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EMPLOYMENT ISSUES FOR THE NEW ADMINISTRATION

by

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LOS ANGELES

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With the decade of the 1990s only a year away, and with the presidential election behind us, it is appropriate to take a somewhat longer look at the labor market than I have usually presented at these meetings. What issues will arise in the employment market during the new administration? A look toward the future reveals a variety of upcoming pressures on practitioners in the human resource field and some unresolved problems. It doesn't necessarily reveal what we would like to see. But at least we can be prepared and avoid unpleasant surprises.

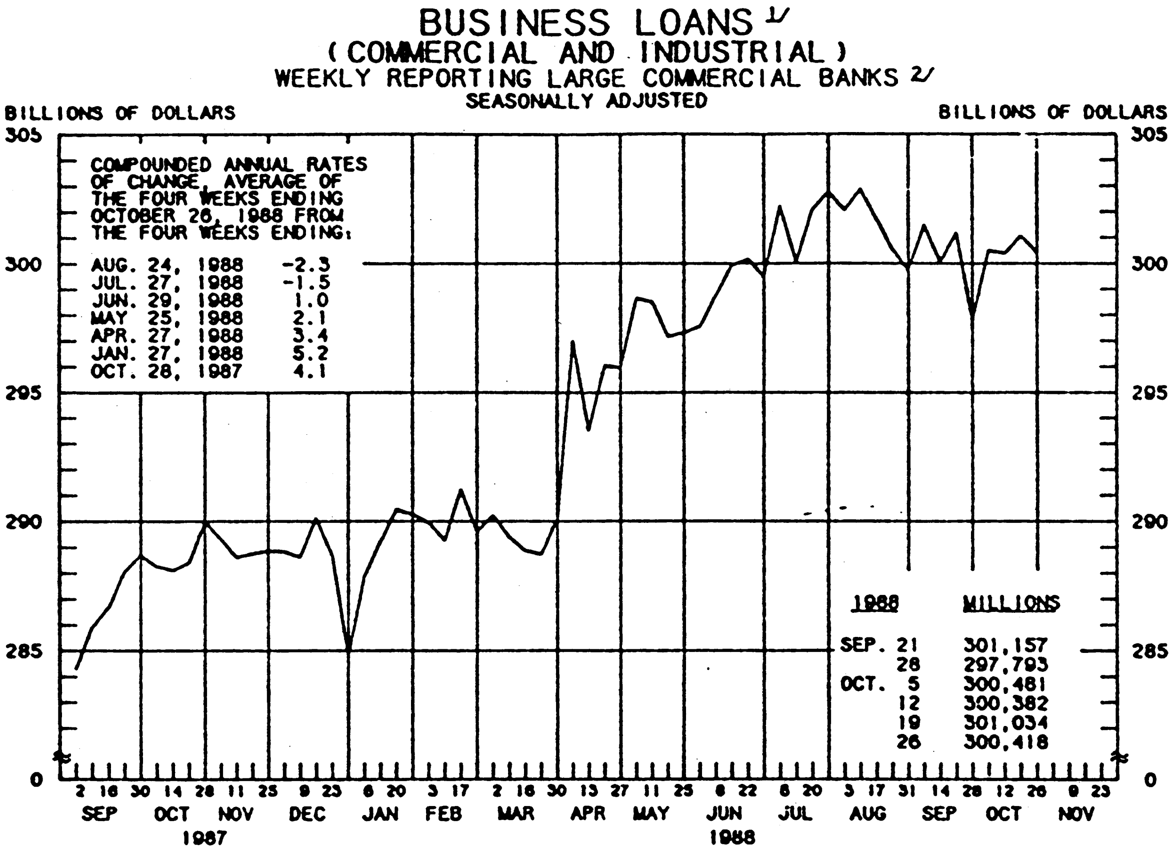
I. The Recent Past: General Economy.

The past year was a surprise. After the October 1987 crash, most forecasters expected at least a slowdown in growth, and - of course - UCLA projected an outright recession. While some softness in the economy appeared in the post-crash period, the uncertainty and fear created by the crash seemed to evaporate by the second quarter of 1988. Figure 1 shows the trend in business loans outstanding from large commercial banks. Since loans represent a business commitment, they can be taken as an index of confidence. Loans were flat until the second quarter when confidence seemed to return, then surged upward, leveling out by mid-summer, as economic growth generally slowed.

What about the monetary policy which accompanied this period? Figure 2 shows the trend in the M1 money stock measure. The Federal Reserve's bail-out of the market in October 1987 is clearly visible. But policy thereafter seems erratic. At first the Fed sucked out the money it had infused into the system, apparently fearing excessive stimulation of the economy and possible resulting inflation. Then it worried about recession and reversed course. This in-and-out pattern characterized 1988.

The volatile pattern of monetary policy reflects an important lesson from the stock market crash: Linkages between financial markets and real activity are much more attenuated and imprecise than many economists have thought was the case. Thus, it is much more difficult for the Fed to determine or follow an appropriate monetary policy, since no one can be sure what particular monetary policy is in fact appropriate. We may not be flying blind into the 1990s, but at the macro policy level it is certainly foggy out there. From the human resource perspective, this new macro reality means that employers (and unions in organized situations) must be prepared to deal with a more uncertain economic environment. The volatile movements of the dollar exchange rate in the 1980s, which had the effect of changing U.S. competitiveness abruptly, simply add to the uncertainty. Who is to say the 1990s will not also include such episodes of dramatic dollar appreciation and depreciation?

FIGURE 1



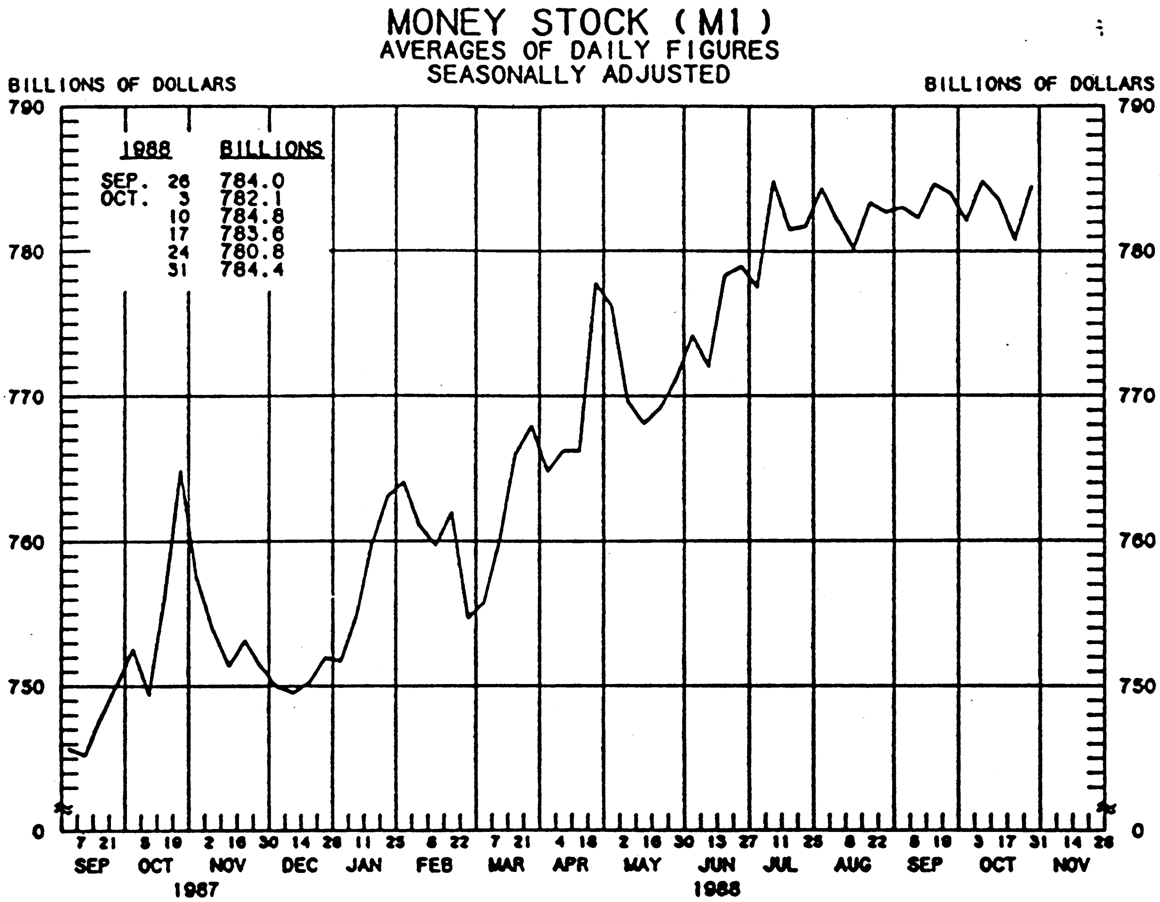
LATEST DATA PLOTTED WEEK ENDING: OCTOBER 26, 1988

1/ BUSINESS LOANS INCLUDE BANKERS' ACCEPTANCES AND COMMERCIAL PAPER.

2/ BANKS WITH DOMESTIC ASSETS GREATER THAN $1.4 BILLION

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

FIGURE 2



LATEST DATA PLOTTED WEEK ENDING: OCTOBER 31, 1988

CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.

