Working Paper Series - 113

THE "NEW" CONTINGENT EMPLOYMENT: A CALM VIEW
and
MANAGEMENT AND THE DECLINE OF UNIONIZATION

by

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Draft: July 1986

2

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1

Two Short Papers on Current Topics

1) The "New" Contingent Employment: A Calm View

2) Management and the Decline of Unionization

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THE "NEW" CONTINGENT EMPLOYMENT: A Calm View

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July 1986

Paper for a special report of the Bureau of National Affairs, Inc.

By some accounts, American business faces a brave new world. From now on, we are told, business must be more flexible, competitive, and efficient than in the past. To respond to this challenge, management must be free to deploy its human resources quickly, without the hindrance of outdated workrules and procedures. By a happy coincidence, according to this view, the workforce has changed, too. No longer do employees want to be bound by rigid requirements. They want to determine their own hours and days of work. To meet the needs of employer and employee, a new, contingent labor force has emerged.

Sound too good to be true? Although it is hard to be against flexibility and for rigidity, the facts are that contingent work is not new, that there is little evidence that the workforce -- taken as a whole -- has become more flexible, or that management's new need for flexibility and efficiency is anything more than a reflection of the soft economy that has prevailed in the 1980s. Moreover, the contingent phenomenon is inherently difficult to measure, since virtually all jobs are ultimately contingent on labor demand.

i. Is Contingent Employment New?

There is a spectrum of workplace arrangements ranging from explicitly temporary jobs to jobs with contractually guaranteed tenure. It is difficult, if not impossible, to draw the boundaries of the contingent workforce. For example, should a very junior worker under a union seniority plan be considered contingent? In the event of layoffs, such workers are the first to be terminated. Or should the definition extend to employees of a small subcontractor supplying incremental production to a larger firm during production peaks? During a business downturn, orders at the subcontractor may fall sharply -- and jobs may be lost -- as the larger firm finds it can meet its production needs internally.

Are construction workers, dispatched from job to job by hiring halls, to be considered contingent workers? Stevedores with similar arrangements? How about migrant farm workers who follow the harvests? Untenured assistant professors? The point is that all of these groups might reasonably be considered contingent, but that there is nothing new about any of them.

ii. Are Workers Clamoring for Contingency?

It is sometimes assumed that contingent work can be proxied by part-time employment. In turn, the growth of female participation in the workforce is often assumed to be linked with part-time work. But available data on part-timers do not suggest a dramatic shift in worker tastes toward contingency.

In 1969, 13.3% of civilian employees were voluntary part-timers. This figure rose to 14.2% in 1979 -- hardly a startling advance. It actually fell by 1985 to 13.8%. While women have a higher propensity than men to enter part-time employment, their demand for such work should not be exaggerated. In 1985, only 21% of nonfarm female workers were voluntarily employed in part-time jobs (compared with 7% of males). Although the proportion of female employees in the labor force is expected to continue rising, the growth will not be sufficient to alter the demand for part-time work dramatically. Women accounted for 44% of the civilian labor force in 1985. According to U.S. Bureau of Labor Statistics projections, the proportion will be only modestly higher (46%) by 1995.

Labor force data reveal other interesting features of part-time work. If there were a shift in worker tastes toward such employment, a growing percentage of those seeking jobs ought to be looking for part-time work. Actually, the trend is in the other direction. Twenty-four percent of the unemployed in 1969 reported they were seeking part-time jobs, 22% in 1979, and 18% in 1985. In any case, part-time workers may well have ongoing, noncontingent relations with their employers. Thirty-eight percent of those reporting some part-time employment in 1983 indicated they had worked 50-52 weeks during that year.

iii. Employer Pressures for a Flexible Workforce.

The argument that business now faces a more competitive product market, and therefore wants a more flexible labor force, is true as far as it goes. But it is important to explore the reasons for the change in the product market. Has there really been a fundamental, permanent change which makes markets more competitive?

Deregulation is often cited as a source of increased competition. But deregulation has affected only a narrow sector (mainly transportation, communications, and banking) accounting for a mere 7% of private, nonfarm employment. Foreign trade is another factor often cited. Recall, however, that in the late 1970s, American firms rode a crest of competitiveness in world markets, as exports boomed. It was only in the early 1980s, when the dollar dramatically appreciated, that foreign trade became a competitive drag.

