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PACIFIC TIES: EMPLOYMENT SYSTEMS IN JAPAN AND THE U.S. SINCE 1900

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Employment Systems in Japan and the U.S. Since 1900

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As a result of intense economic rivalry, Americans have become obsessed with finding the secrets of Japan's success. On one side are those who argue that we can and should learn from the Japanese about workplace trust and participation, cooperation between business and government, and high savings rates. On the other side are those for whom the secrets about Japan are all dirty and not little: trade barriers, MITI mercantilism, supine unions, and manipulated workers. The Japanese have nothing to offer, says this latter group. If anything, <u>they</u> should be playing by <u>our</u> rules or be taught a lesson, so to speak. {1} Yet despite these opposing views, the two sides have some things in common. First, there is a shared tendency to view Japan as The Other, a society whose various features -- whether seen as quasi-feudal or hyper-modern -- are suffused with a particularist spirit that makes Japan fundamentally different from our own society. Second, each side emphasizes employee-employer relations as a key factor in Japan's success. Third, each includes proponents from opposite ends of the political spectrum. Taken as a whole, these ideas have created a consensus that the Japanese industrial relations system is unique and that it does a better job of promoting economic growth than the American system.

This essay takes issue with that consensus view. For the first thirty to forty years of this century, the employment practices of large Japanese and American firms bore a strong resemblance to each other. Reading Andrew Gordon's definitive study, <u>The Evolution of Labor Relations in Japan</u>, one is struck by the degree to which those practices developed in tandem, marking off Japan and the U.S. from the major industrial nations of Europe. Acknowledging and accounting for these similarities is not intended to deny there also were parallels between the U.S. and Europe. These have long been the stock in trade of comparative labor studies and have produced a voluminous literature that seeks to solve the conundrum of exceptionalism: Why, despite similiarities in so many areas, was socialism (social democracy, trade unionism) weak in America as compared to Europe? But a fault of that literature is that it overemphasizes the singularity of the American experience and so gives too much weight to factors unique to it, such as mass immigration. This essay tries to shift the balance and asks instead, Why, despite differences in so many areas, were outcomes in the United States and Japan so similar?

Of course, outcomes were not identical. Atlantic influences and earlier industrialization gave the U.S. a trade union movement that at its pre-1930 peak was larger and more craft-oriented than Japan's. And as has been noted so often (too often, perhaps) employment practices in Japan and the U.S. were infused with distinctive cultural norms. The consequences of these and other differences became most evident during the decades following World War II, when large unionized American firms followed a trajectory that increasingly distinguished their employment practices from those found in large Japanese firms on the one hand, and from those of large nonunion American firms on the other. {2}

During the 1950s and 1960s, no one questioned the relative performance of these three types of employment systems. But as growth rates slowed during the 1970s and 1980s, first in the U.S. and then in Japan, doubts began to surface, first in the U.S. and then in Japan, followed by restructuring. In each country, restructuring is enhancing labor market dualism by shrinking the relative number of workers employed in career or internal labor markets. Moreover, in the U.S. there is an accompanying shift away from the kind of employment system associated with unionized firms and toward the kinds found in Japanese and nonunion U.S. firms. Thus, after a hiatus of some forty years or so, Japanese and American employment systems are <u>again</u> evolving toward each other, although this movement is a far cry from the sort of Americo-centric convergence envisioned by American industrial relations scholars in the 1950s and 1960s.

In a nutshell, that is what this essay is about. Sections I and II have a "macro" focus; they stress prewar Pacific parallels in union-management relations and contrast these to the national bargaining and labor corporatism found in Western Europe. Sections III and IV are "micro": they examine internal labor markets (ILMs) in greater detail, now trying to explain divergent postwar developments within the U.S. and between the U.S. and Japan. Section V analyzes and compares recent events in both countries. A concluding section draws implications for theory and discusses possible directions for U.S. labor policy.

I. Atlantic and Pacific 1900-1935

During the first third of this century, the world's industrialized nations moved from the first industrial revolution of textiles and steel on to a second industrial revolution based on electricity, internal combustion engines, and chemicals. National transitions occurred at varying times and speeds, and with differing product mixes. Nations also varied in the degree to which their governments sought to control the process and accompanying social unrest. Yet this unrest was a shared experience. Each nation's working class increasingly was organized into labor unions and radical parties that came into repeated conflict with employers and the state. The issues were universal: raising the pay, security, and dignity of industrial employment. But the means varied -- from moral suasion, legislation, and collective bargaining to general strikes, factory occupations, and collective expropriation-- as did the response from above. From these variations there emerged distinctive national industrial relations systems, which, at the risk of some oversimplification, may be combined into two major groups. {3}

Europe. The first consisted of Northwestern European nations, including Britain, Germany, the Netherlands, Sweden, Denmark, and France. Here, strong craft traditions and rigid social divisions created a mutually supporting structure of trade unions and socialist parties that had support throughout the working class. On the employer side were numerous small- and medium-sized firms specializing in skill-intensive, nonstandardized products. {4} The prevalence of these small, often family-owned, firms was due to several factors: small national markets; the development of modern industry on top of a thriving, preindustrial base; and the persistence of preindustrial craft traditions and craft control. Industrial and personnel management in these firms was less professionalized and less bureaucratic than in more sizeable organizations. {5}

Yet European employers were not without protective strategies when faced with opposition from below. To enhance their control of the shopfloor and to allay larger threats to the economic order, they formed associations that proferred union recognition and industry-level bargaining in return for union support of basic property rights, including those concerning enterprise management. As in the Stinnes-Legien agreement of 1918, recognition was intended to incorporate the unions into the existing order and so defuse their radicalism. Industrywide bargaining gave employers strength in numbers but more than that, it displaced bargaining over shopfloor matters to those issues --typically wages--that could be settled at industry levels. In other words, employers retained formal authority over the workplace, leaving conflict to be resolved on an informal and cooperative basis, typically through works councils.

This result has widely been interpreted as a victory for European employers, but several caveats are in order. {6} First, in those places where craft unionism was deeply entrenched (as in much of British industry), multiemployer bargaining was ineffectual in achieving its objective of eroding craft control on the shopfloor. Here dual bargaining systems developed: formal at the industry level and informal (shop stewards) at the enterprise level. Second, even when employers succeeded in displacing conflict to higher levels, that outcome was not inconsistent with socialist objectives. {7} Industrial bargaining, especially when combined with contract extension to unorganized workers, promoted horizontal worker solidarity. It also legitimated unions as peak associations, making it easier for them (and for employers) to bring pressure on the state and to socialize the private wage. That bolstered a regulatory framework (in place well before the Second World War) consisting of welfare state provisions like unemployment insurance and old-age pensions, as well as laws prescribing substantive terms of employment, such as dismissal rules and vacation pay.

The Pacific The situation in Japan and the U.S. was completely different. The industrial landscape in each nation was dotted with giant corporations geared to mass production. Most of these large firms were either unorganized or dealt with enterprise unions. Although each nation experienced a surge of radicalism and unionism during the First World War, union densities and left-wing voting remained below European levels. {8} In neither case was the wartime crisis sufficiently threatening to force employers or the state to sanction collective bargaining; that came later, during a second crisis experienced in the U.S. during the 1930s and in Japan during the 1940s. Finally, labor regulations and the social wage were underdeveloped in Japan and the U.S. as compared to Western Europe. Corporate paternalism (Dore terms it "private welfare corporatism") was more prevalent. {9}

How are we to account for these shared differences? First and foremost are matters of timing and sequence: Large, capital-intensive manufacturing firms developed in Japan and the U.S. before unionism had a chance to sink strong roots. Firms were relatively large for a variety of reasons, including the size of the American market and the Japanese government's enthusiasm for large-scale operations, as well as the use in both cases of mass production technologies that depended on scale economies to make them profitable. American and Japanese firms were inclined to adopt these technologies because they faced a common set of opportunities and constraints: the relative scarcity of skilled labor and the relative weakness of craft traditions. Large skill differentials gave Japanese and American employers the incentive to adopt standardized, predictable technologies that economized on skilled labor; the absence of strong craft traditions made it easier for them to do so. {10}

Facing fewer immediate constraints from labor or government, large Japanese and American firms set up their employment systems as they saw fit. Mass-production technology and large size pushed corporate personnel policies in the direction of stability and predictability. The realization that unions might someday gather mass strength led to preemptive measures to secure worker loyalty, especially the loyalty of skilled workers. In both cases that led to bureaucratic personnel management, company unions, and to corporate paternalism. These private regulations and benefits, although rudimentary and limited to an elite, undermined tendencies toward industrial solidarity and made it difficult to form coalitions to press for a modern welfare state. {11}

This is not to say that employers were unaffected by labor's restiveness during World War I, when both Japanese and AFL unions became far larger and more militant. But this was a brief interlude, and the ensuing combination of repressive and preemptive personnel policies had the effect of holding down union density rates in both nations, particularly in large firms. The U.S. rate peaked in 1920 and then declined to its nadir of about 10% in 1933; the Japanese rate followed a slightly different trend, peaking in 1931 at 8% and then shrinking steadily thereafter. {12} While repression was not uncommon in Europe, Japanese and American employers were more likely to stand and do battle than to engage in European-style buyouts. Their size gave them resources, direct and indirect (police, militias, injunctions, peace laws), to mount major offensives, such as occurred at Homestead in 1892 and 1919, or at Mitsubishi Kobe Shipyard in 1921. Moreover, in these years American and Japanese labor was neither strong nor radical enough to pose a threat to political stability of the sort that led European employers to favor recognition via industrywide bargaining. That is, Japanese and American employers chose not to buy their unions out because there was little or nothing to be bought. Why was that?

Exceptionalism. As noted, research on exceptionalism has tried to explain the conservative and job-conscious orientation of American workers and unions. But Japanese labor was similarly exceptional and for some similar reasons. In both nations the franchise was less of a thorn in the side of the working class than in Europe. Most white American workers had the right to vote, while in Japan the franchise was granted in 1890 and extended to most workers by 1919. Second, although Japan was hardly a nation of immigrants, it shared with the U.S. the fact that much of its working class and many of its industrial cities were entirely new. At the turn of the century, there was little in Yokohama or Youngsville that could compare to the complex and long-established craft traditions of cities like Paris, Stuttgart, or Milan. Finally, the scale and strength of Japanese and American firms were permitted by, and in turn reinforced, labor's relative weakness and conservatism.

