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THE MACRO AND THE MICRO OF ECONOMIC PARTICIPATION AND PARTICIPATION IN DECISION MAKING

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II. Participation in Management Decision Making

A. The Economic Approach to Employee Participation

Employee "participation" in the firm, both in a managerial and financial sense, has become a hot topic. Usually, it is discussed from a behavioral science viewpoint by both academics and management consultants. The economic perspective has been limited to a small group of academics who tend to see the idea either from a highly abstract level, or - alternatively - as part of a program to remake the economy and society.[1] Until quite recently, most academic economists had not thought much at all about employee participation.

For reasons to be discussed below, the current interest of economists in participation mainly involves financial participation of employees in compensation arrangements such as profit sharing and gain sharing. Participation in decision making remains a topic little analyzed by mainstream economists. And, even where there is interest in the financial type of employee participation, that interest has been motivated in large part by macroeconomic considerations. This approach to participation is in sharp contrast to the position taken by behavioral scientists and management consultants; they have generally seen participation as a potential influence on firm, plant, or individual output, i.e., as a micro issue.

I. The Classical Economic Model

The limited interest by economists in employee participation is a heritage of the classical economic model, as applied to the labor market. Most economists begin their training with that model; even though modern economics qualifies the assumptions and conclusions of the classical approach, the classical model still colors initial perceptions. The model depicts the labor market as a combining together of capital and labor in efficient production. Efficiency is maintained through the competitive mechanism. Hence, the bias is naturally that what is observed in the real world is inherently efficient. (If it were not efficient, it should have been replaced by something else through Darwinian competition). Since the newer forms of employee participation - as that phrase has been popularly used - is not widespread in market economies, such participation is assumed to be inefficient.

Three assumptions of the classical economic model are critical to this perception: perfect information, costless mobility, and the resulting "law of one price." Modern economic theory has qualified these assumptions, particularly in the 1970s and 1980s. However, the new thinking that has occurred has yet to be focused on the issue of employee participation.

i. Perfect Information

The classical labor market is characterized by perfect information available to all participants. Potential workers know where to find jobs, and what the characteristics of those jobs are. Employers know where to find employees, and know precisely what the capabilities of workers are. Once employees are on the job, their productivity can be costlessly monitored. Neither side can cheat the other. Compensating wage differentials adjust for positive or negative job attributes.

Since all aspects of the employer-employee contract are understood from the outset by the parties, issues of employee motivation do not arise. Employees contract for a given level of effort and employers can readily detect any deviation. Hence, there is no need for creative compensation incentives. In particular, use of profit sharing or gain sharing as a productivity-enhancing device is unnecessary.

Of course, sharing information with employees (employee communications) has no meaning in the classical setting. In a world of perfect information, all relevant matters are known anyway. Workers cannot be made more productive by telling them things they already know.

ii. Costless Mobility

In the classical model, employees readily move from job to job. Indeed, there is no real employer-employee relationship. Instead, there is a daily auction market in which labor and capital are momentarily joined. ("Joined" is a good description of the process, since it is unclear whether capital hires labor or vice versa in this imaginary world). Absent an ongoing employer-employee relationship, it is difficult to include any role for employee participation, either in the decision making or the financial sense. All such participative arrangements assume that the employee stays with the enterprise for an extended period. But given costless mobility, there is a fundamental incompatibility between participative proposals and the classical model.

iii. The Law of One Price (Wage)

With perfect information and costless mobility, equivalent labor will sell everywhere for the same wage. The only qualification to this result is the existence of compensating wage differentials to which reference was made above. Firms which attempted to pay less than the going price for labor would be able to hire no labor. Firms which (for some irrational reason) paid more than the going wage would find themselves with a very long queue of job applicants and reduced profits relative to their competitors.

The law of one price means that compensation systems that offered employees a share in the value generated by the firm (apart from wages) would make no economic sense. Share systems would have no micro-level justification, since perfect information and costless monitoring take care of any motivational issues. And, in any case, the total compensation received by an employee should not rationally exceed or fall short of the fixed wage paid by other employers.

II. Institutional Challenges

As noted, modern economic theory has qualified the conclusions of the classical model. Once it is understood why the classical assumptions conflict with real world phenomenon (such as long job durations, incentive compensation, elaborate mechanisms of screening, monitoring, and supervision of employees, etc.), the rationale for such accoutrements of personnel policy can be understood by relaxing the assumptions. However, such theorizing is a comparatively recent development. In contrast, the first doubts about blind application of the classical approach arose from casual empirical observation.

i. Unemployment in Depression

Unemployment poses a nasty challenge to the classical economic model, since it suggests the existence of a persistent excess supply of labor. In contrast, the smoothly-operating classical model should guarantee market "clearing," i.e., the equating of demand and supply. Of course, classical economists were aware of the phenomenon of unemployment. But they tended to view it as an aberration in the market or as a transitional feature.[2]

The lack of a theoretical basis for unemployment colored public policy. During the Great Depression, unemployment - the pressing social and economic issue of the day - went unmeasured in official statistics. Although statistical handbooks today display unemployment rates for the 1930s, these estimates (really "guestimates") were made later. The Current Population Survey from which modern unemployment data are derived did not exist until

1940.[3] However, the post-1940 availability of data on unemployment contributed to, and reinforced, the development of macroeconomics. In turn, the development of macroeconomics - theoretically and empirically - led to increased interest in cures for labor market slackness and, eventually, to the modern interest in a "share economy" as a macro remedy.[4]

In certain respects, the desire to reconcile classical analysis with recognition of the unemployment problem contributed to the antecedents of the share economy proposal. Viewed in a classical perspective, unemployment could be explained only by wage "rigidity." If (real) wages were somehow set too high, and if they would not (for some reason) decline, there could be a persistent excess supply of labor within the classical framework. Adding a share system - such as profit sharing - to the labor compensation mechanism would create an ersatz kind of wage flexibility. In particular, during hard times, profits would fall (as in the 1930s) and profit-related bonuses would therefore drop, too. The effective level of compensation would decrease, helping the labor market clear.[5] Hence, a case could be made for enhancing wage flexibility through financial participation of employees, although a rationale for sharing in decision making would not necessarily follow.

ii. Unions & Postwar Labor Economists

One of the most dramatic results of the Great Depression was the substantial expansion of unionization in the U.S. economy. The expansion which began in the 1930s was continued during World War II, as the government indirectly assisted unionization in its quest for uninterrupted wartime production. The jump in unionization produced conflicting influences regarding employee participation, both in the financial and decision making sense.

Postwar labor economists tended to be institutionally and empirically oriented; classical theory was part of their training, but was more readily abandoned by them when contradictions between theoretical predictions and labor market phenomena were uncovered.[6] The union-analyzing institutionalists became interested in such features of the labor market as long-term job attachments, promotion ladders, etc. Although the nonunion sector - where the majority of employment existed - was often neglected in these studies (often in the belief that the union sector set patterns which nonunion employers passively imitated), these observations became the seeds of modern departures from the simple classical model.[7] These departures, in turn, opened the door to new views of the employer-employee relationship which are potentially more hospitable to participative ideas.

However, the postwar concentration on the union sector also led to reduction in interest in sharing arrangements. Collective bargaining evolved into a system of employee participation in certain critical employment decisions: those affecting wages, hours, and working conditions.[8] Alternative forms of participative arrangements were therefore viewed as unnecessary or-worse - sly devices designed to avoid real participation through union representation. And there was historical evidence which supported this negative perception.

During World War I (in part with government encouragement) some employers in the U.S. created employee representation plans ("company unions") as alternative to outside unionization.[9] These plans persisted in the 1920s-some receiving widespread publicity as progressive management practices - and then blossomed in the 1930s when outside unionization became a substantial threat.[10] Company-dominated unions were outlawed by the Wagner Act of 1935, but they left a distaste towards participative schemes among union officials and among institutional labor economists that then persisted for many years.

Similarly, financial participation arrangements - such as profit sharing- were also viewed with great suspicion as union supplanters.[11] Union leaders, and the institutional labor economists who analyzed collective bargaining in the postwar period, regarded collective bargaining as a sharing device. It was a tool for workers to increase their share of the economic "pie." The precise connection between the wage demanded, and the economic condition of the firm, was not always clear. But use of profit sharing seemed to be an alternative to the bargaining form of sharing, and therefore was not welcomed.

iii. Job Ownership

One of the labor market phenomena studied by postwar institutional labor economists was the notion of job ownership. Although courts of the period did not recognize a property right in a job, workers and unions seemed to behave as though they believed such a right existed (or should exist).[12] They acted, in short, as though workers had an "investment" or a "stake" in their jobs which should not be abrogated by arbitrary employer action.

Often, the general public viewed union claims of job rights with skepticism, particularly when such rights were asserted in situations where technological change was reducing labor demand. Charges of union "featherbedding" were commonly heard in the postwar era. Prominent examples such practices as standby musicians, "bogus" typesetting, and insistence on preservation of the fireman's position on diesel locomotives were often cited.[13] In some cases, major strikes - such as the 116 day steel work stoppage of 1959 - occurred in response to management pressure to obtain workrule modifications.[14]

Later, however, empirical evidence suggested that even in the nonunion sector, concepts such as seniority played some role in worker "rights" on the job. More senior workers seemed to command more rights, as if time on the job increased their investment stake.[15] The stakeholder idea was supported by survey evidence which indicated that public norms exist in the labor market incorporating standards of fairness for employers. These concepts reject as improper attempts by employers to take advantage of loose labor markets in dealing with employees. But the norms also suggested that employees might be expected to absorb some losses during periods during which the employer experienced economic difficulties. That is, stakeholders were seen as analogous to stockholders.[16]

iv. Internal Labor Markets

A major strand of institutional literature developed in the 1960s around the notion of internal labor markets.[17] Basically, the internal labor market was viewed as a substitute for the external market. Workers - particularly those in the "primary" sector - came into employment through well-defined entry jobs and progressed through a job ladder, acquiring seniority rights as they went. As part of their compensation, they received a variety of fringe benefits - such as pension plans - which both presumed and promoted long employee attachments to the employer.

However, the internal labor market contained a paradoxical element. Clearly, workers with considerable seniority in such markets had a substantial stake in their jobs, and therefore in the wellbeing of their employers. Yet part of their seniority-related compensation was insulation from the shifts in labor demand of the firm. It was the junior workers who were first to be laid off in the event of an economic downturn. Senior workers were protected from layoff, except in cases of the most severe demand declines, even though their stake in the firm is larger than those of other employees. Junior workers, with little stake, were expected to absorb the impact of shifting economic fortunes of the firm.

It was with such observations that micro level analysis began to be joined with macro considerations. General unemployment began to be viewed by economists as a conflict between labor market "insiders" and "outsiders."[18] Outsiders (job seekers) seemed to have little influence on firm decision making, particularly with regard to compensation. Insiders, perhaps through unions or perhaps through other channels, kept firm decisions focused on the inframarginal employee. Or, possibly, employers themselves were motivated to concentrate their attention on existing employees rather than potential recruits. Whatever the cause, a shift in incentives that would place greater attention on outsiders and marginal insiders - and less on the inframarginal employee - was seen as desirable by some economists, especially those advocating share systems.

v. Economic History

One of the obvious criticisms of the research of postwar institutional labor economists was their heavy concentration on the union sector and on union practices. Even within the union sector, the center of attention was the union; management was a less attractive target of study. That is, management practices in both union and nonunion settings were often neglected.

More recent work in economic history has redressed the imbalance by focusing on management in union and nonunion settings. Historical research suggests that - in fact - unions <u>did</u> have a considerable influence in establishing the norms of "good" personnel policy, including the internal labor markets described earlier. There may be economic rationales for employers to provide a measure of job security and insulation from economic fluctuations. But the lesson of history is that these norms developed in certain periods, not others, and that external pressure on employers (from unions, government, and public policy) has importantly helped to determine what the norms are.[19] The possibility that norms might be reshaped - for reasons of improved macro performance - must therefore be considered.

Union Influence

Economic analysis of union behavior in the 1970s and 1980s has suggested why unions might attach especial weight to seniority in formulating bargaining demands, i.e., why inframarginal insiders might be favored over both marginal insiders (junior employees) and outsiders.[20] If the union is viewed as a political institution, it is the median "voter" (member) whose influence will determine union policy. Desires of junior workers will receive lesser weight; outsiders, of course, do not take part in the union's political processes.

There is no guarantee that unions in the future will be as influential on personnel policy throughout the economy as the historical evidence suggests they have been in the past. Unions found themselves in a much weakened state in the 1980s, faced with both membership and political losses. However, as will be argued below, the forces that weakened unions in the 1980s also made the median voter/inframarginal worker more vulnerable to job loss. This shift heightened union interest in job security and in the economic fate of the employer. Previously unattractive participatory mechanisms began to be viewed more positively by union officials. If the past is a guide to the future, the resulting union-management experiments could have a significant influence in the nonunion sector as well.

Public Policy Influence

The history of personnel management also suggests an important role for public policy in determining modern practices. First, public policy in the 1930s and during World War II had a good deal to do with the growth of unions, which - as noted above - in turn influenced personnel management practices. Second, in numerous other ways - including the establishment of social insurance programs, the encouragement of fringe benefits via tax incentives, and the creation of pressures for equal employment opportunity - public policy has conditioned workplace norms and expectations of American employers and employees.[21]

As has already been referenced, federal government policy did encourage limited forms of employee representation during World War I. The ability of tax incentives to encourage employer-provided fringe benefits is manifest; that ability could be harnessed to promote financial participation arrangements such as profit sharing. And, indeed, proposals to do just that will be discussed below.