M1 IS THE SUM OF CURRENCY HELD BY THE NONBANK PUBLIC, DEMAND DEPOSITS, OTHER CHECKABLE DEPOSITS AND TRAVELERS CHECKS.

Source: Federal Reserve Bank of St. Louis.

II. The Recent Past: Labor Market.

Figure 3 shows the trend in unemployment during the past year. As the national unemployment rate fell below 5½%, labor shortages - which had previously been confined to the northeastern states - began to invade other areas. To be sure, there were special circumstances in particular industries. Nurses and other health technicians were in notably short supply, but wage setting in those occupations has long been thought by economists to reflect employer cooperation in keeping pay low. Fast food operators, and others who traditionally paid the minimum wage were affected by a lack of increase in the minimum since 1981. The queue of workers dried up as the minimum wage became unrealistically low. With unemployment falling, these employers were forced to behave like others and compete for labor. But all that being said, there is no doubt that an unemployment rate below 5½% signifies a tighter labor market than the 7% rate which characterized the mid 1980s.

By itself, of course, a tight labor market is desirable. What is not desirable is inflation as a byproduct of such tightness. Inflation could lead to a restrictive monetary policy which - given the imprecise link between monetary developments and economic activity - could easily cause an overshooting and a recession.

III. Structural Changes in the 1980s.

One of the big news stories of the 1980s was "deindustrialization," generally taken to mean the decline of once substantial manufacturing industries.[1] Steel is perhaps the best example. Payroll employment in steel (SIC 331) fell from 570,500 workers in 1979 to 274,600 in 1987. Generally, employment fell in all of manufacturing over this period, but by nowhere near the rate experienced in steel. Thus, there has been a shift in the composition of manufacturing employment from older to newer industries. For example, even with the well-publicized overcapacity in computers in the mid 1980s, employment in office machinery and computers rose by 15.6% during 1979-87, as steel jobs declined.

The general restructuring of industry - including well-publicized mergers, takeovers, acquisitions, and divestitures-did have the effect of heightening awareness of job security (or insecurity) at all occupational levels. Studies by the U.S. Bureau of Labor Statistics suggest that those who were displaced

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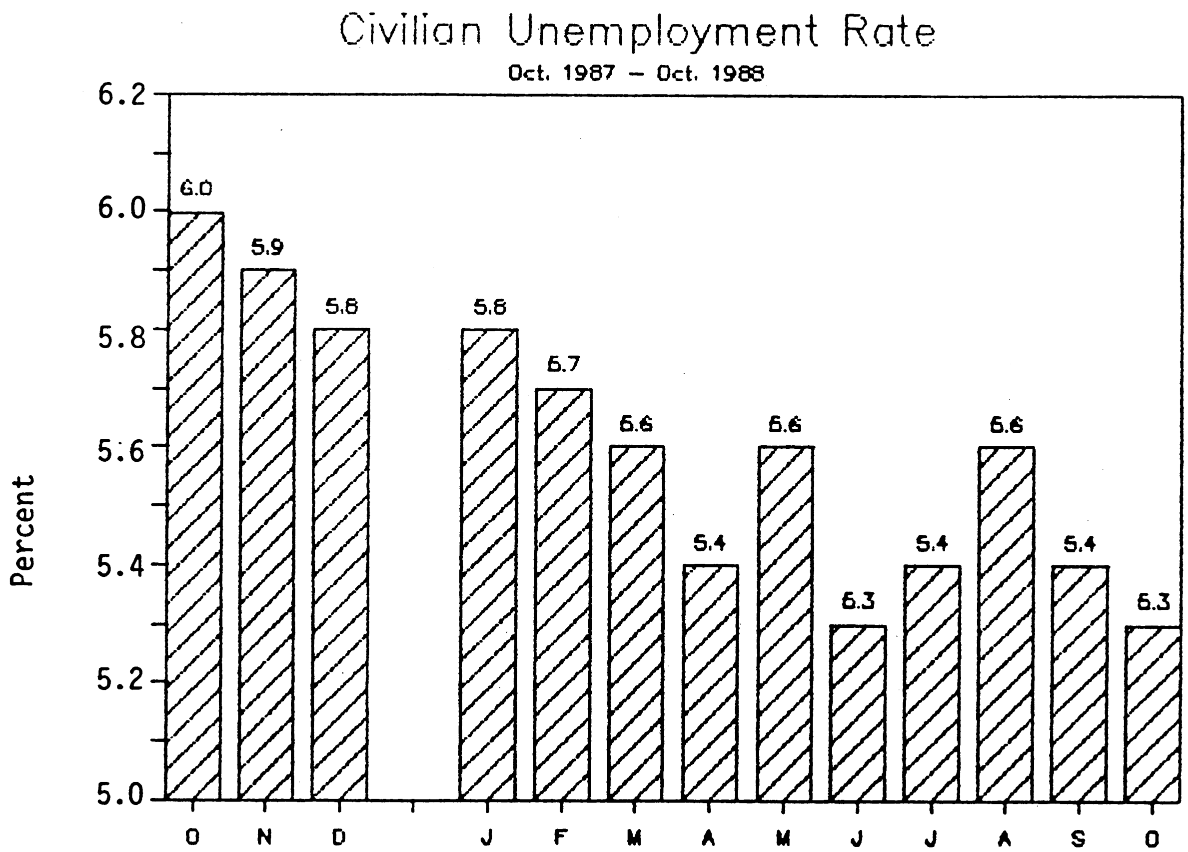
[1]Paul D. Staudohar and Holly E. Brown, eds., Deindustrialization and Plant Closure (Lexington, Mass.: Lexington Books, 1987).

FIGURE 3



Note: Data are seasonally adjusted.

Source: U.S. Bureau of Labor Statistics.

by mass layoffs and plant closings often suffered prolonged periods of joblessness, and often eventually had to settle for jobs at lower rates of pay than they had previously enjoyed.[2] The job security issue has already been reflected in the Congressional legislation of 1988 requiring 60-days advance notice of mass layoffs and plant closings. Moves for related job protections can be expected in the 1990s at both the federal and state levels.

Another notable structural shift of the 1980s - a change in average firm size - has implications for the human resource outlook. Figure 4 - based on data from County Business Patterns - indicates that employment growth has been concentrated in smaller establishments. Indeed larger establishments have tended to experience declining employment in the 1980s. Establishment size and firm size are not the same thing, although the two are correlated. But Figure 5 shows that the largest companies, the Fortune 500, experienced employment declines in the 1980s despite the general job growth that occurred. Thus, both unit size and firm size did shrink.

Generally, smaller employers have tended to be less able to provide secure job attachments and generous fringe benefits than larger ones. So, again, concern over job security is raised by this trend. In addition, Congress has been interested in the 1980s in spreading fringe benefits - especially health and pension plans - more widely, i.e., to low-wage workers. A trend to smaller employers thus puts public policy in collision with economic trends.

It has been argued that the shift to smaller employers is a symptom of the spread of "flexible specialization," a development made possible by new technology.[3] According to this view, rather than mass production, the wave of the future will be smaller, customized production units which adapt rapidly to changing markets. In such a world, there will be a premium on employees who are up to date in their technical skills and a need for continuous retraining. Not everyone, however, may be comfortable with their current skills nor with their ability to absorb new ones. The notion of a shifting labor market both makes people nervous about job security and focuses renewed attention on the deficiencies in our formal educational institutions.

There have been fears that recent economic trends have

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[2]U.S. Bureau of Labor Statistics, Displaced Workers, 1979-85, bulletin 2289 (Washington: GPO, 1987).

[3]Michael J. Piore and Charles F. Sabel, The Second Industrial Divide: Possibilities for Prosperity (New York: Basic Books, 1984).

