co-identification. With the help of the patronizing media the blue-collar stereotype was a blend of "Life with Luigi," the gentle joes of "Gasoline Alley," Jackie Gleason's bus driver character sketch, and the basic lovable boob himself, William Bendix's "Life of Riley." Today it thinks with uneasiness, ill humor, and guarded dissociation of "Archie Bunker," "Joe," and "Wanda." What has been happening to popular imagery here, and why? What clues does it offer to the future of the blue-collarite?

Several years ago the nation was inclined to devalue the quaint ethnic distinctiveness of certain blue-collarites, delight in the alleged economic well-being of most blue-collarites, and demean the erratic political potential of a very few maverick blue-collarites. Today it struggles to understand the apparent resurgence of blue-collar ethnicity, the harsh complaints of Phase II blue-collar breadwinners, and the erratic politics of many volatile manual workers. What has been happening to blue-collar realities, and why? What may the worker be trying to tell us, and how might this illuminate his possible future?

Until very recently a "Life of Riley" image dominated our perception of the American worker. Lulled by the somnambulistic Eisenhower fifties and the "End of Ideology" thesis of Bell in the early '60's we generally endorsed three mis-representations of the worker: He was hailed as a grateful new member of the Great Middle Mass. He was represented as substantially pleased with his economic well-being. And his political reliability, his unavailability for adventuresomeness in political matters, was commonly taken for granted. Shortsighted and superficial this thesis of contented embourgeossification remained unchallenged right on through the mid-1960's.

At that time the race and class turbulence in domestic affairs and the appearance of a new Conflict ideology in the social sciences (thanks to Dahrendorf, Coser, Lash, Lynd, and others) drew attention to a strikingly different proposition: The worker was now viewed as non-assimilated in class terms, mal-contented in economic matters, and politically unpredictable, fully as capable of left-wing revolutionary as of right-wing reactionary swings. Genial "Riley" gave way to "Tough Tony," a white power advocate of the Italian Anti-Defamation League, and the blue-collar image came to accent ethnic differences from, rather than commonalities with the Great Middle Mass. The inflationary squeeze on real earnings, the erosion of purchasing power, and the exorbitant cost of borrowed dollars earned new-found recognition from academics, the media, and the public alike. Hyper-ethnicity and harsh economics combined with the worker's flirtation with George Wallace to lend a special separateness and even proto-fascistic flavor to a new and unflattering image of the blue-collarite.

Not surprisingly, the manual worker may be mis-represented once again by his erstwhile interpreters. Instead of discerning any positive and encouraging clues to the future of the working class in his new-found turbulence many commentators discern only negative and frightening auguries: His ethnic revival is disparaged as a vicious backlash, a Yahoo retreat from a more elevating homogenizing social process. His economic sensitivity is belittled as the envious bitching of insatiable materialists. And his political restlessnessness is quaintly regarded as quixotic self-seeking of no real depth, substance, or significance.

What is lost sight of is exactly the "Luigi" and "Riley" inheritance which truly suffuses, and substantially influences the contemporary mass of blue-collarites. Much nostalgia circulates today through the culture of modern manual workers: Many reminisce longingly of a time gone past when things were truly different (or are recalled as such): Men, and not machines were in the saddle. America was plainly and proudly an ethnic "cassorole," and few felt the lure (or lash) of a bland homogenization, a Melting Pot cauldron approach. Earnings and obligations seemed more kindly in balance, and a high order of civility characterized the relations of strangers encountering outside the still-more-friendly worlds of stable ethnic neighborhoods. Above all, men seemed to have a large say in their own destiny, and there was room to feel challenged by one's work, to exert craft, and to gain and reinforce pride in manhood.

Accordingly, it is possible to locate nostalgia-suffused clues to the future of blue-collarites in their newfound ethnic, economic, and political turbulence, provocative clues that are radically different from the condescending, snobbish write-off common to many more popular interpretations and commentaries.

"Archie Bunker's" return-to-ethnicity, for example, may not be as much a forerunner of racist exclusivity as it may be a harbinger of healthy dissociation from the less worthy aspects of a plastic Mass

Culture and Mass Society. "Archie" may be writing a new Declaration of Independence, this time dissolving the ties that invidiously operate against native cultural traits (nationality, religious, regional, etc.) and taking a stand instead in favor of the precious right of individual cultural autonomy. Possibly jogged to his senses by the richly-variegated example of Black Power and Pride, "Archie" may be declaring out of the dull sameness of the Sears Roebuck world he seemed enamoured of for so long; his new-found pride in old-country ties may help preserve a cassorole richness that Sears Roebuck will never be able to can, catalogue, and mass-merchandise.

As for his economic bitching, it may not be as much a forerunner of still more strident demands for "more" throughout the 1970's as much as a harbinger of healthy dissociation from the entire wage-and-hour treadmill itself. "Archie" may be writing an overdue corrective to the academically-popular Perlman thesis of narrow job concerns ("Tom, Dick, and Harry" trade unionism). Instead, consistent with Frank Tannenbaum's old reading of the libertarian, egalitarian, and neo-socialistic potential inherent in the blue-collar mentality "Archie" may be asking "out" of chase-after-your-tail economics. Possibly jogged by his press and TV awareness of standard of living gains in more socialistic nations abroad, "Archie" is showing ever more curiosity about calls for a guaranteed annual income, socialized medical care, subsidized sabbaticals and early retirement plans, and low-cost high-quality housing, mass transit, and higher education. His new-found perplexity about the full ability of capitalism to reward all as they should be may help vitalize public dialogue about our socio-economic order.

Finally, in the matter of his erratic political potential, it may not be as much a forerunner of narrow Machiavellian self-seeking as a harbinger of exciting new political alignments. "Archie" may be sensitive to a development which already has the polity dividing along new lines quite different from the conventional radical/conservative axis. He may even now feel challenged to identify with what Nigel Calder labels the emerging faction of Zealots (tough-minded and technological opportunists) or the Mugs (tender-minded and scientific conservationists). Possibly jogged by the unexpected defeat of the SST and its implications (as well as those of the ecological cleanup effort) for job disruption, "Archie" is showing more concern than ever before for the shape and goals of national socio-technical policy. His new-found political maverick stance may finally help direct American politics into an overdue assessment of the costly impact on all of us of

"Technics" (Mumford's "Pentagon of Power," the megamachine, with its vast dehumanizing potential).

With this now posited the lines of controversy here should be clear: The same three phenomena, or blue-collar hyper-ethnicity, economic bitching, and erratic political potential can be interpreted as clues to a prosaic, insignificant, and possibly even hazardous future (hazardous for the worker and the nation alike). Or, they can be read as signs of an exciting, profound, and probably auspicious future for blue-collarites and all others alike.

Certain relevant changes now apparently underway in the blue-collar family itself lend support to the latter, rather than to the former set of possibilities. Family members, for example, appear to be staking out new claims in decision-making that affect their own lives. In place of unquestioning docility and conformity, as encouraged by the Mass Society, blue-collar women are employing "the pill," and their sons are declining to fill the old man's (occupational) shoes. Family members are also placing new values on old standards of role performance. In place of the dominance of wage-earning at the top of the family head's role, many blue-collar women and children are now asking for non-financial connections to the old man, for warm and intimate ties greater than any encouraged by the plastic Mass Society or common in recent years to emotionally-constrained blue-collar families. And finally, large numbers of family members appear to be groping to assimilate new models of life into their once-insular scheme of things. Challenged by media caricatures of themselves ("Archer," "Joe," etc.) and by media glorifications of alternative life styles ("Bachelor Father," "I Love Lucy," etc.) blue-collarites are exploring different value systems, albeit in a cautious, uncertain way (components here include sabbatical years off for steel workers and their families, early retirement options, radical mid-life career changes, etc.). In short, then, turmoil of this kind in blue-collar families seems both linked to, and illuminating of the current revival of selected ethnic traits, a call for new economic "citizenship," and a progressive exploration of sociotechnical issues by blue-collar men.

Is this then, what "the Bunkers" are really all about? Is "Archie" a barely-suspecting agent for a "greener" America than he can as yet explain or possibly even fully grasp? Are blue-collarites acting out their part somewhat unknowingly in a "Greening of America" drama, far larger than any imagine, a post-industrial scenario that fairly well assigns parts and lines by design and intent?

Possibly. And in the bare shadow of this we have all the reason necessary to finally put both the clownish imagery of "Riley" and the demonics of "Joe" behind us. The blue-collarite developing around us gives exciting evidence of becoming a new and very different man, increasingly more independent of our plastic social ways, sensitively larger than our economic materialism, and politically more exploratory than our conventional routines expect. His future is likely to be far "greener" than many now realize, not the least of whom include millions of blue-collar "new men" themselves. Again, as in the 1930's when blue-collarites helped revitalize, and give new direction to a flagging American society, the manual worker appears to have his special part to play today in the enormous task of reclaiming America for personal autonomy, humanistic economy, and life-sanctifying technology. Nothing less will insure that Riley's boobishness and Joe's panicky emptiness will long remain behind us all, artifacts of a far-less-"green" America than is good for any of us.

ANOMIA AND MIDDLE AMERICANS: SOME OBSERVATIONS ON NORMATIVE FLEXIBILITY

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I. Types of Social Alienation

Webster's Third International Dictionary defines anomie as "a state of normlessness or lawlessness: a state of society in which normative standard of conduct and belief have weakened or disappeared: a similar condition in the individual commonly characterized by personal disorientation, anxiety, and social isolation." In Melvin Seeman's significant effort to elaborate the meanings of alienation, he refers to normlessness as a situation where the individual finds "a high expectancy that socially unapproved behaviors are required to achieve given goals."[1] "Meaninglessness" is a second variant of alienation and is defined as a situation where "the individual is unclear as to what he ought to believe—when the individual's minimum standards for clarity in decision making are not met."[2] Melvin Seeman's discussion of the meaning of alienation distinguishes a total of five varieties of alienation including powerlessness, social isolation and self-estrangement.

Alienation as class bias. Lewis Coser, in discussing "normative flexibility" seems to be describing what has often been labeled normlessness. His major argument is that particular societal positions stress innovation and that "individuals are likely to be highly motivated to engage in innovating behavior because they are structurally induced to depart from prevailing social norms." He goes on to state that:

> There are also other positions in a group than those of marginal men that motivate innovating departures from the norms. For example, the status of leader requires the ability to adjust to new circumstances. The rank and file may take the customary for granted, but a break from wont and use may enhance the reputation of the leader. The flexibility required in leadership roles may entail greater or lesser departures from otherwise expected behavior so that a certain amount of license to deviate and to violate norms is built into the very definition of leadership.[3]

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[1] Melvin Seeman, "On the Meaning of Alienation," *American Sociological Review*, Vol. 24 (December 1959), pp. 744 & 746.
[2] *Loc. cit.*
[3] Lewis Coser, "Some Functions of Deviant Behavior and Normative Flexibility," *American Journal of Sociology*, Vol. 68 (September 1962) p. 180.

Erving Goffman, in a discussion of role behavior introduces the notion of "role distance"—which he describes as withdrawal from role expectations "to actions which effectively convey some disdainful detachment of the performer from a role he is performing."[4] The surgeon who jokes during an operation, the nurse who withdraws into the role of female for a moment, these are examples of role distance for Goffman. Rose Coser, in relating the notion of role distance to the required deviation from official role behavior, states:

> In modern complex society the segmentation of roles and the differentiation in time and space where they have to be enacted make the dealing with multiple contradictory demands much easier . . . role relationships, rather than being a source of constraint as some will have it provide the opportunity for socially creative behavior . . . In spite or perhaps because of the difficulty that this entails such ambivalence and role conflicts will also provide . . . the opportunity to assimilate from his various associations ever more patterns of responses which he can put at the service of conflict resolution.[5]

We wish to argue that the kind of anomia which Lewis Coser calls normative flexibility, and Goffman implies in his notion of role distance represent forms of "social alienation" which have a curvilinear pattern in American society. If we define alienation as passivity and lack of involvement in political action, then low status people may indeed rank quite high. If the need for responding to organizational goals and being able to handle complex role relations characterizes relatively high status persons, then they may be seen to be reflecting the form of alienation described as normlessness. Therefore what we seek to demonstate is that *the very adaptive mechanisms which a different strata in American society display in one form or another are tied to class ideologies. Taking such a perspective then permits an examination of how different strata respond to social change.*

II. Bureaucratic Man and Normative Flexibility

Beginning with the work of Riesman (1950) and more recently William Whyte, (1956) a model of the "organization man" has emerged as a description of the upper middle class. In this image we find significant elements which argue that persons in this strata embrace attitudes and behaviors which in the more conventional definitions of normlessness or meaninglessness have been viewed as signs of social breakdown.

[4] Erving Goffman, *Encounters* (Indianapolis: Bobbs-Merrill 1961) p. 110.
[5] Rose L. Coser, "Role Distance, Sociological Ambivalence, and Transitional Status Systems," *American Journal of Sociology*, Vol. 72 (September 1966), pp. 186–187.

Litwak and Fellin have investigated the "stepping stone neighborhood" phenomenon in Buffalo and Detroit and argue that:

> The pressure of industrial bureaucratic development has socialized people to think of personality as being shaped by environment and capable of improvement. This pressure derives from the fact that bureaucratic organizations must utilize interpersonal abilities as technical attributes of the job and, like any job attributes, constantly seek to improve them . . . the work experience of the administrative bureaucrat trains people to rapidly integrate into new groups (e.g., neighborhoods, voluntary associations) by systematically exposing them to 'ordered change'.[6]

The empirical data shown by Litwak and Fellin indicate that upper middle class bureaucrats are more likely than others to know many neighbors even though they may be relatively new to an area, and to belong to more associations even where they are newcomers to an area.

An even more recent treatment of the normative flexibility or anomia is that of Melvin Kohn:

> Bureaucrats are found to value self-direction more highly than non-bureaucrats, to have more personally demanding moral standards, to be more receptive to change, to be intellectually more flexible. . .[7]

Kohn's explanation is that job protection accounts for the values of bureaucratic man. "It thus appears that men who are protected from some of the dangers that change might bring are less fearful of the new and the different."[8] The positive functions of anomia for the organization man are treated in a somewhat different light by C. Wright Mills in his now classic analysis of the power elite:

> The moral uneasiness of our time results from the fact that older values and codes of uprightness no longer grip the men and women of the coporate era, nor have they been replaced by new values and codes which would lend moral meaning and sanction to the corporate routines they must now follow. It is not that the mass public has explicitly rejected received codes; it is rather that to many of the members these codes have become hollow.[9]

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[6] P. Fellin and E. Litwak, "Neighborhood Cohesion Under Conditions of Mobility." *American Sociological Review*, Vol. 26 (April 1961), pp. 259–271.