During the 1880s and 1890s, when the AFL was forming itself, its leaders repeatedly witnessed what they believed to be the disastrous consequences of radical unionism and mass strikes--at Haymarket, Homestead, Pullman, and elsewhere. To achieve even limited economic goals, Gompers thought that American unions would have to make themselves respectable and "work within the system," garnering the support of a middle class anxiously searching for order, and not giving hostile employers or governments an excuse to repress labor's activities. Out of this came the AFL's conservative, pragmatic, and exclusive approach, as well as its distrust of government. The AFL made a strategic decision to adopt not only a philosophy--economistic voluntarism--but also a decentralized organizational form--job control unionism--that gave it the greatest chance of making headway in an unfriendly environment. Its economism made the AFL socially acceptable, but at the same time this was to be achieved through disciplined fighting organizations capable of winning strikes. {13}

Yet even with all that, the AFL's unions were largely unable to penetrate large mass-production firms. Instead, they hunkered down in local industries where numerous small firms produced customized or batch products, often on a seasonal basis: machinery, construction, shoes, and furniture. In these settings, AFL members worked according to unilateral craft rules, supplemented by collective bargaining with local employers. Occasionally, however, AFL unions were found in medium-to-large sized firms that operated on a year-round basis and produced relatively standardized commodities, including meatpacking, newspaper printing, steel, and railroads. Here the unions kept their craft controls but combined them with employment rules adapted to (or taken from) a particular employer, blending what Clark Kerr once called the "guild" and "manorial" forms of unionism. That is, union members played two roles: that of guild artisans adhering to craft traditions of shopfloor autonomy and labor market control, and that of insiders or incumbents in a continuing relationship with a given employer. Out of this grew such practices as promotional job ladders governed by seniority as well as seniority-based layoff systems, typically codified in written agreements. {14} This form of unionism--which I call "guild manorialism" --presaged the CIO's legalistic and bureaucratic approach. {15}

Still, AFL unionism was anathema to large employers. While small firms might accept craft controls as the price for unions stabilization of local markets, the unions could not guarantee a similar deal to large national companies, nor was it worth as much to the latter. Moreover, union organization occurred on a firm-by-firm basis and most large firms were unorganized. Hence a union that succeeded in gaining recognition found itself with considerable bargaining power, which only stiffened the resolve of remaining employers. Lastly, unionism helped small firms to secure a skilled workforce and to maintain the quality of what were often labor-intensive products. But large firms saw unionism only as an impediment to technological change and mass production. Ironically, then, employer hostility caused American unionists to choose a conservative and decentralized form of unionism but that choice had the effect of raising the incentive for large firms to avoid and resist unions whenever they came knocking. While labor's choice gave it middle-class respectability, it closed off the European option of getting employers to accept collective bargaining as a preferred alternative to more radical outcomes.

The same was true of Japan, where the early labor movement was dominated by conservative organizations such as the Kiseikai and the Yuaikai, which consciously borrowed ideas and techniques from the AFL. Like their American counterparts, Japanese unionists found themselves in a country where radicalism had limited mass appeal and where large employers and the state were leery of union organization and ready to attack it whenever it emerged. Hoping to fend off these attacks, labor leaders like Suzuki Bunji took a moderate stance in politics and at the workplace. Even more than Gompers or John Mitchell, Suzuki stressed the need for orderly and peaceful resolution of disputes with employers. {16} Despite or perhaps because of this cooperative stance, early Japanese unions faced considerable hostility. During and after World War I, when times turned favorable to union organization, the Yuakai (now Sodomei) took a more aggresive stance. But its goals still largely were framed in terms of workplace, rather than industrial or political, regulation. {17}

Like American guild manorialism, Sodomei's enterprise orientation reflected the size and stability of the companies in which Japanese unionism flourished. But that orientation also stemmed from craft traditions that were much weaker than in the U.S. and, as a result, Japanese unions went farther in a manorial direction. Japan's preindustrial guild system had collapsed during the 19th century under the combined pressure of rural migration, Meiji prohibitions, and rapid technological change. By the time industrialization occurred, says

Solomon Levine, "distinguishable crafts did not exist and there were few traditional craft labor markets." {18} Because the kind of horizontal solidarity associated with craft unionism did not exist, Japanese workers focused their struggles and goals on company-specific issues, seeking to become full-fledged members of their enterprise communities. Often acting on their own, Japanese workers created unions concerned only with the policies of a single employer. These unions were characteristically ambivalent, being alternately assertive and submissive toward management. By the end of the 1920s, roughly half of all Japanese union members belonged to such enterprise unions. {19}

Japanese employers were similarly ambivalent. During the First World War, the government proposed legislation establishing works councils. Some employers were opposed, fearing that this would legitimate the concept of unionism. Others, however, responded by setting up company unions to preempt those organized by workers themselves. Although horizontal unions were repressed and boldly ousted from large private firms during the 1920s, employers were more tolerant of enterprise unions created from the bottom up and manipulated these as best they could. At the same time, large firms began to implement bureaucratic personnel policies--including internal promotion, seniority rules, and job security measures--which had the effect of tying workers more closely to their firms and of reinforcing manorial tendencies in the labor movement. {20}

Some enterprise unions were swept up by the Japanist labor movement of the early 1930s, which tried to "fuse" labor and capital in the pursuit of nationalist and militarist goals. The Japanists attacked Sodomei for being too adversarial and this, combined with pressures from government and the military, moved Sodomei further to the right and towards a fascist sort of corporatism. Despite this, the Army decided in the late 1930s to ban all forms of unionism in favor of official plant discussion councils or Sanpo units. Although most of these were ineffectual, they provided a nucleus around which postwar labor relations was reconstructed. After the war, some Sanpo units were preemptively taken over by employers, while local labor activists turned others into relatively aggressive, Sodomei-affiliated enterprise unions. {21}

In short, prior to the emergence of mass unionism in Japan and the U.S., each nation spawned a conservative and decentralized labor movement that was never sufficiently threatening to extract recognition from large employers. Yet Japanese and American employers were concerned about the future and adopted policies that anticipated labor demands. Nevertheless, the two nations did diverge in some important respects. Although craft traditions and organized labor were relatively weak in the U.S. as compared to Europe, they were much stronger than in Japan. Guild manorialism contained an important element of craft control that was missing from Japanese enterprise unionism. Moreover, guild manorialism coexisted with other, even more craft-oriented, tendencies within the AFL. As a result, American employers were more enamored than the Japanese of innovations like time study and incentive pay. These promised to weaken craft unionism as well as informal job controls, which, as Mathewson found in the 1920s, had penetrated even the ranks of unorganized workers. Thus, American employers relied more on incentive pay and tight job structures than the Japanese, and had greater leeway to adopt those practices than European employers. A 1927 Conference Board survey found that in large manufacturing plants (those employing over 1500 workers), 97% of the workers were paid on an incentive system such as a bonus plan or piecework. Here, more than anywhere else, was American exceptionalism. {22}

II. The Second Crisis, 1935-50

The labor movement stood at the center of the turbulence that swept across America and Japan prior to the war or in the years immediately following it. Mass unionism finally emerged in these nations and union density rates now rose to levels found in northern Europe. Organized labor acquired power and legitimacy that it never had previously possessed. Yet in neither country did events go very far in the direction of national bargaining or labor corporatism.

This was not entirely for lack of trying. Phil Murray, Walter Reuther, Clint Golden, and other CIO leaders attracted considerable attention during the war with their plans for industry councils and national "democratic planning bodies" that would give labor a voice equal to management's in return for cooperation on the shopfloor. {23} Similarly, Sanbetsu and Sodomei after the war demanded industrial bargaining and political influence. But these proposals were vehemently rejected by employers and by the state. In America, industrial relations remained dispersed and decentralized, despite some pattern bargaining and labor's role as junior partner in the Democratic Party. In Japan enterprise unionism was only slightly moderated by industrywide Shunto, while the unions remained shut out of power (Garon calls this "corporatism without labor"). {24}

That events turned out this way has often been attributed to repression of radical CIO and Sanbetsu activists, especially Communists. {25} In the U.S., the Taft-Hartley Act of 1947 required union leaders to sign non-Communist affidavits and prohibited Communists from holding union office. As a result, scores were blacklisted from the labor movement. Two years later, the CIO expelled ten unions with Communist leaders and encouraged other unions to raid their membership. The Communist-led union in the electrical industry (the UE), voluntarily left the CIO when the federation created a rival union (the IUE) to compete with it for members. Although Taft-Hartley did not prohibit industrywide bargaining (a ban had been proposed by the NAM and included in the House version of the bill), it did contain provisions intended to weaken any such bargaining that developed. {26}

Not coincidentally, it was also around 1947 that the American occupation forces in Japan (SCAP)--after a period of tolerating radical unionism -- came to the conclusion that they would rather support a moderate federation like

Sodomei, even if tainted by the old regime, than permit the Communist Sanbetsu to flourish. With support from SCAP and the deflationary Dodge Plan of 1948, employers began to fire radical activists and to replace Sanbetsu affiliates with more conservative and company-oriented "second" unions. By the early 1950s, Sanbetsu had largely been destroyed. {27}

While none can gainsay the pervasiveness of repression, in both countries it was facilitated by a relatively weak and divided left. Much of the left's strength in Sanbetsu and the CIO unions was concentrated among union staff and leadership. And even at the top, the left was far from being in control. The American story -- from internecine warfare in the UAW to the Wallace debacle of 1948 -- is well known. But the Japanese story is just now coming to light. As Gordon has shown, Sanbetsu in the late 1940s was filled with anti-Communist dissidents who were dissatisfied with national leadership and ready to form new unions. At the local level, Sanbetsu's new industrial unions (and also Sodomei's) were rather weak. They were "little more than loose, coordinating bodies able to exercise little real power over their affiliates," the fickle factory unions that often belonged both to an enterprise federation and to an industrial union. {28} Hence it is an exaggeration to claim that postwar Japan was being swept by a workers' control movement that was ultimately expunged by SCAP. Even at its peak in 1946, only a tiny fraction of the labor force participated in so-called "production control" tactics. (Ironically, however, enterprise unionism got a boost from those Communists who thought that factory councils were a first step toward workers' control.) In other words, if one were to imagine counterfactual situations --no Taft or McCarthy in America, no Red Purge in Japan -- the result would very likely still have been decentralized business unionism in the U.S. and enterprise unionism in Japan. {29}

Historians can go too far in emphasizing continuity. But American and Japanese mass unions appeared relatively late on the world industrial scene, and so the past was a heavy hand shaping their response to the crises of the 1930s and 1940s. In the U.S., organized labor was forced to adapt to a status quo established by management in large industrial firms. Taylorist wage incentives and job structures already were in place, along with bureaucratic personnel procedures. Although these usually were only half-hearted attempts to provide security and fair treatment, enough was there to draw the new unions into joint administration and negotiated extension of the existing system. In so doing, they used earlier forms of unionism as their model, including guild manorialism and the industrial jurisprudence of the needle trades. {30} Out of this came increasingly bureaucratized employment relations, as unions wove their web of protective rules around existing job and employment structures. But the new unions also inherited from their predecessors a tradition of national unionism, and that served to temper their single-firm focus with industrial solidarity. Given this solidarity, American employers might conceivably have proferred industrywide bargaining. But that never happened, in part because unions too quickly got caught up in the details of contractual job control. {31}

In postwar Japan, unions also were confronted by policies that prefigured the present system but which had not yet been fleshed out in a consistent or encompassing fashion. Those policies --lifetime employment, seniority wage and promotion plans, welfare benefits -- shaped worker aspirations and made factory unionism a logical vehicle for realizing them. Given its long, though checkered, history, the factory union "was naturally the relevant, comprehensible unit of action" for Japanese workers. {32}

Mass unionism emerged in Japan and America against a backdrop of enormous privation and insecurity. Had times been more prosperous, workers in large firms probably would have been less concerned with their own jobs and with private methods for improving them. Still, although the victories won by American and Japanese unions were for their members only, they nevertheless were real gains.