Since early 1985, the dollar has reversed its upward course and fallen sharply relative to other currencies. Many economists project that eventually the U.S. will have to run an export surplus again to pay interest on the net foreign debt the U.S. accumulated in the early 1980s. Thus, international trade competition should not be viewed as creating a long term need for a contingent workforce.

During the 1960s, the unemployment rate averaged 4.8%. In the 1970s, the average was 6.2%. The average rate for 1980-85 was 8.1%. Thus, the main economic characteristic of the 1980s was a soft economy. There has yet to be a complete recovery from the severe economic slump of the early 1980s. Unemployment remained around 7% during the first half of 1986.

When the economy is soft, firms are naturally under pressure to cut costs and seek efficiencies. Money losing operations are closed or curtailed. And firms must be cautious about making new commitments in case the economy falters. Yet current employees are reluctant to quit, since their outside job prospects are limited. So job seekers must take what is available and a contingent job may be better than no job at all.

Recently, the attempt to measure contingent employment has focused attention on the temporary help industry (SIC 7362). This industry accounted for less than 1% of total employment in 1985. But it has experienced relatively rapid growth. Significantly, the accelerated growth came after 1982, i.e, after the bottom of the recession. Apparently, firms who had been burned by the slump were reluctant to take on direct employees as the recovery began; they diverted some labor demand to temporary agencies.

Thus, the most likely explanation of the recent growth in contingent employment is economic. High unemployment has strengthened management's hand in the labor market and has tilted management's preferences toward new hires who entail no long term commitment. A significant economic expansion, with falling unemployment, could blunt this initiative by improving alternative opportunities of job seekers who now take contingent positions.

iv. Is the Workforce Really Becoming More Flexible?

Since it is difficult to measure the contingent workforce, it is impossible to know for sure whether the workforce has actually become more flexible. Overall productivity trends do not suggest that a more efficient deployment of human resources occurred in the 1980s. Nonfarm business productivity rose only at a 0.8% annual rate between 1979 and 1985, down from 1.1% during 1969-79, and 2.4% during 1959-69.

In the nonunion sector some firms with reputations for advanced personnel practices have deliberately taken steps to enhance job security of regular employees. Some recent union contracts have included expanded job security arrangements, too. And individual job rights have been enhanced by the well-publicized erosion of the "at will" legal doctrine.

The provision of job security is largely a zero-sum game. One employee's security can be increased by decreasing the security of another. Firms can insulate regular employees from economic fluctuations by hiring temporaries or outsourcing peak and/or volatile production. If there has been an expansion of flexible employment, it may simply reflect growing inflexibility elsewhere.

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July 1986

Paper for Management magazine.

CONTENTS

In recent years, union membership has dropped substantially. By the mid 1980s, the proportion of private, nonfarm wage and salary earners represented by unions had fallen to about 16 percent, a level not much above that which prevailed in the 1920s, when union strength was at a low ebb. At the same time that the representation rate was falling sharply, union wage concessions appeared across a broad range of industries. Clearly, the two phenomena -- a reduction in the proportion of workers represented by unions and union weakness at the bargaining table -- were not mutually independent.

i. Public Policy and Unions.

American public policy towards unions has vacillated. Unions were subject to severe legal restrictions -- largely through the judiciary -- until World War I. During that war, they received government protection and encouragement. But in the 1920s, government protection was withdrawn and employer efforts to avoid or eliminate unions again received judicial support. After the 1920s, the Great Depression brought about another reversal of policy.

Unions were fostered in the U.S. during the 1930s to encourage "industrial democracy" and because it was widely believed that too-low wage levels had limited consumer demand and contributed to the Depression. The federal government, anxious to maintain a steady flow of needed wartime production, continued its encouragement of unionization during World War II.

Postwar fears that unions had become "too" powerful -- combined with the postwar view that stablizing the economy was the responsibility of government, not unions -- led to legislation restricting union actions in the 1940s and 1950s. From the mid 1950s until the early 1980s, relative unionization of the workforce (with the significant exception of the public sector) showed a gradual decline, although absolute union membership generally rose. Union attempts to modify basic labor law (in their favor) during the late 1970s came close to fruition, but were ultimately defeated.

ii. Public Attitudes and Public Policy.