[7] Melvin L. Kohn, "Bureaucratic Man: A Portrait and an Interpretation," *American Sociological Review*, Vol. 36 (June 1971) pp. 464–465.

[8] *Loc. cit.*

[9] C. Wright Mills, *The Power Elite* (New York: Oxford University Press, 1956), p. 344.

Daniel Boorstin has described a cultural pattern in which anomia is the basis of the national economy:

> We expect too much of the world. . . . Our expectations are extravagant in the precise dictionary sense of the word—"going beyond the limits of reason or moderation" . . . We expect everybody to feel free to disagree, yet we expect everybody to be loyal. . . . We expect compact cars which are spacious; luxurious cars which are economical. . . . We expect to eat and stay thin, to be constantly on the move and ever more neighborly.[10]

III. The Functions of Lower Class Anomia

While the impact of the image makers and bureaucrats seem to raise the chimera of anomia to an organizational and economic necessity, it is also clear that all of us are more accustomed to viewing the anomia of lower class groups as a social fact. But as in the case of the presumed rigidity of buseaucracy or the rootlessness of upwardly mobile executives, we tend not to see the positive implications. It is precisely this point that Hyman Rodman develops in his notion of the "lower class value stretch":

> At the heart of our analysis lies the issue of when old values die and new values develop. It is precisely because old values never die they only fade away, and because new values only gradually appear that it may at time be difficult to state categorically that a particular value is effectively held by a particular individual or shared by a particular group. . . . Despite the difficulty this poses for us, we can nonetheless see that it is entirely possible for a lower class person to hold middle class values without developing any new values, or to abandon middle class values while developing a new set of values. . . . It is because the lower class person to a degree typically shares the middle class values and also hold values unique to the lower class that he is able to adapt to his circumstances. . . . Once the lower class value stretch has been developed the lower class person is in a better position to adapt to his circumstances because he has a wider range of values with which to operate.[11]

Elliot Liebow's recent study of lower class Blacks provides a remarkably similar analysis for life style of "streetcorner men":

> The overall picture is one of a broad web of interlocking, overlapping networks in which the incumbents are constantly—

[10] Daniel Boorstin, *The Image* (New York: 1961) pp. 3–4, 5–6.

[11] Hyman Rodman, "The Lower Class Value Stretch." *Social Forces*, Vol. 42, (December 1963), pp. 209 & 214.

> however irregularly—shifting and changing positions relative to one another. This fluidity and change which characterize personal relationships is reflected in neighbor and kin relationships, in family, household, indeed in the whole social structure of the streetcorner world. . . . A shadow system of values constructed out of public fictions serves to accommodate.[12]

IV. Low Anomia and Middle Americans

Contrast now the view we have presented of groups higher and lower in social standing than Middle Americans: S. M. Miller has defined the dominant themes of the lower middle class worker:

> He is traditional, "old fashioned," somewhat religious, and patriarchal. The worker likes discipline, structure, order, organization and directive, definite (strong) leadership, although he does not see such strong leadership in opposition to human warm, informal, personal qualities. . . . With workers it is the end result of action rather than the planning of action or the preoccupation with means that counts. An action that goes astray is not liked for itself; it has to achieve the goal intended to be satisfactory. It is results that pay off.[13]

Miller's discussion suggests that the preoccupation of upper status groups with process elements of decision making, with the style of administration, or with the reducing of social distance between members of an organization. Alienation from bureaucracy for Middle Americans may be less a matter of active participation than evaluation of results—particularly relative to initial cost. Kolaja in a small study of workers and community leaders found that "workers were more concerned with the goals of their organization . . . rank and file tend to pay less attention to the means of realization of the goals."[14]

Two basic policy implications relate to an institutional focus of low normative flexibility: *how Middle Americans define the functions of major bureaucratic structures in the society and how they see their own role and that of professionals running such organizations.* Expectations regarding the performance of such structures is therefore linked, we argue, to preferred styles of organization and to the critical intervention points for assessing how well structures are doing their job.

The implications of the low normative flexibility of Middle Ameri-

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[12] Elliot Liebow, *Tally's Corner* (Boston: Little, Brown & Company, 1967) p. 218.

[13] S. M. Miller, "The Working Class Subculture," *Social Problems*, Volume 10, Winter 1963, p. 94.

[14] Jiri Kolaja, "Images of the Future by Community Leaders and by Workers," Paper presented at the 66th Annual Meeting, American Sociological Association, Denver, Colorado, September 1971, p. 5.

cans has to do not merely with individual attitudes although those are indicators, and not merely with current resistance to school bonds or support for George Wallace. What we are referring to more fundamentally is the position of the Middle American in the society where the organizational revolution has already taken place by and large without the support, participation, or perhaps even the awareness of Middle Americans. What we now are experiencing is the inversion of this process starting with recognition of the danger, mobilization to oppose the change, and where organized political power is available, the attempt to undo that revolution.

The position of the white lower middle class American is one of seeing the organized poor, militant blacks and upper middle class whites effectively creating new bureaucratic entities, and manipulating them in their own interests. They also see existing governmental and business structures acting in directions that deny major value premises of Middle Americans. In describing some examples we shall distinguish the kind of social alienation which sees social action as useless—a kind of passive alienation—from the forms of felt powerlessness which imply support for and development of important sources of institutionalized and non-institutionalized social action. In this effort we shall imply that Middle Americans do in fact divide into two groups which share a common dissatisfaction. In one group there is low perceived status threat and they are far less likely to mobilize and act upon their discontent. Middle Americans whose status position is less firmly anchored and who are constantly under cross-pressure from the other group.

V. Major Findings

Our analysis has employed a comparison of three sub-groups—Middle Americans with perceived status inconsistency, Middle Americans with no perceived status inconsistency, and other (mainly high status) respondents with perceived status inconsistency. The following differentials occurred among the total of 37 interviews:

1. Where Middle Americans are status inconsistent, they see value differences with neighbors more often than status inconsistents who are not "Middle Americans."
2. Status inconsistent Middle Americans are the highest in responding to felt anomie than either status inconsistent non-Middle Americans or status consistent Middle Americans. The same pattern occurred in agreeing that "A job is done best when one person is in charge."
3. When asked about other groups moving up faster than themselves, status inconsistent Middle Americans tend to

choose Negroes rather than the rich or the poor; status consistent Middle Americans select the rich more often.

4. The group most "bothered" by several types of alleged behavior by Negroes in terms of economic, status, or political threat are those who are status inconsistent, regardless of whether they are Middle Americans or not.
5. The group most disturbed by several alleged privileges of the rich are Middle Americans who are status consistent.
6. Where several problems of the functioning of major social institutions are listed, Middle Americans tend to choose a larger number of criticisms than other respondents.
7. Middle Americans choose "lack of clear cut policies" as a criticism of major institutions more often than other respondents; this is especially the case for status inconsistent Middle Americans.
8. Criticism of unions is focused on lack of clear cut policies for status inconsistent Middle Americans but more upon the complexity and power of unions for status consistent Middle Americans and other respondents.
9. Status inconsistent Middle Americans are least critical of "stubborn supporters of social movements," equally supportive with other status inconsistent respondents of the need to belong to an organized group "to get anywhere."
10. Status inconsistents in general support different protest actions of workers, taxpayers, women and Negroes more than other respondents.
11. Middle Americans are more likely to legitimate direct action by Negroes than by women, and are most likely to support such actions by "workers."
12. Status inconsistent Middle Americans object less to neighborhood integration as a way to improve race relations than do status consistent Middle Americans or other status inconsistent respondents. A reverse ordering prevails regarding the favoring of "special government training programs for Negroes."

VI. Conclusions

High levels of what has been termed normlessness or anomia displayed by relatively high status and low status groups provides a useful framework to view the position of the Middle American. This latter group we argue has neither the value system which functionally requires normative flexibility nor the resources to act upon institutions so as to effectively bend them to its own values. In contrast to transitory organization men and lower class persons whose limited resources require that they break rules to survive, Middle Americans have adhered most to the institutions and values which the upper middle class—both youth and adults—now appear to denigrate.

Where once the enshrinement of value consistency, adherence to principle, and trust in decisions of those in authority represented key elements of life, Middle Americans now find schism instead of certitude. Whether the area is child rearing or doing business with "Red China," Middle Americans face adherence to their values as a battle against prevailing forces of change. Someone appears to have moved the finish line. The standards of what is good have changed. These are people who ran the extra mile . . . who really carried out the beliefs others only spoke in behalf of. They never shirked their duty. . . . They tried hard to conform to the values and it is precisely this conformity that now results in punishment for what at one time was seen as virtue.

Further we have suggested that the Middle Americans who most feel encroachments of normlessness are those whose own status position is most fluid—status inconsistents who find the coin of their mobility less than hard currency given the heterogeneity of their primary group social milieu. So, within Middle America a dichotomous pattern can be identified: persons fixed in status but locked into their setting with no "daylight" above—and a second group in close proximity to the upward or downward movement of others. What is often seen as a Middle American phenomenon may in fact be a resultant of status inconsistency. Findings which do not take both Middle American alienation and status inconsistency alienation as interrelated factors may mask the unique, but correlated effects of each.

VII. Implications for Social Policy

We have first stressed that the form of social alienation is linked to questions of values which often treat attributes of one group as a "problem" while failing to observe that this same attribute in one's own group is a virtue. For Middle America, normative rigidity and absence of anomic attitudes has become a barrier to the social goals of other groups—particularly blacks and other low status racial minorities. Social policies which fail to take account of the value preferences of a particular group cannot anticipate support from such a group and are more likely to build resistance where a basic principle of group norms is violated.

In a paper on antipoverty policies, S. M. Miller touched on this issue by arguing that all social programs seeking improved conditions for the poor can be analyzed in terms of six dimensions: (a) fundamental or incrementalism, (b) universality or selectivity, (c) ambiguity or specificity, (d) continuity or succession, (e) equality of opportunity or conditions, and (f) elite determination or self-determination.[15] Evidence from the limited pre-test data on Middle Americans suggest that in the case of dimensions (b) and (c) and to lesser degree (e) and (f), groups are liable to respond differentially. Thus, Middle Americans may accept social policies which stress universal principles in application, that have highly specific goals, and which are carried out with a minimum of self-determination. Blacks, by contrast, may react to policies in terms of their selective application, their ability to permit self-determination and specificity—probably as this relates to accountability of institutions. The poor may be most concerned about the continuity of programs so that the initial promise does not soon give way to further disillusionment, selectivity based on categorical need, and flexibility in the goals or organizations serving their community and neighborhood.

Bases for coalition and conflict can be identified once these several policy dimensions are linked to subcultural values. Blacks and Middle Americans may agree on school accountability because in this instance both stress product and less ambiguity of goals. Each group may sharply differ because equality of opportunity means establishing a priori rules for the game while equality of final results means constant modification where monitoring shows unequal consequences.

The need to explore these broad dimensions of policy is therefore a product of examining the ways in which particular groups perceive existing social structures and their own value preferences in relation to them.

[15] S. M. Miller, "Criteria for Antipoverty Policies: A Paradigm for Choice," *Poverty and Human Resources Abstracts,* Vol. 2, No. 5 (September-October 1968) pp. 3-11.

DISCUSSION

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Primary focus of this commentary will be on the paper by Seashore and Barnowe, since it comes the closest of the three presentations to my own work over the past two years. But in general, I should say at the outset that this session and similar ones (including recent conferences and publications) are in part an offshoot from what might be called the "fruitful errors" of our chairman, Jerry Rosow. It was his memo to the President, in 1970, on problems of the blue collar workers, which has stimulated both journalistic accounts and careful systematic reports on this somewhat amorphous issue.

Speaking to that very point, Seashore's paper demonstrates that it is possible to construct some type of "blues" index. For me, one of the most important facets of this problem—and too frequently neglected by certain types of social scientists with their trained conceptual incapacities—is that traditionally used variables, such as sex, age, income, and occupation, may not be the relevant ones through which to find an understanding of the "blues." This also leads to another point, that since occupation may not be among the explanatory variables, blue collar workers are not exclusive in their claims to the type of discontent measured by Seashore and his associates. Nevertheless, it does seem to me to be important that we discover *who*, among the blue collar workers, do have the "blues."

In other words, *intra*-class analysis is called for, not merely *inter*-class reports. We have no way of knowing, however, whether or not blue collar workers in the national sample analyzed by Seashore have a higher or lower percentage (compared to others) with a high "blues" index. Tables (such as those in the Seashore-Barnowe paper) which present only arithmetic means cannot reveal distributional data, and it still may be true that blue collar workers have a higher *proportion* with the blues.

In my own research (which has concentrated exclusively on white male blue collar workers, i.e., *intra*-class), I have found that there is a large minority (about one-third) who register a high degree of discontent (as measured by questions pertaining to discrepancies between job and life expectations and achievements, along with perceptions of job-promotion chances). Some of the variables associated with this discontent are composite ones, not single variables. For example, education and wages *combined*, but not separately: education and age *combined* but not separately, etc.

Just as Seashore's analysis reveals, a major source of discontent among these "lower-middle-income workers" (sic!) is also in the nature of the job a person daily performs.[1] It is in this context that Seashore's observation is so pertinent:

> Granted the importance of adequate and equitable pay, reasonable security and safety, reasonable comfort and convenience, it still remains that for the American worker in the 1970's these do not insure against the blues.

Indeed, among the nearly 400 white male blue collar workers interviewed in my own study, it appears that the nature of job tasks (e.g., degree of autonomy, variety, and responsibility) becomes of greatest significance precisely among those men experiencing no unemployment (over the previous 20 months) *and* earning wages above the sample average (about $3.50). There are even some political aspects involved too.