Rankling status distinctions were reduced and employment security was raised. Large firms now faced a host of moral and contractual constraints on the way they treated and paid their employees. Although unions built their protective structures on top of a foundation laid by management, that foundation was itself a response to earlier pressures from unions and unorganized workers. Imitation and adaptation on both sides provided a basis for accomodation and bargaining over employment systems in large Japanese and American firms. This is not to say, however, that these systems were the same. American practices fractured along several dimensions--union versus nonunion, bluecollar versus salaried--with practices in the nonunion and salaried sectors most closely resembling those of Japan. Even here, however, American employment systems were less flexible and less organization-oriented than those of large Japanese firms.

III. Internal Labor Markets: The United States

The internal labor market (ILM) is a construct developed to analyze bureaucratic employment practices. Internal (or career) labor markets are marked by hiring from within, employment security, and the use of rules (rather than market forces) to guide adminstrative decisions. While there never was a time that large American firms entirely lacked these features, considerably less "structure" existed prior to World War I than today.

Between 1870 and 1915, employment for most industrial workers was unstable and unpredictable. A worker's job depended on a personal relationship with his foreman, who had free rein to manage the acquisition, payment and supervision of labor. Foremen relied on a variety of methods to maintain or increase effort levels that collectively were known as the drive system: close supervision, abuse, profanity, and threats. Workers were urged to move faster and work harder, what Sumner Slichter called "the policy of obtaining efficiency not by rewarding merit, not by seeking to interest men in their work..but by putting pressure on them to turn out a large output. The dominating note of the drive policy is to inspire the worker with awe and fear of the management." Ultimately, the system depended on fear of job loss to ensure obedience, and discharges were liberally meted out. But attachment was weak on both sides of the employment relationship. Quits and geographic mobility rates were high, making the labor market a market of movement. {33}

There were some exceptions, however. White-collar employees (chiefly managers and staff) worked in a world that was physically and socially separate from that of the manual worker. They enjoyed a variety of privileges that were unavailable to manual workers--including paid vacations and the absence of nightwork--and had employment prospects that were substantially more stable and secure. Receipt of a salary connoted an implicit employment commitment at least for the period of payment. Employers extended these perquisites because of economic considerations: staff were a fixed cost, overhead needed regardless of whether the firm was producing goods and services or not. There were motivational considerations, too. Employers entrusted their staffs with cash and company secrets (hence "secretary") and wanted this trust reciprocated. By giving a sense of attachment to the company, job security fostered worker loyalty. So did deferred compensation plans (career ladders, pensions, anniversary checks), which paid off only if a worker avoided dismissal. {34}

Unionized craft workers were a second exception. Union rules ensured that equitable procedures, rather than a foreman's whim, would govern pay and allocative decisions. Moreover, the closed shop undermined one assumption of the drive system: that employment was a relationship of indefinite duration terminable at the employer's will. Craft unions held the alternative concept that employment was a permanent relationship between the union--a set of workers--and the employer(s)--a set of jobs. The union behaved as if it owned a set of jobs continuing through time. Under the guild system, these job spanned employer boundaries; under manorialism they were restricted to a single firm.

A third exception were skilled workers employed in large nonunion companies. Between 1880 and 1915 these firms began to extend to their skilled force some of the same incentives given to salaried employees and to restructure skilled employment along lines pursued by craft unions. Deferred compensation --including stock bonuses and pensions plans--now was offered to skilled workers along with job security and career ladders extending into the bottom ranks of management. Here and there, the programs were put under the charge of personnel departments that gradually began to wrest control away from foremen. The desire to avoid unionization was the primary motive here. Deferred compensation raised the cost to skilled workers of union activity; internal employment structures reduced the likelihood that they would seek a union. But more was involved here than simple "union substitution," as economists term it. Taking over the skill transmission process (e.g., through corporation schools) and tying skilled workers to the firm gave employers more control of the labor process--by degrading or blending traditional crafts, and by creating more stable and predictable effort norms. That is, employers were trying to take the guild out of guild manorialism. {35}

But when it came to the great mass of unskilled workers, employers were satisfied with the profitability of the drive system. Immigrant labor was abundant, which fostered an attitude of indifference to improving employment methods. Moreover, production managers thought that the drive system allowed for rapid adjustment of the workforce to shifts in demand and was effective in holding down unit costs. They were reluctant to impose rules or to strengthen ties, fearing that this would raise costs and undermine discipline.

<u>Salaried and Industrial, 1915-1930</u>: These attitudes began to shift around the First World War, when ILMs in large firms grew rapidly and became more elaborate. By 1920, personnel departments--one indicator of internalization --existed in 55% of firms employing over 5,000 workers. Typically these

departments fostered such practices as centralized hiring, dismissal, and wage determination; internal promotion and rationalized layoff plans; and deferred compensation and welfare programs. The bulk of ILM proliferation occurred during the five hectic years preceding the 1921 depression, when companies were confronted by an unprecedented combination of increased labor unrest, shortages, turnover, and reduced productivity. Facing a restive mass of unskilled and semiskilled workers, employers extended bureaucratic structures farther down the ranks than ever before in an attempt to preempt unionization, stabilize effort norms, and make labor costs more predictable.

By the end of the 1920s, it was possible to differentiate firms according to the extent and type of ILMs that they had adopted. ILMs were more prevalent in large than in small firms, although there were exceptions. For example, one California company that employed over 28,000 workers in 1927 neither had nor believed in a personnel department. The company's foremen were given full authority to hire, promote, and dismiss workers. There was no company policy on transfers and promotions, and no coordination between departments. On the other hand were some small and mid-sized companies like Columbia Conserve and Dennison Manufacturing, whose ILMs were more elaborate than those of some larger firms.

In part these differences were caused by the values and attitudes of top management and the degree to which a firm was closely held. In privately owned or tightly controlled firms, progressive employers like Henry Dennison or William Hapgood could exercise their preferences over those of more conservative managers and shareholders. Another factor that mattered was profitability. After 1920, some industries declined while more dynamic new industries emerged to take the lead. Advanced policies were more likely to be found in chemical, petroleum, electrical equipment, and public utility firms, whose high and stable profit levels assured them of sufficient funds to finance personnel programs. Policies were less advanced in relatively low-profit industries like machinery, steel, textiles, and meat packing. A third factor was the degree of seasonal and cyclical demand stability that a firm faced. The assurance of continuous product demand permitted firms to institute policies based on a presumption of a continuing employment relationship. Firms that weren't on the technological cutting edge but were relatively stable--such as department stores and producers of consumer nondurables like soap and food products--were able to make commitments to their workforce that would have been more costly for firms in less stable industries. {36}

Demand stability also influenced the type of ILM that firms adopted. Two variants were beginning to take shape during the 1920s. One was the "industrial model," found in firms that relied on production worker layoffs as their principal response to business downturns. When conditions improved, the firms would rehire former workers according to seniority, skill, and other factors. (Seniority was already the primary factor at 40% of large firms surveyed in 1927.) Industrial-model firms produced cyclically-sensitive goods like autos, electrical machinery, agricultural implements, and steel. They also often had "chunky" capital-intensive technologies--such as blast furnaces--which did not permit gradual reductions in output (or working hours) during slack periods. Also, incentive pay was widely used in these firms (partly to compensate for income losses during slack times). That reinforced the reliance on layoffs, because with incentive pay went a system of tying pay to jobs that inhibited the use of cross-training and transfers as an alternative to layoffs. {37}

Another ILM variant was the "salaried model", found in firms that turned to worksharing (cutting hours), inventory production, and transfers before laying workers off. These firms faced demand that was relatively stable across seasons and cycles. Either they were in service industries like retailing or they manufactured consumer goods, especially those that could be produced for inventory during slack times without risk of decay or obsolescence. {38} Packard

Motor, known for its layoff avoidance policies during the 1920s, was the only major auto producer in the 1920s that refused to adopt the new marketing strategy of annual model changes. Some salaried model firms made precision products that required highly skilled workers who were costly to recruit and replace. Others used production technologies that allowed output (and hours) to be incrementally reduced. But besides these structural factors, layoff avoidance also reflected choices made by management. A 1927 study found that employers were drawn to layoff avoidance "in single-industry towns [where] the management may feel a certain obligation to provide at least some income for as many employees as possible." That was the case at Eastman Kodak, which consciously avoided layoffs during the 1920s and later adopted a private unemployment insurance plan because of perceived obligations to the community (Rochester) in which it was the largest employer. {39}

Managers at some salaried model firms made a virtue out of necessity and promoted layoff avoidance as a private solution to the unemployment problem. Under the rubric of "employment stabilization," they and their admirers asserted that any firm could reduce employment fluctuations through techniques such as production for inventory, sales planning, and training for transfers. The names of the few dozen companies that consciously pursued stablization programs--Dennison Manufacturing, Dutchess Bleacheries, Leeds and Northrup, Procter and Gamble, Eastman Kodak, the Walworth Company--appeared and reappeared in literature on the subject, which was filled with case studies of successful stabilization.

Success often depended on having flexible job structures and a fluid internal labor markets. For example, a firm that made different kinds of candy in different seasons had cross-trained its workers to permit their employment throughout the year. More notable was a corset manufacturer whose workers had been trained in a variety of operations to facilitate rapid transfers in response to style and product changes. This kind of flexibility, in turn, required a central personnel department (to could coordinate training and transfers across departments); weak craft traditions (because these might interfere with transfers and cross-training); and a limited reliance on incentive pay (because that tightened the link between a worker's pay and his job, making it less feasible that transfers could occur without pay cuts). {40}

Employment stabilization combined business and social values, and so the firms practicing it attracted attention from management and social reformers during the 1920s. The firms also drew notice because they often pursued other progressive policies ranging from works councils to the "new" welfare work (deferred and contingent compensation plans like stock ownership, insurance, pensions, and profitsharing). In salaried model firms, then, career structures and welfare policies reinforced each other and promoted communitarian values. Layoffs were minimized because firms faced relatively mild demand fluctuations that could be absorbed through flexible compensation and job structures. Facing more variable demand, industrial-model firms turned to layoffs, a choice that was reinforced by a relatively rigid labor process and compensation system. Consequently, communitarian values were weaker in these firms. {41}

In <u>The Great Industrial Divide</u>, Piore and Sabel use the "salaried model" as the basis of their claim that the U.S. during the 1920s was developing an institutional nexus that would have become the norm in large firms had it not been for the events of the 1930s: the depression, the rise of industrial unions, the Wagner Act's ban on company unions, and the triumph of the industrial model. {42} The idea has received considerable attention, especially since it makes the ascendance of the industrial model appear as an accidental, rather than an inevitable, event--a critical "branching point", as they term it. The argument is interesting but not entirely correct. <u>Some</u> American firms were developing a salaried ILM model but the model was typically applied outside of goods-producing industries or to white-collar employees within them. Employers were more willing to offer, and white-collar employees were more willing to accept, vague job definitions and some pay risk in exchange for substantial employment stability. Even here, however, few firms went so far as to offer formal employment guarantees.