Finally, a wide definition of public policy must include the intangible, but important, power of moral suasion - especially of the President. In the 1930s, the idea that "the President wants you to join the union" provided a substantial boost to unionization, apart from particular laws and regulations. Encouragement of participatory schemes through the creation of a friendly political climate toward such arrangements could prove a powerful influence in contemporary circumstances.

III. Recent Economic Theory

The Great Depression and the widespread unemployment it brought pointed to deficiencies in the classical economic model. But the macroeconomic models spawned by the Depression led to an unsatisfying gap between the micro and macro perspectives. Early tensions over this gap resulted in debates concerning whether falling nominal wages could, in theory, end unemployment. Some economists have argued that extensive efforts to reconcile micro and macroeconomics are wasteful.[22] The difficulty with that view is that a macroeconomics grounded on casual empirical observation - as it was initially- or even based on elaborate econometric models, will always be open to sniping. Any inaccurate predictions (for example, of the type prevalent in the 1970s) will be taken as undermining the overall model.

In contrast, macro policy recommendations that seem grounded in micro reasoning are likely to be given special attention. Micro-based recommendations - such as the Weitzman proposal for a "share economy" discussed below - avoid the perils of the macro/micro theoretical gap. On the other hand, they can run afoul of recent changes in micro thinking, changes which in many respects have been stimulated by macro developments. It is to these changes that the discussion now turns.

i. Search Costs & Unemployment

As noted, classical economists tended to view unemployment as transitional. More recent elaborations of this perspective have emphasized imperfect information in the labor market. Workers may not know what jobs are available and what wages are offered. In such a world, a type of frictional unemployment results, as workers spend time unemployed searching for jobs.[23]

Attempts to explain cyclical fluctuations in unemployment purely with search models have not been successful. It is difficult to argue that unemployment was high in 1933 because workers had not yet learned that a severe depression had occurred or that they were unaware that nominal wages had fallen. Nevertheless, search models do focus attention on the costly nature of unemployment to workers, and help explain why long-duration employer-employee relationships develop. Such long attachments are required for most participatory schemes to have any meaning.

ii. Efficiency Wages & Unemployment

Recent economic theorizing suggests that unemployment may play a role in maintaining employee discipline. Given costs of monitoring, employees will have an incentive to "shirk" on the job unless there is a penalty for misbehavior. In a classical auction market there is no effective penalty for shirking; firing a worker imposes no costs since another job can be immediately found at the going wage.

According to efficiency wage theory, employers have an incentive to pay higher than going wages to create a penalty. A job loss from an above-average payer would deprive the worker of the pay premium. But all employers cannot pay above the average. What emerges, therefore, is a "too-high" wage for all employees and resulting unemployment. Unemployment after dismissal becomes the penalty for shirkers rather than loss of a pay premium.[24]

In an efficiency wage world, unemployment would persist. Job security would therefore be of value to workers. And tendencies for long-term employer-employee attachments would develop. Thus, like search cost models, efficiency wage theory creates the necessary conditions for participative arrangements.

iii. Implicit Contracting

Various influences contributed to implicit contracting theory. In fact, there are many variations of this approach.[25] In essence, implicit contracting starts from the notion that the labor market is not a spot market. Rather, employers and employees are seen as engaging in long-duration contracting, with at least some provisions regarding future wages and conditions a part of the bargain. However, the contract is seen as implicit (unwritten), given the observation that most nonunion workers do not have explicit (written) agreements with their employers.

Internal labor market studies contributed to the development of the implicit contracting approach, since internal markets are suggestive of long-duration commitments. Still another factor contributing to implicit contracting theory was the empirical observation that wages are not highly sensitive to business cycle pressures.[26] If wages are set as part of a long-duration package deal, there would be no reason why current wages should respond to transitory business cycles.

Turnover Costs

As noted above, there are various versions of implicit contracting. In one version, costs of employee turnover explain the long-duration agreement. It is assumed that employers incur a hiring cost (recruitment, screening, training, expenses) which is large enough to make it advantageous to discourage employee turnover. Put another way, each quit inflicts a cost on the employer, because a quit - in the steady state - requires a new hire. Employers promise fair treatment over a career in exchange for employee loyalty. Arthur M. Okun's "invisible handshake" replaces Adam Smith's "invisible hand."[27]

Job Security

Another version of implicit contracting stresses job security. Risk averse employees are seen as receiving a form of income insurance from employers through an ongoing commitment. Insurance-type models are often abstract, even esoteric. However, when combined with the observation that senior workers are typically less likely to be laid off than junior workers, the notion of job security as a reward for loyalty is attractive.

Bonding

Finally, some implicit contracting models are focused on the discipline/shirking problem. Employers are assumed to offer new entrants to their workforces wages below their marginal value to the firm initially. As workers increase their seniority, their wages are raised until eventually pay exceeds marginal value. At the start of their careers, workers have an incentive not to shirk, since detected shirking will cause them to lose the future premium. Later in their careers, when they have become "overpaid," workers have an incentive not to shirk because they will lose their above-productivity premiums. In effect, seniority-based wage profiles function as if the worker has posted a bond to guarantee good performance.[26]

iv. Job Tenure Research

Implicit contracting models, in their various forms, all emphasize the ongoing nature of the employer-employee relationship. Models emphasizing the ongoing aspect of the relationship were reinforced by empirical studies of typical job tenures. Periodic surveys by the U.S. Bureau of Labor Statistics provide information on the seniority of workers who are currently employed. The years of employment reported by current workers are underestimates of their eventual spells with the employer, since most workers will go on gaining seniority after the survey.

Survey results reveal that, especially for older males, job tenures of twenty or more years are not at all unusual.[27] Indeed, some analysts have compared American workplace practices with the "lifetime" jobs provided by large Japanese firms. However, there is a considerable variation in job durations by industry, age, and sex. These variations are often not explicitly considered in the employee participation literature. Yet, presumably, those workplaces which are most suited for participative arrangements are those in which employees remain on the job for long periods, and thus have significant stakes in the outcome of their efforts.

B. Types of Participation

Up until this point, types of employee participation have not been enumerated. Nor has the degree of participation currently in use been explored. There is a temptation to assume that participation does not exist in the absence of an explicit device, such as a quality circle or a profit sharing plan. However, in this section participation is viewed as running across a spectrum; some employees, even if they are not covered by "innovative" systems, may enjoy a degree of participation through traditional practices. In the section below, three forms of participation are considered: information sharing by employers with employees, employee participation in decision making, and employee participation in the economic surplus of the firm.

I. Information Sharing

Information sharing is a necessary condition for meaningful innovative participative systems, whether of the decision making or economic type. Workers cannot participate in decisions in any constructive way without having information on which to base decisions or recommendations. Similarly, arrangements such as profit sharing or gain sharing require disclosure of company financial data. However, even in the absence of innovative systems, workers must have some knowledge - even if inferred - about the enterprise.

i. Wages and Working Conditions

At a minimum, workers know something about their own pay and working conditions. In unionized firms, and in the public sector, pay schedules are often quite formal and readily available.[30] Nonunion employers may not disclose pay schedules, but workers are likely to have some information about what others in their immediate work group are being paid.

Given the ongoing employer-employee relationship, some nonunion employers find it to their advantage to explain the process by which pay is determined to their employees. They may use elaborate job evaluation plans, in which occupational pay is based on a rating scheme, as part of an effort to appear fair and scientific. Nonunion employers may also reason that use of, and employee knowledge of, a seemingly fair and rational pay system will make unionization less attractive to their workers.

Medium and large sized employers are likely to have formal procedures whereby individual "merit" pay determinations are made. Since the possibility of earning a merit pay award is supposed to be an incentive for workers, employers will usually want to make known the standards for such awards to employees. And since employers will want supervisors who make the merit decisions to appear fair, they often will create systems whereby supervisors discuss the reasons for performance appraisals with subordinates.[31]

ii. Employer Policies

Firms typically have a range of policies and rules, some relating to such personnel matters as job posting, promotion standards, discipline, grievances, layoff procedures, and the like. Others relate to safety standards or rules to protect company property. Such policies and rules inherently require promulgation to be effective. Employers will often find it advantageous - in the interest of obtaining employee cooperation - to explain the reasons for policies and rules as well as enumerating them.[32]

iii. Strategic Decisions and Information

American labor law has traditionally made a sharp distinction between matters relating to wages and working conditions and other matters which are "reserved" to management. But innovative participative arrangements sometimes require that the wall between these categories be breached. Examples of traditional managerial decisions include such matters as pricing, product development, marketing strategy, and decisions to enter or leave a line of business. The greater the involvement of employees in decision making, however, the more such issues must be discussed with workers or their representatives.

Even in the absence of an innovative participative system, however, firms may find it in their interest to disclose some information about these matters to employees. Particularly when the firm faces hard times, and decides to take actions adverse to employees' immediate interests (such as wage cuts), information about the causes of the problem may be disclosed. The firm may hope to justify its actions as fair under the circumstances and thus continue to maintain employee productivity and morale.

Nevertheless, survey evidence suggests that strategic information and decisions are not generally disclosed to nonsupervisory workers.[33] One factor is fear of a leakage of proprietary information through employees to competitors. And even when the firm is facing hard times and is making adverse decisions, disclosure of such decisions to employees may not be perceived as being in the firm's interest. For example, managers might fear that employee knowledge of a decision to close a plant could lead to quits and a drop in productivity prior to the target closing date.[34]

The new economic view of the employer-employee relationship emphasizes that employers have an investment in their employees, and thus have a motivation to provide fair treatment. Seen in this way, the incentive to continue providing fairness will be reduced if the employer knows the relationship will soon terminate. Thus, while it may seem unfair to withhold information about a plant closing, there is no economic incentive from the firm's standpoint to disclose it.

II. Participation in Decision Making

It is employee participation in decision making that has received the most popular attention. Quality circle arrangements, under various names, have been featured in the news media along with other departures from standard practice such as union representatives on corporate boards of directors. What is important to realize is that some degree of employee participation is inevitable; it is the point on the spectrum running from modest worker input to complete worker control that is at issue.

From the economic perspective, the point should be chosen on the basis of efficiency. An important question is whether the worker/decision maker will have the appropriate incentives to make the "correct" decisions. This issue arises particularly in situations where decision participation accompanies economic participation, as will be discussed in a subsequent section. But it can be noted at this juncture that worker incentives are more likely to coincide with employer objectives in situations where the worker has a significant stake in the ongoing employer-employer relationship.

i. The Immediate Work Situation

Many kinds of jobs do involve some level of employee decision making. Generally, the more skill involved in the job, the greater the degree of individual discretion which is permitted. Indeed, it takes some effort (and expense) to design jobs which require no discretion. The turn-of-the-century "scientific management" approach, which sought to break down jobs into simple rote tasks, was basically an attempt to shrink worker discretion. In effect, the idea was to create a division of labor between decision-making managers and output-producing workers.

There is no guarantee, however, that such a division of labor will be efficient. Indeed, it is difficult to imagine applying the scientific management approach to such diverse occupations as engineer, sales representative, or automobile repair mechanic. Even among relatively unskilled employees, there are often quasi-supervisory lead workers who influence the pace of work and who assign tasks.

Most observers will concede that employee participation in decision making exists (to some degree) at the immediate worksite. What is innovative, they will argue, is the substitution of the judgment of ordinary employees for that of traditional supervisors. Note, however, that traditional supervisors are themselves employees. And the notion of "delegation of authority" to lower levels in a managerial hierarchy has long been standard doctrine in large organizations. Such delegation is justified as a way of avoiding an administrative overload (inefficiency) at the upper levels of the hierarchy. With regard to workplace tasks, therefore, greater involvement of employees in decision making at the lower levels of the pyramid is simply an extension of the old doctrine of delegation.

ii. Participation at the Firm Level

The delegation of authority, however far it is carried, involves responsibility for tasks at levels at or below the particular employee involved. Each person in the hierarchy takes the decisions made by "higher ups" as given and exercises discretion <u>within</u> those constraints. Participative arrangements which reverse this pattern, i.e., which involve employees in decisions which are normally made above them, are truly innovative, in the sense of being quite rare.

Management generally does not seek to create such participative apparatus. Schemes that do exist, such as European co-determination programs, are typically mandated by law.[35] Observers of these mandatory arrangements often are skeptical of their actual influence.[36] The fact that management resists such programs could imply that they are inefficient means of making decisions, i.e., not in the interest of the firm's shareholders. Or it could be that such arrangements are not in the interest of managerial employees. In an imperfect world, management cannot be presumed to act as selfless agents for their shareholder principals.[37]

iii. Participation through External Influence

The political process offers employees an alternative means of influencing the policies of their employer. Laws can be enacted, for example, that require minimum wages, overtime pay for extended hours, employer subscription to social insurance plans, or the provision of certain fringe benefits. Legislation may also create <u>incentives</u> for firms to adopt certain policies as opposed to strict mandates.

External economic regulation can go beyond immediate workplace conditions, such as pay, hours, and benefits. It can also affect product mix and the location of production as well as the kind of technology chosen. Where unions are involved, union resources will often be expended either on improving the market environment of the firms with which they deal, or, alternatively, influencing internal firm policies which have proved resistant to private bargaining pressure.[36]

III. Economic Participation

Economic participation need not be accompanied by participation in decision making. Indeed, <u>de facto</u> economic participation can take place without formal plans for sharing economic surpluses. That is, there need not be an official or formal profit sharing or gain sharing plan for economic participation to occur.

i. Participation Through the Wage Level

Where union bargaining is involved, wages may reflect the economic surplus generated by the firm. Unions which bargain across and industry may be able to capture economic "rents" which spring from inelastic product market demand. There is evidence that union wage premiums do cut into profits, so that collective bargaining can be viewed as a form of economic participation.[37] In addition, large nonunion firms which can "afford" to do so will sometimes pay above average wages, perhaps to avoid unionization and perhaps to maintain employees loyalty.