May it not be that, to the degree we achieve and sustain an economy in which millions of workers do enjoy a high degree of job security and wage adequacy, Nirvana is not thereby assured; that new types and levels of "problems" emerge among workers in all occupations?

The symptoms of these emerging problems may be growing (not merely in America), and we "experts" who think of economic security as the only, (or almost the only) basis of discontent have become confused. It may be truer than in the past that worker discontent with his job is not a mere projection on the part of intellectuals who themselves would be repelled if doomed to work, day in and day out, in unchallenging jobs and with little discretion as to how to perform them. Real, live workers are increasingly feeling the same way.

The time may be fast approaching when intervention into the work process may become a challenge not only for management "human engineers," but also for union officials, and for government—to the degree that *work* discontent—apart from anxieties over employment and low wages—begins to affect the body politic and the social order.

[1] For a fuller report on these and other findings, see H. L. Sheppard and Neal Q. Herrick, *Where Have All the Robots Gone?* (New York: The Free Press, 1972).

DISCUSSION

Basil Whiting
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I am struck again at this meeting by two characteristics that seem common to discussions in the last two or three years on lower middle income Americans and their problems. The first characteristic is that there is an extraordinarily unusual variety of people involved in such meetings and they approach the subject with widely different styles, display greatly disparate purposes, interests, and intentions, and discuss matters of widely differing substance. Hence, we have at this gathering scholars, businessmen, people with government backgrounds, people from the foundation world, and social activists. Our styles range from scholarly erudition to romanticism and our interests apparently from revolution to accomodation.

The second characteristic has to do with a confusion regarding the subject we are all ostensibly addressing. During earlier presentations three general terms were used: "Middle Americans"; "Blue Collar Workers"; and "Ethnics." The same terms have been used frequently and, unfortunately, inter-changeably in many forums over the last two or three years. Hence, it is important to point out what should be obvious: These three terms by no means relate to the same group of people. "Middle Americans" has never been clearly defined but it certainly includes "white collar" as well as "blue collar" workers and "non-ethnics" as well as "ethnics." Further, it would be difficult to maintain that "blue collar workers" are the source of all the gripes that we've come to associate recently with middle American malaise. Independent shopkeepers, white collar workers, government employees, and even professionals and sub-professionals (especially teachers) are displaying all the fears and concerns that have been discussed here and elsewhere. Finally, while ethnicity has received a great deal of deserved attention recently, it is very clear that there is more to the malaise we are discussing than the outrage of second and third generation Italians and Poles in northern and midwestern cities.

The problem with all of this, of course, is that we still do not know *who* is *how angry* at *what* and *why*. Nor is it fully clear how we answer the question "So what?"–i.e., what are the consequences of this alienation? Much of the discussion of the last two or three years has been speculation based on good or poor journalism, intuitive judgments, anecdotal evidence, and personal experience. Little in the way of data has yet been gathered. Sar Levitan has only recently edited a volume containing some excellent articles and useful data. Donald Warren's project, however, will be the first concerted effort I know of to zero in on all of the presumed aspects of middle American malaise. In addition, we are beginning to get some interesting secondary analyses of the Seashore type.

I would like to make some general comments on one aspect of this phenomenon and close with a few brief comments on the papers themselves. I think it's important to focus on the interests and concerns of people who devote attention to this phenomenon of middle American malaise—and this relates very heavily to the "So what?" question I mentioned a moment ago. If you recall, we all first heard about the "alienated American" back in 1968 when George Wallace was stumping the country and meeting with a surprisingly strong response from certain elements of the population. From that time until now certain concerns and interests have emerged regarding this ill-defined population and its problems. Let me list a few:

1. *Interracial violence*: This is the earliest reaction to this phenomenon. Because of Cicero and Wallace and the "backlash" of "law and order," there was a grave concern that the society could disintegrate into a racial war between low middle income whites and blacks. The great fear was over the "arming of the ethnics" and what that might mean for social stability. This, of course, was a reaction of fear that depended upon stereotypes, had no strong programmatic implications, and was mainly concerned with avoiding violence on a massive scale.

2. *Incipient Fascism*: Following on the heels of the above was a somewhat broader concern that ethnics and other lower middle income Americans might represent a proto-Fascist force in the society that could lead to the placing of Wallacites and worse in positions of power. Hence, the concerns of that population had to be understood and addressed in order to avoid this possible political extremism.

3. *Road block to the poor*: Some of those who devoted early attention to the problems of middle America did so because they perceived that middle Americans could block progress for racial minorities and the poor in general. Their primary goal remained the effort to move the poor to parity in the society, and their interest in the lower middle income white population had mainly to do with appeasement; i.e., some attention and some resources had to flow to these whites so that they would not block progress for the poor.

4. *To meet real needs*: Somewhat later voices a bit more sympathetic to lower middle income concerns began to be heard and

these voices have now grown to a chorus. In essence, they maintain that lower middle income populations have serious and very real problems similar to but differing mainly in degree from those afflicting the poor. Resources should flow to the white population not to appease them or to avoid some apocalypse of violence or political extremism, but as a matter of right in a democratic society. The most responsible of such spokesmen agree that the bulk of society's attention and resources should go to those at the bottom of the heap, but that due regard must be paid to problems of those only a step or two up.

5. *"Weathering the ordeal of change"*: More recently still, some observers—with just a tinge of cynicism—point out that the problems of low middle income Americans, while real, are not so severe as the rhetoric of the day would have it. Middle American restiveness is a normal reaction to a situation of rapid social change. Moreover, that reaction is well within the tolerances of the American political and economic system and that system is responding rather well. Republications are reaching out for a constituency that is voicing concern about real though not severe problems by inviting hardhats to the White House, passing anti-bussing statutes, and installing wage price restraints. Democrats have been somewhat shaken by the potential defection of a major element in their coalition and are reaching to regain its allegiance.

6. *The new "or at least bigger" Coalition*: A somewhat different view has it that the alienation of lower middle income Americans offers an opportunity not merely to maintain (or demolish) the old Democratic Coalition, but to forge a new and more powerful coalition between the blacks and the poor and middle America—a coalition for substantial social change whose goal would be the completion of the New Deal agenda—perhaps a more modern, participatory, consumer-oriented "Social Democratic" agenda.

7. *Radical cultural transformation*: Finally, a set of observers perceives the malaise of the lower middle class as the potential vehicle for a radical political, economic, and cultural transformation towards extensive community control, diffusion of power, and economic decentralization. These viewers—as best examplified by Mr. Shostak—foresee a sort of "greening of middle America."

Obviously, this spectrum of possibilities and concerns calls forth a great variety of interests, commentators, and substantive issues, as noted earlier. Hopefully, we will begin to have data within the next few months—most especially from the Warren-Litwak study—to throw some light on the significance and nature of this phenomenon.

A few words about the papers themselves. There is really little to say about the Shostak paper; one either agrees or disagrees with it. No data is cited and the tone is more that of romantic prophecy than anything else. I suspect that in the long run much of what Mr. Shostak foresees may indeed occur. On the other hand, the long run may be very long indeed, and I would prefer to see some evidence of the "volatile modernity in blue collar dynamics" that he perceives. In short, while I am sympathetic to much of what the paper contains, I don't find it very helpful.

Dr. Seashore's paper is a small intellectual gem, a tight, elegant analysis that I wish I had had something to do with funding. The limitations of the paper, of course, are inherent in its data base. That was a survey conducted on behalf of the U.S. Department of Labor on working conditions. The sort of secondary analysis that Dr. Seashore has performed is interesting, but really of quite narrow focus if we are concerned with the broadest possible exploration of the issues involved in lower middle class alienation. While I suspect that much of this alienation is traceable to job site factors, and while I agree that much more attention needs to be directed to the satisfaction of an individual in the social milieu of his work, it is important to investigate community and familial variables as well. The data base here simply does not allow us to assert that the major—or even a substantial—"cause" of middle American alienation is the lack of humanity in the work place.

Dr. Warren's paper serves as an appetizer for the reports to flow from this major study. Certainly the conclusion suggested in Dr. Warren's paper cannot be held at present merely on the basis of a limited pre-test sample, but the consequences of his thesis—if confirmed by further analysis—can have major ramifications for public policy in this country. Again, as I noted earlier, this study will be the first major national sample survey directed specifically to questions of middle-American alienation. Its results will be of great significance and should allow us all to talk much more authoritatively about this phenomenon a year or so from now.

XII

EDUCATION AND LABOR SUPPLY

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Educating the Employed Disadvantaged for Upgrading*

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Introduction

The Civil Rights Act of 1964 issues a clear mandate for equal employment opportunity in American industry. Although the Act leaves no doubt about Congressional intent in protecting the rights of those employed after July 1964, a question has arisen in regard to those hired before said date. Is the employer obligated to remove the present effects of past discrimination? In a landmark decision in 1968, the U.S. District Court in New Orleans, Louisiana answered the question in the affirmative in a case involving the Crown-Zellerbach Company.[1]

The Crown decision, which was upheld on appeal, was critical for the southern paper industry since Negro employment conditions were very similar among the various companies. Many blacks were hired in the past under discriminatory employment standards which allowed them to be assigned only to specific tasks wherein the opportunity for upgrading into better paying positions was denied. Under the court order, these people became a part of an "affected class"[2]—the employed disadvantaged—and it was incumbent upon employers to develop plans by which equal employment opportunities could be achieved.

It is the purpose of this paper to examine specific adult basic education programs utilized by four southern paper companies for the purpose of providing better job opportunities for those employees who were hired as laborers and until new expectancies were created be-

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[1] *United States v. Local 189, United Papermakers and Paperworkers, Crown Zellerbach Corp. et al.*, 282 F. Supp. 39 (E.D. La., 1968); affirmed F. (2d) (C.A. 5, 1969). See also *Quarles v. Philip Morris*, 279 F. Supp. 305 (E.D. Va. 1968).

[2] The "affected class" is defined in Note "a" to Table 1. It refers o the black employees hired under *discriminatory* employment conditions generally *prior* to the Civil Rights Act of 1964. The "non-affected class" consists of all white employees, regardless of date of employment, and those black employees hired under *nondiscriminatory* employment conditions generally *after* passage of civil rights legislation in the 1960's. In this study, Georgia Kraft offered its adult basic education program to only affected class members, whereas Continental Can, Union Camp, and Crown Zellerbach opened their programs to all employees who wished to participate. It was, therefore, possible to compare affected class and non-affected class employees at the latter three companies in terms of educational achievement and job upgrading.

lieved they would remain in such jobs all of their working lives. The basic questions that the study attempts to answer are: (1) What educational results were achieved by the programs in terms of improvement in reading and math skills? and (2) What job results were attained by the program graduates? The latter question is particularly crucial and one that has been relatively unexplored by those concerned with in-plant educational training programs.

Research Methodology

The data analyzed herein were collected from the companies shown in Table 1 during the period of December 1970 through October 1971. Company personnel directly involved with the programs were interviewed at the plant site. These individuals included industrial relations directors and their assistants, plant managers, and instructors/monitors in the courses.

All of the companies studied are located in the deep South states of Georgia and Louisiana where segregated patterns of education and employment have historically led to the disadvantaged status of blacks. Low income, poor educational achievement, and an inferior labor force position, relative to whites, characterize the Negro communities in the locations studied.

Data in Table 2 reflect the mean performance, as measured by the Stanford Achievement Tests, of the program graduates in the affected and non-affected classes. Statistical analysis was employed to determine whether or not there was any significant change in the difference of mean performance before and after program administration

TABLE 1

Basic Data for Companies Studied

Company	Location	Adult Education Program	Dates of Operation	Number in Affected Class[a]	Program Graduates in Affected Class
Crown Zellerbach	Bogalusa, La.	MIND	11/69– 8/70	186	7
Continental Can	Hodge, La.	MIND	4/68–Present	69	10
Union Camp	Savannah, Ga.	MIND	6/68–Present	629	26
Georgia Kraft	Rome & Macon, Ga.	USR&D	3/69–12/70	130	71

[a] The affected class is defined in the companies as follows: (1) Crown Zellerbach: All Negro employees hired prior to 1/16/66 and 13 others hired under special conditions prior to 2/14/68; (2) Continental Can: Negro employees hired before 12/10/64 in the Shipping and Stockroom and Millyard Departments; (3) Union Camp: Minority employees hired prior to 12/31/69 who were initially placed in a job from which there was little movement, or were placed in jobs in which minority group employees constituted more than 50% of the incumbents; (4) Georgia Kraft: Negro employees who have remained in entry-level positions for a long period of time who have either not taken the company's pre-employment tests or have taken them and failed to make a qualifying score.