Within goods-producing industry, the salaried model was hardly the dominant tendency during the 1920s, despite the considerable ink spilled on employment stabilization. Most large firms relied on either a layoff/rehire system for their blue-collar (and some of their white-collar) workers or on more arbitrary methods that excluded rehiring commitments. As historian Ronald Schatz says of workers at Westinghouse and G.E., during the 1920s they "lived in a half-way house between arbitrary rule and systematic policy." Security often was limited to skilled workers; even in layoff/rehire firms, skill was a key factor in labor allocation. {43}

Layoff avoidance made only limited headway in American industry because it faced a formidable set of institutional barriers: craft traditions that inhibited internal flexibility and transfers; downwardly rigid pay rates; and the prevalence of incentive pay and other techniques that attached a worker's wage to his job. Even among firms that had definite transfer pay policies in 1927--a rather select group--almost 85% tied a worker's pay to the job held after a transfer, which suggests, as do the data on incentive wages, that the pay/job link was the norm in most large industrial firms. Moreover, managers remained skeptical that productivity could be maintained unless workers were perpetually confronted by a risk of job loss. Although most managers recognized turnover and unstable effort norms as costly problems, they thought it cheaper to contain these problems through close supervision and incentive pay than by making labor a quasi-fixed cost. Thus, had the depression and the New Deal never occurred, ILMs in large industrial firms would still have developed along the lines of the industrial model. {44}

Union and Nonunion ILMs, 1935-50: Although the workplace reforms of the 1910s and 1920s were partial and uneven, they changed social norms regarding fair treatment at work. As the depression eroded those reforms, American workers turned towards unionism to recover lost ground and to conquer new territory. In these years of the "second crisis," unionism, or the threat of it, brought a rapid expansion of policies intended to give workers more secure and predictable worklives, especially in firms that had never previously adopted much in the way of bureaucratic employment practices. Elsewhere the new unions took over the "half-way houses" that employers had earlier constructed and sought to make those structures more equitable and encompassing.

Unionism had a variety of effects. Deferred compensation was extended to bluecollar workers and other collar-linked status differences were reduced. There was a proliferation of negotiated rules --usually based on seniority --for allocating workers up (promotion), down (layoff and rehire), and across (transfers) job chains. Although jobs already had pay rates attached to them, unions equalized or narrowed rates on similar jobs. Employers defensively adopted job evaluation plans to rationalize their job/pay structures, though many unions eventually became proponents of the technique. As this suggests, the new unions became enmeshed in the logic of the ILM, although they were responsible for a considerable widening and deepening of its structures. {45}

Large firms that managed to avoid unionization during these years closely watched and often imitated union innovations ranging from dismissal restrictions to deferred compensation plans. In response to the union threat, these firms bolstered their personnel departments and took many of the foreman's remaining powers away from him. To deter unions, these they made employment security policies more explicit and encompassing. But while union and nonunion firms adopted similar practices in some areas, differences remained in others. {46}

The average unionized firms responded to downturns through a layoff/rehire system that exposed workers to periodic joblessness but assured them of rehiring when demand picked up. This system--the old industrial model--became more acceptable to unionized workers as a result of stricter seniority rules (one of the first items negotiated by new unions during the 1930s and 1940s) and of unemployment insurance (UI) and supplemental unemployment benefits (SUBs).

While the emphasis in the union sector was on income security, large nonunion firms tended to stress employment security. These firms adjusted to downturns through cuts in pay or hours, that is, through worksharing along the lines of the salaried model. By the early 1950s, nonunion firms were two times more likely than unionized firms to rely on pay and hours as their policy of first choice in trimming labor costs; unionized firms were twice as likely to rely on layoffs. The gap widened during the 1950s and 1960s as UI benefit levels rose and SUB plans became more prevalent in the union sector. Whereas 5% of union contracts in 1954 called for layoffs when hours worked were below normal for four weeks or less, by 1971 that figure had risen to 43%. As a result, actual layoff rates were two to four times higher in the union than in the nonunion sector in the early 1970s, and union workers were 50 to 60 percent more likely to experience temporary layoffs. {47}

Each of these security mechanisms was part of a larger ensemble of distinctive union and nonunion employment practices. Layoffs gave unionized firms a way to rapidly cut costs, but this flexibility was offset and often induced by rigidities in other areas, including practices that preceded unionism and protective structures that were the result of it. For example, the large firms that were organized in the 1930s and 1940s had complex job structures with narrow job definitions linked to pay rates. In 1939, for example, a correlation existed (r=.43) across manufacturing industries between levels of CIO unionization and use of time and motion studies. By and large, the new unions accepted the existing division of labor and used it as the basis for building job chains along which movement was governed by seniority. But this fine division of labor made it cumbersome to pursue cross-training, transfer, and other layoff avoidance practices. {48}

Heavy reliance on seniority was a second characteristic of unionized ILMs. The seniority principle pervaded the unions sector and so the financial returns to seniority were (and still are) larger than in the nonunion sector. Because it provided access to employment security, seniority gave workers a vested interest in the use of layoffs. And the interweaving of seniority with job structures legitimated and rigidified those structures in unionized firms. {49}

A third feature of unionized ILMs was the greater downward rigidity of their nominal wages as compared to rates in nonunion firms. Rigidity had long been recognized as a characteristic feature of union wage determination but most large industrial firms had never previously been unionized. After unionization, these firms were less able than before the 1930s to rely on pay cuts during downturns and so the layoff system was forced to carry more of the load. {50}

In nonunion firms pay was less rigid due to the presence of various contingent pay plans not usually found in the union sector. {51} Survey data from the early 1950s and from the late 1970s show that these plans (bonuses, profitsharing, and stock plans) were and still are rare in unionized settings. Unions have long been suspicious of these plans, seeing them as devices that substitute communitarian values for worker solidarity and that permit employers to engage in financial legerdemain at the expense of worker pay. But contingent pay plans permitted nonunion payroll expenditures to be trimmed before hours or employment was cut, adding a degree of flexibility not present in unionized firms. At Eastman Kodak, for example, profitsharing payments averaged about 7% of a worker's earnings in the 1940s and 1950s but the payments were cut sharply in the 1930s (down to zero in several years), thus cushioning the impact of the depression on Kodak's employment levels. {52}

ILMs in large nonunion firms also featured a more flexible job structure. Nonunion establishments today on average have only one-fourth the number of job classifications found in unionized workplaces. The situation forty years ago probably was much the same, given the prevalence of time study and job control in the union sector. Also, pay in nonunion firms was less tightly tied to jobs. Nonunion employers were (and still are) more likely to use pay methods like performance appraisal and merit rating than standardized systems that link pay to job titles. Individualized pay methods increase wage inequality and can cause inequities in pay setting, neither of which is desirable. However, they also weaken the link between the reward structure the job structure, making it easier for nonunion firms to cross-train and transfer workers instead of having to lay them off, as was the case at Procter & Gamble during the 1930s or more recently occurred when IBM closed a plant at Greencastle, Indiana. {53}

Why Sectoral Divergence? Freeman and Medoff attribute many of these union/nonunion differences to the greater weight seniority is given in unionized settings. They argue that because unions represent the interests of the average (median voter), rather than the marginal (recent separations or hires), employee, and because the average employee has more tenure than the marginal one, seniority rule are more widespread in the union sector as are policies that benefit senior workers such as layoffs, SUBs, and pensions. Their argument is logical and certainly fits the facts. But in trying to account for sectoral differences, Freeman and Medoff assign too much causal weight to the median voter and do so because an historical dimension is missing from their work.

The association between unionism and seniority that became so noticeable after the 1930s was due to changes in the prevailing kind of unionized workers and unionized firms. Prior to the 1930s, unions were found in craft labor markets where attachment to a given firm was weak and where firms were small and often short-lived. (Railroads were the exception that proves the rule.) Hence seniority had less of a role to play. Only 26% of a group of union contracts collected by Slichter in the mid-1920s mentioned seniority as a factor in layoffs, whereas 40% of the large nonunion firms surveyed by the Conference Board in 1927 relied on seniority when making layoffs. In other words, contrary to the median voter model, there is no automatic link between unionism and seniority. That link only appeared after 1933, in part because the depression soured existing unions on worksharing but more importantly because the new unions of the 1930s appeared in firms that already relied on seniority rules and layoff systems. By 1938, seniority determined layoffs in 95% of unionized firms but only 50% of nonunion firms, a ratio of nearly two to one. {54}

Not only did these differences exist prior to unionization, they were often a cause of unionism rather than a consequence of it. As we have seen, firms pursuing the industrial model during the 1920s were cyclicaly sensitive, capital-intensive, and relied on time study, incentive pay, and layoffs. When workers turned to unions during the 1930s, they did so, in part, out of anger and insecurity brought on by how these firms operated the industrial model. Anger came from the continuing prominence of the foreman, the use of incentive pay, and the inequities that resulted from the two combined. During the 1930s, managers were warned that inconsistent wage rates was "agitational dynamite," and indeed, there is a strong, positive relationship between an industry's use of time and motion study in 1935 and its subsequent unionization rate. {55} Insecurity came from the instability of industrial-model firms and their high layoff rates during the depression. Between 1929 and 1932, durable goods manufacturers--home to the industrial model and industrial unionism--had much larger cuts in payrolls (70% versus 45%) and in employment (50 percent versus 25 percent) than manufacturers of nondurables. Finally, anger and insecurity were both touched off when foremen made layoff decisions without consistently applying criteria like seniority. {56}

Salaried-model firms during the 1920s came from the aforementioned nondurable manufacturing sector or from an even more stable group of service industries. Unionism did not make as much headway in these industries because the depression had less of an effect of them and, even when it did, layoffs typically were a last resort. Thus, a corollary should be added to Brody's hypothesis about the demise of welfare capitalism and the subsequent success of unionism: Unlike industrial-model firms, salaried-model firms avoided the worst ravages of the depression and this, combined with the fact that they often maintained welfare policies during the early 1930s, helped them to avert unionization. For example, during the depression Sears Roebuck and Eastman Kodak both kept their welfare programs largely intact and were able to avoid large layoffs. Subsequently neither firm was organized to any extent.