Although wages may reflect the firm's economic surplus, sharing via pay rates alone produces a peculiar result. A worker's income is determined both by the rate of pay and by the hours worked. High pay, but with frequent layoffs, may result in lower income than low pay with steady employment. The stylized labor contract designates the rate of pay, but leaves layoffs and hiring to employer discretion. At first glance, from the employee perspective, such sharing seems notably defective.

Where layoffs are used to reflect short-term changes in the firm's "ability to pay," however, the welfare of the individual worker will be importantly dependent on the specific layoff rule used. In particular, layoff by reverse order to seniority will shift the burden of income variation to junior employees. If union policy is viewed as determined by the median voter/member - a view to which reference was made earlier - such shifting of the burden of adjustment seems a natural outcome. Higher wages will translate into higher incomes for those workers senior enough to avoid layoffs.

ii. Participation in Individual Output

There are a variety of compensation arrangements whereby individual employees (or small team work groups) participate in the economic value of their efforts. Use of piece rates - simple and not-so-simple - has a long history in American industry. The 1920s appeared to be the height of the popularity of such systems. But - for industries and occupations where output is readily measured - piece rate systems continue to be widely employed.[40]

From the economic perspective, piece rates can be viewed in two ways. Since employers are really paying employees for efficiency units of labor - not just time on the job - piece rate systems monitor worker efficiency automatically. They may be less expensive than other monitoring systems involving supervisors.[41] Second, piece rates provide (imperfect) incentives for increased worker effort which may be less expensive than other forms of motivation.[42] However, although piece rates provide employees with a share in their own efforts, they are not intended to provide a share of the general economic surplus of the firm. Piece rates are a form of economic participation, but one which is very narrowly defined.

iii. Sharing Arrangements for Non-Owners

Profit sharing and gain sharing are explicit options for employee economic participation. The former involves a direct bonus formula linked to profits at the firm level; the latter entails sharing through bonuses at the plant or work group level based on measures related to value added or sales revenue.[43] Profit sharing and gain sharing are not the only share devices. For example, in rare cases explicit formulas have been used which gear pay to the price of the firm's output. Such price-linked systems have been found chiefly in competitive mining operations where the employer does not control the output price.

Compensation-related economic participation systems both recognize, and create, an employer stake in the economic fortunes (or misfortunes) of the enterprise. Yet the employees are not made owners of the firm. They receive a share of the surplus, <u>but only so long as they are employees</u>. An employee who leaves the firm is no longer entitled to share payments in the future. Profit sharing covers perhaps a fifth to a fourth of workers in medium to large sized firms. Gain sharing plans have a long, well-publicized history, but are not widely used in actual practice.[44] As noted above, pay systems geared to output prices are also oddities.

iv. Participation Through Employee Ownership

The concept of an employee/owner is hardly new. Small proprietorships, mom-and-pop stores, medical practices, legal partnerships, and family farms all involve employee/owners.[45] That is, in all these enterprises, the owners of capital also perform labor services. And apart from cases of self employment, it is not unusual for upper-level salaried managers of large industrial and commercial to have ownership positions in their firms.

All of these examples suggest that worker-owned firms per se are not inherently inefficient. The issue of possible inefficiency, and the notion that employee ownership is innovative, arises from ownership experiments among nonsupervisory employees in types of firms that traditionally have not included such ownership. There are some firms with long histories of worker ownership operating in industries where such practices are otherwise unusual.[46] However, modern employee ownership seems to be mainly an artifact of the tax code.

The U.S. tax code provides a variety of incentives for employers to create Employee Stock Ownership Plans (ESOPs). Under such plans, a trust is created which holds stock for employees. Although ESOPs which have a controlling interest in the firm are rare, they typically receive the bulk of publicity concerning employee ownership. Most ESOPs, however, do not involve majority ownership.[47]

Pure ESOP plans are quite rare, despite the tax incentives provided to them. However, variations on ESOPs (so-called "tax-credit" ESOPs) were created in the late 1970s and early 1980s by extremely generous tax provisions which have since been abandoned.[48] A full discussion of ESOPs would be out of place here. However, an important difference between the ESOP form of economic participation and non-ownership forms (such as profit sharing) is the treatment of employees who leave or are separated from the firm. Those who leave under an ESOP have a continuing ownership position (which, of course, they may cash out). But those who leave under non-ownership share systems have no further claim on the firm. This distinction has important macroeconomic significance; it gives profit sharing a much greater claim to a tax subsidy that employee ownership.[49]

C. Methods by Which Participation is Achieved

Participative arrangements - whether involving decision making or economic sharing - can come into existence by three routes. Nonunion employers may unilaterally install such procedures. Where there is collective bargaining, unions can press for creation of alternative participative systems. Finally, government may pressure firms to install participative systems or may provide positive incentives to do so. These alternative methods of implementation are taken up below.

I. Unilateral Employer Implementation

Employers could have various motivations for installing participative arrangements in the absence of government or union pressure. Economists are likely to assume that if a firm unilaterally installs a personnel policy, it does so for reasons of efficiency. Students of personnel practice, however, often find that firms often have a personnel "philosophy" which reflects the preferences of the founding owner.[50] If the firm remains solely owned by the founder, there is nothing irrational about indulging such preferences. However, the original philosophies seem to persist, even after more general ownership develops.

Microeconomic models usually are developed with only one efficient solution. However, this feature is only a pedagogical convenience. The real world may in fact be characterized by multiple equilibria, all of roughly the same efficiency. In such cases, a variety of personnel options might be feasible, with the choice determined by the accident of founder tastes. If the founder happens to have a bent toward a participative style, the firm simply retains that approach. It might be, however, that a more traditional, hierarchical style would have produced similar company performance.

i. Efficiency Motivation

Nevertheless, efficiency could be a factor in selecting the degree of employee participation permitted in the firm. As already noted, delegation of authority has long been viewed as an efficient strategy in large organizations. Thus, with regard to participation in decision making, there is no magic line in economic theory which prevents delegation to nonsupervisory employees. Since such employees are closest to the locus of production, they may have better insights into appropriate production decisions than persons higher up in the management hierarchy.

It is more difficult to make a case, however, for believing that employees would have special insights into strategic firm decisions involving issues normally outside their purview. In this regard, it is useful to make a distinction between an individual worker asked to make such decisions and a union official, acting on behalf of the worker. The latter potentially has the option of employing experts to assist in the decision process; the former typically would not have that option.

Until the recent interest of macroeconomists in profit sharing and similar forms of economic participation, such arrangements of economic participation had traditionally been viewed as employee motivators and loyalty generators. Employers continue to express such views about profit sharing, when surveyed. To the extent that economic participation raises productivity and/or cuts costly turnover, it may be advantageous (economically rational) for employers to install it.

ii. Participation as an Employee Benefit

Apart from any immediate productivity effect that decision making participation could have, employers might still move in a participatory direction if employees had a strong preference for such practices. It is rational for employers to weigh the costs and benefits of providing conditions of work employees find desirable.[31] The benefit to the employer is that compensation can be lower than would otherwise be the case if conditions are better. And the cost is providing the particular condition, be it air conditioning or participative decision making.

iii. The Union Avoidance Motivation

American management has been characterized by strong resistance to unionization. Nonunion firms attempt to maintain their "union-free" status; partially unionized firms attempt to prevent the spread of unionization to nonunion facilities or occupational groups. From the management perspective, unionization is seen as costly in terms of both bargained pay increases and limits on managerial discretion. Management resistance has played an important role in bringing about the declining fraction of the American workforce represented by unions since the mid-1950s.[32]

One strategy management has used for union avoidance has been to convince workers that they do not need a union; that they already have benefits a union might provide. Sometimes this strategy takes the form of providing tangible benefits, such as above-average pay or union-like grievance procedures. But it can also involve providing routes for employee participation.

The past history - prior to the passage of the 1935 Wagner Act - of management creation of "company unions" has already been referenced. These arrangements varied considerably in the scope of participation they permitted employees; generally, that scope was (not surprisingly) substantially constrained. But some employee representation plans did permit significant latitude for an employee role in decision making. Some, indeed, evolved into independent unions.

In more recent times, management's interest in creation of participative quality circles and related institutions in nonunion facilities has sometimes been stimulated by a quest to create an alternative to union representation.[illegible] Quality circles typically have focused on issues of production, rather than on the general management of the enterprise. They usually have not considered issues such as pay levels, benefits, or individual worker grievances. Thus, although quality circles often pose a challenge to lower level supervisors and managers, top management does not see them as a threat to managerial flexibility and ultimate control. Nor do they threaten to raise pay levels. In that respect, quality circles have certain similarities to the company unions of the past.

Profit sharing and similar participative compensation arrangements-unlike company unions - were never outlawed, even though historically some firms viewed them as part of a union avoidance strategy. Some managements still see such economic sharing arrangements as helpful in retaining nonunion status. But, as will be noted below, profit sharing has increasingly been incorporated into union contracts, as have quality circle programs.

II. Collective Bargaining Pressure

To the extent that federal policy has had a longstanding and continuous position on employee participation, that policy has been to provide certain protections to unions and collective bargaining, through the Wagner Act framework. Collective bargaining is a participative scheme which was as innovative and revolutionary when the government first fostered it in the 1930s as the participative experiments which are widely heralded today. And like today's experiments, the full ramifications of collective bargaining were not perceived when it began to become widespread.

i. Participation through Normal Bargaining

It may seem surprising - simply because it is not a new invention - to include collective bargaining as a participative system. However, the negotiation of union-management contracts <u>does</u> add an employee "voice" to the determination of wages, hours, and working conditions which otherwise would not be as strongly felt.[54] Unlike quality circles and similar participative plans, however, unions - through the strike mechanism - are able to make managerial disagreement with their demands potentially costly. Both sides in a collective bargaining negotiation must weigh the potential costs and benefits of continuing a disagreement. There is employee participation through collective bargaining, but it has traditionally been based on an adversary relationship with management.

In contrast, the cost to management of failing to implement the recommendations of a quality circle is mainly an eventual undermining of employee interest in the participative system. The views and suggestions that arise from a quality circle are not backed by economic pressure. Rather, there is simply an assumption that the employees whose views are tapped may develop solutions to problems better than a top-down management system could. Or it simply be assumed that creating a participative system will increase productivity and loyalty by catering to employee needs to be "involved."

As noted earlier, collective bargaining provides a form of economic participation, through the mechanism of wage and benefit bargaining. The economic participation aspect of conventional bargaining works best for more senior employees, who are not at high risk of layoff. To the extent that the employer's ability to pay is raised by external economic conditions, some of this ability may be reflected in higher incomes of bargaining unit employees. In some cases, as during the wage concession movement of the 1980s, reductions in ability to pay may also be reflected in the form of wage and benefit freezes or cuts.[55]

ii. Participation through New Structures

Although conventional collective bargaining is a participative arrangement (both in terms of decision making and in terms of economic sharing), nothing prevents unions from pressing for new-style participative plans in their bargaining with employers. Indeed, particularly in the 1980s, unions became interested in creation of quality circles (often under the heading of "employee involvement") and in formal economic share plans such as profit sharing and gain sharing. To the extent that such alternative forms of participation become attractive to union members, unions - acting as representation mechanisms themselves - ought to bargain these items. Some of the influences which affected the "tastes" of union workers regarding new forms of participation will be discussed in a later section.[56]

III. Governmental Pressure

Government involvement in fostering employee participation arose historically when there was an official interest in increasing industrial production. During wartime, government officials acquire a direct interest in industrial efficiency as government becomes a major customer of business-sector output. The risks for government suppliers in undertaking government-sponsored participative experiments are reduced to the extent that any resulting costs are covered in cost-plus type purchasing arrangements. It was precisely in such an environment that labor-management productivity committees were stimulated by government during World War II in response to government pressure to raise efficiency.[57]

General concerns over economic performance, however, can trigger government interest in participative systems even in peacetime. Ultimately, poor economic performance adversely affects the voting public. Political leaders in such circumstances may find it useful to propose a government role in stimulating employee participation.

In theory, government could operate by fiat, requiring the creation of employee representation programs. However, in the American case, however, the mandatory approach has not been much used, nor is it likely to be. Even the laws covering union-management regulations tend to specify <u>process</u> rather than results. The alternative to a fiat approach has been tax incentives for certain economic sharing plans and small subsidies on a competitive grant basis to selected union-management cooperative committees.

D. Macroeconomic Considerations

The kinds of economic performance indicators that have triggered peacetime government attention to participative proposals have been macroeconomic. Issues such as recession and depression, aggregate productivity growth, and inflationary pressures - all obvious matters of public concern - can become linked to participative ideas. In the 1930s, the Great Depression provided an impetus for government encouragement of collective bargaining as a participatory device. The issues of the 1970s and 1980s have been productivity trends and a perceived inflation/unemployment tradeoff.

I. Wage-Purchasing Power Theory

The preamble to the Wagner Act of 1935 justifies the then-new government role in fostering collective bargaining in terms of macroeconomics. It argues that an imbalance in bargaining power favoring management produces too-low wages, thus reducing worker purchasing power and consumption and aggravating depressions. That is, too-low wages were viewed as having constrained consumer demand and prevented the economy from recovering. The Wagner Act's solution, collective bargaining, was designed to push up wages through negotiations and thereby foster economic expansion.

i. Origins

Although the wage-purchasing power theory came to the forefront of economic policy in the 1930s, it had an earlier parentage.[38] In part, it reflected a strand of underconsumptionist economic thinking which can be found in Marxist writings. The notion of employers depressing wages in pursuit of profits, thus leading to depression and the loss of profits, was an ideal "contradiction" in capitalism. However, the theory had a broader following than just Marxists.