TABLE 2

Comparative Performance of Selected Graduates of Adult Basic Education Programs in Four Companies

	Mean Performance		Difference in Standard Units	Mean Performance		Difference in Standard Units	Mean Performance		Difference in Standard Units
	Affected Class	Non-affected Class		Promoted Affected Class	Unpromoted Affected Class		Promoted	Unpromoted	
Crown-Zellerbach	[$t_{.10,15df} = \pm 1.75$]			[$t_{.10,4df} = \pm 2.13$]			[$t_{.10,15df} = \pm 1.75$]		
Reading Score (Before Program)	4.78	6.40	−1.35	4.15	6.05	−2.21*	5.44	6.38	−0.79
Reading Score (After Program)	5.28	7.20	−1.67	4.80	6.25	−2.31*	5.97	7.31	−1.18
Math Score (Before Program)	4.08	5.66	−1.54	4.35	3.55	0.76	4.67	5.73	−1.04
Math Score (After Program)	5.80	7.85	−0.84	6.97	6.45	0.20	7.03	8.13	−0.90
Change in Reading Score	0.50	0.80	−0.50	0.65	0.20	1.73	0.53	0.93	−0.71
Change in Math Score	2.72	2.19	0.58	2.63	2.90	−0.15	2.36	2.40	−0.04
Stated Education	8.67	9.64	−0.86	9.25	7.50	1.40	0.53	0.92	0.01
Age	42	42	−0.91	39	47	−1.30	42	41	0.23
Continental Can	[$t_{.10,60df} = \pm 1.67$]						[$t_{.10,60df} = \pm 1.67$]		
Reading Score (Before Program)	3.30	5.11	−1.72*	4.00	3.22		5.81	4.74	0.92
Reading Score (After Program)	4.80	7.14	−2.26*	5.60	4.71		7.91	6.67	1.06
Math Score (Before Program)	2.72	5.08	−2.38*	3.80	2.60		5.55	4.64	0.81
Math Score (After Program)	4.26	6.98	−2.66*	5.40	4.13		7.45	6.48	0.83
Change in Reading Score	1.50	2.03	−1.63	1.60	1.48		2.10	1.93	0.46
Change in Math Score	1.54	1.89	−1.20	1.60	1.53		1.90	1.84	0.17

TABLE 2 (Concluded)

Comparative Performance of Selected Graduates of Adult Basic Education Programs in Four Companies

	Mean Performance		Difference in Standard Units	Mean Performance		Difference in Standard Units	Mean Performance		Difference in Standard Units
	Affected Class	Non-affected Class		Promoted Affected Class	Unpromoted Affected Class		Promoted	Unpromoted	
Union Camp	[$t_{.10,24df} = \pm 1.71$]			[$t_{.10,20df} = \pm 1.72$]			[$t_{.10,24df} = \pm 1.71$]		
Reading Score (Before Program)	3.96	9.15	−7.03*	4.60	3.66	1.60	4.60	4.82	−0.21
Reading Score (After Program)	4.80	12.82	−9.01*	5.53	4.47	1.50	5.53	6.14	−0.44
Math Score (Before Program)	3.65	5.72	−2.72*	4.11	3.43	1.19	4.11	3.92	0.28
Math Score (After Program)	4.92	10.58	−11.12*	5.31	4.73	1.38	5.13	5.96	−0.65
Change in Reading Score	0.84	3.28	−4.81*	0.93	0.81	0.43	0.93	1.33	−0.68
Change in Math Score	1.27	4.85	5.03*	1.20	1.30	−0.21	1.20	2.05	−1.03
Georgia Kraft				[$t_{.10,40df} = \pm 1.68$]					
Reading Score (Before Program)	2.92			2.93	2.91	0.03			
Reading Score (After Program)	4.59			4.63	4.58	0.09			
Math Score (Before Program)	3.31			3.44	3.23	0.22			
Math Score (After Program)	5.37			5.43	5.36	0.13			
Change in Reading Score	1.67			1.70	1.67	0.06			
Change in Math Score	2.06			1.99	2.08	−0.15			
Stated Education	7.31			8.56	7.02	1.67			
Age	40			38	40	−0.66			

* Significant at the .10 level.

Notes: (1) Data were insufficient to compute age and stated education levels at Continental Can and Union Camp.
(2) Continental Can had only one promoted affected class member, and this is not enough information to make the statistical comparison.
(3) Georgia Kraft had no non-affected class members in the programs.

among those in the affected and non-affected classes, the promoted and unpromoted in the affected class, and the promoted and unpromoted among all program graduates.

Programs Studied

As indicated in Table 1, the follownig two adult basic education programs were used by the companies studied:[3]

(1) Methods of Intellectual Development (MIND) began in mid-1964 as a pilot research study of the National Association of Manufacturers to determine the feasibility of developing human resource programs in private industry. It became a wholly-owned subsidiary of CPC International (Corn Products, Inc.) in February 1967 and more recently it has been operated by a private consulting firm in New York City. MIND operates a variety of programs teaching occupational skills such as typing and stenography in addition to an Adult Basic Education Program that was implemented by Continental Can, Crown Zellerbach, and Union Camp. Fundamental philosophy, based on a self-learning concept, and training methods that include programmed instruction are similar for all MIND programs.

The two basic components of the Adult Basic Education Program, reading and mathematics, are part of a carefully structured course. The materials which are sold to each client, while undergoing revisions from time to time, are not specifically tailored to a given company or group of employees even though there are wide variations in both the uses to which the program is put and in the background of employees. Participants in the MIND program study in an informal atmosphere with an effort being made to change the learning environment from the traditional schoolroom setting to one where each person is able to proceed at his or her own pace. Monitors, chosen from among the employees in the plant, rather than professional teachers, are employed to work with the trainees.

MIND projects that a student functioning initially between grade levels 4.5 and 8.5 should be able to progress 3 to 5 grade levels in the standard course of 160 hours of training offered on a two hour a day, five day a week, basis. Trainees are generally given the Stanford Achievement Test at the beginning of the program to determine reading and math grade levels, and these tests are readministered at the end of the course to establish progress. MIND claims that adults who

[3] A detailed statement on these two programs pertinent to their origin, philosophy, and objectives can be found in a larger study to be published early in 1972 by the Industrial Research Unit of the Wharton School. Richard L. Rowan and Herbert R. Northrup, *Educating the Employed Disadvantaged for Upgrading*, Philadelphia: Industrial Research Unit, Wharton School, University of Pennsylvania, 1972.

score below grade 4.5 initially have particiapted with varying degrees of success although it advises that these individuals be given additional tutoring. A special language program has been developed for those who score below fourth grade; however, it has resulted in limited success.

(2) United States Research and Development Corporation (USR&D) was founded in 1967 by former staff of the Peace Corps and other federal programs, and it has expanded widely in the adult basic education field. A special program was developed for the Georgia Kraft Company's affected class members.

USR&D, like MIND, emphasizes programmed instruction in math and reading. The course is offered for a maximum of 216 hours in which trainees can attend six hours a week for 36 weeks. Unlike MIND, however, USR&D does not train company personnel as instructors but rather supplies the total staff including administrators, secretaries, training directors, and group leaders. The concept of a teacher is much more important to the USR&D program than in the MIND operation.

Educational materials used by USR&D are quite similar to those used by MIND and similar problems have arisen. Employees who are functioning below the fourth grade level, as determined by the Stanford Achievement Tests, appear to have difficulty in relating to both programs, and neither seems to have solved the problem of the nonreader or those with a limited vocabulary.

Analysis of Results

The following sections pertain to the educational and job advancements attained by employees in the affected class who graduated from the MIND or USR&D programs. The analysis is based on data shown in Table 2.

Educational Results

One of the major goals of the adult basic education programs referred to herein was to improve the functional literacy of the employed disadvantaged. Scores on the Stanford Achievement Tests administered before and after the programs indicate low levels of functional literacy. Before the programs, employees were functioning at about the third or fourth grade level in reading and mathematics. Educational improvement after 160 hours in the MIND program and about 216 hours in the USR&D program was slight.

Under the MIND program, changes in reading performance were 0.50 grade levels at Crown, 1.50 grades at Continental Can, and 0.84 grades at Union Camp. In mathematics, improvement was somewhat greater with advancements of 2.72 grades at Crown, 1.54 grades at Continental Can, and 1.27 grades at Union Camp. In the USR&D program at Georgia Kraft, improvement in reading was 1.67 grades and in mathematics, 2.06 grades. Advancement in each category and in each company was considerably less than the 3 to 4 grades projected by the MIND and USR&D programs. Black employees in the affected class consistently register more improvement in math than reading. This probably results from past environmental influences. Negro males, who attended segregated schools in the rural South until they dropped out between the sixth and eighth grades, did not gain a wide vocabulary and reading skill. It apparently is much more difficult to compensate at a later age for a deficiency in language skills than in mathematics.

As noted in Table 2, there was no significant difference in the change in reading and math scores of the affected class and non-affected class members in the MIND program except at Union Camp. The exception may be quite important. It suggests that the program has widened the gap between the most severely disadvantaged and other employees in the plant. If it is true that employees with the greatest functional literacy are given better opportunities for upgrading, then the program, at least at Union Camp, may make it more difficult for the affected class members to progress in the future.

The poor educational results of the two programs indicate that they have not been effective in the in-plant environment of the southern paper industry where functional literacy is at a low level. Advancement of only one to two grade levels after 160 to 216 hours of instruction raises fundamental questions about the programs and the context into which they have been introduced. Course materials obviously were not designed to reach the most seriously disadvantaged employee who may be functioning at or below the fourth grade level in reading and mathematics. Both of the programs have failed, in particular, to provide a solution to the problem of the nonreader. The courses offered are neither sufficiently engrossing nor taught in a manner necessary to provide a breakthrough for the functional illiterate.

Lack of success in the programs may be attributed in large measure to course content and teaching methodology. Much of the reading material is not relevant to the southern, small town, experience. Stories that relate to the unemployed in the large, metropolitan, eastern cities are not likely to stir the imagination of the long-term employed people in Bogalusa and Hodge, Louisiana and Rome and Savannah, Georgia who are disadvantaged by prior discrimination but nevertheless have had steady employment over the past 20 years, relatively good wages, and considerable status among their peer groups. A narrative on a trip to New Orleans or Atlanta would more likely motivate workers in Louisiana or Georgia than a story pertaining to a visit to New York City. The use of a programmed learning device that employs taped cassettes also may limit the effectiveness of the program for those who need it the most.

MIND and USR&D differ somewhat in their outlook as to the use of a teacher. MIND conscientiously avoids using a teacher or instructor in the traditional sense by employing a monitor who performs an administrative and/or personal service function of simply maintaining records and assisting the trainees in using cassettes. The monitor is usually a female employee who has been working in the plant. In contrast to MIND, USR&D utilizes trained instructors in its courses.

In a somewhat more discouraging light, it may be that the failure of these programs to upgrade educational skills of participants lies more in the characteristics of the employed disadvantaged than in shortcomings of the programs themselves. The typical affected class member is a 40 year old Negro man who was employed under a highly discriminatory system in the paper industry in a small southern town fifteen to twenty years ago. His stated education is about eighth grade, and he was functioning at about the fourth grade or less before the adult basic education program. He has lived in a segregated community all of his life with little or no oral communication between himself and his white counterpart. He now holds a steady job at good wages. It may be that no basic education program can be devised to deal with this person in a significant manner if the goal is to raise his educational level by four or five grades.

Job Results

One of the basic questions in this study pertains to the job results of the adult basic education programs. Were affected class members upgraded as a result of performance in the educational programs?

Data presented in Table 2 indicate clearly that within the affected class group and among those in both the affected and non-affected class groups there were no significant differences in the improvement in math and reading between the promoted and unpromoted employees. On balance, it appears that educational advancement was not a crucial factor in the upgrading decision.

Since there appears to be very little, if any, relationship between the improvement in functional literacy and in-plant promotion, other factors must explain the decision to upgrade. Traditional routes for employee advancement apparently still prevail in the companies studied. Seniority and initial job placement appear to determine largely the upward mobility of individuals in the plant. It needs to be pointed out that some employees among the disadvantaged, who did not participate in one of the programs, moved into better jobs as a result of a change in rules regulating job transfer. These movements occurred regardless of improvements in functional literacy and this fact raises the question once more as to the value of educational improvement as a major means of in-plant upgrading.

Concluding Remarks

This study was concerned with two adult basic education programs —Methods of Intellectual Development (MIND) and United States Research and Development Corporation (USR&D)—utilized by four southern paper companies to provide upgrading opportunities to the employed disadvantaged workers. The study concludes that only minimal educational results were achieved; in most cases, improvement was only 1 or 2 grades in math and reading. In regard to job improvement or upgrading, very few program graduates made any advancement and there was no significant difference in the mean performance of those promoted and those not promoted. Educational improvement did not appear to be a major factor in the upgrading decision of the companies studied.

The study strongly suggests the need for new thinking about the approach to eliminate the present effects of past discrimination. It is not clear that there was any understanding by the companies of the relationship between functional literacy (which is the thing that MIND and USR&D claim, and have demonstrated, that they can improve) and promotion on the job. It is, of course, likely that an improvement in reading and mathematics skills is valuable to an employee, but how valuable is this to jobs in a paper mill? This is a question that appears to have been neglected in early planning stages between MIND, USR&D, and the companies. Also, how much of an improvement is necessary to further qualify an employee for promotion in a job? In a job sense, of what significance is the fact that participants in the programs advanced educationally by 1.2 grade levels or by 2.3 grade levels? Perhaps the difficulty with these questions lies in the fact that no one has determined conclusively what combination of education and training is necessary for promotion through the various lines of progression in a paper mill.

Among the major factors that distinguish white employees, who have made considerable progress up a promotion ladder, from the employed disadvantaged black workers are not stated educational levels and functional literacy but rather many years of training and preferential treatment in early job placement. The gap is not likely to be bridged by a given number of hours spent in an adult basic education program. A more sensible approach may be to offer blacks an opportunity to move into lines of promotion where richer opportunities lie and to offer the requisite training and privileges to allow them to progress in as short of a period of time as possible. But since this is so difficult to do in terms of firmly entrenched seniority systems, white expectancies in the plant, and black unwillingness to accept new conditions of in-plant job transfers after so many years of discrimination, the most we can hope for is that the sins against the fathers will not be visited on the children. And there is reason to have faith. New entrants are being hired and assigned to all departments in the southern paper industry regardless of race. In the meantime, older, disadvantaged employees may remain part of the cruel cost involved in operating a segregated and highly discriminatory society of which employment is only one aspect.

Equal Educational Opportunity for Vocational Education: A State Supported Loan Program*

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1. Introduction

The State of Indiana is considering the adoption of a loan program for vocational education students in order to improve educational opportunities and to encourage students to acquire needed vocational skills. The feasibility of such a program depends on whether students without sufficient financial resources will borrow to finance an education and on the cost of the plan to the financing body.

Two general types of plans are being considered. The first and best known type requires equal repayments each period while the second type has unequal repayments that are related to income in some fashion.[1] Policy-makers have shown great interest in income (related) repayment plans because it is thought they will attract more low income borrowers.

This paper presents comparisons of equal and income repayment loan plans in terms of both propensities to borrow and costs. The analysis is based on questionnaire responses by post-secondary vocational students to a set of hypothetical loan plans. In general the responses indicate that a significant percentage of vocational students lacking financial resources will borrow and that, contrary to expectations, fewer students will borrow under income repayment plans than equal repayment plans.

The paper is organized as follows. Section 2 presents a discussion of the major reasons for creating a loan program for vocational students in Indiana. Section 3 contains a description of the seven loan plans that are investigated. Section 4 includes hypotheses regarding the propensity to borrow under different loan plans. Section 5 is a description of the data while Section 6 contains results regarding propensities to borrow. Section 7 presents cost comparisons of the loan plans and, finally, in Section 8, the major results are summarized.

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[1] A version of the latter type—an income contingent repayment loan plan—has recently been instituted at Yale University.