Other characteristics of salaried-model firms helped keep them nonunion, such as production processes that permitted continuous hours reductions (unlike "chunky" blast furnaces). These processes made workers more independent and thus easier to monitor and reward on an individual basis. A recent study found unions to be more prevalent in workplaces that "require interdependent worker behavior in the production process." Interdependence leads to common rules governing the use of labor and technology, including rules on workshifts, seniority, and effort intensity. The authors hypothesize that unions arise in these settings because they provide a mechanism for influencing those common rules. {57}

In short, unions tended to appear during the 1930s and 1940s in firms with distinctive economic and technological features. These features were associated with various pre-union employment practices, which unions then took over and codified during collective bargaining. (That's one reason why contracts thickened so quickly in the 1940s; for others, see the essay by Brody in this volume.) Still, unionism had many real consequences, and these widened existing differences between unionized and nonunion firms. The new unions not only took over existing seniority systems but made them more extensive and rigid. As early as 1938, one could see major sectoral differences in this area: Seniority governed layoffs in 69% of unionized, but only 8% of nonunion, firms--a ratio of nearly ten to one. {58}

In accounting for this, there is something to be said for the median voter. Still, the stringency with which the new unions applied seniority is best seen not as a universal characteristic of unionism (as the median voter model would imply) but instead as the result of a decentralized kind of unionism found in the U.S. but not in most other nations. By making the firm and its rules the focus of their strategy for protecting worker rights, American unions magnified existing differences--in seniority and in job structure--between union and nonunion workplaces. Not surprisingly, this strategy incurred the wrath of managers threatened by the incursion of unionism into realms that they considered sacrosanct. During the 1940s, the industrial relations literature was filled with material on "the union challenge to management control." {59} Hostility to unionism was heightened by the fact that unions backed up their strategy with strikes (or strike threats). Because bargaining was usually on a single-firm basis, strikes could impose significant costs on targeted firms.

Ironically, the way that employers responded to these challenges had the effect of widening sectoral differences even further. By taking a tough stand on their presumed rights, managers discouraged unions from seeking employment security (stabilization methods, guaranteed employment, etc.) because this would have taken labor deep into the details of plant management. Unions were deflected to where the resistance was weakest and they pursued income security (severance pay, SUBs) instead. As Slichter and his colleagues said in 1960, "By choosing income security as the goal, unions avoid the necessity of bargaining over such essential management decisions as production schedules, capital improvement plans, and plant location. By and large, management has retained its freedom to make these decisions." {60} Absent a union, however, employment security policies posed none of those risks, and nonunion employers were more likely to pursue them. Thus, unions made it easier for their members to maintain their incomes during downturns, but their employment remained quite unstable. From 1958 to 1981, swings of employment in highly unionized industries were about four times larger than in low-unonization industries. {61}

Longterm contracts were another policy that unionized employers initiated to contain the impact of unionism. By lenghtening contracts, firms could amortize over a longer period the fixed costs associated with strikes or strike threats. Also, lengthy contracts facilitated multi-year projects by providing reasonable certainty that they would not be interrupted by major work stoppages, a factor of some importance to capital-intensive firms. Average contract durations steadily rose in the postwar years, with most of the pressure to lengthen coming from management. But longterm contracts had the effect of insulating union pay from business cycle factors, thus raising the rigidity of union wages. Now, when unionized firms had to trim payroll costs, they were even more likely than nonunion firms to choose employment cuts instead of pay cuts. {62}

Caveats: As in any analysis of an ideal type, here we have been taking existing elements of reality and enhancing them so as to develop a standard against which firms can be compared. Yet it should be emphasized that considerable overlap existed between unionized and nonunion firms as well as great variation within each group. Take seniority, for example. Although more rigidly applied in unionized settings, it was (and still is) of great importance in nonunion settings, even in promotion decisions. Sizeable returns to to seniority exist among nonunion workers--nonunion does not by any means imply strict adherence to merit -- although the returns are smaller than in the union sector. {63} Or take job security. Although unionized workers are more exposed to layoffs, labor "hoarding" (employment levels in excess of production needs) nevertheless occurs in unionized firms during downturns. Moreover, because senior union workers are protected from layoff except during a severe downturn or plant closure, they have considerable employment security. In the 1970s, older union workers were less exposed to the risk of permanent job loss than were older nonunion workers (whereas younger unionized workers were more exposed to temporary and permanent job loss than were younger nonunion workers). Thus because seniority affects security in both unionized and nonunion firms, in 1980 over 40% of all American workers over age 45 were in jobs that would last for the rest of their worklives. {64}

IV. Internal Labor Markets: Japan

As that last fact suggests, Japanese and American employment systems also overlap considerably. As in the U.S., the Japanese system developed in two stages, initially as a managerial response to economic imperatives and challenges from a a refractory, but largely unorganized, workforce; later as a result of more direct actions by organized labor. Skeptics are often dubious of the role that unions played in the evolution of the Japanese system. But intense and significant struggles were waged by Japanese labor before and after the war.

For the prewar period, it is important to remember how weak were craft traditions among Japanese labor. Job control was relatively unimportant to Japanese unions and employers in Japan were never so enamored of scientific management as they were in the U.S. Take the steel industry, for example. Over half of American steelworkers in the 1920s and 1930s were on incentive pay, which caused the industry's wage structure to resemble a "maze," with one large wire mill reporting over 100,000 different rates in 1939. But at Nippon Kokkan, a major Japanese steel producer, only 10% of the workforce received individual piecework wages in the mid-1920s. The Japanese steel industry, says Cole, was "not faced with strong craft unions. There was consequently no domestic model of job control available, and that meant there was none to be resurrected at a later date as unions developed their strength." Indeed, when Japanese unions were feeling their oats after the Second World War, they did much the same thing as American unions and based their demands on preexisting company policies. But rather than protect a myriad of job and pay rates, the new Japanese unions "defined their role as [that of] protecting jobs in general" and so they demanded strict employment security. Like American salaried-model firms, the absence of job control made it easier for Japanese firms to accomodate these demands through cross-training, transfers, and other stabilization methods. {65}

Yet the absence of job control should not be taken to mean that Japanese employers had an easy time of it after the war. While employers may have defined the terrain of struggle, the outcome was neither necessary nor costless for them. As Gordon shows, successful strikes by Japanese workers led to a brief reign in the immediate postwar years of a "labor version" of Japanese employment practices, including a need-based wage system and guarantees of employment security "wrested from firms at the height of labor power." Then, in the late 1940s and early 1950s, Japanese employers "defeated radical labor and rejected the labor version of Japanese employment practices." But "the result was still a tremendous advance for workers when measured against the prewar or wartime systems...The settlement of the 1950s was more complex than terms such as 'management victory' or 'labor defeat' convey." {66}

The terms of that settlement included substantial employment security for workers in large firms in exchange for which "unions continued to allow managers near total control over transfers and job definitions," a tradeoff along salaried-model lines. A relatively loose job/pay structure was retained so that even today, the bulk of bluecollar workers in Japanese auto firms are grouped into only two job categories. In the wage arena, unions were forced to give up their <u>Densan</u> (need-based) system but were able to redefine bonus pay as a matter for bargaining rather than something given out solely at management's discretion. Although workers came to see bonuses as a regular part of their pay package, that view changed during the 1970s recession, when bonus cuts occurred in response to oil price increases. Still, the cuts cushioned employment levels, again along the lines of the salaried model. {67}

Yet despite these parallels between Japanese and salaried-model American firms, important differences remained. They suggest that the model did not operate according to any inherent or mechanical logic. As compared to large nonunion firms in the U.S., Japanese firms had policies that were (and are) more oriented to employment security as well as more communitarian. In part this is evidence of the impact of Japanese enterprise unions, whose continual concern with status equalization produced what has been called the "white-collarization of blue-collar workers." But to fully understand these differences, we must go beyond comparative labor dynamics and examine other institutions that shaped the Japanese workplace. {68}

Dualism and the State: The quest for employment security in Japan was shaped by the high degee of dualism in the economy, a consequence of the nation's late and rapid development. Late development meant that one segment of Japanese industry leapt into world markets using the large scale, capital-intensive technologies of the day. Rapid growth, with consumption patterns lagging industrial structure, left another segment consisting of small, labor-intensive firms. Although dualism exists in most economies, it was especially pronounced in Japan. Even as late as the 1960s, Japan--as compared to the U.S.--had a larger proportion of firms at both tails of the size distribution as well as lower concentration ratios in the bottom tail. That kept costs down in the peripheral sector and gave large Japanese firms an incentive to externalize risk and demand fluctuations by subcontracting with smaller firms. At the same time, externalization provided flexibility to offset the rigidity of job security practices in large firms.

State industrial policy provided additional incentives for the emergence of this system. By direct investment and by administrative actions favoring industrial concentration and scale, the state fostered the emergence of large firms and cartelistic arrangements in heavy industry and finance. Not only did this positively affect the degree of dualism, but it gave large Japanese firms a way to prevent ruinous, deflationary competition. Firms and banks could openly coordinate policies to achieve price stability, whereas in the U.S. similar actions were stymied by a persistent threat of anti-trust prosecution. {69}

Unlike Japan, the U.S. prior to the 1930s had a relatively small federal government and a citizenry suspicious of economic concentration. While the depression and the N.R.A. changed some of those attitudes, New Deal policymakers still had to look beyond collusion to find price props, and one place they looked--with the encouragement of underconsumption theorists--was to wages. Putting a prop under prices by stabilizing wages one of the rationales not only of the Recovery Act, but also of successive legislation like the Wagner Act, the Social Security Act, and the Fair Labor Standards Act. These laws had the effect of promoting a higher degree of rigidity in private wage setting than previously existed: by encouraging collective bargaining and fixed-term labor contracts, by linking pension and overtime benefits to a worker's nominal wage, and by direct wage floors. {70} With incentives so tilted toward wage rigidity, cyclical adjustment in the private sector was more likely to occur on the quantity side (output and employment levels via layoffs) than on the wage and price side. No such incentives appeared in Japan. The Japanese government's main response to the depression was a 1936 law that "built upon existing employer practices" by requiring large firms to give severance pay to dismissed workers--thus providing a different incentive, namely, to avoid layoffs. {71}

Another consequence of Japan's _dirigiste_ state was a rationalized and highly meritocratic educational system, with national curricula, standardized tests, and high rates of school enrollment (already higher in 1900 than in Britain or some American states). Japanese schools performed an immense task of quality control for the nation's employers, who could be reasonably confident that "permanent" employment was being offered to the most able graduates. This made it easier for large employers to adopt egalitarian and communitarian personnel ideologies and to put less stress on performance as a reward criterion. Ever since the 1910s, meritocratic efficiency movements have periodically swept American schools. But their impact has always been fragmented by the country's decentralized and relatively egalitarian public school system. As a result, American employers, usually are reluctant to make employment commitments without careful and lengthy screening of employees. Pervasive performance evaluation and relatively high dismissal rates in American firms function, in part, as quality control mechanisms that make up for casual sorting by the schools. Thus in Japan, the schools are the locus of competitive meritocracy while the firm is relatively egalitarian; the reverse tends to be true of the U.S. (which is one reason why Japanese firms with U.S. facilities spend more time and money screening prospective employees than they do at home). {72}

Culture and All That: One should be wary of arguments based on differences in national culture and attitudes because these can involve circular logic. But an unnecessary burden is created if politics and economics are made to carry the whole explanation. Anthropological studies show that a desire for community and interdependence is part of Japanese culture, and it is easy to see how this reinforces a high degree of identification with the workgroup and the firm (which calls itself a "community of fate"). In Japan, communitarian values infuse company unions, personnel policies, benefits, and leisure activities. By contrast, American culture emphasizes individualism and economic achievement;

dependence is disparaged and rejected. As a former union official said in 1917:

> A job may be satisfactory in every respect, quite as good as they are likely to find anywhere, and yet they will leave because they do not want to remain in the shop for too long ... this desire for change rests upon a fear of losing their independence, of getting into a frame of mind wherein they will come to attach disproportionate importance to the retention of a certain job.