The wage-purchasing power theory was found among influential "progressive" businessmen in the 1920s and 1930s and as well as among selected economists. Union officials subscribed to the theory even earlier, since it provided a handy economic justification for wage bargaining. It was the motivation behind President Hoover's exhortation to employers not to cut wages in the early days of the Depression. The theory was reflected in the centerpiece of the early New Deal, the National Industrial Recovery Act of 1933, legislation that had a significant wage-boosting effect. And it was reflected in the late New Deal in the form of a federal minimum wage floor (originally 1938).

Despite its influence on public policy, most economists did not subscribe to the wage-purchasing power theory in the 1930s (nor would they today). Some of the criticism of the theory by economists centered on the price effect of wage hikes; if firms boosted prices to pay for wage increases, real wages (and, therefore, real consumption) might not rise at all. Other criticisms involved potential employment displacement; if wage increases led to employment decreases, total worker incomes might not rise.

Although these views were not always cogently expressed by modern standards, they did point to a difficulty in the wage-purchasing power view. There is a distinction to be made between worker wages and worker incomes. The lack of a tight connection between the two concepts came to haunt unions in the 1970s, when - as it turned out - pushing up wages in an effort to raise incomes led to declining unionization. The wage vs. income distinction is also relevant for the analysis of the share economy proposal of the 1980s which will be discussed in a later section.

ii. Current Status

By the late 1940s, the wage-purchasing power theory had receded as an intellectual force. The Keynesian viewpoint, which was developing an important following by that time, was that government monetary and fiscal policy should maintain purchasing power; it wasn't the job of unions to do so. Not surprisingly, the slippage in popularity of the wage-purchasing power approach occurred at a time when federal policy changed from overt fostering of collective bargaining toward a position more in line with employer perceptions.

Although the wage-purchasing power theory does not command a substantial following anymore, reformulated as a theory of excessive wealth concentration, it has been raised in popular literature predicting the next Great Depression.[59] The observation that real wage trends have been stagnant in the 1970s and 1980s could encourage a revival in the theory. To date, no prominent politician has explicitly picked up the theme, but it could someday become the basis of a populist economic platform. Or, more productively, it could be married to the share economy proposal discussed in a subsequent section.

II. Productivity Concerns

Economists have tended to view productivity as the product of impersonal influences such as capital investment and technological change.[60] Practitioners in the human resource field are more likely to see the quality of the employer-employee relationship as having some role.[61] However, it is widely agreed that real wages and living standards depend importantly on productivity growth. As is well known, the tendency of real wages to rise with productivity reflects a kind of employee participation in economic growth at the national level.

i. The Failure to Explain the Post-1973 Productivity Slump

The idea of a permanent productivity improvement trend - where productivity is defined as output per (labor) hour - was well ingrained in macroeconomic thinking until the early 1970s. For example, the anti-inflation wage guidepost of the Kennedy and Johnson administrations and the wage standard established under Nixon administration wage/price controls were based on ongoing productivity improvements of about 3% annually.[62] Yet research into the sources of productivity growth suggested that a considerable residual element remained unexplained by measurable inputs into production. Other than the past trend, there was no reason to assume that the residual element in productivity growth should remain constant.

The marked drop in productivity growth after 1973 has remained largely unexplained, despite the many theories offered and the volume of empirical research it generated. One suggestion has been that workplace frictions and tensions accounted in an important way for the productivity slump.[63] There was some evidence of a rising level of dissatisfaction in the union sector - as measured by strikes and rank-and-file contract ratification rejections - in the years just prior to the slump. However, direct and ongoing measures of such dissatisfactions are not available, especially for nonunion employees.

Because of the possibility that improvements in the workplace climate could provide a remedy for lagging productivity growth, interest in participative arrangements was heightened in the 1970s. A quality circle fad seemed to sweep the country, with many experiments ending up stillborn or dead at a tender age - but others showing some success. In addition, the recessions of the early 1980s seemed to focus attention on inward-looking compensation schemes. Managers became interested in such slogans as "pay for performance" and "flexible compensation," phrases which are sometimes linked to participative pay arrangements.[64]

ii. Foreign Competition

The manufacturing sector in the early 1980s was particularly hard hit by the double blow of severe recession and rising foreign competition, the latter being associated with a sharp appreciation of the U.S. dollar. With the growth of foreign penetration of the U.S. marketplace, it was natural that foreign employment and compensation practices should receive substantial attention. Japanese practices, in particular, came in for special scrutiny.

Although imitation of Japanese quality circles became a fad for many firms, other aspects of Japanese practice also attracted interest. In particular, the provision of strong job security and the use of a bonus form of compensation appeared to be important. Evidence was developed that the bonus component of pay functioned partly as an implicit profit sharing plan.[65] Thus, the stakeholder relationship of the employee with the employer seemed to find various forms of expression. Job security and extended career ladders linked the worker's fate to the firm; the linkage then reflected itself in variable pay. Reliance on consultation and consensus building seemed to join economic participation with participation in decision making.

There were, of course, dissenters from this view of Japanese enterprise. Some sought to recast the idyllic images of Japanese practice as paternalistic nightmares.[66] Others simply noted that only the larger Japanese firms provide the tight job security described above. However, the actual details of the Japanese model were less important than the impetus the American perception of that model provided for internal changes in the U.S. workplace.

iii. Examples of Union-Management Cooperation

As already noted, union officials became more willing to experiment with participative approaches in the 1980s which went beyond traditional collective bargaining relationships. In some ways, the 1980s were similar to the 1920s, when manufacturing stagnation also triggered union-management cooperative experiments.[67] The median voter model (described earlier) provides some insight into the change in attitudes.

During periods of severe economic distress, the normally-insulated senior union worker is suddenly put at risk of job loss. The senior worker may be the last to be laid off. But in a total plant closing or mass layoff situation, all or most workers are going to be terminated. Senior union workers have a large investment in their existing jobs; thus if those jobs are at risk, experimental workplace practices which might foster job security look more attractive than they would in good times.

Perhaps the most dramatic, and well publicized, participative experiments occurred at the major U.S. automobile manufacturers. The new programs ranged from quality circles to a union representative on the company board of directors (Chrysler) to tight job security guarantees and profit sharing. Macroeconomic pressures translated themselves into micro-level innovations. Although the 1980s were a period when pattern setting wage agreements seemed less influential, the new practices in the automobile industry did spill over into some other unionized industries. Generally, other industries did not pick up the entire auto package; instead, bits and pieces of the auto approach were adopted.

iv. Public Policy Results to Date

Prior to the coming to office of the Reagan administration, federal macroeconomic policy had involved varying degrees of intervention into collective bargaining negotiations, usually with anti-inflation motives. These interventions ranged from informal "jaw-boning" to mandatory wage controls. The Reagan administration, however, was committed to a laisser faire economic approach generally; it did not seek to influence collective bargaining outcomes, except those directly involving the government as the employer or as a prime customer.

Thus, despite the growing interest in participative arrangements in the union sector and elsewhere, no moves were made by the federal government to reinforce such programs. Presumably, the reasoning was that if participative arrangements actually raised productivity, the parties would have sufficient private incentives to implement them. Such a view would be valid, absent significant positive externalities connected with participative approaches. The possibility that externalities do arise from such arrangements - as has been argued by proponents of the share economy proposal discussed below - were apparently either discounted or not considered.

The U.S. Department of Labor, however, did move to disseminate information about those participative experiments that were occurring. Case studies- typically from the union sector - were reported through newsletters and other means by the Department's Bureau of Labor-Management Relations and Cooperative Programs. In addition a study was launched to determine if existing U.S. labor laws might impede participative steps, an issue to be considered below. In general, the focus of these studies and investigations was on productivity improvement at the micro level. Other economic aspects of participation were not a major consideration of Labor Department policy on information dissemination.

III. Stagflation Concerns

Stagflation - the simultaneous occurrence of inflation with relatively high unemployment - was <u>the</u> macroeconomic problem of the 1970s, eclipsing even the concern over lagging productivity growth. But stagflation bore a resemblance to lagging productivity as a macro issue; neither had been anticipated before they appeared. And both produced a shift toward economic pessimism.

i. Inflation/Unemployment Tradeoff Ideas of the 1960s

In the late 1950s and early 1960s, the development of computer technology made practical econometric research into macroeconomics as well as other areas. One of the major macroeconomic applications of the new technology was the estimation of "Phillips Curves."[68] The Phillips curve - an equation relating the rate of wage inflation to the rate of unemployment - suggested that a relatively stable, long-term relationship existed. That is, there was presumed to be an inverse tradeoff between inflation and unemployment. Given such a tradeoff, the job of macroeconomic policy was to pick the optimum inflation/unemployment combination.

In principle, the (price) inflation/unemployment tradeoff could be improved, if productivity growth could be increased. Such a development would permit more "push" from wages to be accommodated within a given level of price inflation. However, government intervention was not aimed at micro-level innovations that might improve productivity performance in the 1960s. The record of productivity growth looked pretty good as it was. Government intervention - to the extent it occurred - was mainly aimed at containing wage pushiness, thus improving the inflation/unemployment tradeoff through another route.

The notion of the 1960s that "excessive" wage inflation would develop before the unemployment rate reached a low target level foreshadowed a later view in the 1980s associated with the share economy proposal. This more recent view held that problems in the wage determination process exist which impede macro objectives. However, unlike their later counterparts, economic policy makers in the 1960s tended to be Keynesian optimists. Keynesian analysis - as applied to the Great Depression - carried the message that the problem in the labor market (unemployment) could not be solved in the labor market through wage manipulation. Rather aggregate demand management was needed. Translated into the 1960s, the Keynesian focus was still on demand management. However, potential wage inflation was viewed as a development which could impede such management, by triggering public pressures for deflationary policy.

ii. Phillips Curve Skepticism of 1970s

In the late 1960s, the Phillips curve appeared to be shifting its position so that higher unemployment seemed associated with any given rate of inflation. Theoretical criticism of the notion of a stable Phillips curve tradeoff suggested that this shifting result was to be expected.[69] A new view held that over a long horizon, unemployment could not be reduced simply by accepting higher inflation rates. The "natural rate of unemployment" was postulated below which inflation would accelerate and above which it would decelerate. Deviations from the natural rate were seen as possible only temporarily.

Beyond the theoretical undermining of the simple Phillips curve approach, two external oil price shocks - one in 1973-74 and the other in 1979-80- showed that domestic inflation could be triggered by boosts in foreign prices; inflation once started - even if initiated from abroad - seemed to become part of a difficult-to-unwind domestic wage/price spiral. It was quite possible to have extended periods of stagflation, given the lags entailed in fighting inflation through restrictive demand policies.

iii. Is the Problem in the Labor Market?

As already noted, the Keynesian approach to macroeconomics tended to focus attention on demand management, not wages. Macro solutions - even for unemployment - were to be sought outside the labor market. Nevertheless, the

Keynesian optimists of the 1960s had thought it worthwhile to undertake ad hoc interventions in wage determination through the announcement of wage guideposts. The macro policy of the Nixon and Carter administrations also featured similar interventions. Even if precise theories were not developed, macro policy in the 1970s seemed to be stumbling towards the position that there was a problem with wage determination and the labor market.

The experience with macro policy in the 1980s did nothing to defuse this trend. Although often justified in unorthodox language, macro policy during the early years of the Reagan administration fought inflation through demand repression. Stimulative fiscal policy arising from tax cuts was more than offset by restrictive monetary policy producing a substantial and prolonged economic slump which gradually reduced inflation. Inflation could be fought with demand reduction, the experience of the 1980s showed, but at the cost of an extended period of high unemployment.[70]

In short, macro developments through the mid 1980s suggested the need for two kinds of economic remedies. First, some means of reconciling low unemployment and low inflation on an enduring basis was needed. Second, there was need for a way to correct pre-existing inflationary "mistakes." If inflation had been high in the past, a way of reducing it without creating widespread economic distress was required. The question was, could a participative scheme meet these objectives?

E. The Share Economy Proposal

The proposal of Martin L. Weitzman and others for introducing a share economy - one featuring widespread profit sharing or other, similar forms of economic participation - is intended as a response to both needs.[71] Yet many unanswered questions remain about the share proposal, even if the underlying theory on which the proposal is based is accepted without question. In this section, the theory is presented in brief outline, together with some discussion of developments which might foster a spread of the share approach. The following section covers the relation between the share proposal for economic participation and other forms of employee participation.

I. Early Anticipations

As noted earlier, some proposals for introducing profit sharing were made in response to the Great Depression. These proposals saw profit sharing as a way of introducing responsiveness to the business cycle into an otherwise rigid wage structure. It was assumed that falling wages would eliminate unemployment through classical demand/supply mechanisms. If the wage could not fall, why not introduce a profit sharing bonus scheme; the bonus would then fall in depression, presumably invoking the same classical solution.

A more modern version of this idea - one not relying on classical mechanisms - considers the interaction of monetary policy and inflation. Assume that the monetary authorities will crack down on "excessive" inflation via demand restriction. In such a world, if wages are relatively insensitive to demand, the monetary restrictions will lead mainly to unemployment and only gradually to disinflation. However, if profit sharing is present, the demand restriction will quickly and automatically reduce the bonus element of pay. And if firms mark up their prices over total compensation (wage plus bonus), demand restraint will rapidly produce the desired slowdown in price inflation, without provoking a big drop in employment as a byproduct.[72]

A variation of this view - particularly as it applies to the union sector - notes a potential connection between job security and profit sharing. A firm's payroll is the product of its hourly wage (W) times the number of employee hours it hires (H). During business downturns, firms typically reduce H. To a limited extent, H-reductions can be accomplished by decreasing weekly hours per employee. But the scope for such adjustments is modest and substantial reductions are more likely to be achieved by layoffs.[73]

In a rigid wage model, all the adjustment in the payroll (WH) is made via H and not W. However, if the firm has a profit sharing bonus plan, W = w + b, where w = the official hourly wage and b is the profit sharing bonus per hour. Reductions in WH will thus be (partially) accomplished through W by means of an automatic drop in b (due to declining demand - and therefore profits). Unions wishing to bargain for job security could accept a somewhat more variable compensation system in the form of a profit sharing program. The firm obtains its WH reduction through W rather than H; the union obtains more job security.