Figure 4

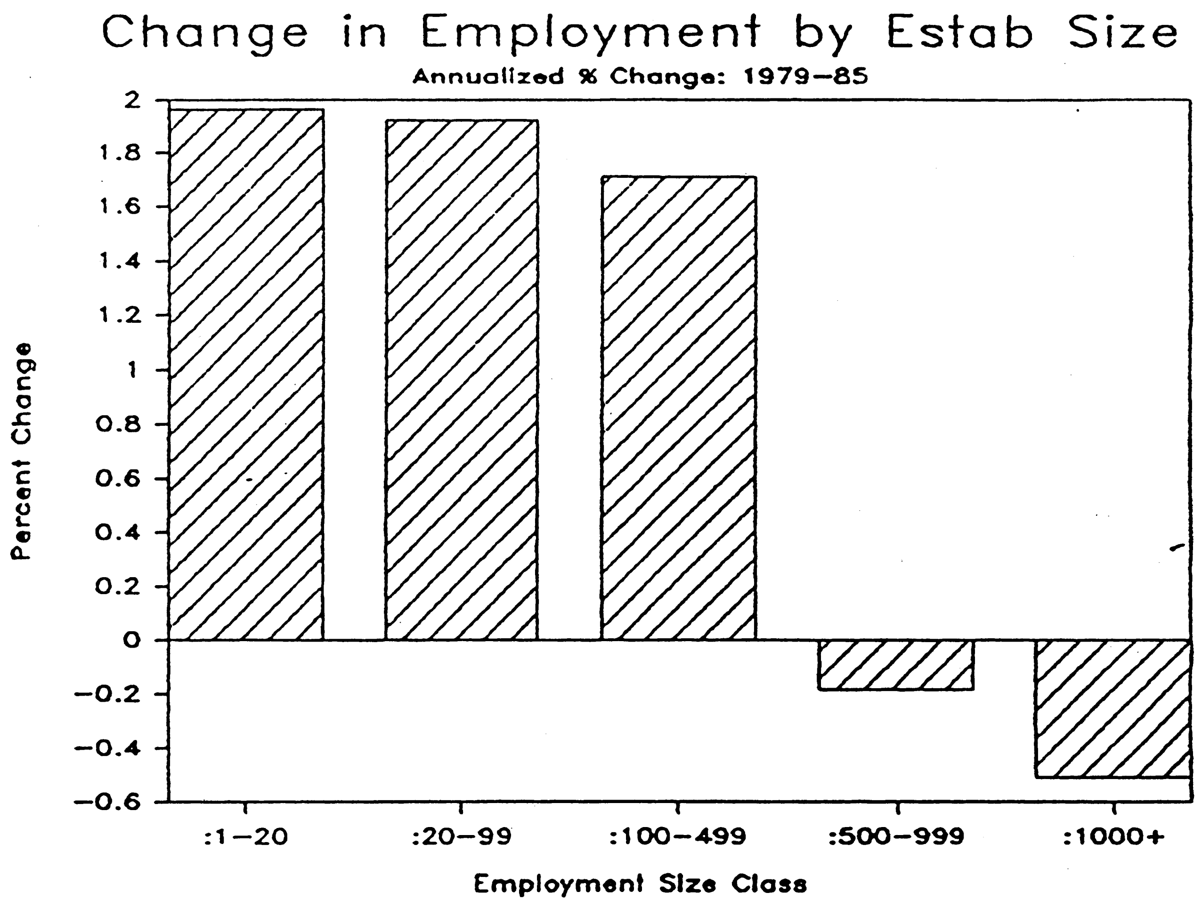
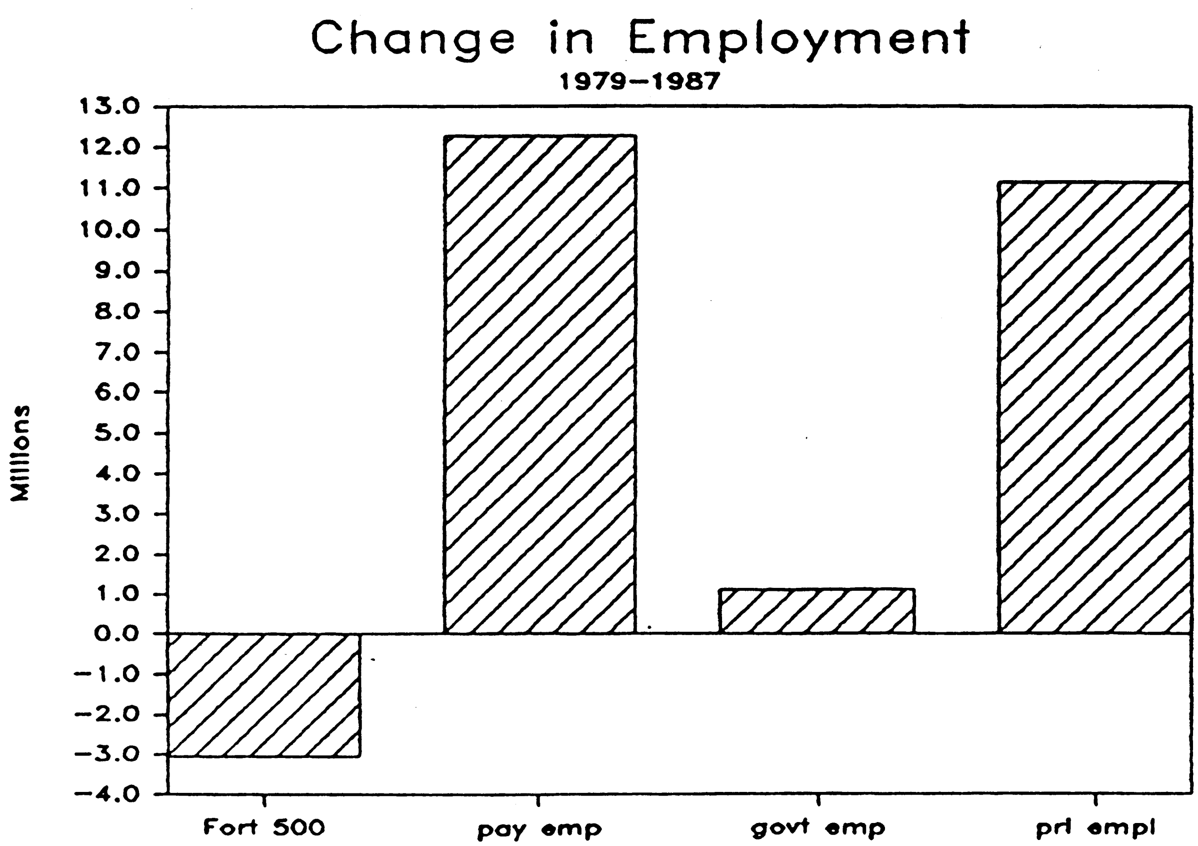


Figure 5



served to make income distribution more unequal. This issue is a complex one. It is certainly possible to find evidence of some shrinkage in the middle class, although whether those departing the middle are going up or down is open to question.[4] What is clear is that average real pay increases have not been what they used to be, as Figure 6 makes clear. Some of the decline in real pay gains is related to productivity growth trends. However, the pick up in productivity in the 1980s has not been reflected on a one-for-one basis in real wage improvements.

IV. The Employer Obligation Movement.

Because of the economic uncertainties they face, employers have been seeking ways of enhancing their "flexibility" in dealing with employees. The quest for flexibility has expressed itself, for example, in the growing use of contingent workers, such as office temporaries.[5] However, employees are not necessarily delighted with this new flexibility. Pushed to its limit, a completely flexible labor market would look like the informal job exchanges found on street corners in Los Angeles and other cities where illegal aliens are hired for a day's work. Such markets are not noted for providing income security.

While employers have been seeking freedom from fixed obligations, employees have been using available legal means to enforce a concept of employer obligation. Wrongful discharge litigation, especially in California, has become a major concern of employers during the past decade.[6] Employers have been forced to pay damages to fired employees under a variety of rationales, including implicit promises made at the time of hire or in personnel handbooks.

Apart from wrongful discharge cases, which can be costly for workers to pursue, nonunion employees have used available forums, since as workers' compensation laws and equal employment opportunity (EEO) laws as _de facto_ grievance machinery. Ads regularly appear in the newspaper from law firms eager to process claims of occupational stress. EEO complaints are often really

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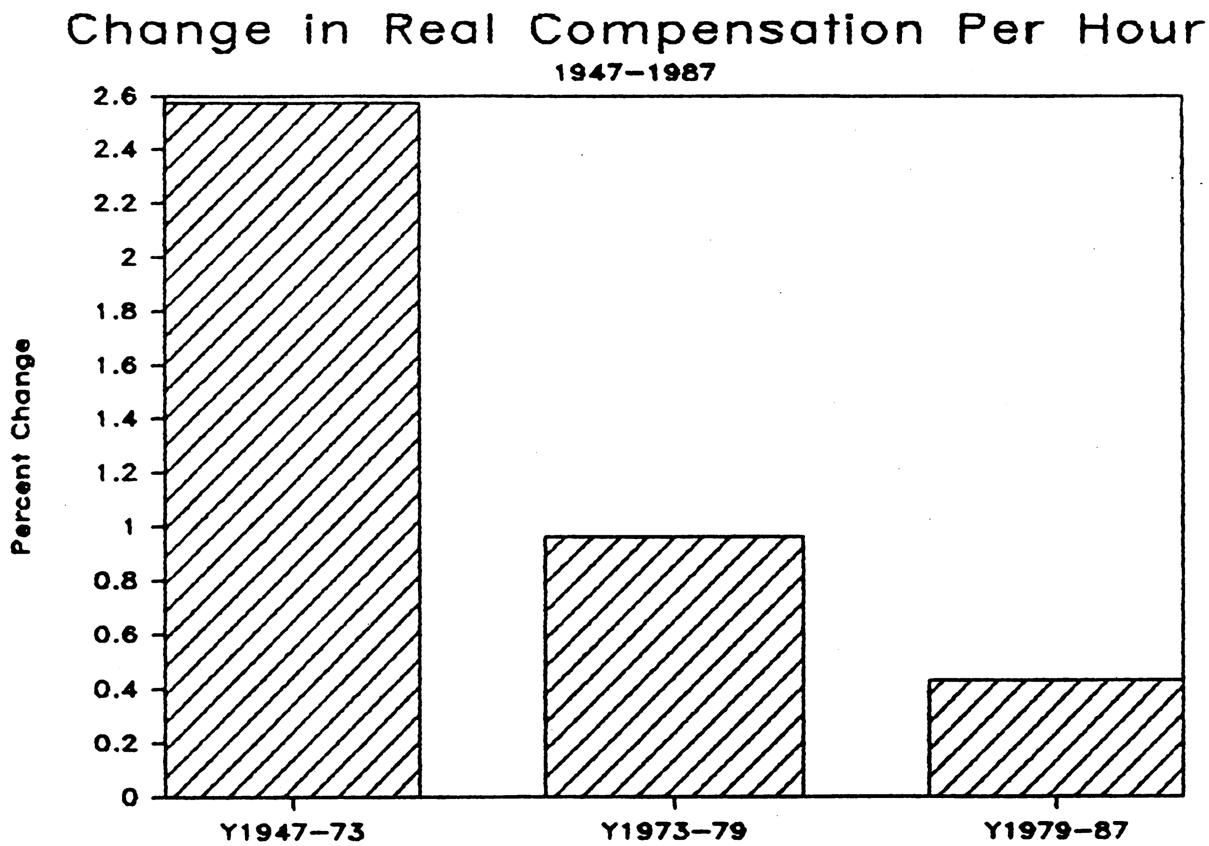
[4]Michael W. Horrigan and Steven E. Haugen, "The Declining Middle-Class Thesis: A Sensitivity Analysis," _Monthly Labor Review_, vol. 111 (May 1988), pp. 3-13.