Those attitudes are reflected in the weak ties and mobility-oriented emphasis of the industrial model. They also sustain the suspicion that corporate paternalism has received from American workers and unions. {73}

Indeed, the imagery of laissez-faire contractualism has long pervaded commercial relations in the U.S., including those of the workplace. As Selznick puts it, this model of contract is "infused with the spirit of restraint and delimitation; open-ended obligations are alien to its nature; arms-length negotiations is the keynote." With this as the touchstone for an industrial relations system, it is hardly surprising that the parties--in both union and nonunion settings--tend toward mutual suspicion, weak ties, and fear of opportunism. {74} While it would be hard to rank the U.S. and Britain on the average degree of trust in employment relations, Japan undoubtedly is the outlier on this dimension. Employment and other commercial transactions in Japan evince a different, more organic, approach to contracting, characterized by enduring obligations, harmonization of interests, and mutual trust. This approach--recently dubbed "relational" or "obligational" contracting--has various implications of relevance to issues discussed here. {75}

For example, contingent pay systems are more difficult to administer when employees distrust their employers. Suspicious workers in a suspicious society will always wonder whether the employer really has experienced a reduction in demand that necessitates pay cuts or whether he is simply pocketing the pay savings and selling the same amount at the same price but for greater profit. It is more rational for distrustful workers (or unions) to insist on layoffs, which force the firm to to cut back on output and to sell less. Were there more trust, however, workers might be less suspicious of adjustments occurring through wage or profitsharing cuts, especially if managers promised to cut their own pay first, as is often done in Japan. And that creates a virtuous circle: worker loyalty to the firm deepens when the burden of adjustment is shared and when, if pay cuts are not enough, managers go to great lengths to avoid layoffs and find alternate employment for employees. Trust, says Alan Fox, begets trust. {76}

Finally, Japanese employment security largely excludes women, who were and still are a "buffer" protecting the stable jobs extended to male workers in large firms. To some extent, the same has been true in the U.S., where women are more likely to be found in peripheral jobs and to be excluded from the most secure or desirable jobs in large firms. workplaces. Still, the use of women as a buffer labor force is more overt and extensive in Japan, the reasons for which undoubtedly are "cultural." As a result, although American women on average have less stable jobs than American men, the sex gap is smaller than in Japan. {77}

V. Developments in Japan and the United States Since 1970

To sum up, a strong form of the salaried model developed in large Japanese firms, whereas large American firms bifurcated: unionized firms used the industrial model while nonunion firms had a weak form of the salaried model. These micro-level variations in employment practices are responsible for numerous macro-level differences in economic outcomes. Two examples: First, interfirm labor mobility rates in Japan are lower than in the U.S., a condition that has existed from the late 1910s through the present. Second, nominal compensation in Japan is more sensitive to economic conditions than in the U.S., while industrial employment is more sensitive in the U.S. (a given decline in output leads to proportionately larger employment reductions in the U.S.) {78}

Some might see these data as proof that Japanese industrial relations are unique, the view held by modernization theorists in the 1950s and 1960s. But when outcomes in the U.S., Japan, and Western Europe are compared along the above dimensions--labor mobility, wage rigidity, and employment volatility--it is the U.S. that takes the most extreme values in each case. In Europe, as we have seen, these macro-outcomes came about through a rather different micro-process than in Japan: European unions used legislation and industrywide bargaining to restrict employer layoffs and to regulate other aspects of the workplace. Yet their activities at these levels and their institutional security made them less concerned with regulating the ILM at the enterprise level, and so one finds in Europe less job regulation than in unionized American firms. A recent study reports that ILMs in Germany and Sweden, as compared to those in the U.S., are "flexible and fluid [with] fewer job classifications...and a labor force more able and more willing to be assigned to a broad range of tasks." Thus, what makes the U.S. unique at the micro-level and skews its outcomes at the macro-level is the industrial model, a legacy of conservative craft unions, late-developing industrial unions, and powerful employers. {79}

Still, America shares with Japan limited public regulation of the workplace and, in the case of large nonunion U.S. firms, a common approach to organizing ILMs. And the overlap between Japanese and American employment systems is currently growing, as employers in each country back away from the commitments negotiated during the crisis years of mass unionism. Behind this are recent changes in the economic environment, including intensified competition and slower growth rates. Competition is spurring employers to find ways of reducing labor costs, while sluggish growth rates are making ILM arrangements more costly. As new hiring slows, average employee tenure rises. With that comes an increase in the cost of deferred compensation as well as the cost of labor hoarding, SUBs, and severance pay. The problem is compounded by each nation's aging labor force. Shortages of young workers first developed in Japan during the 1970s and now are appearing in the U.S., as the small cohort behind the babyboomers enters the labor force. Shortages put pressure on entry-level wages in ILMs and that pressure then is transmitted along the firm's wage structure.

To cut costs, employers in older industries are relocating to low-wage nations. Although the "rust belt" problem is more extensive in the U.S., Japan has had its share of plant closures and capital flight in textiles, steel, coal mining, shipping, and other industries. Another cost-cutting measure especially favored by large firms is new technology, which reduces the demand for less skilled workers. Because security commitments are expensive and stand in the way of downsizing and restructuring, large Japanese and American firms have also been shrinking the number of workers employed in ILMs while expanding the contingent workforce. {80}

End of the ILM? Economists have created various theoretical models that seek to rationalize in efficiency terms the "sticky" employment relationships associated with ILMs. The models demonstrate that various benefits accrue to employers from hiring workers on a quasi-permanent basis, including efficiencies in training, screening, and motivation. But the models have a static quality, in part because they give insufficient attention to the costs associated with ILM arrangements. {81} As we have seen, neither Japanese nor American employers were uanaware of those costs. Their reluctance to confer career status on less skilled workers reflected skepticism that this was a strict economic necesssity. Hence Japanese and American workers had to struggle for nearly half a century to attain that status. By the 1950s they had succeeded, and for the next twenty years or so, employer skepticism was muted by various factors. The battles of the crisis years lingered in managers' minds, and so they were reluctant to tamper with basic ILM structures. Employment stability was thought to promote industrial relations stability, and no one wanted a return to the crisis years. Equally important was the fact that these were decades of high and steady economic growth. Japan was engaged in reconstruction, while American firms faced only moderate competition at home and abroad. Steady growth meant steady hiring of new workers, which kept a lid on ILM costs. It also meant that firms had sufficient slack to absorb the cost of their security policies. {82}

But things began to change during the 1970s and 1980s. First, competition and restructuring reduced the cushion of slack available to support labor hoarding and other ILM policies. Second, slower growth rates have removed a key justification for those policies: that they help firms respond in a timely fashion to upturns and growth opportunities. Rather, today companies "are poised for contraction." Third, organized labor is declining and losing influence in both nations. In the U.S., union density fell sharply after 1970, so that by 1988 only 14% of private-sector workers belonged to unions. In Japan, union density also fell between 1970 and 1986: from 35% to 28%, a drop that places it second to the U.S. among Western nations in its rate of union decline. Finally, memories of the crisis years are fading, particularly now that a younger generation of managers is taking control of large firms. As a result of all this, employers perceive the cost of ILMs to be rising and their benefits declining. As before the second crisis, however, the balance is perceived more favorably in the case of skilled and technical employees than semiskilled service and production workers. It is the "implicit contracts" of this latter group that most frequently are being renegotiated, although insecurity has increased throughout the ranks. {83}

In Japan, ILM shrinkage started during the recession that lasted from 1973 to 1978. Thousands of workers in large firms were fired--many of them women, who form the bulk of the temporary and parttime labor force--but the cuts extended to older male employees as well. In the ensuing recovery, large firms have been careful to keep a ceiling on the number of employees with quasi-permanent status. Whenever possible, they have been hiring temporary and parttime workers, while at the same time restructuring so as to cut back on overall employment levels. Since 1978, employment growth in Japan has been slowest in large firms. Based on an analysis of firms listed on the Tokyo stock exchange, Koshiro finds a decrease in the relative share in total employment of jobs with secure employment opportunities, and predicts that this trend will continue.

The pressures on Japanese ILMs do not entirely stem from weak labor demand. Spot shortages exist in technical fields like financial management and engineering. Here employees are being lured from lifetime jobs by hefty pay offers, a phenomenon that has received a lot of publicity. Writing in Tokyo Business Today, Kawashima calls it a sign of "the crumbling walls of lifetime employment." While that is hyperbole, there is less stigma attached to midcareer job switching today than in the past. Although relatively few bluecollar workers are making those moves, in the future job switching may include them, and in that sense Kawashima may be right. ILMs in large firms might eventually acquire some of the fluidity associated with ILMs in America. {84}

ILMs in the U.S. have also been shrinking. Since 1980, employment levels have been cut or held down in most large industrial firms. At General Electric, more than a hundred thousand jobs -- over a quarter of the company's workforce --were eliminated between 1981 and 1986. As elsewhere, the cuts included salaried as well as hourly employees, although the latter bore the brunt. But reductions in core employment are only part of the story. Employers increasingly rely on contingent workers--parttime, temporary, and leased--who are granted neither employment nor income security, nor deferred compensation and other fringe benefits. The size of the contingent labor force is not precisely known, but is estimated to include over a fifth of American workers. The largest group consists of parttime workers, whose share of the labor force grew from 15% in 1967 to 20% in 1987. The number of temporary workers is more difficult to estimate because some are hired directly by employers and not through a temporary help agency. These agencies are one of the fastest growing industries, and the demand for their services is widespread. Agency temps make up nearly one percent of total U.S. employment, and over 90 percent of firms use them. At some, temps account for as much as 10 to 20% of the employees. {85}

Still, one should not get the impression that ILMs are vanishing or that contingent workers are simply a substitute for core employees. Instead, contingents are better viewed as a complement, buffering core employees from cyclical and technological shifts in demand. Although the core is a smaller portion of the workforce than previously, it still exists, and contingents make it cheaper for firms to provide it with income or employment security. In that respect, U.S. developments resemble are like those occuring in Japan; American firms now even use Japanese categories like "permanent temporaries." {86}

But a development unique to the U.S. is the <u>recomposition</u> of core employment. In manufacturing and low-status whitecollar jobs (both union and nounion), the industrial model is gradually being displaced by a salaried ILM model. The terms of the shift are sometimes explicit, sometimes vague, but they usually involve some of the following items: Hourly workers are offered salaries, some degree of employment security (guarantees in varying degrees), and contingent compensation like profit sharing. Invidious status distinctions--in uniforms, parking lots, and dining rooms --are eliminated. In return, workers are asked to accept lower base pay levels and less income security. Also, the job/pay system is loosened through the use of broader job definitions, teams, cross-training, and pay-for-learning systems. The shift to salaried ILMs means employment costs are becoming more fixed. That is, firms are giving up some of the rapid cost reductions that layoffs provided under the industrial model. Contingent compensation for core workers is one way to offset this rigidity, although most of pay is still fixed in nominal terms. The use of contingent workers is another way to accomplish this. Hence, the growth of contingent employment is being driven, in part, by ILM recomposition.