II. The Weitzman Analysis

Weitzman's analysis of profit sharing differs from most (not all) earlier analysis in that it is grounded in the standard theory of the firm. This grounding has undoubtedly helped the proposal in winning converts among economists. However, its strength also creates a point of vulnerability, since - as noted earlier - micro theory as regards the labor market has been subject to critiques and qualifications some of which could undermine elements of the Weitzman proposal.

Noneconomists - particulary personnel practitioners - are subject to two chief confusions about the Weitzman proposal. First, although grounded in micro theory, the Weitzman call for a share economy is aimed at solving a macro problem: the propensity of modern economies to drift into stagflation episodes or to suffer from either excess unemployment or inflation. Usually, programs such as profit sharing are viewed as devices to solve micro problems related to company productivity and employee loyalty and morale.

Second, although profit sharing has a superficial resemblance to flexible pay plans ranging from simple incentives to ESOPs, most seemingly-related plans do not provide the kind of sharing Weitzman is seeking. That is, they don't, within the context of simple economic theory, have the desired macro effect. In the Weitzman world, all flexible pay plans are not created equal.

i. A Brief Explanation

There are now various sources from which detailed explanations and criticism of the Weitzman proposal can be found.[74] To avoid duplicating existing literature, this section presents only a brief sketch of the Weitzman idea. In essence, in the simple theory of the firm, profit maximization is the goal and demand and cost conditions are the constraints. The firm sets prices - and therefore the amount sold - and purchases inputs into production in pursuit of the largest possible profit.

Profit (π) is defined as the difference between revenue and cost. Potential revenues are derived from conditions of demand and potential costs are based on the prices of inputs and the available technology of production. Generally, if the prices of inputs are raised, the firm will use less of them. This result flows from two mechanisms.

First, if the price of an input is raised, the effect will generally be to raise overall costs of production and therefore the price of the firm's output. But higher prices mean that a smaller quantity of output is produced and sold, which in turn means that real inputs can be reduced. Second, raising the price of an input to production makes substitution possibilities more attractive to the firm. Thus, the firm will reduce its use of inputs whose prices are rising and use more of other inputs. In particular, if the wage is raised or lowered the firm will decrease or increase, respectively, its employment of labor.

Although there are many forms of profit sharing in actual use, the simplest version simply allocates a percentage share (s) of profits to workers in the form of a current or deferred bonus. With profit sharing, the firm's owners receive net profits which reflect the deduction of the workers' share. Thus, net profits (π*) are equal to (1-s)π. Since π* differs from π only by a multiplicative constant, any steps the firm would have undertaken to maximize π will also be undertaken if sπ is "skimmed off" and paid to workers. With no change in demand or supply conditions, creating a profit sharing plan does not change firm behavior because the steps needed to maximize π are the same as those needed to maximize (1-s)π.

But, in fact, Weitzman notes, there will be a change. A firm which offers profit sharing bonuses can pay lower wages, since workers receive some compensation through the bonus. Even if workers are risk averse and do not value the expected value of the bonus as equivalent to a sure wage of the same amount, they will place <u>some</u> value on the bonus and be willing to substitute some reduction in wage offered for the bonus. Thus, the wage will be lower, other things being equal, in a profit sharing firm, and therefore employment will be higher.

Weitzman carries this argument a step further. If most firms offer profit sharing, they will all expand their hiring. But, unless unemployment is very high, the pool of available labor will be exhausted by the increase in labor demand. Firms will face a labor "shortage" so that all who wish to work will be sucked up into jobs. The economy will gravitate toward full employment.

Even if a recession develops, firms will tend to hang on to workers and avoid layoffs in a Weitzman share economy. With a sufficiently large initial labor shortage, the recession simply reduces the excess demand for labor, but does not extinguish it. Indeed, take to the extreme, recessions in the usual sense of the word cannot exist since firms hold on to their labor and continue to produce. Any decreases in demand translate into nominal price changes. Recessions become painless deflations, with no decrease in real output. Booms become inflations. If a zero inflation rate is desired, an appropriate monetary policy can be costlessly followed.

ii. Criticisms

The share economy seems to be an economic paradise. When proposals are made that promise a great deal, it is natural that a skeptical reaction occurs. Critics look for defects and loose ends in the proposal. And there are criticisms to be made, although none are ultimately devastating.[75] Weitzman's proposal would not bring about an economic paradise, but it would improve macroeconomic performance. And it has potential ramifications beyond those initially described by Weitzman.

Sources of Wage Rigidity

The share economy proposal does not contain an explanation of wage rigidity. Weitzman notes that in theory a conventional was system with flexible wages ultimately gravitates to the same full employment equilibrium as a share system. The problem is that the current conventional wage system is characterized by very limited wage responsiveness to increases and decreases in labor demand. Firms vary employment, not wages, as demand pressure fluctuates. Given that empirical observation, adding a share element makes up for the inflexibility of wages in the Weitzman model of the firm.

If wages were rigid due to some exogenous influence, the share proposal would be on firm ground. But suppose wages are rigid because employers and employees find it useful to transact in that fashion. The implicit contracting theories described earlier suggest just such behavior.

In an implicit contracting world, imposing a share system on firms might not have much actual impact. The share element of pay would be potentially variable, but firms could filter out the variability by implicitly smoothing total compensation. For example, in a year when the bonus was small, the firm might promise a large wage increase the following year to make up the loss. In a year when the bonus was large, the firm might grant a small wage increase to offset the previous gain. That is, firms could transform a seemingly-variable bonus into a component of a rigid total compensation system. The Weitzman model assumes that they would not do so, even though they could.

Implicit contracting poses an intellectual challenge to the Weitzman proposal. However, the notion that employers are committed to providing employees with a totally steady compensation level is far fetched. The implicit contracting model itself has loose ends, not the least of which is why the understandings are unwritten. If it is clear what the employer is guaranteeing to the workers, why is the guarantee not specified in a written document?

Incumbent Resentment

Firms have an incentive to hire more workers under a share system because the marginal cost of doing so is lower than the marginal benefit. But that is another way of saying that addition hiring "dilutes" the bonus pool - and therefore the total compensation - of incumbent workers. Incumbents would naturally resent such hiring.[76]

In a union situation, where incumbents have a mechanism to voice their resentment (and to pressure the employer to heed it), the result could be bargaining to restrict hiring. If many firms in a share economy restricted hiring, the move toward Weitzman-style full employment would not take place. Still, even though not achieving full employment, the economy might still be more stable than under a conventional wage system. A firm constrained not to add employees would still not want to lay off those already employed, unless demand dropped dramatically.

Of course, in the American case, most of the workforce is nonunion. In the mid 1980s, only about 16% of wage and salary workers were represented by unions in the private sector. Thus, incumbent worker resentment, even if present, might not find full expression. Nonunion employers might nevertheless be concerned about incumbent morale, and constrain themselves not to hire "excessively." However, given the vast amount of empirical research indicating that wages, benefits, and conditions are different in the union sector, it seems unlikely that employers would totally stifle their own profit-seeking instincts under a share system.

Unemployment for Discipline

It was noted earlier that efficiency wage theories suggest that wages are deliberately held "too" high by employers to create a dismissal penalty for misconduct or poor performance. If such is the case, nonunion employers would have a profit incentive to constrain hiring. Excessive hiring might lower compensation (including the bonus) to a level at which losing a job would not be s severe penalty. Indeed, a share economy as envisioned by Weitzman would be a system under which every available worker could easily find employment. Dismissal would not be a severe penalty in such a world.

The unemployment-as-discipline argument is similar to incumbent resentment; it suggests that part of the Weitzman scenario - very low unemployment - would not result in practice from a share system. But it does not rule out greater stability of employment, given achievement of an equilibrium unemployment rate needed to maintain appropriate discipline. The efficiency wage argument explains the persistence of some unemployment rate, not cyclical fluctuations in unemployment. Would anyone seriously seek to interpret the sharp rise in unemployment during 1973-75 or 1979-82 as the reaction of employers to an exogenous increase in employee unruliness?

Risk Aversion

Profit sharing bonuses vary with the economic fortunes (or misfortunes) of the employer. As such, they are typically more variable from year to year than wage rates. If employees are risk averse, they may not want variable bonuses and their desires may prevent the share economy from coming into effect.

It is undoubtedly true that employees are typically risk averse. However, if a share economy brought about a greater degree of economic stability, the riskiness associated with profit sharing under a predominantly conventional wage system might be substantially reduced. The ups and downs of the business cycle play an important role in influencing profit fluctuations. Smaller cyclical adjustments would mean smaller profit (and profit-related bonus) fluctuations.

To the extent that profit sharing bonuses are perceived as risky by employees, the transition to a share economy will be impeded. This is a major reason why Weitzman and others have proposed that a tax incentive be given to profit sharing. There are many aspects of modern employment compensation that exist largely because of provisions in the tax code. Indeed, key benefits such as pensions, health insurance, and life insurance are provided by employers in large part because they are either free of personal tax or subject only to deferred taxation. There is some incentive which could overcome risk aversion.

Senior vs. Junior Interests

The share economy proposed by Weitzman tends to favor marginal junior workers relative to seniors, when compared with the contemporary wage system. Juniors are most subject to employment fluctuations. If they have jobs, they are the first to be laid off. When they do not have jobs, they become the outsiders, watching from afar as incumbent insiders continue their employment.

In the full Weitzman story, with a perpetual labor shortage, juniors have almost the same job security as seniors. Juniors would be the first to be laid off, but layoffs are extremely rare. And, effectively, there are no outsiders, since everyone has a job.

A partial Weitzman story - employment stability but no perpetual labor shortage - still is mainly of advantage to juniors. Those juniors who do find jobs tend to keep them. There are outsiders (since there is significant unemployment), but unemployment does not rise cyclically to very high peaks, and therefore does not further put outsiders at a disadvantage.

Seniors who are insulated from employment fluctuations under the contemporary wage system would pay a price for converting to a share system. Even if aggregate cyclical forces were removed by a share economy, individual firms would still experience some profit fluctuations due to changes in consumer tastes, to managerial decisions, and shifts in the prices of inputs. Seniors would have to absorb some of these fluctuations in the form of varying bonuses.

Again, the issue comes down to creating fiscal incentives. Seniors would be disadvantaged by a share system. But there is some price which could induce them to buy into it, or at least reduce their opposition to politically manageable proportions. Weitzman did not argue that a share system would spring to life, simply by dint of its micro merits. Whatever private advantages there may be in profit sharing, these advantages have not been strong enough to create a share system spontaneously. Since economic stability is a positive social externality in the Weitzman model, an external social incentive must be provided.

III. Evidence

Can evidence be found that moving to a share economy would produce the macroeconomic benefits that Weitzman proposes? It is certainly reasonable that public policy makers would want such evidence before engaging in tax expenditures to foster a transformation of the American compensation system. Unfortunately, it is in the nature of the proposal that solid evidence can be obtained only by an economy-wide trial. That is, a share economy must be fully installed before it can be tested.

An important element in the Weitzman proposal is the labor shortage that it creates. It is this labor shortage that keeps the economy at a low unemployment rate, even when nominal demand slumps. But the labor shortage results from <u>most</u> employers adopting a share system. If only a few firms have share plans, these firms may hire more workers, but not enough more to lower the overall unemployment rate noticeably.

i. Anecdotal Evidence in the U.S.

In principle, some evidence might be obtained by observing firms with Weitzman-type share system at the micro level, even though they are operating in the context of an external, traditional wage system. Unfortunately, most firms with share systems do not make the share element a large fraction of pay. Alternatively, it might be tempting to identify the share proposal with wage flexibility, and to look for signs that firms which exhibit more wage flexibility also exhibit greater employment stability. But such evidence really would not have a direct bearing on a share system, since a flexible wage firm and a share firm need not behave identically.

A share firm would be expected to hang on to existing workers in a business downturn and generally to be looking for more labor. There is some anecdotal evidence that firms with share compensation systems do stand ready to hire workers, and will retain those they have.[77] But real-world firms with more-flexible-than-average wages are unlikely to be characterized by anything like classical wage flexibility. Their wage structure will vary somewhat with product demand conditions, but not necessarily enough to affect their demand for labor significantly. Indeed, firms which exhibit wage flexibility may well be those whose employment levels are especially unstable. A severe adverse economic shock may lead them to institute both employment and pay cuts. The American steel industry in the 1980s is a good example.

ii. Foreign Experience

In the absence of readily-available evidence based on the U.S. experience, lessons might be drawn from foreign share systems. Generally, researchers have turned to Japan and its bonus system for signs of positive macroeconomic effects of share systems. Japan has been noted both for low unemployment rates as compared with the U.S. and an ability to absorb recessionary demand movements without substantial jumps in unemployment.

The first element in obtaining evidence from Japan's macroeconomic performance is a determination that the Japanese bonus system is, in fact, a share system. Various authors have concluded that there is a share element in the bonus, even though some fraction of the bonus may be relatively constant.[78] An interesting question, however, is whether the bonus system is a <u>cause</u> of Japanese employment stability, or the <u>result</u> of it. That is, if major Japanese firms have a commitment to employment stability, they might - for reasons cited earlier - obtain needed flexibility in labor costs by varying the bonus.