[5]Max L. Carey and Kim L. Hazelbaker, "Employment Growth in the Temporary Help Industry," _Monthly Labor Review_, vol. 109 (April 1986), pp. 37-44.

[6]James N. Dertouzos, Elaine Holland, and Patricia Ebener, _The Legal and Economic Consequences of Wrongful Termination_ (Santa Monica, Calif.: Rand Corporation, 1988).

FIGURE 6



Note: Data are at annualized rates for the nonfarm business sector.

grievances about workplace treatment that have been tailored to meet the requirements of the available public forum. Issues of age discrimination are frequently really issues of treatment of long-service employees, since age and seniority are correlated, especially for males. Because only about a fifth of the workforce is nonunion, private sector, white, and under 40 years old, the remaining large majority of employees has some EEO forum potentially receptive to their complaints.

From the human resource perspective, the litigation problem can be viewed as one of defining the employment contract clearly. At present, the relationship between employer and employee is often ill-defined. Employers in the past viewed this fuzziness as a way of preserving their flexibility. Now, however, fuzziness may be leading to reduced flexibility and costly external adjudication.

V. Developments in the Union Sector.

During the 1980s, developments in the union sector can be divided into two related categories: membership and bargaining results. As Figure 7 shows, union membership declined in absolute terms by a significant margin, with the losses concentrated in private employment. At the same time, private nonunion employment expanded so that by 1987 only 14% of private wage and salary earners were represented by unions (and a still smaller fraction were union members).

The drop in union membership during the 1980s is only partially a reflection of changes in industrial employment composition. Only about a fourth of the drop (one fifth in the private sector) can be explained by shifts in employment between industries.[7] Four fifths of the drop occurred because unions lost members <u>within</u> industrial categories. In some cases within industries, older union plants or companies closed while newer nonunion plants or companies developed. Unions also faced strong management resistance to new organizing and a less friendly climate at the National Labor Relations Board.

As Figure 8 shows, during the 1980s unions continued to win 45-50% of representation elections. But the number of elections actually held (mainly at union initiative) fell roughly in half.

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[7]The estimate of the proportion of the drop in the unionization rate was made using Current Population Survey data for 1980 and 1987 and was based on 12 industrial classifications: agriculture-forestry-fisheries, mining, construction, durable manufacturing, nondurable manufacturing, transportation, public utilities and communications, wholesale trade, retail trade, finance-insurance-real estate, services, and government.

FIGURE 7

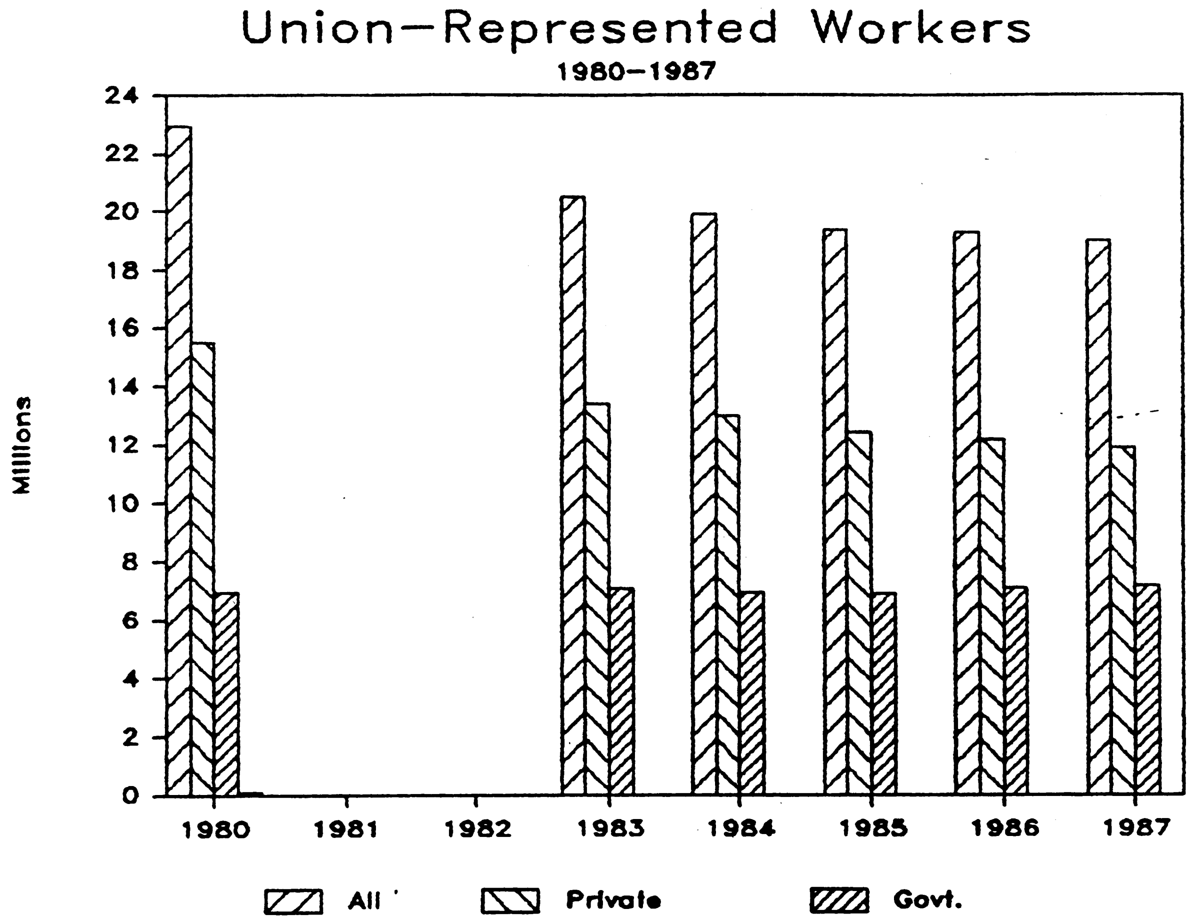
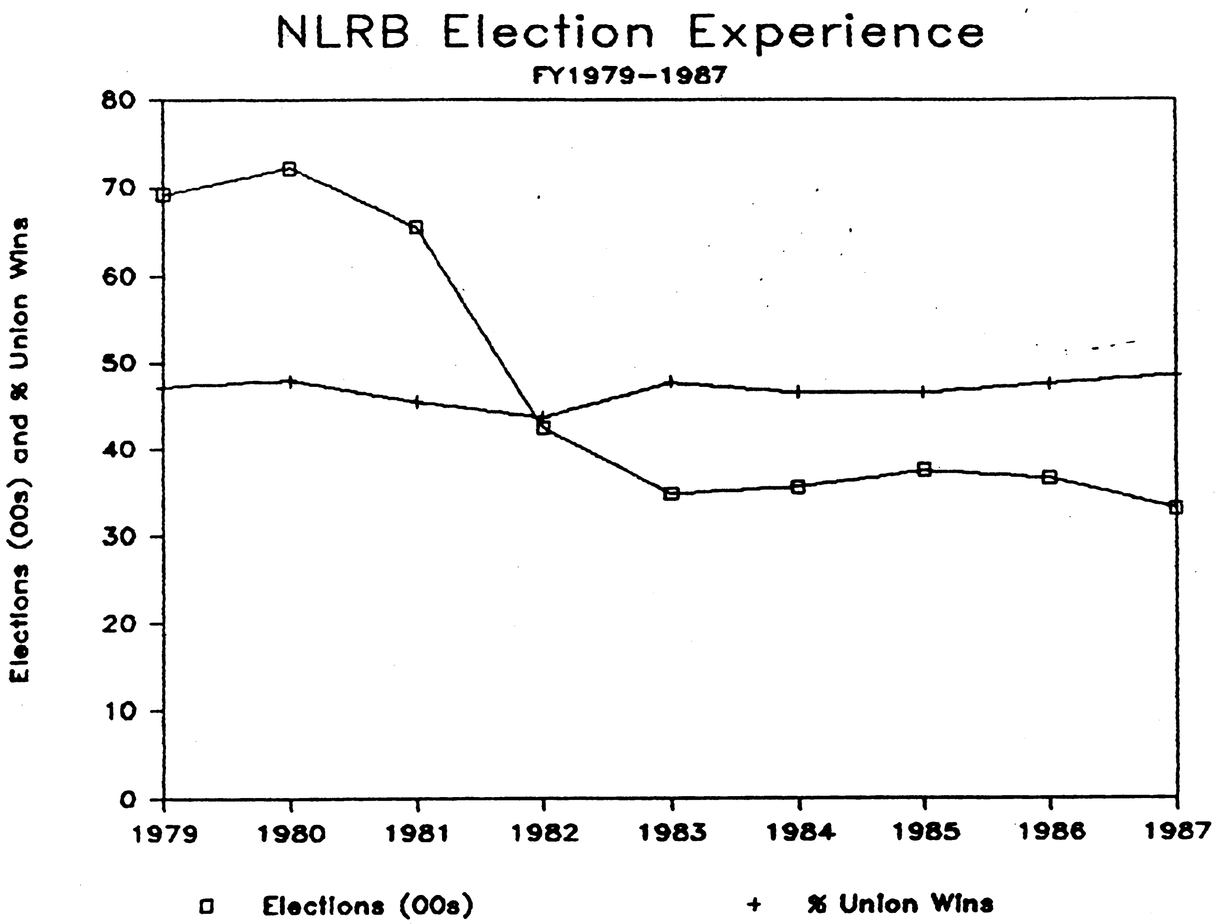