Piore, Kochan, and others emphasize the technological origins of this recomposition: Today, manufacturing and service products have shorter life cycles and are becoming more differentiated. That requires a flexible division of labor and a workforce with a fungible set of skills. To ensure that workers stay put, employers are providing them with more employment security, and that security promotes acceptance of change in technology and the division of labor. No doubt this is part of the story. But other elements need to be included.

First is union avoidance. As Mike Parker (in this volume) and other labor activists point out, the salaried model promotes a high degree of identification with the firm and reduces worker solidarity and union loyalty. That weakens existing unions and makes it harder to organize new ones. Second is the growing internationalization of competition, which means that large American firms benefit less from domestic stabilization of the sort that was facilitated by the industrial-model's rigid wage system (and similar institutions). Finally, unionized workers accepted the industrial model because it provided a level of employment security for senior workers that was as good or better than that found in salaried-model firms. But during the early 1980s, massive layoffs and plant closures threatened the jobs of those senior workers to an extent not felt since the late 1930s. In those circumstances, unions began to seek new policies. A former official of the Steelworkers said in 1983 that, "We may have backed ourselves into a corner by settling for income security rather than dealing with the immense complexities of fashioning job security arrangements." {87}

VI. Conclusions

Evidence exists consistent with 1960s-style convergence theory that large Japanese firms are moving in an American direction. In Japan there currently is more job switching and a greater reliance on performance-based pay, both of which suggest a shift toward more market-oriented employment practices. But change has been more radical and rapid on the other side of the Pacific, where

American firms are moving in a Japanese direction through the substitution of salaried for industrial ILMs and through greater employment dualism.

Similar developments are ocurring in other countries, notably Britain, where the unfortunate phrase "Japanization" is being used to describe them. (See Huw Beynon's essay in this volume.) But it is important to realize that the U.S., unlike Britain, has for several decades had a sizeable, quasi-Japanese sector of nonunion, salaried-model firms. And unions in large American firms have long had a stronger enterprise orientation than in Britain. On Ronald Dore's continuum of market-oriented versus organization-oriented employment practices, the U.S. historically has leaned more to the Japanese (organization) than to the British (market) end of the scale. As a result, in the U.S. "Japanization" has had less distance to travel and is being accepted with greater equanimity and less friction than in Britain. For example, the UAW--a proponent of new work systems such as those contained in the Saturn agreement--remains in the vanguard of the AFL-CIO, while the British Electrician's Union (EETPU) has been booted from the TUC for signing similar agreements. {88}

Still, American unions find themselves in crisis, with membership rates likely to drop below 10 percent by the end of the century. That puts at the top of the American policy agenda the question: What will fill the regulatory and protective vacuum created by unionism's decline? On the one hand are those who answer that if only labor laws were reformed, American unions would be able to rapidly organize new members and fill the gap themselves. On the other hand are those skeptical that this ever will happen in the near future. They include two groups. First, there are those who argue that unions and their supporters should accept the inevitable and push harder for a legislative and judicial approach to workplace regulation. To some extent, that already is happening in areas such as health care, safety, and dismissals, to name a few, although the idea is to push this approach further along in the direction of a national bill of employee rights. In the second group are those concerned with finding new models for employee representation and industrial democracy. While as yet there has been no gelling of consensus in this group, the dark-horse favorite at this time is some kind of legally-mandated workplace representation, along the lines of European works councils and Japanese enterprise unions.

Although some in the house of labor react with horror at the prospect of "company unionism," others (e.g., the AFL-CIO's secretary-treasurer, Thomas Donahue) are interested in pursuing the idea in some form. There is recognition that the salaried model doesn't leave much room for the traditional American approach to job regulation, and a belief that works councils and enterprise unions have succeeded reasonably well in Europe and Japan. Indeed, two recent studies refute the claim that Japanese enterprise unions are simply pawns of management with few real effects. Based on attitude surveys, one study finds "no support for the `strong corporatist' hypothesis that Japanese enterprise unions function directly to strengthen the bond between the employee and the firm." In fact, employee committment is slightly lower in Japanese than American unionized firms. Another study finds that these unions have substantial positive effects on female wages, bonus pay, severance pay, and leisure time; newly organized Japanese unions raise wages about half the time. {89}

But although these findings confound simplistic stereotypes, they also hold a warning for American advocates of workplace representation. Japanese unions may have declined so rapidly in recent years precisely because they reduce profits and induce employers to resist them. If so, proposals for mandated representation are likely to encounter similar resistance from U.S. employers. Nevertheless, if there is one thing to be learned from this comparative history of Japan and the U.S., it is that efficiency incentives and employer objectives have never completely determined the evolution of their employment systems. Only in the minds of economists does the world work like that.

NOTES

1. Adulation: Ezra F. Vogel, Japan as Number One: Lessons for America (Cambridge: Harvard Univ. Press, 1979); William G. Ouchi, Theory Z: How American Business Can Meet the Japanese Challenge (Reading: Addison-Wesley, 1981). Critique: John Junkerman, "Life on the Fast Lane at Datsun," Mother Jones, 7 (August 1982):20+; Daniel Burstein, Yen! Japan's New Financial Empire and Its Threat to the U.S. (New York: Simon & Schuster, 1988).

2. Until the recent sharp decline in private-sector unionism in the U.S., the American industrial relations literature rarely distinguished between unionized and nonunion firms. Studies comparing the U.S. and Japan still typically use unionized American manufacturing firms as their base, thus overstating national differences.

3. On classification issues, in particular whether to lump syndicalist France and Italy together with other European nations, see S.M. Jacoby, "American Exceptionalism Revisited: The Importance of Management" in S.M. Jacoby (ed.), Masters to Managers: Historical and Comparative Perspectives on American Employers (New York: Columbia Univ. Press, forthcoming 1990).

4. Michael Piore and Charles Sabel, The Second Industrial Divide (New York: Basic, 1984); Jonathan Zeitlin, "From Labor History to the History of Industrial Relations," Economic History Review, 40 (May 1987):159-184.

5. Reinhard Bendix, Work and Authority in Industry (New York: Wiley, 1956), 214-217; Tony J. Watson, The Personnel Managers: A Study in the Sociology of Work and Employment (London: Routledge, Kegan Paul, 1977); F.T. Malm, "The Development of Personnel Administration in Western Europe," California Management Review, 3 (Fall 1960):69-83.

6. Lloyd Ulman, "Who Wanted Collective Bargaining in the First Place?," 39th Annual Proceedings of the Industrial Relations Research Association, New Orleans, December 1986; Keith Sisson, The Management of Collective Bargaining (Oxford: Basil Blackwell, 1987).

7. But not all of them: revolution was dropped from the agenda, much to the consternation of radical (and present-day academic) critics of corporatism. On comparative welfare policies, see Daniel Levine, Poverty and Society: The Growth of the American Welfare State in International Comparison (New Brunswick: Rutgers Univ. Press, 1988); Ann S. Orloff, "The Political Origins of America's Belated Welfare State" in Margaret Weir, Ann S. Orloff, and Theda Skocpol (eds.), The Politics of Social Policy in the United States (Princeton: Princeton Univ. Press, 1988).

8. Although France and Italy had lower union membership density levels than the U.S in 1914, per capita income -- a rough measure of industrialization -- was lower in those countries and by a much greater factor than their union density rates. That is, unionization in the U.S. was far lower than it "should" have been, given the level of economic development. Gerald Friedman, "Politics and Unions: Government, Ideology, and the Labor Movement in France and the U.S., 1880-1914," unpublished Ph.D. dissertation in economics, Harvard University, 1985, 31.

9. Robert E. Cole, Work, Mobility and Participation: A Comparative Study of American and Japanese Industry (Berkeley: Univ. of California Press, 1979): 247; Kazuo Koike, "Internal Labor Markets: Workers in Large Firms," in Taishiro Shirai (ed.), Contemporary Industrial Relations in Japan (Madison: Univ. of Wisconsin Press, 1983): 39; Ronald Dore, British Factory-Japanese Factory: The Origins of National Diversity in Industrial Relations (Berkeley: Univ. of California Press, 1973):377.

10. For evidence that skill differentials were wider in the U.S. than in Europe in the early 20th century, see E.H. Phelps Brown and Margaret Browne,

A Century of Pay: The Course of Pay and Production in Europe and the U.S.A. (London: Macmillan, 1968); Peter Lindert and Jeffrey Williamson, American Inequality: A Macroeconomic History (New York: Academic Press, 1980). On the scarcity of skilled labor in Japan, see Koji Taira, Economic Development and the Labor Market in Japan (New York: Columbia Univ. Press, 1970).

11. Andrew Gordon, The Evolution of Labor Relations in Japan: Heavy Industry, 1853-1955 (Harvard Univ. Press, 1985); Sanford M. Jacoby, Employing Bureaucracy: Managers, Unions, and the Transformation of Work in American Industry, 1900-1945 (New York: Columbia Univ. Press, 1985).

12. Gordon, Labor Relations, 250; Leo Wolman, Ebb and Flow in Trade Unionism, (New York: NBER, 1936); Kazuo Okochi, Labor in Modern Japan (Tokyo: Science Council of Japan), 65. During World War I, the AFL proposed joint conference boards --a step in the European direction -- but the idea went nowhere.

13. Jacoby, "American Exceptionalism."

14. Clark Kerr, "The Balkanization of Labor Markets" in E.W. Bakke (ed.), Labor Mobility and Economic Opportunity (Cambridge: MIT Press, 1954); Walter Licht, Working for the Railroad (Princeton: Princeton Univ. Press, 1984); Robert Jackson, The Formation of Craft Labor Markets (New York: Academic Press, 1984).

15. Hence it is a mistake to cast the Wagner Act and the War Labor Board as the harbingers of contractual unionism, as is done in Christopher L. Tomlins, The State and the Unions: Labor Relations, Law, and the Organized Labor Movement in America, 1880-1960 (1985).

16. Stephen S. Large, The Yuaikai, 1912-1919: The Rise of Labor in Japan (Tokyo: Sophia Univ. Press, 1972).

17. Sheldon Garon, The State and Labor in Modern Japan (Berkeley: Univ. of California Press, 1987), 18.

18. Gordon, Labor Relations, 49; Solomon B. Levine, "Japan's Labor Problems and Labor Movement, 1950-1955" in Okochi, Labor in Modern Japan, 109.