Recently, changes in British tax policy were adopted to encourage share-type compensation arrangements.[79] Assuming that the tax incentives prove to be sufficiently strong, the U.S. might benefit by viewing the British program as a laboratory experiment. The British economy is similar to the American, in that in neither case do employers have a pre-existing commitment to employment stability. Thus, it should be possible to learn whether installing a share system gives employers incentives to tilt toward such stability in the interests of profit maximization.[80]

IV. U.S. Policy Reactions to Date

Although in Britain the share proposal caught the fancy of a conservative government, in the U.S. it has attracted the interest of center-to-left politicians.[81] The fact that the proposal can capture such interest across a broad political spectrum is itself interesting. Those on the right can view share systems as teaching workers the virtues of capitalism. Those on the left can view them as ersatz socialism. But the problem is that these perceptions can be easily reversed. Those on the right can see share system as a threat to the property rights of shareholders, while those on the left can see sharing as a sly capitalist plot to delude the working class.

There have been proposals for tax incentives aimed at fostering share plans introduced in Congress.[82] To a limited extent, because profit sharing has been seen as part of labor-management cooperation, government-sponsored educational efforts in the cooperation area have publicized profit sharing. However, to the extent that the tax system promotes a particular form of compensation, that form remains the ESOP, an arrangement which does not fit the Weitzman model of a share system.

V. Private Developments

The early-to-mid 1980s was a period of economic stress and distress for many firms and industries. Two back-to-back recessions (1979-80, 1980-81) put severe pressure on many employers. The recession problem was intensified by de-regulation in certain sectors and foreign competition - associated with dollar appreciation - in others. These economic travails naturally were reflected in compensation practices.

Three particular reactions can be noted of special relevance to the share economy proposal. First, as previously noted, there ensued a general rethinking of compensation policy in the American management community, often tied to the notion of regaining "competitiveness." Second, long-held union attitudes toward profit sharing and related systems began to change. Third, a move toward bonus arrangements developed - mainly in the union sector - which could have share implications in the future.

i. Re-examination of Compensation Policy

The early 1980s brought about a more inward-looking concern on the part of corporate compensation managers. Survey evidence suggests that managers began to place less weight on external measures (such as outside wage and price trends), and more weight on internal considerations, in formulating pay policy.[83] Because the labor market was slack during this period, an inward-looking approach was feasible. When jobs are scarce, firms do not have to worry about retention and recruitment problems resulting from a failure to keep up their pay level relative to some external index.

There was much discussion in the 1980s about such concepts as having a "flexible" pay structure, or about "pay for performance." Such notions are obviously vague, and could refer to anything ranging from piece rates and simple incentive systems to wage cuts during hard times. However, whenever there is a focus on a more inward direction in pay setting, a window of opportunity for introduction of share-type compensation systems is created. Devices such as profit sharing are inherently based on the (internal) economic circumstances of the enterprise.

ii. Union Shifts with Regard to Profit Sharing

As noted earlier, personnel practices in American firms have historically been much influenced by developments in the union sector. Unionized firms are directly affected by collective bargaining outcomes. Nonunion firms may imitate policies in the union sector, in part out of union-avoidance motivations. The much weakened state of unions in the 1980s raises questions about whether the union sector will play such a key role in the future. However, at the very least, the public nature of collective bargaining tends to focus media interest on major settlements. Thus, much more attention is paid to negotiated conditions in the unionized automobile industry than to unilaterally determined employer policies in, say, the heavily nonunion high-tech electronics sector.

The big news in the union sector in the 1980s was the wage concession movement. Wages freezes and cuts became commonplace occurrences. These union wage developments had counterparts in the nonunion sector, but they appeared to be less common there. In part, the concession movement represented an unwinding of the relative rise in union pay (compared with nonunion) in the 1970s.

Union wage concessions represented a type of immediate wage flexibility. During the 1970s, empirically-estimated Phillips-curve type equations showed little sensitivity of wage change to real macroeconomic conditions. But in the 1980s, estimates of such equations began to show increased sensitivity of wage change to real economic conditions, once the new data were incorporated. What was unclear was whether this new sensitivity represented a permanent behavioral change, or whether it represented a one-shot change in the balance of bargaining strength between unions and management.[84]

As adverse economic circumstances threatened even the most senior union workers with job loss, union interest in job security grew. The combination of pressure from management for concessions and union concerns over job security led to shift in union attitudes toward profit sharing and similar plans. First, negotiating for profit sharing in exchange for a wage concession makes acceptance of the concession by the union and its members easier. In a case where the employer is facing current economic difficulties, the wage relief provided can be automatically recouped later through profit sharing, assuming that today's concession leads to tomorrow's recovery and prosperity.[85]

Second, just as profit sharing makes acceptance of a concession easier for a union, so it can make acceptance of a demand for job security easier for management.[86] As has already been noted, firms which have relied on layoffs to deal with economic downturns could alternatively rely on the automatic pay relief afforded by profit sharing. The Weitzman model - which is really based on the economic incentives profit sharing provides to nonunion firms - predicts that the substitution of flexible pay for flexible employment will automatically ensue from the installation of profit sharing. However, in the union sector, it is not necessary to rely on employer incentives; the tradeoff between flexible pay and flexible employment can be explicitly negotiated.

Unions have by no means become enthusiastic converts to profit sharing- in part because it has been associated with adversity and concessions.[87] But they have been willing to look at sharing as a potentially useful tool in bargaining. Profit sharing can now be found in contracts in the automobile industry, as well as in telephone communications, lumber and paper, steel, and other sectors. But it is still relatively uncommon in the union sector as a whole, despite the well-publicized breakthroughs. An important question for thee future is whether share systems will spread further. One possibility is that they will spread, but not through formal share plans. The spread could occur through an informal and gradual shift in the use of bonuses which became important during the mid 1980s.

iii. Lump-Sum Bonuses

As part of the concession movement, union wage settlements began to feature lump-sum bonuses instead of pay increases.[88] Even non-concession settlements started to feature such bonuses. From the employer viewpoint, the cost advantage is obvious. A three-year contract with three annual 3% bonuses does not raise the base wage, and raises the dollar pay out by only 3%. Because the base wage does not rise, additional savings to the employer may accrue because benefits such as pensions are geared to the base wage only and do not reflect the bonus. In contrast, a three-year contract with annual 3% pay increases raises the dollar pay out by 9% by the end of the contract and lifts associated benefit costs proportionately.

While the immediate genesis of the lump-sum bonus was employer desires for cost savings, the long-term effect could be different. The word "could" must be emphasized at this point, since it is too early to predict what form the lump-sum bonus might take in the future. However, it is possible that union-sector pay could ultimately come to resemble the Japanese bonus system. That is, a typical contract could feature a relatively insensitive wage element plus a variable bonus component reflecting employer economic circumstances.

There are barriers to such a development, not the least of which is the American propensity to negotiate multiyear agreements. Unless negotiation of the bonus component was handled through annual reopeners, the bonus might reflect only economic conditions at infrequent bargaining intervals. American management would probably balk at having annual bonus negotiations, if that entailed the risk of an annual strike.[69] However, there are creative solutions available, if the parties are of a mind to find them.

F. The Share Economy and Other Forms of Participation

On their face, share systems such as profit sharing need not entail other forms of employee participation. Indeed, Weitzman expressed concern that giving employees a voice in employer decision making could have an adverse impact on the macro benefits he associated with a share economy.[70] In particular, it has been noted that the incentive to add employees under a share system has the effect of reducing the average bonus. Thus, if employees had a voice in decision making, they might seek to veto new hiring, thus thwarting a reduction in unemployment.

Weitzman's concern about the issue of non-economic participation was initially expressed in connection with collective bargaining. However, any form of worker voice - union or nonunion - potentially poses the same dilemma. Despite these concerns, there are obvious difficulties with the position that employees can be economic participants only.

I. Information Sharing

If employees are given a claim on profits, revenue, or some other internal value measure, some means of verification is an obvious accompaniment.[71] For firms which are not publicly traded, how would employees know what profits are, and therefore what their share should be, without access to the employer's accounts? In the 1970s and 1980s, courts increasingly began to look at the employer-employee relationship as an enforceable contract, even if no written agreement existed. Thus, if a firm announces that it shares profits according to some formula, employees potentially have a legal claim to verification.

Even for publicly-traded companies, where financial disclosure is required, the profit figures that appear in the annual report need not be those on which a profit sharing plan is based. Many profit sharing formulas are complicated and do not rely on a simple percentage of published profits. For example, a conglomerate or multinational firm may base its profit sharing on profits from a particular line of business or from domestic operations. Yet its published data may aggregate profits from all components of the firm. Only some type of information sharing can provide verification.

Not all firms which have profit sharing today in fact make verification information available. However, profit sharing is currently a relatively minor element in total compensation. Were a Weitzman-type share economy to be adopted, the proportion of pay derived from share bonuses would be much larger. Particularly if federal tax expenditures were used to stimulate creation of widespread economic sharing, it is difficult to imagine that legal requirements for information sharing would not soon follow.

II. Participation in Management Decision Making

Employee participation in managerial decision making is not a necessary accompaniment of economic participation. In principle, even if information were shared for verification purposes, no means would have to be provided for worker inputs based on that information. Yet there is a potential connection between economic sharing and sharing in decision making. After all, the size of the share will be partly dependent on management decisions, good or bad. Those persons financially affected by decisions might well want a voice in them.

Shareholders who are leery about the quality of management decisions can always sell their shares; financial capital is outwardly mobile at very low cost. But employee/stakeholders in the firm may not be so mobile. Even without formal share systems, employee/stakeholders have an investment in the firm which has value only if their jobs continue. Adding a share system simply increases their existing stake. The stakeholder relationship is yet another reason why economic participation might spread into participation in decision making.

Finally, there has been a widening interest in employee participation in decision making apart from considerations of economic sharing. Many firms have experimented with quality circles; many now have them in place. While it is common for nonunion firms to exclude pay from the purview of quality circles and similar employee involvement mechanisms, once pay is linked to profits, the distinction between pay and non-pay issues becomes fuzzy. Any decision or suggestion that enhances profits also enhances pay.

III. Collective Bargaining

It was stressed in an earlier section that collective bargaining is a form of employee participation in decision making, although traditionally that participation has been confined to a narrow sphere of workplace issues. Under a share economy, however, that narrow sphere might well expand. Many employers already seem to believe that economic sharing in the presence of a union is likely to lead to demands for other forms of participation. And there is reason to believe that unions might come to a similar conclusion.

i. A New Role for Unions?

Union membership as a fraction of the workforce has declined since the mid 1950s. However, in the 1980s, the decline shifted from a gradual relative erosion to a sharp absolute membership drop. Faced with this crisis, the union establishment began to engage in unprecedented self criticism and to search for a new role for unions that would expand the appeal of union membership.[72]

A share economy could provide a special role for unions and give them a new appeal to potential members. If a significant element of pay were to come from a share bonus, employees might feel that they needed more than just informational reports and quality circles. Information must be both audited and interpreted to be useful. Unions could play that role, by providing research and professional expertise to their members.

Similarly, participation in decision making by employees may require outside assistance. It is not unusual for management to bring in outside consultants for an alternative perspective on particular problems. In principle, unions could provide a similar consultative service to their members. Even without the stimulus of a share economy, unions in the 1980s increasingly became involved in previously managerial matters such as mergers and acquisitions. The leap from this new activity to other forms of participation is not large conceptually. But it does entail changes in union structure, generally in the direction of strengthening national unions relative to locals, since professional staffing and expertise cannot be provided efficiently except through a centralized mechanism.

ii. Legal Obstacles?

Ironically, it is from the legal apparatus that surrounds the traditional collective bargaining system that a potential challenge to expanded employee participation arises. The longstanding notion that a sharp distinction is to be made between management's rights and the scope of union bargaining is now enshrined in legislation and rulemaking. Thus, changes in the legal system may be required to accommodate a new union role.

Similarly, labor law protects collective bargaining as a form of employee participation relative to other forms. As already noted, various forms of "company unions" and employee representation plans existed until outlawed by the Wagner Act of 1935. Concerns have been expressed about whether quality circles, particularly if their roles were widened, might run afoul of these restrictions. Changes in labor law might be needed to accommodate participative systems.[73]

IV. Inevitable Linkages

To the extent that a share economy is linked to other forms of participation, its implications go far beyond macroeconomic considerations. In a share economy, basic aspects of the employer-employee relationship are likely to be affected. The view of employees as stakeholders in the firm is strengthened. Unions may find new roles in non-traditional areas. Managers may have to adapt to changes in decision processes. And public policies may need to be amended in ways going beyond simply providing incentives to share systems.

Footnotes

1. Examples of the economic approach can be found in Derek C. Jones and Jan Svejnar, eds., Advances in the Economic Analysis of Participatory and Labor-Managed Firms, volumes 1 and 2 (Greenwich, Conn.: JAI Press, 1985, 1987).

2. The impact of the Depression on economic thought concerning the labor market is reviewed in Daniel J.B. Mitchell, "Wages and Keynes: Lessons from the Past," Eastern Economic Journal, vol. 12 (July-September 1986), pp. 199-208.

3. See Joseph P. Goldberg and William T. Moye, The First Hundred Years of the Bureau of Labor Statistics (Washington: GPO, 1985), pp. 165-166.

4. Martin L. Weitzman, The Share Economy: Conquering Stagflation (Cambridge, Mass.: Harvard University Press, 1984).

5. For an example of such an approach, see Willford I. King, The Causes of Economic Fluctuations: Possibilities of Anticipation and Control (New York: The Ronald Press, 1941), pp. 324-330b.