Union-Represented Workers
1980-1987
Millions
24
22
20
18
16
14
12
10
8
6
4
2
0
1980
1981
1982
1983
1984
1985
1986
1987
All
Private
Govt.

FIGURE 8


NLRB Election Experience
FY1979–1987
Elections (00s) and % Union Wins
80
70
60
50
40
30
20
10
0
1979
1980
1981
1982
1983
1984
1985
1986
1987
Elections (00s)
% Union Wins

Unions were not replacing enough members through NLRB elections to keep membership constant. Even when they won elections, unions often had difficulty in negotiating a first contract with the employer.

The weakening of the union side was reflected in a marked decline in strike activity, as Figure 9 illustrates. Concession bargaining - defined as first-year wage freezes and cuts - became widespread as well (Figure 10). To the extent that the membership losses within industries reflected new nonunion competition, bargaining power on the union side was clearly diminished.

However, there have been some developments in recent years which suggest a diminution of concession bargaining. Many contracts in the mid 1980s began to include lump sum bonuses, often in the first year of the agreement. Such lump sums often represented de facto wage increases. Thus, the concessions shown on Figure 10 should be adjusted to remove contracts with lump sums. Once this is done, it can be seen the concession bargaining actually peaked in 1983-84 and then declined. The effect is further accentuated if contracts with active cost of living adjustment clauses (COLAs) are removed. Finally, a narrow definition of a concession - limited to contracts with first year wage decreases - also shows 1983-84 to be a concession peak.

Contract provisions associated with concession bargaining have shown decreased frequency. Figure 11 reports on the incidence of two-tier pay plans, lump sum bonuses, and coverage by COLA clauses in new contracts. Two-tier plans - under which new hires are paid at lower pay scales than those of incumbent workers - peaked at about 10% of new contracts in 1985 and have steadily declined since (although the stock of contracts with two-tier features rises as new contracts are brought "on line"). Lump sums peaked in 1987 and dropped during the first three quarters of 1988. Eliminating or freezing COLA clauses was a major management objective in the 1980s, mainly because management felt burned by large COLA wage increases in the 1970s. COLA coverage in new contracts did decline during the mid 1980s, as Figure 11 reports. However, coverage has begun creeping up again, as inflation has also increased, more recently.[8]

There are other symptoms of a tightening up of the union bargaining position. During the mid 1980s, union wages tended to

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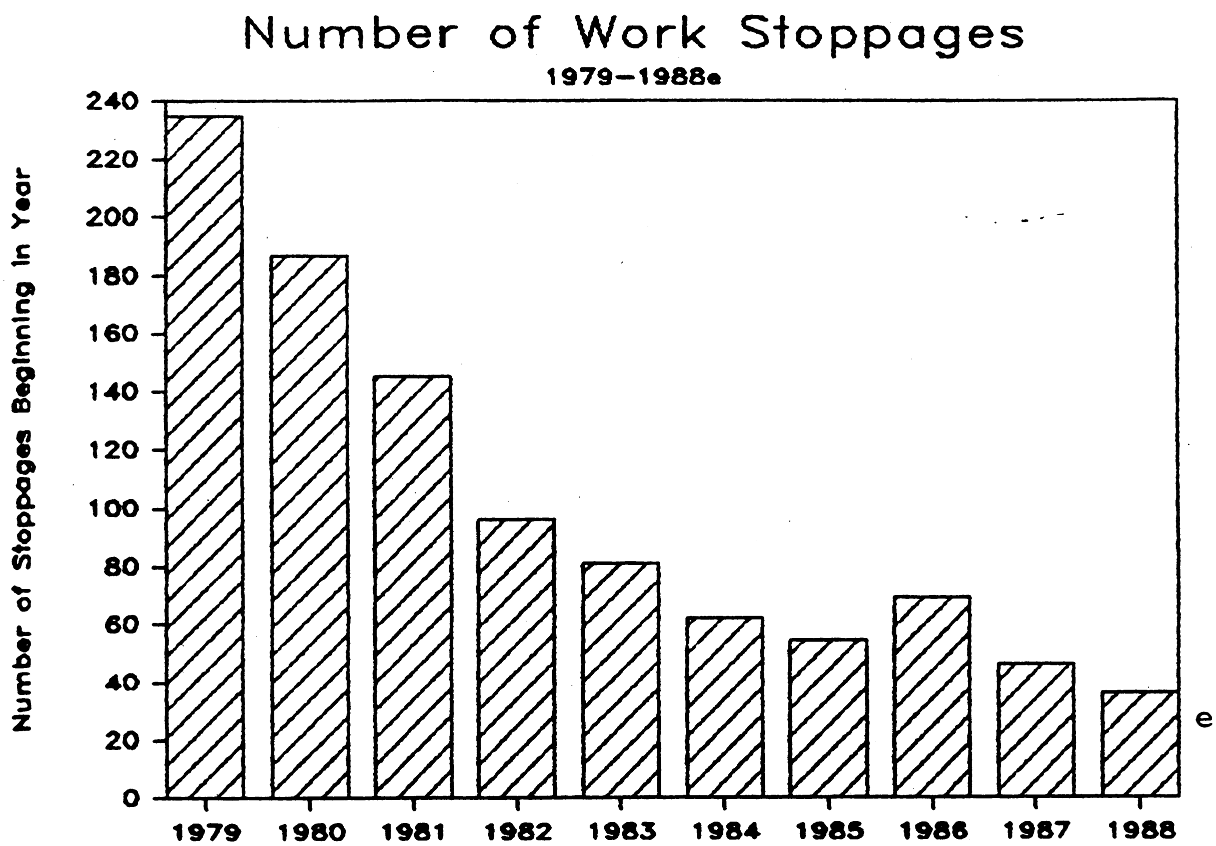
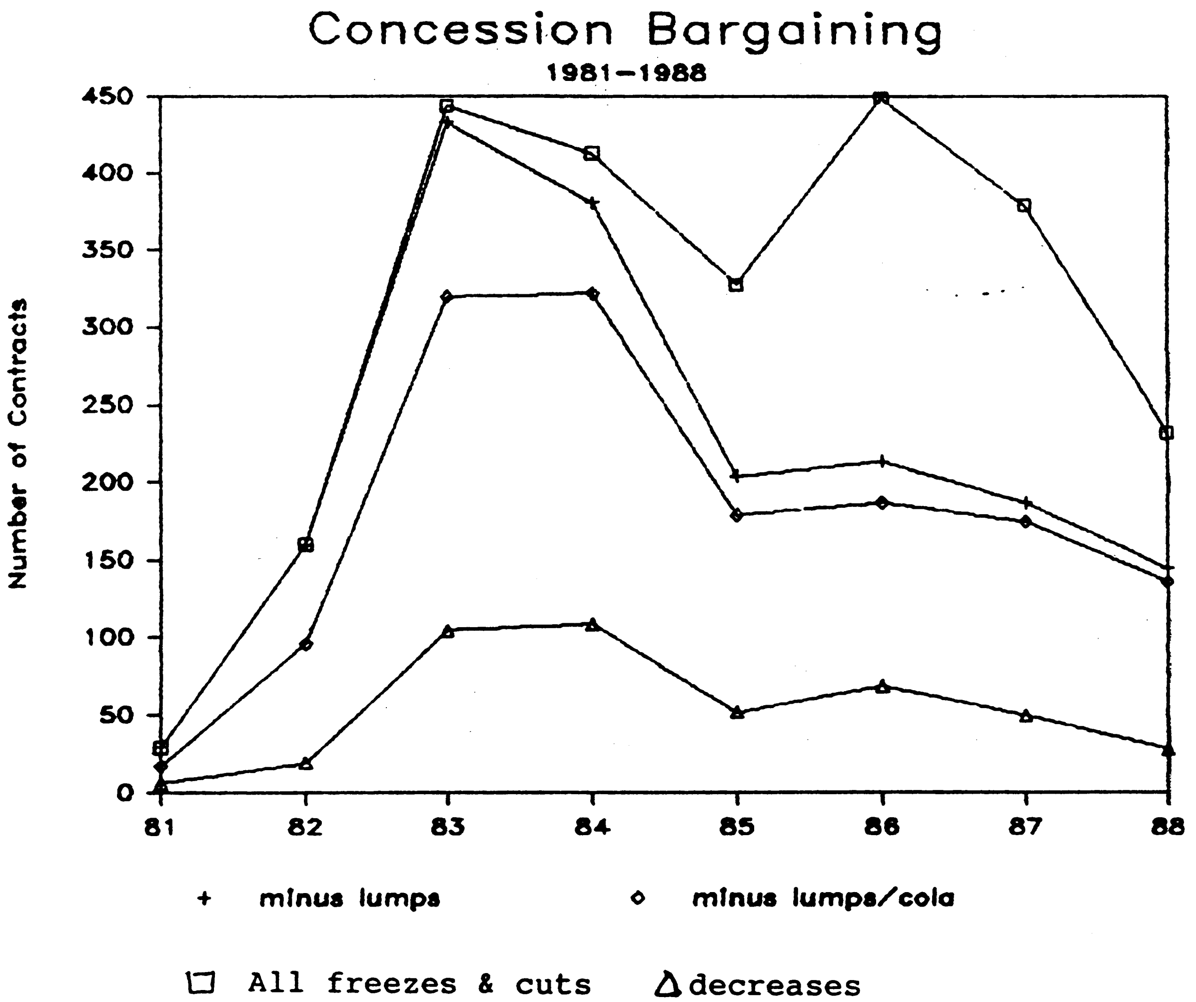
[8]Figure 11 data on COLA incidents are based on a three-year average ending in the year shown. Because different industries vary in their propensity to use COLAs, it is necessary to take a three-year average to represent the full union sector. (Union contracts average about 2½ years in duration and expire on a staggered basis).