19. Garon, State and Labor, 47-55; Gordon, Labor Relations, 235-46; Mikio Sumiya, "The Emergence of Modern Japan" in K. Okochi, B. Karsh, and S.B. Levine (eds.), Workers and Employers in Japan (Tokyo: Tokyo Univ. Press, 1973); Hiroshi Hazama, "Japanese Labor-Management Relations and Uno Riemon," Journal of Japanese Studies, 5 (Winter 1976):71-106.

20. Gordon, Labor Relations, 126-61; 211-35; Garon, State and Labor, 47-55, 169-72.

21. Garon, State and Labor, 208-27; Joe Moore, Japanese Workers and the Struggle for Power, 1945-1947 (Madison: Univ. of Wisconsin Press, 1983): 31-42. Gordon, Labor Relations, 228-30, 299-325.

22. Stanley B. Mathewson, Restriction of Output Among Unorganized Workers (New York: Viking, 1931); Wayne Lewchuk, American Technology and the British Vehicle Industry (Cambridge: Cambridge Univ. Press, 1987); Daniel Nelson, "Scientific Management and the Workplace, 1920-1935" in Jacoby (ed.), Masters to Managers, forthcoming; Charles S. Maier, "Between Taylorism and Technocracy: European Ideologies and the Vision of Industrial Productivity in the 1920s," Journal of Contemporary History 5 (1970):27-61.

23. S.M. Jacoby, "Union-Management Cooperation in the United States During World War II," in M. Dubofsky (ed.), Technological Changes and Workers' Movements (Beverly Hills: Sage, 1985).

24. Garon, State and Labor, 243. On labor's postwar political activities in the U.S., see Derek Bok and John Dunlop, Labor and the American Community (New York: Simon & Schuster, 1970).

25. Sisson, Management of Bargaining, 171-185; Moore, Japanese Workers; Bert Cochran, Labor and Communism (Princeton: Princeton Univ. Press, 1977): 297-331; Nelson Lichtenstein, Labor's War at Home (Cambridge: Cambridge Univ.

Press, 1982), 240.

26. Harry A. Millis and Emily Clark Brown, From the Wagner Act to Taft Hartley (Chicago: Univ. of Chicago Press, 1950) :386, 580; Howell J. Harris, The Right to Manage (Madison: Univ. of Wisconson Press, 1982):121.

27. Garon, State and Labor, 229-48; Gordon, Labor Relations 335-36; Moore, Japanese Workers, 209-43; Michael A. Cusamano, The Japanese Automobile Industry (Cambridge: Harvard Univ. Press, 1985): 138-40; David Halberstam, The Reckoning (New York: Avon, 1986), 124.

28. Levine, "Labor Problems," 101.

29. Rodney Clark, The Japanese Company (New Haven: Yale Univ. Press, 1979): 46; Moore, Japanese Workers, 120; Gordon, Labor Relations, 332.

30. Howell Harris, "The Snares of Liberalism? Politicians, Bureaucrats, and the Shaping of Federal Labor Relations Policy in the U.S., ca. 1915-47," in S. Tolliday and J. Zeitlin, Shop Floor Bargaining and the State (Cambridge" Cambridge, Univ. Press, 1985); Steve Fraser, "Rehearsal for the New Deal" in M.H. Frisch and D.J. Walkowitz (eds.), Working Class America (Urbana: Univ. of Illinois Press, 1983), 212-55.

31. Jacoby, Employing Bureaucracy.

32. Gordon, Labor Relations, 342.

33. Sumner Slichter, The Turnover of Factory Labor (New York: Appleton, 1919):202.

34. Jurgen Kocka, White Collar Workers in America, 1890-1940 (Beverly Hills: Sage, 1980). In a 1908 Massachusetts case, a judge noted that the word "salary" was "more frequently applied to annual employment than to any other and its use may impart a factor of permanency." S.M. Jacoby, "The Duration of Indefinite Employment Contracts in the U.S. and England: An Historical Analysis", Comparative Labor Law, 5 (Winter 1982):85-128.

35. Edward P. Lazear, "Why is There Mandatory Retirement?," Journal of Political Economy 87 (Dec. 1979), 1261-84. Similar changes occurred outside of manufacturing. In retailing, a guild system existed in some large department stores, where salespeople were hired after acquiring broad experience by moving around from store to store. To reduce labor costs and create a cadre of loyal employees, firms set up programs to take relatively unskilled workers and turn them into salespeople by offering them training, internal promotion, and employment security. M.J. and S.B. Carter, "Internal Labor Markets in Retailing: The Early Years," Industrial & Labor Relations Review, 38 (July 1985):586-98.

36. Jacoby, Employing Bureaucracy, 200-205.

37. In some rare instances, industrial model firms provided income security during layoffs in the form of privately-financed unemployment isnu4rance, although these plans were most prevalent in the unionized apparel industry and should not be confused with the employment guarantee plans found in more stable firms and industries.

38. A.D.H. Kaplan, The Guarantee of Annual Wages (Washington: Brookings, 1947), 65.

39. National Industrial Conference Board (NICB), Layoff and Its Prevention (New York: 1930), 26.

40. NICB, Layoff, 16-17.

41. Daniel Nelson, Unemployment Insurance: The American Experience, 1915-1935 (Madison: Univ. of Wisconsin Press, 1969); Jacoby, Employing Bureucracy, 199. Both Procter & Gamble and Nunn-Bush, leaders in the stabilization movement, had company unions. Note that the terms "salaried" and industrial" come from Paul Osterman, "Choice of Employment Systems in Internal Labor Markets," Industrial Relations, 26 (Winter 1987):46-67. In other words, each model traded off flexibility of response to market or technological shifts for rigidity in other dimensions such as wages, job structures, and the labor

process.

42. Piore and Sabel, Second Industrial Divide, 124-32

43. Ronald Schatz, "American Electrical Workers, 1900-1950," Unpublished dissertation, University of Pittsburgh, 1977, 65-69.

44. NICB, Layoff, 18, 21.

45. Sar A. Levitan, "Union Attitudes toward Job Evaluation and Ingrade Progression," Industrial & Labor Relations Review, 4 (January 1951):268-74.

46. Jacoby, Employing Bureaucracy, 232-39; 260; George P. Shultz, "A Nonunion Market for White Collar Labor" in National Bureau of Economic Research, Aspects of Labor Economics (Princeton: Princeton Univ. Press, 1962), 122; Stephen Habbe, "How Not to Have Grievances," Management Record, 11 (June 1949):247-49.

47. In 1962, over a third of large unionized firms were covered by SU plans, as compared to only about a tenth of comparable nonunion firms. Jacoby, Employing Bureaucracy, 246; H.E. Steele and H. Fisher, Jr., "A Study of the Effects of Unionism in Southern Plants," Monthly Labor Review, 87 (March 1964):269; James Medoff, "Layoffs and Alternatives Under Trade Unioms in U.S. Manufacturing," American Economic Review (June 1979):380-395.

48. J.N. Baron, F.R. Dobbin, and P.D. Jennings, "War and Peace: The Evolution of Modern Personnel Administration in U.S. Industry," American Journal of Sociology, 92 (Sept. 1986): 365

49. Richard Freeman and James Medoff, What Do Unions Do? (New York: Basic Books, 1984):124-32.

50. John T. Dunlop, Wage Determination Under Trade Unions (New York: Macmillan, 1944).

51. D.J.B. Mitchell, Unions, Wages, and Inflation (Washington: Brookings, 1980).

52. Freeman and Medoff, What Unions Do, 65,67; H.E. Steele, W.R. Myles, and S.C. McIntyre, "Personnel Practices in the South," Industrial & Labor Relations Review, 9 (January 1956):248; Steele and Fisher, "Effects of Unionism", 267.

53. Freeman and Medoff, What Unions Do, 80-81; C. Ichniowski, J.T. Delaney, and D. Lewin, "The New Human Resource Management in U.S. Workplaces: Is It New and Is It Only Nonunion?," Unpublished paper, Graduate School of Business, Columbia University, August 1988; Richard Freeman, "Union Wage Effects and Wage Dispersion Within Establishments," Industrial & Labor Relations Review, 36 (October 1982); Sumner Slichter, James Healey, and E. Robert Livernash, The Impact of Collectibe Bargaining on Management (Washington: Brookings, 1960): 462-89; D. Quinn Mills, The IBM Lesson: The Profitable Art of Full Employment (New York: Times Books, 1988); Murray W. Latimer, Guaranteed Wages: Report to the President by the Advisory Board, Office of Tempoary Controls (1947), 307-26. In the case of plant closures unionized firms prefer to liquidate their employees' income security rights by giving severance pay.

54. Sumner Slichter, Unions Policies and Industrial Management (Washington: Brookings, 1941): 105; Jacoby, Employing Bureaucracy, 245.

55. Ibid., 251; Baron et al., "War and Peace," 366.

56. Kaplan, Guarantee, 104.

57. Greg Duncan and Frank Stafford, "Do Union Members Receive Compensating Differentials?" American Economic Review, 70 (June 1980): 369.

58. Jacoby, Employing Bureaucracy, 245. The same ratio existed in the early 1950s.

59. Neil Chamberlain, The Union Challenge to Management Control (New YOrk: Harper, 1948)

60. Slichter, Healey, and Livernash, Impact of Bargaining, 448.

61. Freeman and Medoff, What Unions Do, 113.

62. S.M. Jacoby and D.J.B. Mitchell, "Does Implicit Contracting Explain Explicit Contracting?," Proceedings of the 35th Annual Meeting of the Industrial Relations Research Association, 1982, 319-328; Jacoby and Mitchell, "Development of Contractual Features of the Union-Management Relationship," Labor Law Journal, 33 (Augst 1982):512-518.

63. K.G. Abraham and J.L. Medoff, "Length of Service and the Operation of Internal Labor Markets," 35th Annual Proceedings of the Industrial Relations Research Association, New York, 1982, 308-18. Between 1968 and 1980, the return on earnings due to seniority was about 0.7% per year for union workers versus 0.3% for comparable nonunion workers. Presently, seniority is substantially favored in promotion decisions of 76% of hourly unionized employees but the figures for nonunion workers are also quite high: 56% for hourly employees and 59% for salaried nonexempt employees. K.G. Abraham and H.S. Farber, "Returns to Seniority in Union and Nonunion Jobs," Industrial & Labor Relations Review, 42 (Oct. 1988):13-14.

64. Jerome Rosow and Robert Zager, Employment Security in a Free Economy (New York: Pergamon, 1984): 40; Jon A. Fay and James L. Medoff, "Labor and Output Over the Business Cycle: Some Direct Evidence," American Economic Review, 75 (Sept. 1985):638-55; Robert T. Hall, "The Importance of Lifetime Jobs in the U.S. Economy," American Economic Review, 72 (Sept. 1982): 718. When asked whether their job security was good, nonunion workers with under 20 years of service expressed as much or more satisfaction than did unionized workers with comparable service, but the reverse was true for workers who had been on the job for over 20 years. Freeman and Medoff, 126-8.

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