2. The Case for Greater Aid to Vocational Students

During the decade of the 1960's, the provision of equal educational opportunities became a moral imperative in America. Many financial aid programs were established to provide educational opportunities. These aid programs can be judged in part according to equity considerations. A program is equitable if all prospective students with the same need can acquire the same amount of resources, *regardless of educational objective.*

In the State of Indiana, students choosing post-secondary vocational education do not have equitable access to financial aid programs when compared to general education students.[2] More specifically, many vocational students attending private proprietary schools in the State of Indiana are not eligible for the four major federal student aid programs, i.e., Educational Opportunity Grants, Work-Study, National Defense Loans, and Guaranteed Student Loans. This is because only 21 of almost 180 proprietary schools in Indiana are certified by the U.S. Department of Health, Education and Welfare to participate in these aid programs. It appears that approximately 20,000 of 40,000 public and proprietary vocational students in Indiana are not eligible for the conventional aid programs.

In addition, a loan program can be useful in attracting students into vocational education, thereby helping to overcome shortages in skilled occupations. Indiana suffers from a shortage of skilled workers. A recent survey by the Employment Security Division shows that at present the supply of personnel is inadequate to meet the demand for many jobs ranging from medical technicians to appliance repairmen.[3]

3. Description of Loan Plans

Seven types of loan plans are examined. For each loan plan, the respondent is asked to assume that (a) a student can borrow enough to cover tuition and subsistence living costs, *regardless of need*; (b) the loan is obtained from the school; (c) the student can receive simultaneously other types of financial aid such as educational opportunity grants.

Each loan plan is composed of a combination of six parameters. They are (1) The point at which interest charges begin—Interest

[2] This is particularly serious since vocational students tend to come from low income families and thus may need more outside resources to acquire education than general education students. See J. P. Lisack, *75,000 High School Seniors*, Office of Manpower Studies, Purdue University, 1970.

[3] *Occupational Demand in Indiana*, prepared by the Indiana Employment Security Division, 1970.

charges begin either at the time of the loan or at the time the student leaves school. (2) The Interest Rate—3 and 7 percent are used. (3) The Repayment Period—Twenty and thirty year repayment periods are used. (4) Schedule, i.e., the time profile of repayments. Equal repayments and income related repayments are used. (5) Contingency, i.e., the flexibility of the repayment schedule. Either a repayment must be paid regardless of actual income, or the size of the repayment is contingent on actual income. (6) Forgiveness—Either the debt must be paid in full or it is cancelled after 30 years.

Based on the six parameters, seven hypothetical loan plans were constructed. The student respondents were asked to indicate how much (if any) they would borrow under each of the plans. The plans are organized as follows:

Plan 1: Subsidized Interest,[4] 10 Year Equal Repayments

- the interest charge is 7 percent
- the repayment period is up to 10 years
- INTEREST CHARGES START AFTER THE STUDENT STOPS ATTENDING SCHOOL AT LEAST HALF TIME.
- repayments are the same size each year

Plan 2: Non-Subsidized Interest, 10 Year Equal Repayments

- the interest charge is 7 percent
- the repayment period is up to 10 years
- INTEREST CHARGES START WHEN LOAN IS TAKEN
- repayments are the same size each year

Plan 3: Non-Subsidized Interest, 20 Year Equal Repayments

- the interest charge is 7 percent
- THE REPAYMENT PERIOD IS UP TO 20 YEARS
- interest charges start when the loan is taken
- repayments are the same size each year

Plan 4: Non-Subsidized Interest, 20 Year Income Graduated Repayments

- the interest charge is 7 percent
- the repayment period is up to 20 years
- interest charges start when the loan is taken
- REPAYMENTS ARE GRADUATED ACCORDING TO EXPECTED INCOME, SO THAT REPAYMENTS IN EARLY YEARS ARE COMPARATIVELY SMALL

[4] This is a subsidized plan because interest charges do not begin until the student stops attending school.

Plan 5: Non-Subsidized Interest: Income Contingent Repayment

- the interest charge is 7 percent
- interest charges start when the loan is taken
- REPAYMENT EACH YEAR IS A CONSTANT PERCENT OF ACTUAL GROSS INCOME
  If the student earns an *average* income, the loan will be repaid in 20 years. If he earns a *below average* income, it will take more than 20 years to repay. If he earns an *above average* income, it will take less than 20 years to repay.

Plan 6: Non-Subsidized Interest, Income Contingent Repayment with Forgiveness Clause

- the interest charge is 7 percent
- interest charges start when the loan is taken
- repayment each year is a constant percent of your actual gross income. If the student earns an *average* income, the loan will be repaid in 20 years. If he earns a *below average* income, it will take less than 20 years to repay.
- IF ALL DEBT IS NOT REPAID BY THE 30TH YEAR, THE REMAINING DEBT IS CANCELLED

Plan 7: Subsidized Interest, 20 Year Income Graduated Repayments

- THE INTEREST CHARGE IS 3 PERCENT
- THE REPAYMENT PERIOD IS UP TO 20 YEARS
- interest charges start when the loan is taken
- repayments are graduated according to expected income, so that repayments in early years are comparatively small. (Plan 7 is identical to Plan 4 except for the lower interest rate in Plan 7.)

4. Hypotheses Regarding the Propensity to Borrow

Hypothesis 1: Persons experiencing great financial difficulty will have the highest propensity to borrow.

Hypotheses 2 through 7 rank the loan plans in terms of the percentage of students who plan to borrow, regardless of financial difficulty.

Hypothesis 2: Students prefer subsidies.

- Under Plan 1, interest charges accumulated in school are forgiven. Thus, Plan 1 is preferred to Plan 2.
- Under Plan 6, students are forgiven outstanding debt after 30 years. Thus, Plan 6 is preferred to Plan 5.
- Plan 7 is identical to Plan 4 except the interest rate is 3 rather than 7 percent. Thus, Plan 7 is preferred to Plan 4.

Hypothesis 3: Students prefer long repayment periods. Long repayment periods provide better match-ups between returns and costs of education. Thus, Plan 3 is preferred to Plan 2.

Hypothesis 4: Students prefer repayments scheduled as a fixed percentage of *expected income* to repayments that are equal. In the former case, repayments are smaller in the early, low income years. Thus, Plan 4 is preferred to Plan 3.

Hypothesis 5: Students prefer repayments that are a fixed percentage of *actual income* rather than *expected income.* Repayments that depend on actual income allow borrowers to avoid fixed outflows at times of low income. Thus, Plan 5 is preferred to Plan 4.

5. The Data

The data used to evaluate the loan plans were obtained from a pilot questionnaire administered to students in Public Technical and Vocational schools in the State of Indiana. The questionnaire was administered to approximately 2400 vocational students in seven major post-secondary institutions which enroll about 75 percent of all public vocational students. The response rate was 40 percent with 953 questionnaires returned. It was initially decided to eliminate any questionnaire which contained incomplete responses to the seven loan plans; this further reduced the sample to 656 usable questionnaires.

Because of the desire for a large sample size in the pilot run of the questionnaire, it was decided not to ask the respondents to identify themselves. This prevents proper analysis of the non-respondents and prevents evaluation of the representativeness of the sample. Therefore, the reader is cautioned that the reported results are strictly tentative. A revised version of the questionnaire will be administered to a scientifically selected sample (including both proprietary and public vocational students) in the immediate future.

6. Results Regarding Propensities to Borrow

Table 1 presents the results of the student responses to the loan plans. The respondents' propensity to borrow is presented in Row 8. In addition, Rows 5 through 7 show propensities to borrow[5] for the sample based on their own perceptions of the degree of financial

[5] These borrowing propensities may be overestimated because students who say they will borrow may not borrow. This problem is explicitly treated in the revised questionnaire.

TABLE I
Student Responses to Loan Plans

Row Descriptors	Plans 1	2	3	4	5	6	7
1. Respondents with Great Financial Difficulty	51	51	51	51	51	51	51
2. Respondents with Some Financial Difficulty	314	314	314	314	314	314	314
3. Respondents with No Financial Difficulty	291	291	291	291	291	291	291
4. Total Respondents	656	656	656	656	656	656	656
5. Percent Borrowing, Great Financial Difficulty	77%	41%	43%	37%	31%	37%	55%
6. Percent Borrowing, Some Financial Difficulty	40	22	30	20	15	16	40
7. Percent Borrowing, No Financial Difficulty	16	8	10	7	6	7	16
8. Percent Borrowing, All Persons	32	17	22	15	12	14	30
9. Average Borrowing, Great Financial Difficulty	$1096	$1081	$1191	$1251	$1353	$1239	$1398
10. Average Borrowing, Some Financial Difficulty	977	823	1005	1055	1021	1134	1077
11. Average Borrowing, No Financial Difficulty	1063	941	1118	895	866	1071	1102
12. Average Borrowing, All Borrowers	1017	895	1057	1062	1056	1143	1128
13. Average Borrowing, All Persons	326	154	234	162	129	155	339

difficulty they are experiencing.[6] The degrees of financial difficulty are (a) great financial difficulty, (b) some financial difficulty, and (c) no financial difficulty. Examination of Rows 5 through 7 confirms Hypothesis 1. The propensity to borrow is strongly related to perceptions of financial difficulty; that is, the percentage who will borrow increases as perceived financial difficulty increases. This relationship holds regardless of the type of loan plan. Examination of Row 8, columns 1 and 2, 5 and 6, and 4 and 7, confirms Hypothesis 2, i.e.,

[6] An objective measure of financial difficulty is desirable. However, such a measure should include items like parental income, assets, number of dependents, and number of dependents in school. The questionnaire secures parental income, but not the other necessary variables.

students prefer subsidies. Examination of Row 8, columns 2 and 3 confirms Hypothesis 3, i.e., more students borrow if the repayment period is longer. Examination of Row 8, columns 3 and 4, leads to the rejection of Hypothesis 5, hence students prefer equal repayments to repayments scheduled as a fixed percentage of *expected income*. Likewise, examination of Row 8, columns 4 and 5, leads to the rejection of Hypothesis 5; thus, students prefer repayments that are a fixed percentage of *expected income* rather than actual income.

The loan parameters that do not perform as expected are schedule and contingency. The outcomes on these parameters lead to the following conclusions:

(a) more students will borrow if repayments are equal in size than if repayments are graduated according to income, and

(b) more students will borrow if repayments are a specified amount rather than contingent upon the actual amount of income earned.

Hence, for the vocational students in this sample, recently advanced loan programs, such as the Income Contingent Repayment Loan Program introduced at Yale are not particularly popular.

We can only speculate as to why income repayment plans are not preferred. One possible explanation is that vocational students borrow relatively small amounts, say $2000 over two years. Under 20 year repayment plans, they do not worry about default. They prefer the equal repayment plan to force themselves to save. A second possibility is that the students do not understand exactly how the income repayment plans work. Hence, more complete information may reverse the results. A third possibility is that borrowers are in the habit of repaying debt in equal installments. This habit leads to resistance to unfamiliar types of repayments. Finally, a likely explanation may be that the administrative costs of family budgeting are higher under the income repayment plans than under equal repayment plans.

7. Comparative Costs

Although a non-subsidized loan program can be costless to the government in the long run, considerable start-up costs are incurred initially until the fund becomes self sufficient, i.e., until repayments exceed borrowing and administrative costs. These start-up costs can be measured by considering both the total amount of taxes needed and the number of years required before self sufficiency is reached. The start-up costs for the plans differ for two reasons. First, the plans have different repayment profiles. Given the number borrowing, income repayment plans have higher start-up costs than equal repayment plans. Thus, with the same number of borrowers, Plan 4 requires as much as 30 percent more taxes than Plan 3. Second, the number of students borrowing differs among the plans. If the propensities to borrow of this sample are projected to the State as a whole, approximately 10,000 vocational students will borrow about $10.6 million initially under Plan 3.[7] Under Plan 4, 7,500 students will borrow $8.1 million. Plan 3 will require $165.3 million over 20 years until self sufficiency is reached while the corresponding amount for Plan 4 is $167 million over 21 years. Thus, 40 percent more students will be served, at approximately the same start-up cost, if the equal rather than the income repayment plan is chosen. Tax conscious legislators cannot be expected to be indifferent between loan plans of similar cost when one plan serves substantially more students.

8. Summary

At the beginning of this paper it was pointed out that post-secondary vocational students do not have equitable access to financial aid programs. A state supported and administered loan program for vocational students is one means of improving their access to financial aid. The State of Indiana is considering the institution of such a loan program. The following conclusions stand out in the present analysis of potential loan plans:

(a) As expected, student borrowers are much more interested in subsidized loan plans that have specific transfer characteristics.

(b) There is a strong and consistent relationship between the student's propensity to borrow and his perceived degree of financial difficulty.

(c) Student borrowers prefer repayment plans based on equal installments rather than repayments based on income.

(d) For non-subsidized plans, a 20 year equal repayment plan (Plan 3) is estimated to attract substantially more students than will a 20 year income graduated repayment plan (Plan 4). The start-up cost of the equal repayment plan is approximately equal to that of the income repayment plan.

[7] Start-up costs were computed from a simulation model for vocational education constructed for the State of Indiana by Terrence B. O'Keefe and Dewey Wahl. Detailed results are available from the first author on request.

DISCUSSION

ELIOT S. ORTON
New Mexico State University

We are talking in general about human capital. Both vocational training in Indiana (including activities subsidiary to it) and remedial education in the Southeast may be described as "investments in human capital."

The theory tells us that such investments may raise the personal productivity of the recipients, increase their likelihood of seeking gainful employment, shift their occupation to one higher in the occupational hierarchy or otherwise change their labor supply characteristics. I take it from the title of this panel that this is the proposition we are testing today: Do these activities—education in the Southeast and new varieties of loan programs in support of vocational training in Indiana—do they actually affect the labor supply characteristics of the recipients? Do they actually affect either the quantity of labor supplied at a given wage rate or the quality of the labor supplied?

These papers have in common a striking feature that I would like to highlight. This feature is that they both discover activities in the nature of human capital investmnts which have no effect on labor supply.