FIGURE 9



[e]Annualized based on data through July 1988.

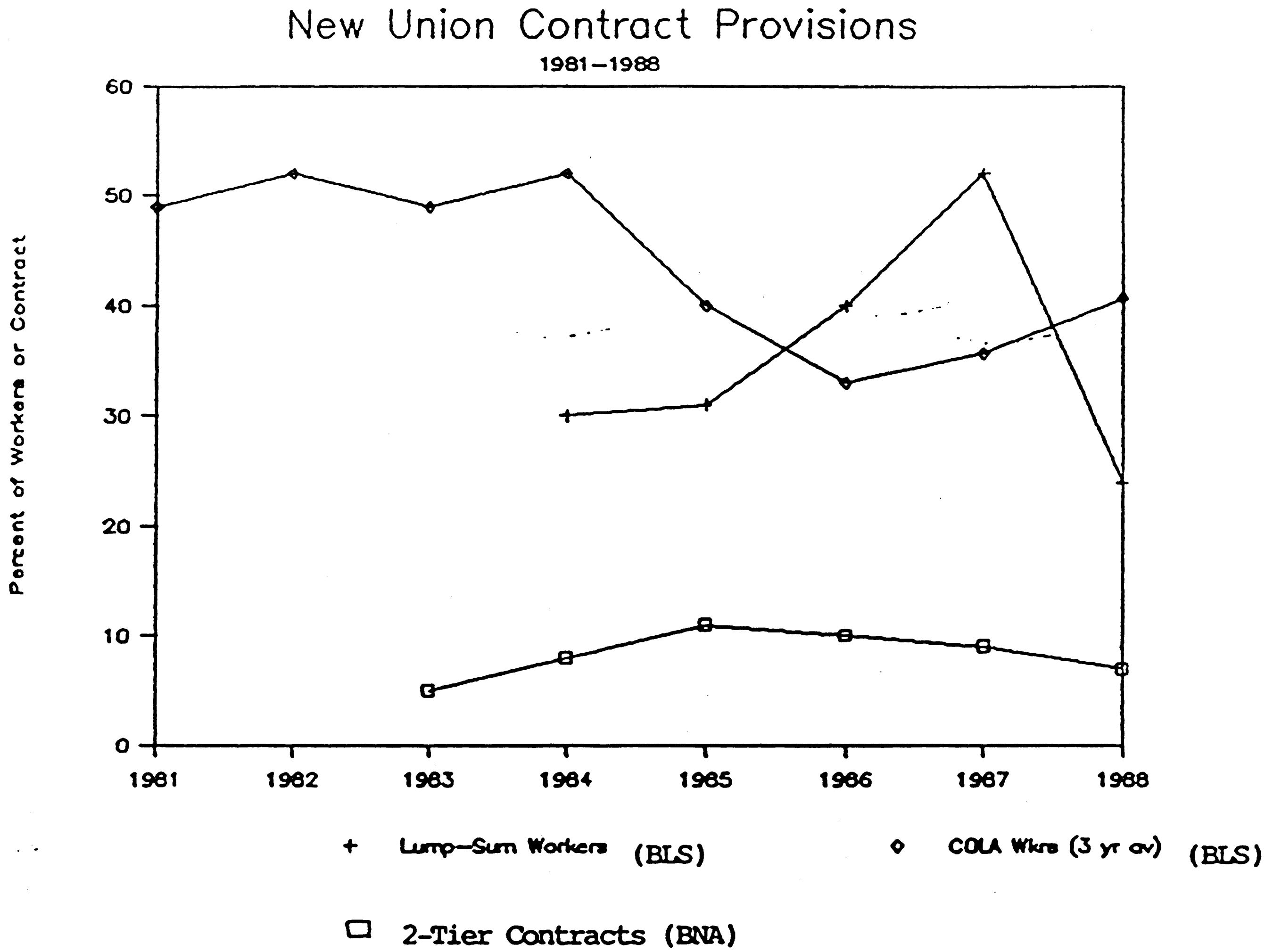
FIGURE 10



Note: 1988 data are based on the first 42 weeks of the year on an annualized basis.

Source: Bureau of National Affairs, Inc.

FIGURE 11



Note: Data on lump-sum and COLA incidence refers to major private contracts (contracts with 1,000 or more workers). Figures refer to the proportion of workers under such contracts with lump-sum or COLA pay provisions. Data on two-tier contracts refer to contracts covering 50 or more workers.

Source: Two-tier data from Bureau of National Affairs, Inc., Daily Labor Report, various issues. Lump-sum and COLA data from U.S. Bureau of Labor Statistics.

rise more slowly than nonunion. But in the year ending September 1988, union and nonunion pay on a total compensation basis - including benefits and lump sums - rose at the same pace (4.5%). In blue collar occupations and in manufacturing, union pay rose faster than nonunion.

Apart from the tangible numbers, there has arisen an intangible element of rank and file and local official dissent. Thus, the Chrysler contract of 1988 was almost rejected, apparently because it did not include an initial base wage increase (although it did include lump sums, COLA, profit sharing, and other improvements). Contract rejections or ratification problems arose in trucking, rubber, and electrical equipment in 1988 as well.

Unions have not solved their membership problems, and they will continue to face this difficulty in the 1990s. But for those employers that are unionized, bargaining is likely to become more wage oriented (as in the pre-1980s period) and less concessionary. Pattern bargaining is showing a re-emergence, although, of course, it covers a smaller sphere since the union sector has shrunk.

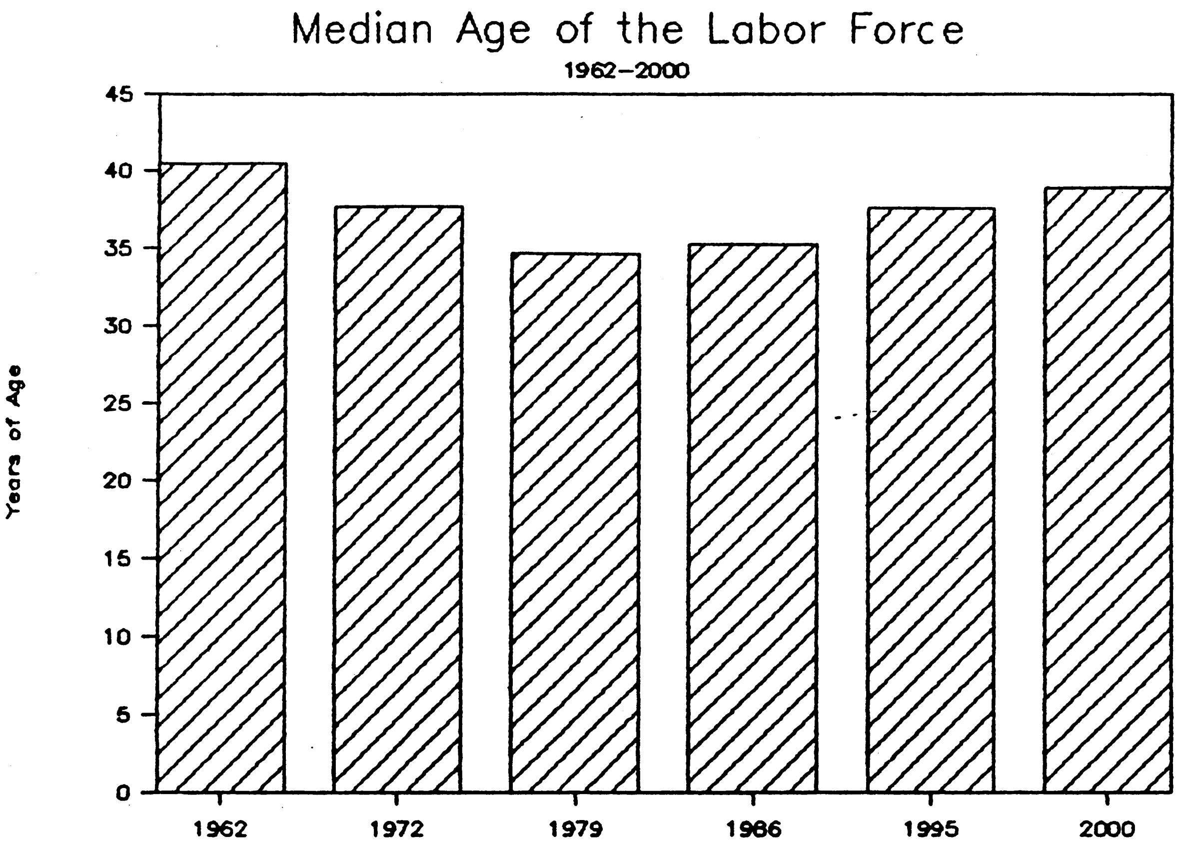
VI. Changing Demographics.

