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THE WAGE-PRICE OUTLOOK AND SOME LONGER-TERM LABOR-MARKET ISSUES

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It would be hard to tell a story about a major inflation problem in the next year.[1] This is the bottom line for the short-term outlook. Unemployment above 6.5% - as an index of general economic activity - is not likely to set off inflation. That is the lesson we can draw from the 1980s. If there is an inflation story in the future, it is more likely to be a 1994 or 1995 story than one for 1993.

With the new Clinton administration taking office, however, there are likely to be initiatives that respond to longer-term concerns, especially in the labor market. These initiatives will be in areas such as education, training, and health care, all items that go with the campaign slogan of "investing in people." Hence, it is appropriate to consider issues beyond next year's wages and prices along with the short-run inflation outlook. After a brief review of those labor-market issues which received prominence in the Clinton campaign, I will offer three additional suggested areas for public policy initiatives.

I. Recent Price Trends

Figure 1 shows the trend in consumer price inflation over the past decade.[2] Although the unadjusted index shows the volatility associated with oil prices, the so-called "core" rate of inflation - the remainder of the Consumer Price Index (CPI) after food and fuel have been removed - does not show a dramatic or surprising trend. In essence, inflation stayed in the 4-5% range until 1990 when the impact of an overheating economy began to pull the rate above 5% per annum. Thereafter, the impact of the recent period of recession and sluggish growth produced a downward trend, pulling the core rate into the 3-4% range.

The chart also shows the rate of inflation of medical services. Although the recent period of soft economic performance has had an impact on medical inflation, the absolute rate remains substantially above the overall trend. Indeed, it is remarkable that medical inflation in the most recent period could remain around the 7% mark when overall inflation is closer to 3%. Note also that the inflation of the price of medical services is only part of the story of rising medical costs. Increases in real health care services per capita is another part of the health care dilemma of rising costs.

Producer prices (Figure 2) also can be adjusted to produce a core rate of inflation by removing the food and fuel elements. Because producer prices exclude services (including medical services), the Producer Price Index (PPI) for finished goods generally has risen more slowly than the CPI in recent years. However, the unadjusted PPI is more volatile precisely because the stabilizing effect of services are not present. The down-and-up oil shocks of the 1980s and early 1990s are plainly visible. Generally, the recent softness in the economy has decelerated producer price inflation, although the core rate peaks in 1988-89, a bit earlier than the CPI.

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[1] Data cited in this paper refer to information available as of late November 1992.

[2] The data on Figures 1 and 2 are December-to-December inflation rates except for the most recent period.

II. The Trend in Wages

Figure 3 shows two components of the Employment Cost Index: total compensation for private-sector workers and for state and local government workers. Generally, wage inflation exhibited a declining trend until 1987-1988, and acceleration thereafter. Public workers showed a faster rate of wage increase relative to private during much of the 1980s. However, the budget crises experience by many state and local governments, including those here in California, ultimately had a wage-retarding effect.

Public-sector wage increases fell below private in 1990 and have run at about the same rate as private more recently. The two sectors have stopped looking like different worlds. In general, private-sector labor markets came under indirect pressure in the 1980s from such forces as deregulation, exchange-rate changes, and import competition. These forces, however, do not apply so sharply in the public sector. No one has proposed importing government services from Hong Kong - yet. Still, a soft economy produces less tax revenue, budget squeezes, and ultimately wage squeezes on government employees.

While total compensation is a good measure of ultimate employer costs, it is useful to separate out the benefit component from the wage component. Benefits can be influenced by various forces which can make them somewhat volatile, while wage rates behave more like a core inflation rate. As Figure 4 shows, the rate of benefit inflation fell dramatically in the 1985-1987 period and then popped up again.

Some observers have attributed the benefit-inflation dip to temporary success in health care cost containment. Actually, however, it appears that rising returns on pension portfolios produced the dip. With pension assets earning more, employers had to contribute less to meet obligations. Figure 5 shows trends in employer contributions to retirement and insurance (mainly health insurance). As the chart demonstrates, insurance contributions have risen notably faster than total compensation since 1987, while pension costs have been stagnant.

Lower interest rates and government pressure on employers to deal with the over $24 billion in unfunded pension liabilities insured by the Pension Benefit Guaranty Corporation (PBGC) may eventually force up the rate of pension contributions.[3] Rather than face a mini-version of the savings and loan debacle, the Clinton administration might well be inclined to push in that direction.