Among the hypotheses tested by O'Keefe and Baum is that income-related repayment plans would be preferred to equal installment plans by borrowers from loan program for enrollees in vocational training (Hypothesis 4). Analysts have suggested that the high rates of private and social rates of return accruing to certain educational activities, for example, college education, indicate that barriers exist to this sort of investment. One suggested barrier is the capital market—specifically the inability of borrowers to use human capital as collateral or to place themselves in "bondage," as it were. Therefore, it has been argued that readily available student loans would encourage these desirable investments. Students have shown repeatedly they will borrow from a student loan fund when such a fund is available. The interesting question explored by this paper is whether they will borrow more or more of them will seek loans from the fund under an income-related repayment plan or under a fixed installment plan. O'Keefe and Baum explore the preferences of post-high school vocational students with respect to these different repayment plans, as well as other features. The students turn out to be good economists. They prefer programs which subsidize them—by forgiving some part of the debt or by less-than-market rates of interest—to those which do not. But they showed no preference for the income-related repayment plan, compared with the fixed installment plan. In fact, the students preferred the fixed-installment plan, but by a margin which was apparently not statistically significant. The authors in effect then accept the null hypothesis of no difference in preferences between fixed installment and income-related repayment plans involving equal amounts of subsidy. Since the income-related repayment plans were not preferred, they presumably would attract no additional students beyond those attracted by the fixed installment plans and therefore not alter labor supply.

This is not a surprising result. It is consistent with the position that the rate of return to pre-employment vocational training, especially in some proprietary schools, is not particularly high. The income-related repayment plan would presumably raise the total cost of training and thereby reduce the expected return to some unattractive or unacceptable level. The major part of the cost of taking pre-employment vocational training is the foregone income. Any thorough-going program to stimulate enrollment in vocational training must reduce the *cost* of training and not simply deal with the mechanics of loan repayment.

Professor Rowan studies the impact of basic education on functional literacy and promotability of disadvantaged workers in the paper industry in the Southeast. If this investment on the part of the companies (a) substantially increased the recipient's functional literacy *and* (b) led to promotions for the treated group, then we would infer that their personal productivity had been raised. Their "quality" would have been increased, hence their labor supply characteristics—in the most general sense—would be changed.

Sadly and somewhat reluctantly, Professor Rowan accepts the null hypothesis of no difference. The reading and arithmetic achievement scores of the recipients did not increase as much as advertised. And there were no significant differences (with the expected sign) in the achievement scores of the workers who were promoted and those who were not promoted. This suggests and is consistent with the proposition that this particular investment in human capital had no effect on labor supply. The recipients may have become better people, but the evidence does not indicate that they became better *workers.*

These papers accept their null hypotheses, therefore they seem to lack sex appeal. They do not appear to present scientific breakthroughs. But they have value nonetheless. They indicate that two specific activities in the nature of investments in human capital have no economic payoff and no effect on labor supply. Investment in human capital is a valuable concept and a powerful analytical tool. It is *not* a prescription for curing everybody's problems or all the ills of the labor market. I, for one, am grateful to our authors for pointing this out.

DISCUSSION

GERALD G. SOMERS
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If we lived in a perfect world, we might hope for a more effective methodology in the papers presented by Professor Rowan and by Professors O'Keefe and Baum. In the Rowan study, one would wish to have a direct comparison between the benefits received by minority workers enrolled in the program and by minority workers who were not enrolled in the program. It is only in this way that we could fully evaluate the net effects of the program. Although the comparison between blacks and whites in the program provides some interesting evidence, it is not as conclusive as the comparison between a study group and comparison group who differ only in that the study group received a manpower "treatment" that was not received by the comparison group.

The major methodological qualm with the O'Keefe-Baum paper is that it bases some far-ranging conclusions on a set of hypothetical questions. There is fairly lengthy methodological literature on the dangers and limitations of such "iffy" questions. We know that actual practice often differs substantially from respondent's statements about what they might do in the future under various circumstances. As the authors have noted, however, a subsequent questionnaire should help to resolve some of the problems raised in the present questionnaire. We might also expect that a subsequent survey might lead to some changes in the conclusions reached by the authors.

Since research in the social sciences must be based on an expedient methodology rather than ideal methodology, we can not fault the authors for their departures from perfection. However, it is important to make these departures clear so that the reader can be forewarned in evaluating the findings and conclusions.

The principal conclusion reached by Professor Rowan is that a basic education program conducted within a plant for disadvantaged workers does little to raise their educational achievement level or to further their promotion within the firm. Professor Rowan tends to attribute these negative findings, in principal part, to the fact that the program was conducted for workers employed in a southern plant. However, his findings are fully consistent with those of other studies, regardless of geographic area or of employment status. We now have a growing number of research reports which lead to the conclusion that short-term courses of basic literacy education, taken in isolation from other manpower policies, do little to raise the educational level, the employment or the earnings of workers.

The limitations of short-term basic educational programs are inherent in our "credentials society." In their hiring and promotion policies, employers are likely to be impressed by many factors other than the worker's achievement of an additional year of reading or mathematical ability. Students of employee qualifications and credentials are increasingly convinced that the employers insist on higher levels of education than are actually required for many manual jobs. Often, an eighth grade education or a high school diploma or a bachelor's degree may be required, not because they are essential for the employee's competence on the job, but simply because they have become customary as a credential for entering employment at a particular level. If a basic education program were sufficiently prolonged so as to give a school dropout a high school diploma, then one would expect to see significant improvement in employment status and earnings. The higher credentials requirement would then have been met. Simply to move a worker from a fourth grade reading level to a fifth grade reading level is not likely to improve his employment position when neither reading level is necessary for his job performance.

It should also be noted that many of those who left the educational process early did so because of their lack of aptitude or lack of motivation for education. Studies of efforts to bring adult high school dropouts back to their studies have shown that the educational goals are seldom achieved and that costs are seldom exceeded by benefits. They usually tend to drop out again with little educational advancement. Similarly, adult workers are not likely to be responsive to basic programs in "reading, writing and arithmetic" when they were not motivated to pursue such studies in their youth.

There is evidence, however, that the motivation for adult pursuit of such studies can be improved when basic education is closely linked to specific job duties or to practical training for employment. With improved motivation, the effectiveness of such programs also improves. If gains in reading and mathematics are seen as requirements for obtaining specific occupational skills, (i.e., are viewed as training rather than education), such programs are more likely to be successful.

Previous studies have reached these conclusions for disadvantaged workers who seek employment. Professor Rowan has made a useful contribution by reporting similar results for the promotional experience of disadvantaged workers who are already on the job.

With regard to the paper by Professors O'Keefe and Baum, one can accept the view that loan funds should be made available to students of vocational education on equal terms with funds for students in other forms of higher education. One is tempted to impose a more severe standard than is applied in existing loan plans because of the variations in the effectiveness of particular vocational-technical programs. Recent studies have indicated that the benefits to be derived from vocational and technical education differ depending upon the type of program, the geographic area and the school level (high school, post high school, junior college).* It is not clear that we want to encourage some types of vocational education, especially some questionable programs in proprietary schools. There is a temptation to redirect the system of vocational and technical education by means of a selective student loan plan.

However, the authors may be right on the score of equity. Why should we insist that a student loan plan do more in vocational education than in other forms of higher education? Since students can now obtain loans for questionable types of university education in questionable institutions, it would not be fair to bar such loans because of questions about specific types of vocational education. This view does not eliminate the possibility that the loan programs for all forms of higher education could be examined to improve their effectiveness.

Because of some of the negative findings in these papers, it may be well to end on a note of optimism. It is not surprising that Professors O'Keefe and Baum find that vocational students want financial loans in a form that will cost them the least to repay. The only surprising finding is that so many prefer fixed repayments to repayments that would be proportional to their future income. The authors provide a number of explanations for this response. However, they miss the most optimistic explanation. In spite of recent reports on the limited employment benefits of certain types of vocational education, especially in the current recession, the students in the O'Keefe-Baum survey apparently expect to do well as a result of their vocational courses. If they anticipated low earnings when they entered the labor market, it would be reasonable for them to prefer repayments proportional to their future income. Since they prefer fixed repayments, not related to the level of future income, they must have expectations of high future earnings. They wish to retain the difference between their anticipated high earnings and the fixed repayments (a form of "economic rent") rather than lose the benefit of high future earnings because of proportionally high repayments. It is heartening to know that vocational education students give their education such a vote of confidence.

* Gerald G. Somers, *The Effectiveness of Vocational and Technical Programs: A National Follow Up Survey* (Center for Studies in Vocational and Technical Education, The University of Wisconsin—Madison, 1971).

DISCUSSION

Ernst W. Stromsdorfer
Indiana University

The MIND and USR&D programs appear to be designed to correct for two major types of racial discrimination: occupational and human capital discrimination.[1]

Occupational discrimination has three effects:

1. It restricts blacks to lowest paying jobs, keeping their marginal revenue product low.
2. It increases the supply of labor to black jobs and decreases it to white jobs, further depressing the marginal revenue product of black workers and raising it for white workers.
3. It limits the long term ability of blacks to improve their human capital through acquiring more informal on-the-job training, since higher paying and higher quality jobs apparently provide more on-the-job training than less desirable jobs.

With on-the-job training significantly reduced through human capital discrimination, occupational discrimination can be enforced with a minimum of overt racist control. The result is that the blacks, after a time, and certainly by age 40, really are not qualified to hold higher paying jobs.

The longer they are kept in deadend jobs, furthermore, the less likely it is that society will find it efficient in money terms to invest in retraining them, and the less likely is it that blacks, themselves, if they must bear significant economic or non-economic costs, will undertake such formal training.

This is not the first study which has shown adult literacy type education to have little impact on the job prospects of "functional illiterate" blacks. Work done by Roomkin at the University of Wisconsin also shows this.[2]

Also, there is some limited evidence that MDTA on-the-job training may be more effective than MDTA institutional training.[3]

The point I wish to make is this: As far as current research suggests, adult type education which is not directly associated with a job or job

[1] See Lester Thurow, *Poverty and Discrimination*, Washington, D.C.: The Brookings Institution, 1969.

[2] Myron Roomkin, "An Evaluation of Adult Basic Education under the Manpower Development and Training Act in Milwaukee, Wisconsin," unpublished Ph.D. dissertation, University of Wisconsin, 1971.

[3] Ralph E. Smith, "Foregone Earnings During Manpower Retraining," Working Paper 350-11, Washington, D.C.: The Urban Institute, January 28, 1970.

skills apparently is not a useful policy approach to aiding the disadvantaged in the labor market.

This type of program may be a relatively weak approach to the problem of correcting the historical effects of discrimination. There is not likely to be an effective program which, if it is to aid blacks, will not impose costs on some whites.

In a stable labor market, if blacks are promoted, whites can't be. Blacks are the current losers in discrimination, and the efforts of ending discrimination will be to shift the current income distribution away from whites in favor of blacks.

An effective program would be one which would currently select the most likely blacks, even when there were more qualified whites, promote them and provide them with the pertinent on-the-job training. The potentially qualified blacks in the MIND and USR&D programs were not given the amount or type of training necessary to compensate them for human capital discrimination. The approach I suggest would do so. However, there are formidable problems facing such an approach, even in the absence of race hatred:

1. Whites are a majority, especially in terms of effective power. It is not likely that they will assign equal weights to the losses of whites and the gains to blacks.
2. Losses to whites are immediate and visible, likewise, gains to blacks. At the very minimum, whites may have to be promised some compensation to ensure their cooperation. Who will pay this compensation? The company out of increased profits? Society through general tax revenues or the blacks?
3. How will society evaluate the long run efficiency gains which are sure to materialize but which will be pervasive and have public goods characteristics?

The concept of rational ignorance of Anthony Downs is applicable here.[4] Tax costs are immediate and visible; benefits to the general taxpayer are very long term, likely subject to a high discount rate and very hard to measure. This implies that little effective action will be taken.

In closing, I want to reiterate that these types of adult literacy programs aren't even a half-way measure to correct historical human capital discrimination. The most direct way, but one fraught with political problems, is simply to advance the blacks into higher quality jobs and provide them with the necessary on-the-job training in the process.

[4] Anthony Downs, *An Economic Theory of Democracy*, New York, New York: Harper & Row, 1957.

I would next like to turn my attention to the paper by O'Keefe and Baum.

As a general proposition, it would appear questionable, without further data on returns to post-secondary vocational education, to set up a loan-subsidy program for this type of education for several reasons.

The mix of courses offered in post-secondary, based on a nationwide study by Gerald Somers,[5] plus work done by Corazzini,[6] suggests that students investing in this type of education, if they have had prior vocational education training, gain little or no net money benefit.

Thus, the justification of such a program, with one exception, is not clear on efficiency grounds.

The one argument that might justify the program, which the authors do not use, is the fact that the loan market for human capital investment is highly imperfect. The likely effect of limited loan funds in this area is that there may be underinvestment in education. But it still needs to be established that there is underinvestmnt in post-secondary education.

However, again, across the nation, for post-secondary vocational education, this may not be the case at all. The rates of return based on limited data are very low.

Next, I would like to discuss the definition of equity. The issue is, whose "equity"? In light of the above, such a program may be highly inequitable to the taxpayer or society if funds are used in programs where the social returns are very low.

To carry this issue of "need" and "equity" further, it is clear that much more data are needed on the income and assets position of the prospective borrowers and their families. The authors recognize this need, but as yet indicate that they are not collecting all of the economic and social data required.

It is also important to point out that the program will never be "costless" either in the short run or the long run. The capital funds which are in the loan pool could be used for alternative private or social investments or expenditures.

Also, the data from this study do not allow one to make any judgment on effectiveness or efficiency among the program alternatives because we have no knowledge of the benefits to each of these loan alternatives. Without such knowledge, it is hard to advise decision

[5] Gerald G. Somers, et al., *The Effectiveness of Vocational and Technical Programs: A National Follow-up Survey*, Madison, Wisconsin: Center for Studies in Vocational and Technical Education, University of Wisconsin, 1971.

[6] Arthur J. Corazzini, *Vocational Education, A Study of Benefits and Costs* (A Case Study of Worcester, Massachusetts), Princeton, New Jersey: Industrial Relations Section, Princeton University, 1966.

makers on which plan to use. It is only a partial help to know that there may be greater outlays of funds in one program than on another.

We don't know if the benefits will be constant, regardless of the type of program used, because there are different demands for the programs, which means the marginal and average benefits will differ.