The vacillations in public policy reflect ambiguous public attitudes about unions and their methods. American ideals favor individualism. Yet unionism inherently involves collective action. Americans distrust overt and disruptive challenge to established authority, and associate such challenges with radicalism. Yet unions exist to challenge to the unilateral authority of employers. While public opinion generally supports an abstract right of workers to have union representation, the same public is also concerned about strikes and fearful of possible inflationary effects of union wage demands.

These uncertain attitudes mean that even under the most favorable public policies, it is doubtful that unions could ever represent a majority of the U.S. workforce. However, there is a big gap between representing a majority and the actual 16%. Nor can some dramatic shift in public attitudes explain a drop of well over 2 million union-represented workers during the first half of the 1980s.

Consider, for example, the rapid growth of unionization in the public sector during the 1960s and 1970s, the very period in which private unionization began to decline. Public workers are part of the larger society and share its beliefs. Yet large numbers of them became unionized in the 1960s and 1970s. Even during the 1980s, when private union membership took a sharp downward turn, unionization in the public sector held its ground. If social attitudes were the primary explanation of union decline, the erosion should have occurred in both government and private employment.

Or consider the divergent trends in Canadian and American unionization. The two countries share much in common including -- in many cases -- the same companies and unions operating on both sides of the border. But Canadian unionization rose as U.S. unionization fell. There are cultural differences between Canada and the U.S., with Canada having, perhaps, a more "European" outlook. Yet it seems unlikely that the attitudinal differences are so sharp as to produce opposite unionization trends.

Finally, attitudinal studies in the late 1970s suggested that a significant fraction -- but not a majority by any means -- of nonunion workers would be receptive to unionization. Were these "union-leaning" nonunion workers all to become union members, the overall unionization rate in the U.S. would rise above its peak level (35%) reached in the mid 1950s. Significantly, and contrary to the notion that the "me-generation" of the 1970s has been less receptive to unionization than its elders, younger workers show stronger union leanings in surveys than older workers. Thus, while American unions will always face an uphill struggle, an attitudinal explanation of declining unionization does not suffice.

iii. Workforce Composition and Unions.

A common theme in discussions of falling unionization is that changing industrial characteristics account for the downward trend. According to this view, older "smokestack" industries -- which have been the traditional heartland of unionization -- are declining relative to newer industries, thus causing union membership to erode. But like the attitudinal explanation, the old industry story is not convincing.

First, it is not clear why unions should inherently be tied to older industries. Why don't newer industries -- once formed -- become organized? Second, the industrial composition hypothesis can be examined directly by charting unionization rates at a detailed industry level. When this is done, it turns out that much of the slippage in unionization cannot be "explained" by industry shifts. Surprisingly, even when studies are confined to the 1980s, most of the losses in union membership cannot be attributed to industrial mix, despite the well-publicized problems of heavy industry in recent years. Most of the recent losses are due to declining unionization WITHIN industries rather than ACROSS industries.

A variation on the industrial composition argument is the occupational shift view. Essentially, it is argued that white collar employees -- who are growing as a proportion of the labor force -- are more resistant to unionization than blue collar workers. But again, there are some uncomfortable facts to confront. Perhaps the most dramatic is the contrast between the public sector and the private sector. Unionization of white collar workers in the former is routine, but is rare in the latter. Also, there is the U.S./foreign contrast. Why, for example, is unionization of groups such as bank tellers found in other countries when it is virtually nonexistant in the U.S.?

iv. Employer Strategy and Unions.

There is mounting evidence that both the gradual union erosion before the 1980s, and the more recent dramatic union setbacks, reflect changes in employer strategy. Employers have changed more than employees with regard to their approach to unions and with regard to what is now termed "human resource management." In the 1950s, employers tended to be reactive with regard to their labor policies. Demands and innovations often came from the union side, precipitating an eventual employer response. In the 1980s, however, employers are more likely to be the demanders of changes in the workplace. Unions have become the reactors.