Two important changes are projected to occur in the workforce by the year 2000. First, the workforce will age, as the baby boom gets older and as the baby bust generation which followed it fails to replace the boomers at the younger age brackets. As Figure 12 shows, by the year 2000, the median age of the labor force will be close to 40 years. Second, the workforce will continue to feature growth in the proportions of female and minority workers. Figure 13 presents the proportions of the labor force which was female, black, Hispanic, and Asian, in 1979 relative to the year 2000 projections. As can be seen, by the turn of the century, women will make up close to half of the labor force. Blacks, Hispanics, and Asians combined will make up about one fourth.

The aging tendency will reinforce public concerns about job and income security. Members of an aging workforce, especially as dependents and other obligations are acquired, will be anxious to avoid involuntary displacement. Public policies can be expected to reflect this concern, as the political process caters to its median voter. Similarly, the changing sex and ethnic composition of the workforce suggests that EEO issues will remain active in the 1990s.

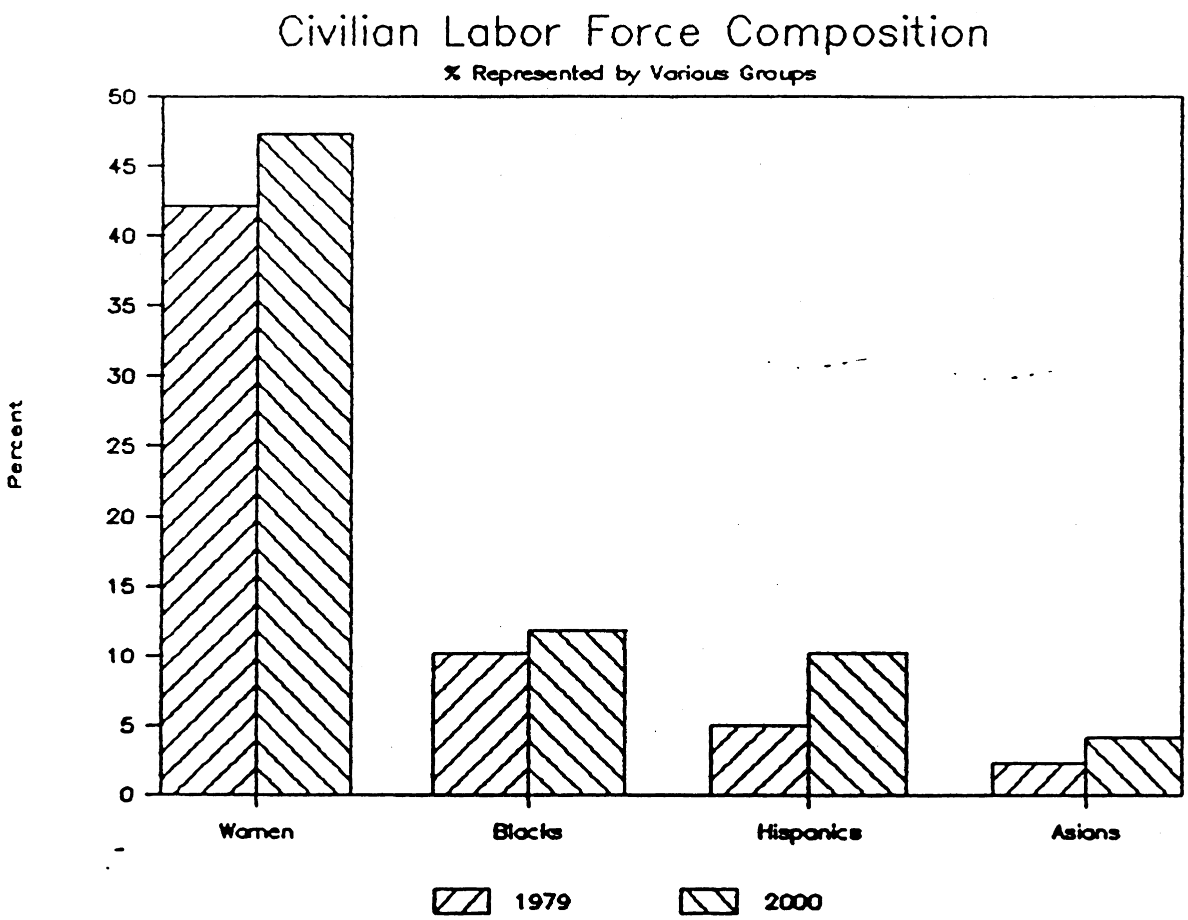
Comparable worth, which received so much attention in the late 1970s, has become less of a concern, because of the rise in the female-to-male earnings ratio. By the third quarter of 1988,

FIGURE 12



Note: Data for 1995 and 2000 are projections of the U.S. Bureau of Labor Statistics.

FIGURE 13



Source: U.S. Bureau of Labor Statistics.

the ratio of female-to-male usual weekly earnings for full-time workers had risen to 71% (up from 63% in 1979-III). There is evidence of declining occupational segregation by sex, but issues relating to promotions, career tracks, and advancement will still be important, especially for women in professional and managerial occupations. Questions of child care and maternity leave can be expected to be aired in the political arena at the federal and state levels.

VII. Education and Training.

Productivity growth deteriorated substantially in the 1970s for reasons which are still debated. Some recovery is evident from Figure 14 in the 1980s, but the pace of productivity improvement is nowhere near its old level. In the long run, slower productivity growth reflects itself in slow gains in real wages and living standards, circumstances capable of producing social and workplace frustrations.

The public spotlight has increasingly turned towards education at all levels as a means of smoothing the transition to work, securing economic advancement, raising productivity, and providing needed skills. There is concern within the employer community, especially during the current period of low unemployment, about the quality of new entrants to the workforce. Although survey evidence suggests that American students are more interested in the economic return to education than ever before,[*] it is not clear that they are being better prepared for work, either in basic skills, or at higher levels. Doctoral programs, for example, are increasingly populated by foreign students. Business schools have been criticized for facilitating an excessive focus on finance, and insufficient attention to production and management of human resources.

It is likely, therefore, that the 1990s will see efforts to reform the educational system with an emphasis on improving long-term U.S. international competitiveness. However, budget stringencies will limit the public resources that will be devoted to formal education. Thus, employers will find themselves under pressure to provide job-related training themselves, or form partnerships and cooperative ventures with educational institutions to do so.