Finally, if the low measures of returns as shown in Somers and Corazzini exist, then if legislators opt for the program which serves more people, their action may serve to further worsen the allocation of resources and further lower the return to social capital.

XIII

Annual Reports for 1971
Industrial Relations Research Association

Minutes of IRRA Annual Meetings

EXECUTIVE BOARD SPRING MEETING
May 8, 1971 in Cincinnati

The Executive Board of the Industrial Relations Research Association met at 8:00 a.m. on Saturday, May 8, in the Terrace Hilton Hotel, Cincinnati. President George Hildebrand presided at the meeting attended by President-Elect Benjamin Aaron, Secretary-Treasurer David Johnson, Editor Gerald Somers, Board Members Rudolph Oswald, Howard Rosen and Martin Wagner, Local Arrangements Committeemen Lawrence Donnelly and Edward Herman of Cincinnati, Robert F. Smith, Louisiana State University, local arrangements chairman for the New Orleans meetings, and Thomas Mahoney, Director, Industrial Relations Center, University of Minnesota, representing IRC directors.

Secretary-Treasurer Johnson reported the Association's finances to be generally similar to those of recent previous spring reports, with some increase in membership payments over recent years. It was suggested that further membership drives be conducted in associations related to the industrial relations field and in the western section of the country.

A full slate of acceptances from nominees for Executive Board in the 1971 fall election was presented, and the nominating committee for the following year was listed. Possible sites for the 1973 spring meeting were discussed, as was the invitation of the International Industrial Relations Association to jointly sponsor a meeting with the IIRA. Jamaica and Puerto Rico were among possible sites mentioned for a joint meeting, but no decisions were to be made until the IRRA December Board meeting.

Mr. Johnson presented comparative data on costs for publishing the 1972 membership handbook. He noted that the A. N. Marquis Company gave a preliminary estimate of about $38,000 for this work. On the basis of this estimate in comparison with the cost of bringing out the handbook in the Madison office in 1966, it was decided to follow the same procedure as in the case of the last handbook. Additional staff would be hired as required.

Mr. Johnson reported that only a few returns had been received in response to the memorandum to local chapters and former presidents soliciting their views on the future role of the IRRA. In view of this limited return, it was decided to discuss the question at the December meeting of the Board, after follow-up solicitation of views in the fall.

Editor Somers reported that his survey of social science journals indicated that it would be desirable for the IRRA to establish an exchange advertising relationship with a number of appropriate journals.

The cost of setting type for an exchange ad in the IRRA *Proceedings* would be substantially less than the purchase of advertising space in other journals. Consequently, steps to initiate the exchange relationship were being taken.

The survey of other journals also indicated a widespread practice of accepting relevant and appropriate advertising from university presses and commercial book publishers. The Board authorized the solicitation of such advertising at a rate of $100 per page.

Editor Somers reported that the *Twenty-Third Annual Proceedings* would be distributed in May and that the *Proceedings* of the 1971 spring meeting would again be published by the *Labor Law Journal* in August, with distribution to IRRA members in September. Acceptances were at a high rate for the chapters to be authored by past presidents in the 1973 volume, "The Next 25 Years of Industrial Relations." There was some discussion of the subject matter for the 1974 research volume, with sentiment favoring topics in the behavioral sciences, but a final decision on this matter was reserved for the December Board meeting.

President George Hildebrand reported on his plans and progress for the program of the annual winter meeting to be held in New Orleans, and these were discussed by the Board members. Robert Smith discussed plans for local arrangements in New Orleans.

It was noted that the American Economic Association had decided to move its 1975 and 1976 meetings from December to the fall. The IRRA Board deferred action on this matter until the December meeting, following a solicitation of members' views in the *Newsletter*.

President-Elect Benjamin Aaron discussed preliminary plans for the spring meeting to be held in Salt Lake City May 5-6, 1972.

Thomas Mahoney presented the recommendation of the IRC directors that IRRA urge both the National Science Foundation and the Social Science Research Council to establish interdisciplinary panels in industrial relations to act on research proposals and on other matters in the same manner as the existing panels in various disciplines. It was agreed that, with Thomas Mahoney's assistance, materials to be used in the preparation of letters to NSF and SSRC would be gathered by the national office and the President Hildebrand would transmit the requests.

The meeting was adjourned at 9:30 a.m.

IRRA EXECUTIVE BOARD WINTER MEETING
December 27, 1971 in New Orleans

The meeting was convened at 12:00 noon on Monday, December 27, with President-Elect Benjamin Aaron presiding. Douglas Soutar, David Johnson, Gerald Somers, John Crispo, Malcolm Denise, F. Ray Marshall, Philomena Mullady, Sylvia Ostry, Rudolph Oswald, Albert Rees, Howard Rosen, Bert Seidman, Martin Wagner, Phyllis Wallace and Donald Wasserman were the Board members in attendance. Harold Sheppard, Nominations Committee Chairman, and Robert F. Smith, New Orleans, Garth Mangum, Utah and Robert Hines, Toronto, representing their local arrangements committees, also attended the Board meeting.

Secretary-Treasurer David Johnson reported that the membership had increased by 208 to 3680 during the year, trending upward in the pattern of previous years. He also indicated the results of the annual election.

In his report on IRRA finances, the Secretary-Treasurer reported that both incomes and expenditures overall were fairly comparable to last year's and that the necessity for a dues increase was not clearly evident at this time. He indicated that a decrease of $2,927.26 in cash receipts compared to the previous year was substantially due to late library and institutional subscription billings. He noted that cash expenditures were also down from the previous year by $8,069.80, but that the higher payments of 1970 had included $6,241.48 on a delayed billing for printing costs incurred for the 1969 research volume. Mr. Johnson reported, however, that 1971 printing and publication costs of Volume II of *A Review of Industrial Relations Research* had been held down through the use of denser type and page format which required fewer pages than the preceding research volume.

Mr. Johnson noted that 1971 postal expenditures were also actually down $1,198.09 from the previous year, despite postal rate increases. The decrease was possible because the Association's bulk mailing permit had finally been changed to a non-profit classification.

The Board discussed the question of a dues increase against the background of the Secretary-Treasurer's financial report, and it was decided that it would not be necessary to recommend a dues increase at this time.

Mr. Johnson indicated that in keeping with the decision at the Spring meeting, plans were being made to publish the 1972 membership directory through the IRRA Madison office.

The application for affiliation of the Rocky Mountain Chapter was presented and approved.

Harold Sheppard, Chairman of the Nominations Committee, reported on the nominees recommended by the committee for IRRA office in 1973. The slate was adopted by the Executive Board.

Editor Gerald Somers reported on the favorable responses of the Past Presidents to the invitation to contribute to the IRRA's 1973 volume, "The Next Twenty-Five Years of Industrial Relations." After some discussion of the topic for the 1974 volume, it was decided that President Aaron would appoint a subcommittee to explore the possibilities of publishing a volume on "the behavioral sciences and industrial relations." The subcommittee would consider the topic, as well as possible editors and contributors, and report its findings and recommendations to the Executive Board at its meeting in the spring of 1972. A suggestion that the 1975 volume cover the fortieth anniversary of the Wagner Act and the Social Security Act was deferred for action at a later meeting.

Garth Mangum reported on the local arrangements for the spring meeting to be held in Salt Lake City on May 5 and 6. Benjamin Aaron led the discussion of the topics and speakers to be included in the spring program. Board members were urged to send suggestions to Garth Mangum immediately concerning possible participants in a session on manpower planning policies.

President-Elect Aaron discussed his preliminary plans for the meeting in Toronto in December 1972, and he indicated that he would appoint a program committee to assist him in determining a program. He also urged Executive Board members to send suggestions to him as soon as possible.

December 28, 1972

The Executive Board reconvened at about 1:30 p.m. on December 28 after a luncheon with the local chapter presidents. President George Hildebrand presided. Present at the second day of Executive Board meeting were: George Hildebrand, David B. Johnson, Gerald Somers, John Crispo, Philomena Mullady, Rudy Oswald, Al Rees, Bert Seidman, Martin Wagner, Phyllis Wallace and Donald Wasserman.

The Board discussed the issue of personnel changes in the BLS and its discontinuance of certain kinds of statistics. Al Rees suggested that the incoming President or a small committee of Executive Board members should inquire into this by first talking to Aaron Gordon, who was the chairman of a committee on government statistics in the early 1960's. The purpose would be to get his advice on the significance of the changes. Then, if the facts indicate that action by IRRA is desirable, the committee should draft a resolution for the membership. Following extensive discussion of this proposal, the Board members present agreed that IRRA should be concerned because of the possibility that our members are being deprived of useful data. Rees stated that he thought the issue could be simply stated: "Were the changes made within BLS for essentially non-professional reasons?" Hildebrand stated his view that there were three issues: "1. the issue of the personnel changes; 2. the discontinuance of certain series of statistics; and 3. the contemplated discontinuance of other series of statistics."

The following motion was then made by Rees: Moved, that the Executive Board asks the President of the Association to appoint a committee to look into the recent events in the Bureau of Labor Statistics concerning release and publication of employment and unemployment statistics and changes in personnel and to report back to the Executive Board at its next meeting. The motion was passed without dissent. (Two Board members expressed their reasons for abstaining from the discussion as well as the voting, one because of employment in the Department of Labor, the other because of Canadian citizenship. He viewed this as an internal United States matter.)

Hildebrand then discussed the issue of participation by labor and management in the sessions at the Annual Winter meeting. He explained that both a period of illness and an especially heavy work schedule had reduced the amount of time he was able to spend on making up the program. Although he indicated that he had not devoted much attention to the issue of balanced participation before the preliminary program was issued, he believed that inclusion of labor and management representatives should be a routine consideration for presidents making up the program in the future and that he had advised Ben Aaron of this need. Bert Seidman commented on the participation of practitioners generally and suggested that the membership meeting had brought out the fact that local chapter participants were often practitioners. He suggested that better use of local chapter members could be made on the annual winter programs. Martin Wagner supported Seidman on his remarks and endorsed the suggestion that local chapters be consulted in making up the program.

The Executive Board authorized the Secretariat to make arrangements for a spring meeting in 1973 with the IIRA in Jamaica.

The agenda distributed before the meeting had contained an item for discussion involving ways of broadening IRRA's membership base and the related issue of re-examination of the Association's objectives. The latter issue had originated in the report of the Nominating Committee in 1969. As a result of that group's proposal that IRRA seek a new expression of purpose, the past presidents and all the local chapters had been asked a series of questions designed to elicit opinions on whether IRRA should change direction or undertake to change in ways which might appeal to potential members now outside the organization. More recently, at the 1971 Executive Board meeting in Cincinnati, member Tom Mahoney, representing the opinion of many university industrial relations center directors, had proposed that the IRRA should make greater efforts to appeal to potential members in the field of organizational behavior. The replies from local chapters and past presidents to what has become known as the "whither IRRA" queries, were available at the New Orleans Executive Board meeting had there been time for this discussion. A month or two before the New Orleans meeting Executive Board member Phyllis Wallace had suggested to President Hildebrand that she would be glad to head a special effort to increase IRRA membership among minorities, women, and young adults who should be interested in the organization.

Because of shortage of time to discuss these matters Phyllis Wallace proposed that the incoming president set up a committee which would consider ways of broadening IRRA's membership. George Hildebrand appointed her chairman of a committee to carry out this function and indicated that he would ask the incoming president to appoint the other members. The committee was asked to report back to the Executive Board next December at its meeting in Toronto. It was also suggested that some of the data to be obtained from the Directory questionnaire in 1972 would be useful to the committee in analyzing the present membership.

The Board voted to hold its 1975 and 1976 meetings with the ASSA in Dallas and Atlantic City respectively. The Dallas meetings are scheduled for October 2 to 4, 1975, the Atlantic City meetings for September 16 to 18, 1976. Since in both cases the ASSA meets from Thursday through Saturday, the Executive Board members present expressed the view that IRRA meetings should be held on Friday and Saturday so that practitioners who are otherwise occupied during the week can attend.

The incumbent Secretary-Treasurer was re-elected for a term of three years.

IRRA GENERAL MEMBERSHIP MEETING
December 27, 1971, 5:00 p.m., New Orleans

Benjamin Aaron, who assumed the IRRA presidency at the December meeting, presided at the business meeting of the Association.

The Secretary-Treasurer reported on the growth of membership and the financial status of the Association. His remarks were applauded when he reported that a small surplus in the IRRA's accounts would make a dues increase unnecessary in the coming year.

The editor reported on the progress of the 1973 research volume and discussed the Executive Board's tentative plans for the 1974 volume. Members discussed the possibilities of making the volumes more useful to practitioners while preserving the research flavor valued in academic circles.

In similar vein, members discussed procedures for expanding the role of the local chapters. It was suggested that a survey be made of local chapter members to determine their views on the format of national IRRA meetings and their interest in participating in the meetings. It was also suggested that consideration be given to regional groupings of local chapters.

The meeting ended with the passage of a resolution to send condolences to the wife of E. Wight Bakke, former president of the IRRA, who died November 22, 1971.

IRRA LOCAL CHAPTER REPRESENTATIVES LUNCHEON
December 28, 1971, New Orleans

Local Chapter representatives met jointly with the IRRA Executive Board for lunch at noon Tuesday, December 28 and then convened separately afterwards. The IRRA local chapters represented at the meeting were: Central California—Grady Mullennix; Chicago—Sander Wirpel; Cincinnati—Edward Herman; Connecticut Valley—John Glynn; Detroit and Michigan State University—Thomas Patten; Iowa—Edgar Czarnecki; New York City—Eileen Ahern; North Texas—Elvis Stephens and Helmut Wolff; Philadelphia—Bernard Samoff; Rocky Mountain—Victor Fruehauf; Utah—Garth Mangum; Western New York—James Power; Wisconsin—David Zimmerman; Oregon (proposed chapter)—L. S. Harter; and Austin, Texas (proposed chapter)—Robert Glover.