6. Martin Segal, "Post-Institutionalism in Labor Economics: The Forties and Fifties Revisited," Industrial and Labor Relations Review, vol. 39 (April 1986), pp. 388-403; Clark Kerr, "The Intellectual Role of Neorealists in Labor Economics," Industrial Relations, vol. 22 (Spring 1983), pp. 298-318.

7. Thus, in seeking to explain wage rigidity, labor economists focused on union motivations. See, for example, Joseph Shister, "The Theory of Union Wage Rigidity," Quarterly Journal of Economics, vol. 57 (August 1943), pp. 522-542. Note that Keynesian theory tended to focus on unions as a source of resistance to downward movements in wages, and that this British approach spread naturally to the U.S. at a time when unions were rapidly gaining members. See John Maynard Keynes, The General Theory of Employment, Interest, and Money (New York: Harcourt, Brace & World, 1936), p. 264.

8. Daniel J.B. Mitchell, "Inflation, Unemployment, and the Wagner Act: A Critical Reappraisal," Stanford Law Review, vol. 38 (April 1986), pp. 1065-1095.

9. National Industrial Conference Board, Experience with Works Councils in the United States (New York: Century, 1922). See also Henry P. Guzda, "Industrial Democracy: Made in the U.S.A.," Monthly Labor Review, vol. 107 (May 1984), pp. 26-33.

10. U.S. Bureau of Labor Statistics, Characteristics of Company Unions, 1935 (Washington: GPO, 1937).

11. There is limited evidence that employers have found that profit sharing inhibits union organizing. See Edgar R. Czarnecki, "Profit Sharing and Union Organizing," Monthly Labor Review, vol. 92 (December 1969), pp. 61-62.

12. Frederic Meyers, Ownership of Jobs: A Comparative Study (Los Angeles: UCLA Institute of Industrial Relations, 1964); Daniel J.B. Mitchell, "Job Ownership: Variations on a Theme by Meyers" in Walter Fogel, ed., Job Equity and Other Studies in Industrial Relations (Los Angeles: UCLA Institute of Industrial Relations, 1982), pp. 99-153.

13. For example, see Albert Rees, The Economics of Trade Unions (Chicago: University of Chicago Press, 1962), pp. 136-138.

14. Jack Stieber, "Steel" in Gerald G. Somers, ed., Collective Bargaining: Contemporary American Experience (Madison, Wisc.: Industrial Relations Research Association, 1980), pp. 180-182.

15. Katherine G. Abraham and James L. Medoff, "Length of Service and the Operation of Internal Labor Markets" in Barbara D. Dennis, ed., Proceedings of the Thirty-Fifth Annual Meeting, Industrial Relations Research Association, December 28-30, 1982), pp. 308-318.

16. Daniel Kahneman, Jack L. Knetsch, and Richard Thaler, "Fairness as a Constraint on Profit Seeking," American Economic Review, vol. 76 (September 1986), pp. 728-741.

17. Peter B. Doeringer and Michael J. Piore, Internal Labor Markets and Manpower Analysis (Lexington, Mass.: Heath, 1971).

18. Assar Lindbeck and Dennis J. Snower, "Wage Setting, Unemployment, and Insider-Outsider Relations," American Economic Review, vol. 76 (May 1986), pp. 235-239.

19. Sanford M. Jacoby, Employing Bureaucracy: Managers, Unions, and the Transformation of Work in American Industry, 1900-1945 (New York: Columbia University Press, 1985).

20. Richard B. Freeman and James L. Medoff, What Do Unions Do? (New York: Basic Books, 1984), chapter 8.

21. Daniel J.B. Mitchell, "Wage Flexibility in the United States: Lessons from the Past," American Economic Review, vol. 75 (May 1985), pp. 36-40.

22. Robert M. Solow, "What is a Nice Girl Like You Doing in a Place Like This?" Eastern Economic Journal, vol. 12 (June-September 1986), pp. 191-198.

23. Steven A. Lippman and John J. McCall, The Economics of Search (Cambridge, Mass.: Harvard University Press, 1985).

24. George A. Akerlof and Janet L. Yellen, eds., Efficiency Wage Models of the Labor Market (New York: Cambridge University Press, 1986).

25. Sherwin Rosen, "Implicit Contracts: A Survey," Journal of Economic Literature, vol. 23 (September 1985), pp. 1144-1175.

26. Daniel J.B. Mitchell and Larry J. Kimbell, "Labor Market Contracts and Inflation" in Martin Neil Baily, ed., Workers, Jobs, and Inflation (Washington: Brookings Institution, 1982), pp. 199-238.

27. Arthur M. Okun, Prices & Quantities: A Macroeconomic Analysis (Washington: Brookings Institution, 1981), chapters 2 and 3.

28. Although wages and seniority are positively correlated, alternative explanations of the relationship which do not rely on pay-for-seniority per se are available. Employees who are well suited (matched) to employers will tend to have longer seniority and higher pay. See Katharine G. Abraham and Henry S. Farber, "Job Duration, Seniority, and Earnings," American Economic Review, vol. 77 (June 1987), pp. 278-297.

29. Thus, in 1983, median interrupted tenure was 5.1 years for males and 3.7 years for females. If it is assumed that on average the surveyed individuals were half way through their completed spells, completed spells could be estimated as double the length of interrupted spells. Short spells are concentrated among younger workers, both because they have not had time to accumulate long durations and because they change jobs frequently. Among workers 55-64 years old, 45% of males and 21% of females report interrupted spells of 20 or more years. See Ellen Sehgal, "Occupational Mobility and Job Tenure in 1983," Monthly Labor Review, vol. 107 (October 1985), pp. 18-23; Robert E. Hall, "The Importance of Lifetime Jobs in the U.S. Economy," American Economic Review, vol. 72 (September 1982), pp. 716-724.

30. American labor law imposes certain information disclosure requirements on unionized employers. They must supply information to allow the union to act as an effective bargaining agent. Information on wages, benefits, and working conditions is most likely to be required for disclosure. Other financial data may be subject to disclosure requirements under certain conditions. For details, see John Gaal, "The Disclosure of Financial Information: Competitiveness and the Current Requirements of the Duty to Bargain in Good Faith," Labor Law Journal, vol. 38 (September 1987), pp. 562-573.

31. Bureau of National Affairs, Inc., Performance Appraisal Programs, PPF Survey no. 135 (Washington: BNA, 1983), pp. 9-11.

32. "Progressive" nonunion firms often place great emphasis on employee communications. See Fred K. Foulkes, Personnel Policies in Large Nonunion Companies (Englewood Cliffs, N.J.: Prentice-Hall, 1980), chapters 13 and 14.

33. David Lewin, Opening the Books: Corporate Information-Sharing with Employees, research bulletin no. 167 (New York: Conference Board, 1984).

34. Committee for Economic Development, Work and Change: Labor Market Adjustment Policies in a Competitive World (Washington: CED, 1987), p. 34. A survey by the General Accounting Office suggests that advance notice of closures and mass layoffs of more than three months is unusual. See Secretary of Labor's Task Force on Economic Adjustment and Worker Dislocation, Economic Adjustment and Dislocation in a Competitive Society (Washington: U.S. Department of Labor, 1986), Appendix E.

35. A survey of legally required participative arrangements can be found in Christopher Docksey, "Employee Information and Consultation Rights in the Member States of the European Communities," Comparative Labor Law, vol. 7 (Fall 1985), pp. 32-69.

36. Survey evidence suggests that co-determination in the sense of participation in higher management decisions attracts relatively little worker interest; workers have greater interest in more local forms of participation. On the other side, executives - particularly U.S. executives with European experience - tend to oppose expansion of co-determination. Robert J. Kuhne, Co-Determination in Business: Workers' Representatives in the Boardroom (New York: Praeger, 1980), pp. 85-88; 105-108.

37. The difficulty of designing arrangements and incentives that make agents' actions coincide with principals' objectives has received increasing attention in the economic and managerial literature. See John W. Pratt and Richard J. Zeckhauser, eds. Principals and Agents: The Structure of Business (Boston: Harvard Business School Press, 1985).

38. Thus, unions in industries subject to foreign competition have lobbied for various trade protective arrangements, such as tariffs and quotas. Unions in the railroad industry lobby against coal slurry pipelines. These are examples of external pressure designed to improve product market conditions. Unions in the 1970s were able to obtain federal legislation regulating occupational safety and health and the adequate funding of pension plans. These are examples of external pressure aimed at influencing internal employer policies.

39. Barry T. Hirsch and John T. Addison, The Economic Analysis of Unions: New Approaches and Evidence (Boston: Allen & Unwin, 1986), pp. 208-215.

40. Data indicating the widespread usage of piece rates and other incentives can be found in National Industrial Conference Board, Systems of Wage Payment (New York: NICB, 1930). The more recent decline in such pay systems is documented in John Howell Cox, "Time and Incentive Pay Practices in Urban Areas," Monthly Labor Review, vol. 94 (December 1971), pp. 53-56; and Norma W. Carlson, "Time Rates Tighten Their Grip on Manufacturing Industries," Monthly Labor Review, vol. 105 (May 1982), pp. 15-22. The Carlson paper indicates, however, that piece and incentive pay rates covered large fractions of the workforce in such industries as steel, apparel, and footwear. In the mid 1980s, 47% of union contracts in manufacturing contained such rates (although not necessarily for all covered workers). See Bureau of National Affairs, Inc., Basic Patterns in Union Contracts, eleventh edition (Washington: BNA, 1986), p. 125.

41. Alchian and Demsetz refer to the problem of "metering" productivity and rewards as determining organizational structure (which includes the method by which the economic value generated by the firm is distributed). See Armen A. Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," American Economic Review, vol. 62 (December 1972), pp. 777-795.

42. Simple incentive systems do not necessarily solve the principal/agent problem. In some cases, they may in fact separate the interests of the two relative to a hypothetical, perfect monitoring and information situation. See for example, the case of legal fee systems in Murray L. Schwartz and Daniel J.B. Mitchell, "An Economic Analysis of the Contingent Fee in Personal-Injury Litigation," Stanford Law Review, vol. 22 (June 1970), pp. 1125-1162. In this case, the issue is posed as having the lawyer put in the optimum number of hours on a personal injury case. However, the problem can be generalized. Instead of hours being the variable, imagine a situation in which hours are fixed and an employer is attempting to obtain the optimum units of effort from the workforce. A similar analysis would follow with employer and employee interests diverging relative to the optimal solution. Incentive systems exist because information and monitoring costs make the optimal solution unattainable through a conventional time-based pay system.

43. Generally, gain sharing is understood to include Scanlon, Rucker, and Improshare plans. Scanlon bonuses are based on the ratio of payroll to the value of production (sales plus or minus inventory). Rucker plans use the ratio of payroll to value added. Improshare plans are based on physical productivity. Scanlon plans are used in union situations and involve both union-management cooperation and employee involvement. Rucker plans need not involve unions, but involve employee committees and suggestion systems. Improshare plans do not emphasize employee participation. See U.S. General Accounting Office, Productivity Sharing Programs: Can They Contribute to Productivity Improvement?, AFMD-81-22 (Washington: GAO, 1981), pp. 7-12.

44. Data on the incidence of profit sharing can be found in U.S. Bureau of Labor Statistics, Employee Benefits in Medium and Large Firms, 1986, bulletin 2281 (Washington: GPO, 1987), p. 81. One sample of firms - in which there was probably a bias toward respondents with variable pay practices because of the kinds of information requested - found 13% had some kind of "gain sharing" plan. However, of these 43% were using "custom" plans which they designed, rather than the formal Scanlon, Rucker, and Improshare Plans usually included under the gain sharing label. See Carla O'Dell and Jerry MacAdams, People, Performance, and Pay (Houston: American Productivity Center, 1987), pp. 8, 34-35.

45. In 1986, just under 10% of the employed workforce consisted of self-employed persons and unpaid workers of family-run enterprises. See Employment and Earnings, vol. 34 (January 1987), p. 184.

46. Robert Jackall and Henry M. Levin, eds., Worker Cooperatives in America (Berkeley, Calif.: University of California Press, 1984).

47. About two thirds of ESOPs surveyed by the General Accounting Office (not including "tax-credit" plans (see below) owned 25% or less of their companies. See U.S. General Accounting Office, Employee Stock Ownership Plans: Benefits and Costs of ESOP Tax Incentives for Broadening Stock Ownership, GAO/PEMD-87-8 (Washington: GPO, 1986), p. 39.

48. Thirty percent of employees at medium and large firms had some form of ESOP in 1986. However, only 2% were pure ESOPs; the other 28% were tax-credit ESOPs. See U.S. Bureau of Labor Statistics, Employee Benefits in Medium and Large Firms, op. cit., p. 81.

49. It has been argued that productivity is enhanced by ESOPs. See Corey Rosen, Katherine J. Klein, and Karen M. Young, Employee Ownership in America: The Equity Solution (Lexington, Mass.: Lexington Books, 1986). However, ESOPs do not provide the kind of wage flexibility that could lead to macroeconomic benefits in the area of employment stabilization, as discussed below; they simply create more stockholders, some of whom happen to be employees. More discussion of this point can be found in Daniel J.B. Mitchell, "The Share Economy and Industrial Relations," Industrial Relations, vol. 26 (Winter 1987), pp. 1-17. The promotion of ESOPs through the tax system does not seem to discourage profit sharing. Firms with ESOPs are about as likely to have profit sharing as other firms. However, if the tax subsidy for ESOPs were transferred to profit sharing plans, the latter would increase in incidence. See Renae Broderick and Daniel J.B. Mitchell, "Who Has Flexible Wage Plans and Why Aren't There More of Them?" in Barbara D. Dennis, ed., Proceedings of the Thirty-Ninth Annual Meeting, Industrial Relations Research Association, December 28-30, 1986 (Madison, Wisc.: IRRA, 1987), pp. 159-166.