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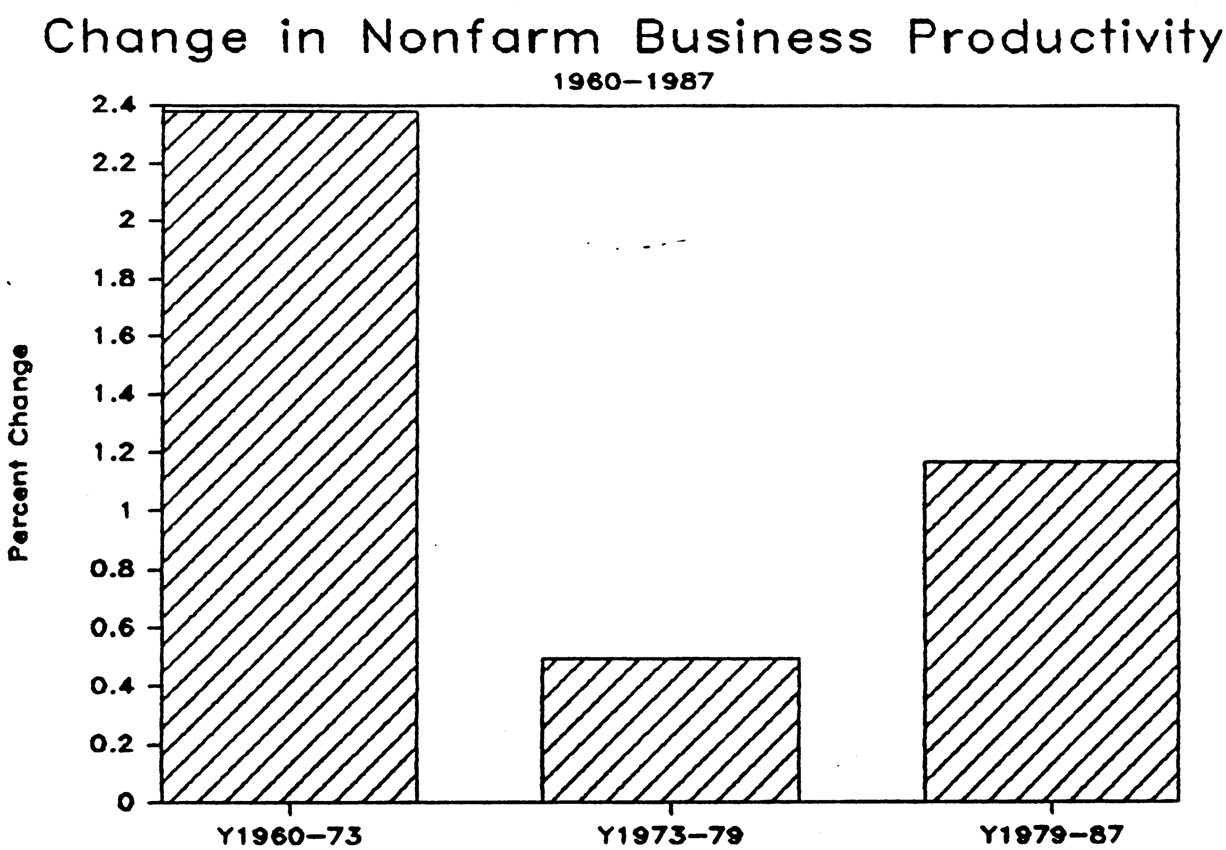
[*]Alexander W. Astin, Kenneth C. Green, William S. Korn, and Marilynn Schalit, The American Freshman: National Norms for Fall 1987 (Los Angeles, UCLA Higher Education Research Institute, 1987), pp. 5, 8.

FIGURE 14



Note: Data are annualized.

VIII. Social Insurance.

Although Social Security is often thought of as the prime means of providing social insurance, budgetary pressures will limit Congress in efforts to increase benefits to retirees and disabled persons, or to extend benefits to younger, active workers. Congress has therefore increasingly used tax incentives and its control over the tax code to foster and regulate the private provision of fringe benefits, especially those relating to health insurance, saving, and retirement. As Figure 15 shows, in 1986, about one sixth of the nonelderly population had no health insurance (22% in California). Thus, in the 1980s, various efforts were made to induce employers to cover workers and others who would not otherwise have such benefits.

"Nondiscrimination" rules have been tightened by Congress to tilt benefits to lower paid employees. Moves were also made toward continuing insurance coverage for displaced workers. And at the state level, notably in Massachusetts, mandatory health insurance was either introduced or being debated. The 1990s will feature further efforts to mandate benefits or otherwise extend them. Generally, the area of benefit administration will become an increasingly complex and contentious element of human resource management.

IX. Summary and Predictions.

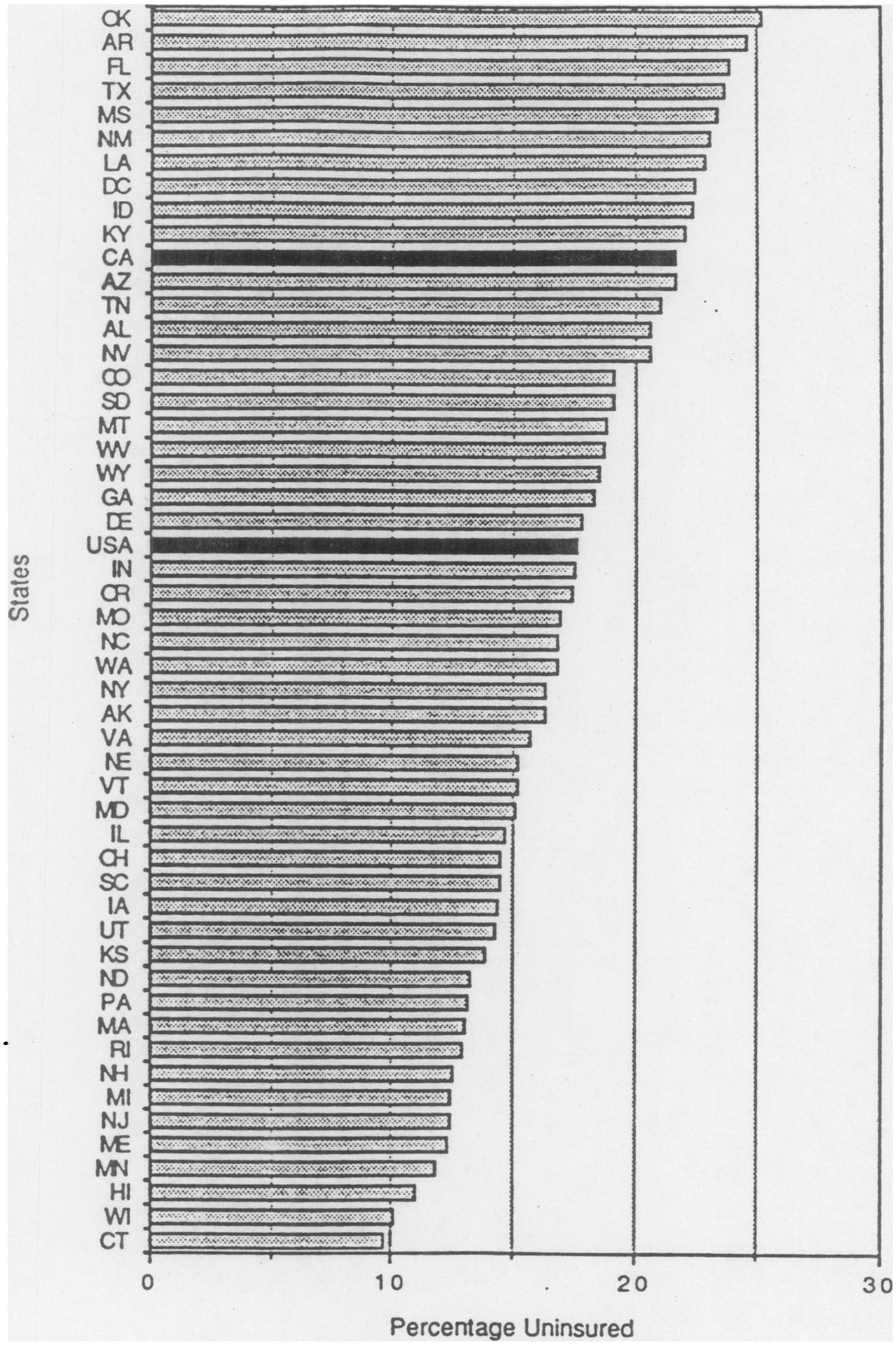
In the 1990s, the conflicting pressures for security and flexibility will require a better definition of the employment contract. The employment relationship will become more formal and explicit. Written contracts may be used in some cases. Or employers may simply be more direct in informing employees about what does and does not go with the job.

However, the issue of definition will not be left unilaterally to employers. With unions covering a relatively small fraction of the workforce, courts, legislatures, and Congress are likely to step in to provide protections for employees and increase their benefit coverage. The issue of multiple complaint forums - EEO, workers' compensation, wrongful discharge, etc. - will require attention. If current trends persist, unionized employers may find themselves better able to deal with defining the employment relationship than nonunion, since they already negotiate written contracts and have formal grievance and arbitration machinery.

In any case, faced with a need for flexibility, employers will have to seek alternative forms of adjustment to the uncertainties of the product market, both macro and micro. Thus, rather than rely on layoffs, for example, employers may turn toward flexible pay systems such as profit sharing. Some moves

FIGURE 15

Percentages of Nonelderly State Populations Who Are Uninsured, 1985



Note: Data refer to proportion of the population under age 65 without health insurance.

Source: E. Richard Brown et al, Californians Without Health Insurance, Calif. Policy Seminar, Technical Assistance Project, Sept. 1987, p. 4.

in this direction were already visible in the 1980s. And employers may make still more use of contingent workers, who will bear the brunt of adjustments, thus shielding core employees.

Finally, given existing quality problems in the output of the nation's school system, employers will be pressed to become more involved in worker training. If the employment unit is becoming smaller, however, support of full scale training may not be feasible. Partnership arrangements between employers and educational institutions will be seen as at least a partial solution.

In 1945, faced with tremendous problems in the employment market surrounding the then-emerging system of collective bargaining, President Truman called a White House conference to discuss the key issues. The new Bush administration might consider a similar step to help the nation confront the many ambiguities surrounding the employment relationship. A new White House conference on the employment relationship would assist policy makers, employers, unions, and the general public see the interconnection between the key issues, and help move public policy away from isolated, piecemeal solutions.