Industrial relations scholars are finding growing evidence of a shift in employer approaches toward unions during the 1960s. For example, unfair labor practice charges against employers at the National Labor Relations Board -- the major agency regulating private sector union-management relations -- show an uptick early in that decade and a further acceleration towards its end. Although the law forbids such hard line employer tactics as firing union sympathizers and organizers, employers discovered that the penalties entailed were not generally onerous.

In addition, the American legal framework since the 1930s has been based on a majority-or-nothing principle with regard to union representation. Unions typically must win a majority of votes in a representation election to achieve representation rights. Winning 49% or less provides no status for the union. Thus, under current labor law, the risk for a union in considering an election campaign is that a considerable expenditure of resources will result in absolutely no payoff.

The new employer strategy which developed in the 1960s and 1970s was by no means exclusively -- or even mainly -- a hard line approach during union campaigns. Much of it was preventative in nature. Substantial efforts in many large, nonunion firms were made to improve the climate of employer-employee relations. Management communication channels with employees were improved, supervisory training in improved employee relations techniques was emphasized, and potential employee grievances were given prompt attention. In some cases, job security protections were included in company personnel practices.

One result of these efforts was that innovations in industrial relations began to come from the nonunion sector. For example, the "quality circle" craze, although it later was copied in the union sector, largely began among nonunion companies. Devices for employee financial participation in the firm -- such as Employee Stock Ownership Plans and profit sharing -- were mainly found in nonunion situations until the 1980s.

Management of the human resource function became increasingly professionalized. During the 1970s, there was a substantial expansion in the number of masters programs in the human resource field at American universities. Very few graduates of these programs go into unions as a career. The vast majority are employed by corporations.

Apart from recruiting, the management community has taken an active interest in its relations with the academic world. Academia is viewed as a potential source of ideas and applied research. In contrast, the labor community has not demanded from universities a substantial upgrading and expansion of the many labor programs that were created at institutions of higher learning in the 1940s.

v. What Sparked the Management Initiative?

The shift toward a proactive strategy on the management side is a major explanation of both declining unionization and concession bargaining. But there remains the question of why management moved to take the initiative in labor relations during the 1960s. Many economists believe that the shift was sparked by a growing employer perception that dealing with unions was costly compared with the nonunion alternative. Union/nonunion wage differentials had widened in the late 1950s and work practices had become increasingly formalized. Several major strikes, the most notable one being in the steel industry, signaled a hardening of the management approach at the end of that period. The early 1960s saw the beginnings of union membership erosion and some prominent concessionary settlements, a foreshadowing of events in the 1980s.

But this initial management advantage was lost during the high-pressure labor markets of the late 1960s. Employee turnover increased dramatically. Strike incidence rose sharply. And labor-management relations were destablized by a rise of rank-and-file rejections of tentative agreements. During the 1970s, union/nonunion wage differentials again rose. As operating nonunion came increasingly to be seen as a source of labor cost savings, even old line unionized firms sought to avoid unionization at their new facilities. Thus, unionization rates fell within industries as newer firms and plants remained outside the union sphere.

vi. The Public Sector Exception.

As already noted, the public and private sectors diverged in their reactions toward unionization. Why did not public sector management develop strategies similar to those increasingly found in the private sector with regard to unionization? The answer lies in the differing incentives for management in the two sectors.

In the late 1960s, as unionization spread in the public sector, there were fears expressed that public managers would not prove to be strong defenders of the public purse. It was argued that under the threat of a shutdown of public services, government would easily accede to union demands to the eventual detriment of the taxpayer. These fears turned out to be misplaced.

Generally, public managers found that taxpayers wanted strong management bargaining positions, even if strikes ensued. Moreover, legal limitations on the right to strike by government workers inhibited public unions from using the strike weapon (although, of course, stoppages were not completely prevented). Although able to take a firm position at the bargaining table, public management was more constrained than private in responding to union organizing efforts. A hard line approach of commiting unfair labor practices and firing union activists would have been difficult to adopt within a system of civil service protections. The alternative -- soft line, preventative approach -- was also less available since personnel practices in the public sector are often established by statute and are more difficult to alter quickly. Weighing its options, public management generally chose to make its stand at the bargaining table rather than in strong resistance to organizing.

vii. The Union Reaction to Declining Representation.