50. Foulkes, Personnel Policies in Large Nonunion Companies, op. cit., pp. 46-49. The reverse effect can also be argued. Managers may have philosophies which exclude worker participation; they may modify their position only when their firms come under heavy economic duress. See Robert Drago, "New Use of an Old Technology: The Growth of Worker Participation," Journal of Post-Keynesian Economics, vol. 7 (Winter 1984-85), pp. 153-167.

51. The economic analysis of the wage/benefit mix provided by employers assumes that worker preferences influence that aspect of working conditions. A similar analysis can be applied to any condition of work. See Robert J. Flanagan, Robert S. Smith, and Ronald G. Ehrenberg, Labor Economics and Labor Relations (Glenview, Ill.: Scott, Foresman and Co., 1984), pp. 267-269.

52. Henry S. Farber, "The Decline of Unionization in the United States: What Can be Learned from Recent Experience?," working paper 2267, National Bureau of Economic Research, May 1987; Richard B. Freeman, "The Effect of the Union Wage Differential on Management Opposition and Union Organizing Success," working paper 1748, National Bureau of Economic Research, October 1985.

53. The rise of the "new nonunion model" is discussed in Thomas A. Kochan, Harry C. Katz, and Robert B. McKersie, The Transformation of American Industrial Relations (New York: Basic Books, 1986), chapters 3 and 4.

54. An early application of the so-called exit/voice model to collective bargaining can be found in Richard B. Freeman, "Individual Mobility and Union Voice in the Labor Market," American Economic Review, vol. 66 (May 1976), pp. 361-368.

55. Daniel J.B. Mitchell, "Shifting Norms in Wage Determination," Brookings Papers on Economic Activity (2:1985), pp. 575-599; Daniel J.B. Mitchell, "Understanding Union Wage Concessions," California Management Review, vol. 24 (Fall 1986), pp. 95-108. Other references to the concession movement can be found in the source notes to these papers. The relationship of the concession movement to union attitudes toward profit sharing will be discussed below.

56. Unions in the 1970s were often unreceptive to quality of working life approaches, although survey evidence indicated potential interest on the part of workers. For further discussion on these issues, see Thomas A. Kochan, Harry C. Katz, and Nancy R. Mower, Worker Participation and American Unions: Threat or Opportunity? (Kalamazoo, Mich.: W.E. Upjohn Institute, 1984).

57. The wartime experience is discussed in Sanford M. Jacoby, "Environmental Pressure and Union-Management Cooperation: Historical Evidence from the United States, 1920-1965" in Eric G. Flamholtz and Felicitas Hinman, eds., The Future Directions of Employee Relations (Los Angeles: UCLA Institute of Industrial Relations, 1985), pp. 7-45, especially pp. 13-21.

58. The macroeconomic theory underlying support of collective bargaining in the 1930s is discussed in Daniel J.B. Mitchell, "Inflation, Unemployment, and the Wagner Act: A Critical Reappraisal," Stanford Law Review, vol. 38 (April 1986), pp. 1065-1095.

59. Raveendra K. Batra, The Great Depression of 1990 (New York: Simon & Schuster, 1987), pp. 116-124.

60. Edward F. Denison, Accounting for United States Economic Growth (Washington: Brookings Institution, 1974); Edward F. Denison, Accounting for Slower Economic Growth: The United States in the 1970s (Washington: Brookings Institution, 1979); Edward F. Denison, Trends in American Economic Growth, 1929-1982 (Washington: Brookings Institution, 1985).

61. Academic research also suggests a relationship between the employer-employee relationship and workplace efficiency. See Kochan, Katz, and McKersie, The Transformation of American Industrial Relations, op. cit., pp. 89-93.

62. On the Kennedy/Johnson and Nixon controls, and the development of their wage guidelines, see - respectively - John Sheahan, The Wage-Price Guideposts (Washington: Brookings Institution, 1967); Arnold R. Weber and Daniel J.B. Mitchell, The Pay Board's Progress: Wage Controls in Phase II (Washington: Brookings Institution, 1978).

63. Thomas E. Weisskopf, Samuel Bowles, and David M. Gordon, "Hearts and Minds: A Social Model of U.S. Productivity Growth," Brookings Papers on Economic Activity (2:1983), pp. 381-441.

64. William M. Mercer, Inc., Employer Attitudes Toward Compensation Change and Corporate Values (New York: Mercer, 1983), p. 5; Audrey Freedman, The New Look in Wage Policy and Employee Relations, report no. 865 (New York: Conference Board, 1985), chapter 2.

65. Masanori Hashimoto, "Bonus Payments, On-the-Job Training, and Lifetime Employment in Japan," Journal of Political Economy, vol. 87 (October 1979), pp. 1086-1104; Richard B. Freeman and Martin L. Weitzman, "Bonuses and Employment in Japan," working paper no. 1878, National Bureau of Economic Research, April 1986; Kazutoshi Koshiro, "Gainsharing, Wage Flexibility and Macro-Economic Performance in Japan," working paper no. 87-6, Faculty of Economics, Yokohama National University, June 1987.

66. Thus, at the bottom of the 1982 recession, a somewhat-dated Japanese book criticizing workplace practices in an automobile company suddenly appeared in English translation in the U.S. See Satoshi Kamata, Japan in the Passing Lane: An Insider's Account of Life in a Japanese Auto Factory (New York: Pantheon Books, 1982).

67. Sanford M. Jacoby, "Union-Management Cooperation in the United States: Lessons from the 1920s," Industrial and Labor Relations Review, vol. 37 (October 1983), pp. 18-33.

68. A.W. Phillips, "The Relation Between Unemployment and the Rate of Change of Money Wages in the United Kingdom, 1861-1957," Economica, vol. 25 (November 1958), pp. 283-299.

69. Milton Friedman, "The Role of Monetary Policy," American Economic Review, vol. 58 (March 1968), pp. 1-17.

70. Thus, Gordon finds that roughly two thirds of the inflation slowdown during 1982-84 was due to slack demand (with the balance attributable to foreign price developments and declines in food and energy prices). Robert J. Gordon, "Understanding Inflation in the 1980s," Brookings Papers on Economic Activity (1:1985), pp. 263-299.

71. Weitzman, The Share Economy, op. cit.

72. Daniel J.B. Mitchell, "Gain-Sharing: An Anti-Inflation Reform," Challenge, vol. 25 (July-August 1982), pp. 18-25.

73. Daniel J.B. Mitchell, "The Changing American Workplace," The Labor Lawyer, vol. 1 (Spring 1985), pp. 301-320, especially pp. 314-318.

74. Aside from papers previously cited on the topic, see the symposium on the Weitzman proposal in Industrial and Labor Relations Review, vol. 39 (January 1986), pp. 285-290; Lawrence H. Summers, "On the Share Economy: Prospects and Problems," Challenge, vol. 29 (November-December 1986), pp. 47-50; Alan S. Blinder, "A Bottle Half Full," Challenge, vol. 29 (November-December 1986), pp. 51-52; R.C.O. Matthews, book review of The Share Economy, Journal of Economic Literature, vol. 23 (June 1985), pp. 658-660; Russell Cooper, "Sharing Some Thoughts on Weitzman's The Share Economy," working paper no. 1734, National Bureau of Economic Research, October 1985; W.D. Nordhaus and A.A. John, eds., "The Share Economy: A Symposium," Journal of Comparative Economics, vol. 10 (December 1986), pp. 414-475; Domenico Mario Nuti, "Profit-Sharing and Employment: Claims and Overclaims," Industrial Relations, vol. 26 (Winter 1987), pp. 18-29; Kurt W. Rothschild, "Is There a Weitzman Miracle?," Journal

of Post-Keynesian Economics, vol. 9 (Winter 1986-87), pp. 198-211; Paul Davidson, "The Simple Macroeconomics of a Nonergodic Monetary Economy Versus a Share Economy: Is Weitzman's Macroeconomics too Simple?," Journal of Post-Keynesian Economics, vol. 9 (Winter 1986-87), pp. 212-225.

75. See the previous footnotes for such criticisms.

76. There is only scattered anecdotal evidence concerning worker desires to restrict hiring. In one 100% worker-owned firm (the equivalent of total profit sharing), a union official voice concerns about excessive hiring. See Greg Johnson, "His Employees are the 'Bosses'," Industry Week, August 8, 1983, pp. 41, 44. In another firm with a sales-based gain sharing plan, worker resistance to new hiring was also reported. See Ellen Wojahn, "'Gainfully' Employed," Inc., December 1983, pp. 150-153.

77. The Fuller Brush Company, which relies on a door-to-door sales force paid on commission, reportedly has hiring problems and continuously looks for new personnel. See Doris A. Fuller, "Fuller Brush Man Still Knocking," Los Angeles Times, Part 4, May 13, 1985, pp. 1-2.

78. See Hashimoto, "Bonus Payments, On-the-Job Training, and Lifetime Employment in Japan," op. cit.; Freeman and Weitzman, "Bonuses and Employment in Japan," op. cit.; Koshiro, "Gainsharing, Wage Flexibility, and Macro-Economic Performance in Japan," op. cit.

79. The incentive is that profit sharing bonuses up to a specified limit are not subject to personal income tax. See "United Kingdom Encourages Profit Related Pay Schemes," Daily Labor Report, September 21, 1987, p. A2.

80. In 1984, a tax incentive for profit sharing was proposed by the Canadian government. However, a change in government shelved the plan. See Marc Lalonde, Gain Sharing for a Stronger Economy (Ottawa: Canada, Department of Finance, 1984).

81. Alan Murray, "Sharing the Wealth: Democrats Latch on to Bonus Pay System in Search for New Ideas," Wall Street Journal, Section A, April 28, 1987, p. 1,28.

82. Senator Dale Bumpers introduced a bill entitled the "Profit-Sharing Incentive Act" (S. 932) in the spring of 1987 which would tax profit sharing bonuses at preferential rates.

83. Freedman, The New Look in Wage Policy and Employee Relations, op. cit., chapter 2.

84. Daniel J.B. Mitchell, "Wage Trends and Wage Concessions: Implications for Medium-Term Economic Expansion" in Research Seminar in Quantitative Economics, The Economic Outlook for 1987 (Ann Arbor, Mich.: Department of Economics, University of Michigan, 1987), pp. 266-335.

85. Daniel H. Kruger, "Profit Sharing Arrangements and Collective Bargaining" in Barbara D. Dennis, eds., Proceedings of the Thirty-Ninth Annual Meeting, Industrial Relations Research Association, December 28-30, 1986 (Madison,

Wisc.: IRRA, 1987), pp. 152-158.

86. Just as union officials have expressed concerns about profit sharing, so, too, have management representatives. Some have expressed fear that profit sharing could be a wedge for an excessive influence of unions in management decision making. See "Potential Dangers in Expansion of Current Auto Profit-Sharing Plans Cited by Attorney," Daily Labor Report, March 24, 1982, pp. E1-E6.

87. A history of unions and profit sharing can be found in Daniel H. Kruger and Richard S. Bearup, "Collective Bargaining and Profit-Sharing," undated working paper, School of Labor and Industrial Relations, Michigan State University (1986?). A sampling of recent union views can be found in Jane Slaughter, Concessions and How to Beat Them (Detroit: Labor Research and Education Project, 1983), p. 35; "Profit-Sharing Called Secondary Issue, AFL-CIO News, January 24, 1987, p. 6; and "Statement Adopted by Steelworkers' Basic Steel Industry Conference," Daily Labor Report, January 21, 1986, pp. D1-D2. The Slaughter book warns that profit sharing is an employer tactic to destroy pattern bargaining (since each firm will have its own plan). The AFL-CIO News article suggests that profit sharing will expose workers to variable incomes, but "have some potentially attractive aspects." Finally, the Steelworkers' document suggests that profit sharing and related devices can be part of a union strategy to recoup concessions for workers when a distressed employer returns to profitability.

88. In 1986, 40% of workers under "major" private union settlements (those covering 1,000 or more employees) had lump-sum components in their contracts, according to the Bureau of Labor Statistics. The Bureau of National Affairs, Inc. survey of union settlements (which includes non-major agreements) reports that a third of the surveyed agreements had lump-sum elements. See "Major Collective Bargaining Settlements in Private Industry, 1986," Current Wage Developments, vol. 39 (March 1987), p. 7; "Lump-Sum Bonuses Escalate to 33 Percent of 1986 Pacts, Offset Most Wage Freezes," Daily Labor Report, March 30, 1987, p. B1.

89. Sanford M. Jacoby and Daniel J.B. Mitchell, "Employer Preferences for Long-Term Union Contracts," Journal of Labor Research, vol. 5 (Summer 1984), pp. 215-228.

90. Weitzman, The Share Economy, op. cit., p. 132.

91. It has been argued that since profit sharing plans entail information sharing about profits, unionized employers might be reluctant to adopt such programs, fearing their bargaining power would be weakened by such disclosure. See Abraham Hollander and Robert Lacroix, "Unionism, Information Disclosure and Profit-Sharing," Southern Economic Journal, vol. 52 (January 1986), pp. 706-717.

92. American Federation of Labor - Congress of Industrial Organizations, The Changing Situation of Workers and Their Unions (Washington: AFL-CIO, 1985).

93. U.S. Department of Labor, Bureau of Labor-Management Relations and Cooperative Programs, U.S. Labor Law and the Future of Labor-Management Cooperation (Washington: GPO, 1986).