III. A New Climate in the Union Sector?

Organized labor tied its hopes to the Clinton campaign. The November 9 national AFL-CIO News heralded Clinton's election with the headline "Labor Shares Clinton Victory." Sharing is a relatively modest description. The California AFL-CIO News was less restrained. It declared on November 6 that "Labor Savors Victory" and "Bush Out, Labor In." However, Clinton's victory - while it may change the climate of labor law administration through new appointments to the National Labor Relations Board (NLRB) - is not likely to be the deus ex machina these headlines suggest.

First, as Figure 6 shows, the 1980s saw a major decline in private-sector union membership and in the percent of workers in private employment represented by unions. Just to prevent that ratio from sliding further will require a considerable union organizing effort and resource outlay. With zero organizing, the unionization rate would tend to drop about 0.4% per year due

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[3] The actual unfunded liabilities of private pensions are estimated by the PBGC at over $29 billion, but not all of this amount is covered by PBGC termination insurance.

to layoffs and firm/plant closings. But although there has been some organizing in recent years, there was a marked drop in the intensity of the effort. Figure 7 shows the number of union representation elections and the union "win" rate in such elections. Although the win rate shows only slight cyclical effects, union organizing, as proxied by the number of elections, never recovered from the recession of the early 1980s.

Second, there has been slippage in private unionization in many countries, not just the U.S. This factor suggests that there are forces beyond the immediate American legal climate at work. So called "globalization" is a factor; national labor markets are indirectly affected and destabilized by international competition in world product markets. Such pressures lead employers to seek employment "flexibility" and to avoid unionization.

In principle, it would be possible for the U.S. to follow a policy designed to insulate domestic industries from world market pressures. Perhaps if Perot had been elected, policies along those lines might have resulted. However, Clinton has not given an indication that such insulation is part of his economic package. Indeed, he gave support to the proposed U.S.-Mexico-Canada treaty, despite labor opposition. Even if the treaty were to be derailed in Congress, it is important to recognize that most of the liberalization of Mexican trade is occurring in Mexico. That is, trade barriers in the past were largely on the Mexican side of the border and are now being lifted unilaterally by the Mexican government. It is likely that trade with Mexico will expand, treaty or no treaty.

Third, it is important to recall that even with a Democratic congress and President, union-supported labor legislation is not always passed. A major change in labor law supported by organized labor was defeated under the Carter administration. To obtain union endorsement in the campaign, Clinton - the governor of a right-to-work state - agreed that he would sign a repeal of Section 14b of the Taft-Hartley Act (the section that allows state right-to-work laws) if such a repeal were passed. The last time such an effort was made was under President Johnson, and it failed.

The current priority of organized labor is not repeal of 14b in any case but rather a legislative limit on the right of employers to replace striking workers. Such a law would certainly have been vetoed by President Bush, had he had a chance to do so. However, Congress failed to enact it last summer. It is not clear that will sail through Congress unimpeded in 1993, even in the absence of a veto threat. If there is going to be major legislation in the employment area in 1993, it may well be in areas such as family leave and health care, that is, areas not focused on union-management relations but with a wider public appeal.

It is necessary to be cautious in forecasting union membership trends under Clinton-Gore. Contemporary researchers often point to the prediction that unions would be unable to recover lost ground made the president of the American Economic Association at the bottom of the Great Depression.[4] Just the opposite occurred; unions grew rapidly thereafter in the 1930s and 1940s. Also relevant is the failure of Kremlinologists to foresee the end of the Soviet Union; that experience proved the potential for myopia on the part of experts. A recent strike settlement in the Los Angeles area involving a spontaneous revolt of nonunion, largely Latino drywallers was heralded by a local union official: "If breaking the PATCO (air controllers) strike set the pattern for labor relations during the Reagan-Bush era, this (drywallers') strike could well be the model for labor's comeback during a Clinton-Gore

[4] Cited in Richard B. Freeman and James L. Medoff, What Do Unions Do? (New York: Basic Books, 1984), pp. 243-244.

administration".[5] So perhaps there is a surprise in store for labor-relations experts. But it just isn't obvious based on what is known at present. What we do know is that a Democrat in the White House does not produce instant union membership gains. Under Carter, private-sector union membership was stagnant at best and fell notably as a percent of the workforce.[6]

IV. Union Pay Developments

One place where there has been a reversal of the union-nonunion position is in the pay area in the private sector. During much of the 1980s, union pay adjustments fell below nonunion, as Figure 8 shows. But a switch occurred in 1991-1992 as union pay inflation rose while nonunion pay inflation fell under the influence of the economic slump. Part of this seeming reversal, however, has to do with the long-term contracts which are the norm in the union sector. Many contracts during 1991-1992 were not negotiated under slump conditions, but were settled earlier.