The joint meeting was opened by George Hildebrand, outgoing national IRRA president. Professor Hildebrand welcomed the local chapter presidents to New Orleans and introduced James F. Power of the Federal Mediation and Conciliation Service, Washington, who enunciated a new program to train arbitrators under the sponsorship of the FMCS, and the American Arbitration Association, with the cooperation of the National Academy of Arbitrators and local IRRA Chapters. A series of local training programs is proposed in cooperation with the local IRRA chapter in each designated area. Helmut Wolff of the Dallas AAA Regional Office also discussed the role of the AAA in establishing regional programs.

Essentially the local programs would follow a prototype program already being operated by the Western New York Chapter of IRRA in Buffalo. The program in Buffalo was to commence in February 1972. Mr. Power stressed that while the local IRRA chapters would cooperate with the administrators of the program, it was hoped that the program committees would not be limited to members of the local chapters. Since their support was essential to the program's success, he also urged local chapters to become informed about it.

Mr. Power thanked the local IRRA chapter representatives for their suggestions and urged those interested in the arbitrator training program to contact the national offices of either the AAA or the FMCS. Inquiries can be directed to the following individuals: Joseph S. Murphy, AAA, 140 West 51st Street, New York City 10020, or to James F. Power, FMCS, Main Labor Building, Washington, D.C. 20427.

Before he opened the meeting to general discussion, Garth Mangum invited the local chapter representatives to the IRRA Spring Meeting in Salt Lake City.

Sander Wirpel suggested that the group discuss ways of establishing better ties between the national and local chapters. Ed Herman stated that one method of establishing a better liaison to bridge the gap between the national and local levels of the Association would be through some formal procedure to increase the representation of local chapter officers on the national board of IRRA. Certain local chapter officers, for example, could be designated to serve on the national board. Helmut Wolff noted that IRRA has a curious two-tiered organization without any middle structure between the national and the chapters.

Bernard Samoff suggested that an alternative might be to have one organization, with the local chapter officers actually to comprise the IRRA national board. He also recommended a better financial link between the local chapters and the national organization, possibly with only one set of dues. The money from this dues payment could then be divided between the national and local chapters.

Mr. Mangum pointed out that in many cases the local and national members of the organization appeared to have different interests; often the local members were not interested in the activities of the national association. Mr. Herman agreed that such may be the case, but stated that local chapter interest in national activities might be increased if the national convention topics were more related to local interests. Comments included the possibility of running concurrent sessions of local chapter interest at the national meetings and of compiling lists of local practitioners for participation on the national programs from names suggested by the local chapters. Mr. Samoff also suggested that the problem of differing interests on the local level is a result of the fact that the national IRRA is an off-shoot of the American Economic Association, and that most of the members are professionals who desire to maintain a relationship with the AEA.

In discussing relationships between local chapters and the National, Tom Patten stated that he saw no particular problems in having a two-tier organization wherein the local chapters contain essentially practitioners from management, labor unions, government, and arbitration. This mix is typical of the Detroit Chapter, although there are a fair number of regular attenders from Wayne State University, the University of Detroit, and occasionally others from the University of Michigan—Ann Arbor, and Michigan State University in East Lansing. Except for the academicians, very few other members of the Detroit Chapter take an interest in the national organization. This does not imply that there is an antipathy between the Detroit Chapter and the National. Indeed, the Detroit Chapter was happy to pay the cost of a well-attended party at the 1970 National Meetings in Detroit. Yet, despite an invititation to the entire Detroit Chapter membership, probably no more than 6 chapter members joined the 150 persons at the party.

Patten noted that local chapter programs in Detroit are very carefully planned to emphasize current issues and speakers of national reputation. Seldom, if ever, is research reported. The normal pattern is to have a leading figure in government, the labor movement, arbitration or management (or a panel drawn from the aforementioned) at a meeting.

A final comment by Ed Herman advised the chapters not to underestimate the drawing power of good food and drink for local chapter meetings.

DAVID R. ZIMMERMAN, *Recorder*

IRRA AUDIT REPORT FOR FISCAL 1971

Gentlemen:

We have audited the cash receipts and disbursements of the Industrial Relations Research Association for the fiscal year ended November 30, 1971. We submit herewith our report.

The available cash and investments of the Industrial Relations Research Association on November 30, 1971 totaled $16,044.50. The November 30, 1971 bank balances were verified directly with the First Wisconsin National Bank, Madison, Wisconsin. The corporate bonds owned were confirmed directly with Robert W. Baird & Co. who hold the securities.

As set forth below, the cash receipts for the fiscal year totaling $41,695.51 exceeded the cash disbursements of $41,880.99 by $185.48.

The cash receipts for the 1970-71 fiscal year were $2,927.26 less than the cash receipts for the 1969-70 fiscal year. The disbursements for 1970-71 fiscal year were $8,069.80 less than the cash disbursements for the 1969-70 fiscal year. The decrease in cash receipts over the previous year was substantially due to late subscription billings.

The cash receipts journal was footed by us for the entire year. All canceled checks returned by the bank during the year were examined by us and traced to the disbursement journal. The cash disbursements journal was also footed for the year. The source information of dues income was tested for a portion of the year.

The Association has on file a letter dated January 6, 1950, from the U.S. Treasury Department stating the Association has tax exempt status for federal income tax purposes.

In our opinion, the accompanying statement of cash receipts and disbursements present fairly the cash transactions of the Industrial Relations Research Association for the fiscal year ended November 30, 1971, on a basis consistent with that of the preceding year.

December 21, 1971 HOUGHTON, TAPLICK & CO., Certified Public Accountants

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION, Madison, Wisconsin
COMPARATIVE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Fiscal Years Ended November 30, 1971 and November 30, 1970

	Year Ended Nov. 30,			
	1971	1970	Increase	Decrease
Cash Receipts:				
Membership Dues	$27,871.00	$27,747.01	$ 123.99	$
Subscriptions	3.265.90	5,821.00		2,555.10
Sales	5,154.48	5,116.02	38.46	
Royalties	928.65	569.06	359.59	
Mailing List	901.51	1,335.65		434.14
Travel, Conference, and Meetings	3,017.71	3,867.21		849.50
Interest Income	735.54	320.38	415.16	
Miscellaneous	6.20	31.92		25.72
Totals	$41,880.99	$44,808.25		$2,927.26
Cash Disbursements:				
Salaries and Social Security	$ 8,606.22	$ 8,347.65	258.57	$
Retirement Plan	1,504.02	600.00	904.02	
Printing	-0-	1,400.41		1,400.41
Postage	2,163.21	3,361.30		1,198.09
Services and Supplies	2,464.61	3,255.97		791.36
Publications	23,186.23	28,137.49		4,951.26
I.R.R.A. Conference & Meeting Expense	3.119.85	4,223.16		1,103.31
Miscellaneous	305.35	345.54		40.19
Telephone and Telegraph	346.02	93.79	252.23	
Totals	$41,695.51	$49,765.31		$8,069.80
Excess of Receipts over Disbursements	$ 185.48	$(4,957.06)	5,142.54	$
Add: Beginning Bank Balances	4,325.33	5,766.52		1,441.19
	$ 4,510.81	$ 809.46	3,701.35	$
Add (Deduct): Net Transfer of Funds	(244.78)	3,515.87		3,760.65
Bank Balance, End of Year	$ 4.266.03	$ 4,325.33		$ 59.30
Corporate Bonds	10,983.00	10.983.00		-0-
Golden Passbook Savings–First Wisconsin National Bank	761.49	518.20	243.29	
First Wisconsin National Bank–Savings	33.98	32.49	1.49	
Available Cash and Investments	$16.044.50	$15,859.02	$ 185.48	

INDUSTRIAL RELATIONS

A Journal of Economy and Society

IN FORTHCOMING ISSUES

Jan Adam, Wage Differentials among Blue- and White-collar Workers in Czechoslovakia

John F. Burton, Jr., Structure and Process of Public Employee Bargaining

Einar Hardin and Michael Borus, The Economic Benefits and Costs of Retraining in MDTA-ARA Institutional Courses

George T. Milkovich and Keith Campbell, A Study of Jaques' Norms of Equitable Payment

V. Lane Rawlins, Manpower Programs for Disadvantaged Youths

William R. Schriver and Roger L. Bowlby, The Effect of Vocational Training on the Income Education Distribution

IN OCTOBER

A Symposium on: Industrial Relations in Construction

INDUSTRIAL RELATIONS RESEARCH ASSOCIATION PROGRAM

IRRA Meetings

TWENTY-FIFTH ANNUAL WINTER MEETING, December 28–29, 1972, Toronto, King Edward Sheraton Hotel, held in conjunction with the Allied Social Science Associations' meetings. The program, arranged by President Benjamin Aaron, will be announced in the IRRA Newsletter in September.

ANNUAL SPRING MEETING, May 3–6, 1973, Pan-American Regional meeting held jointly with the International Industrial Relations Association (IIRA) in Jamaica. President-Elect Douglas Soutar will announce his program in the March Newsletter in 1973.

FUTURE IRRA ANNUAL MEETINGS (with ASSA):

Dec. 28–29, 1973—New York	Sept. 17–18, 1976—Atlantic City
Dec. 28–29, 1974—San Francisco	Dec. 28–29, 1977—New York
Oct. 3–4, 1975—Dallas	Aug. 29–30, 1978—Chicago

Industrial Relations Research Association Series

Annual membership dues of $10 for the calendar year January 1 through December 31, cover the cost of the seven mailings of publications in the IRRA Series. These include the following for 1972:

PROCEEDINGS OF THE TWENTY-FOURTH ANNUAL WINTER MEETING, December 27–28, 1971, New Orleans (May 1972)

PROCEEDINGS OF THE 1972 ANNUAL SPRING MEETING, May 5–6, Salt Lake City (Publication August 1972)

IRRA MEMBERSHIP HANDBOOK (Fall 1972, Published at Six-Year Intervals) Biographic sketches (alphabetically) as well as occupational and geographic indexes are in this membership directory. Also included are tabulations or listings of annual meetings, officers, local chapters and past publications.

Future IRRA Special Volume:

THE NEXT TWENTY-FIVE YEARS OF INDUSTRIAL RELATIONS (Fall, 1973). Twenty-fifth anniversary volume. Chapters on the future of industrial relations, contributed by the distinguished past presidents of the Association.

Prices and order forms for single copies of past IRRA publications are available on request.

Alphabetical List of Participants

Local Chapters of IRRA 1971-1972

Meetings are held periodically by the thirty local chapters.
For information, please contact the chapter representatives listed below.

ARIZONA, James McCrearty, ILIR, U of Arizona, Tucson 85721

BOSTON, Daniel Hurley, FMCS, 2400-C JFK Fed. Bldg., Boston 02203

CENTRAL CALIFORNIA, Grady L. Mullennix, Dept. of Econ., Fresno State College, Fresno 93726

CENTRAL OHIO, Robert Miljus, Faculty of Mgmt., OSU, Columbus 43210

CHICAGO, Louis F. Buckley, IIR, Loyola U, Chicago 60611

CONNECTICUT VALLEY, David Pinsky, Labor Ed., U of CT, Storrs 06268

DETROIT, Ernest Martens, ILIR, Wayne State U, Detroit 48202

GREATER CINCINNATI, Edward Herman, Dept. of Econ., U of Cin 45221

GREATER KANSAS CITY, Jerry Irving, Greater KC Labor Council, AFL-CIO, 3 E. Armour, KC MO 64111

HAMILTON & DISTRICT, Harish C. Jain, Faculty of Bus., McMaster U, Hamilton 16, Ontario

HAWAII, Ted T. Tsukiyama, Hawaii Empl. Rel. Bd., 888 Mililani St., #887 Honolulu 96813

IOWA, Edgar Czarnecki, Center for Labor & Mgmt., U I, Iowa City 52240

LABOR & INDUSTRIAL RELATIONS ASSOCIATION (Student Chapter), Lynn Franks, U of Illinois, 504 E. Armory, Champaign 61820

MICHIGAN STATE UNIVERSITY, (Student Chapter), Thomas H. Patten, Jr., Sch. of L & IR, MSU, East Lansing 48823

MONTREAL, Francis Bairstow, IR Centre, McGill U, Montreal 110, PQ

NEW YORK CAPITAL DISTRICT, Irving Sabghir, Sch. of Bus., SUNY, Albany 12203

NEW YORK CITY, John M. Malkin, NJ State Bd. of Mediation, 1100 Raymond Blvd., Newark NJ 07102

NORTH TEXAS, Fred Rosell, St. Regis Paper, PO Box 5325, Dallas 75222

PHILADELPHIA, Albert Noren, UHC, ILGWU, 925 N. Broad St., 19123

ROCKY MOUNTAIN, Joseph Lazar, Grad. Sch. of Bus. Admin., U of Colorado, Boulder 80302

SAN DIEGO, Josiah Neeper, 2100 Union Bank Bldg., San Diego 92101

SAN FRANCISCO BAY, Harry Polland, Brundage, Neyhart, Grodin & Beeson, 100 Bush St., 26th Fl., San Francisco 94104

SOUTH TEXAS, Ray Marshall, Dept. Econ., U of Texas, Austin 78712

SOUTHERN CALIFORNIA, Gerry L. Fellman, Ibanez & Fellman, 1557 Beverly Blvd., Los Angeles 90026

SOUTHWESTERN MICHIGAN, Leo S. Rayl, Jr., Ind & Eng. Tech. Bldg., Western Michigan U, Kalamazoo 49001

UTAH, Garth L. Mangum, Human Resources Inst., U of Utah, Salt Lake City 84112

WASHINGTON, D.C., David A. Waugh, ILO, 666 11th St., NW, 20001

WESTERN NEW YORK, Norman J. Stocker, Town of Tonawanda, Municipal Bldg., Kenmore 14217

WICHITA & SOUTH CENTRAL KANSAS, Martin M. Perline, Dept. of Econ., Wichita State U, Wichita 67208

WISCONSIN, Robert C. Garnier, 706 City Hall, Milwaukee 53202

INTERNATIONAL INDUSTRIAL RELATIONS ASSOCIATION

IRRA is a founder and affiliated member of the INTERNATIONAL INDUSTRIAL RELATIONS ASSOCIATION which was established in 1966. In 1971 national industrial relations associations from seventeen countries were full members of the IIRA, and 35 institutions representing 20 countries and territories were associate members. There were 296 individual members, representing 47 countries.

Membership and meeting information is available from the IIRA, 154, rue de Lausanne, CH-1211 GENEVA 22, Switzerland.