By the 1970s, analysts of the industrial relations scene had already spotted union erosion in the private sector and had begun to diagnose its cause. Why didn't unions take note of these analyses and institute corrective action? Given the lack of effective response in the 1970s, can unions now halt the erosion through new initiatives? Can they ever regain lost ground?

It will be difficult for unions to reverse current trends, let alone stage a recovery. The dilemma facing the union movement is similar to that facing a declining enterprise. Standard advice for such an enterprise would be first to analyze the sources of its problem and then to formulate an appropriate strategy. Apart from such generalities, the advice might include such specifics as dropping traditional approaches which no longer seemed effective, merging duplicative operations to conserve resources, and bringing in new management.

Such counsel is, of course, easy to give and hard to follow. It is especially difficult for unions to implement since the labor movement is decentralized. The central body, the AFL-CIO, has traditionally exercised little authority over its affiliated unions. Making tough decisions about union strategy requires centralized control, even if the decision process is initially consultative.

There is currently an attempt at the AFL-CIO to centralize its authority in respone to the now-perceived crisis. Top national union leaders have been more willing than ever before to engage in self criticism. Efforts are being made to foster mergers between unions and to work around the current limiting framework of labor law. Outreach programs are being designed to appeal to union-leaning nonunion workers in units where a majority vote in favor of unionization is unlikely.

An important issue which still remains open is the view of the union movement with regard to its own appropriate role relative to management. In the turbulent period of labor relations immediately after World War II, the American management community was extremely fearful of union intrusions into its perogatives and authority. Eventually, through law and practice, a system evolved which reflected these management fears. Unions were to play a circumscribed role as demanders. They were to articulate and press for gains in pay and conditions. But, although the wherewithal to fund such improvements ultimately reflected the firm's economic conditions and the quality of its management, unions were generally not to be involved in such matters.

Unions, in short, accepted management's limited definition of their role. But they are now faced with a management which no longer views itself as a passive reactor to union demands. With the advent of concession bargaining, unions suddenly find themselves pressed to consider competitiveness in the product market in setting wages. As a quid pro quo for concessions, they are asked to participate in management decision making at the plant and, sometimes, the company level. They are being pressured to accept profit sharing in lieu of escalator clauses. These recent developments have created substantial tensions within unions between those officials and members willing to experiment with a wider role, and those who charge that such changes will "sell out" the interests of current members.

viii. Management's Response to the Unions' Crisis.

The management community, like the labor movement, is decentralized. Individual firms act in their own interest; they do not always see the larger picture. It is difficult for the management community, as a community, to consider the long term implications of the current ill health of organized labor. Many firms do not deal with unions. Others who do, see an opportunity either to remove existing unions or to obtain concessions.

But a continued union slide could eventually spark another sort of constraint on management discretion, namely from government regulation. One of the factors limiting government intrusion into the labor market in the past was the idea that labor problems could be left to collective bargaining. But when only 16% of the private workforce is covered by such bargaining, this idea becomes indefensible.

At present, a deregulation, free-market spirit prevails in Washington. But administrations come and go and ideological fashions change. Moreover, labor market intervention can occur at the state level or through the courts. There are already signs that nonunion employer-employee relations could become the target of external intervention.

Government regulation in the 1970s involved such areas as occupational safety and health and the operation of pension plans. In the 1980s, with its high unemployment rates, job security has naturally become a concern. Some states have enacted, or are considering, legislation concerning plant closings. Courts are entertaining suits over "wrongful discharge" of employees. These suits may well expand to cover economic layoffs, i.e., group terminations, as well as instances of individual firings.

American demographics mean that the average age of the workforce will be rising for the balance of this century, now that the post World War II baby boomers have become employees. An aging labor force is also a security conscious workforce. It will be increasingly concerned about, and fearful of, the prospects of job loss. It will be concerned about protection of, and entitlements to, pensions and health benefits. If these concerns are not met, employees may turn to the political process. The union decline thus creates a vacuum which may be filled in ways management will ultimately regret. Management, as a community, needs to take a hard look at the eventual consequences of a "union-free" future.