Figure 9 isolates new first-year union settlements, with and without cost-of-living adjustment (COLA) clauses. Both series show a downward trend after the 1990 cyclical peak. Especially responsive were new union settlements in state and local governments. As in the case of general pay (union plus nonunion), state and local union settlements ran ahead of other sectors until government budget crises set off a wave of concession bargaining. Now the most recent data show major settlements in the 1-2% range.

Since California has been especially hard hit by recession, it might be expected that the median union settlement in 1992 was lower than the national median.[7] Figure 10 shows that indeed California union settlements were lower, running about 2% during the first 9 months of the year. If concession bargaining is defined as the prevalence of wage freezes and cuts, Figure 11 shows that it was much more common in California than elsewhere.

V. Upcoming Contract Expirations

The Bureau of Labor Statistics (BLS) estimates that 2.1 million workers in the private sector and 0.7 million in state and local government will be subject to major contract renegotiation in 1993.[8] Early expirations will be in the petroleum and coal mining industries (January). The West Coast longshore contract will expire in June. This negotiation has the potential, should a strike occur, to affect the California economy significantly because of the immediate impact on international trade through California ports. A large contract covering United Parcel employees expires in July. Contracts with the major automobile companies expire in September.

Apart from these expiring contracts, there is unfinished business from

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[5] Sigurd Lucassen of the United Brotherhood of Carpenters quoted in the Daily Labor Report, November 10, 1992, p. A6.

[6] Leo Troy and Neil Sheflin, Union Sourcebook: Membership, Structure, Finance, Directory, first edition (West Orange, N.J.: Industrial Relations Data Information Services, 1985), p. A2.

[7] Figures 10 and 11 are based on data from the Bureau of National Affairs, Inc. and include data for smaller contract units. Figure 9, in contrast, includes only larger contracts as reported by the U.S. Bureau of Labor Statistics.

[8] Major contracts are those covering 1,000 or more workers.

1992. Locally, at this writing, the Los Angeles school teachers are considering strike action in response to budget-related pay cuts. At Caterpillar, the United Auto Workers called off a strike under the threat of replacement and has been working without a contract under Caterpillar's terms.[9]

i. More Government Intervention in Labor Disputes?

An interesting question is the degree to which the Clinton administration will involve itself in individual labor disputes. Under the Reagan-Bush administrations, there was a preference for laisser-faire with regard to labor negotiations with notable exceptions in the case of railroads - an industry in which strikes are still capable of having rapid and dramatic economic impacts - and the air traffic controllers (in which case the federal government was the employer). The Bush administration made a deviation from this hands-off approach in the case of the Pittston coal strike, a dispute which dragged on for months and involved periodic violence.

Despite the Pittston precedent, had Bush won, however, the various contracts up for renegotiation in 1993 - with the possible exception of the West Coast longshore agreement - would probably not have been targets for any special federal intervention. Democratic administrations have tended to be more interventionist than the Reagan-Bush norm. President Carter, for example, attempted (unsuccessfully) to obtain a Taft-Hartley emergency injunction in a coal dispute. And his wage-price guidelines program brought federal scrutiny to other major settlements. But under Reagan-Bush, the Taft-Hartley Act's emergency dispute provisions fell into complete disuse.

Clinton made vague statements in the campaign about the ongoing Caterpillar impasse. Thus, it is quite possible that the new administration will take a more significant role in private disputes, particularly if protracted and bitter strikes erupt. Unlike Carter, however, there will not be anti-inflation wage-price guidelines in force since there is no special inflation threat on the horizon.

ii. Negotiations in 1993.

Soon-to-expire contracts negotiated between the major petroleum companies and the Oil, Chemical, and Atomic Workers in 1990 provided for annual rates of wage increase of about 4.8%, significantly above the inflation rate despite the traditional absence of a COLA clause in the industry.[10] About 32,000 workers are involved. Oil prices jumped several months after these contracts were signed as a result of the Gulf crisis, but have since returned to levels roughly comparable to the levels prevailing at the time of settlement.

Bargaining in the coal industry has been destabilized in recent years as

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[9] Also pending at this writing are two notable situations in the newspaper publishing business. The New York Daily News was rescued from a long strike in which replacement workers were used by British financier Robert Maxwell, only to be cast adrift again in the wreckage of his empire after his mysterious death. It appears that a new buyer has been found and that satisfactory agreements have been reached with most of the unions concerned. Another bitter dispute involving the Pittsburgh Press seems to have reached a similar conclusion. The Press was unable to publish despite an attempt made to put out the paper on a nonunion basis. Purchase by another Pittsburgh newspaper appears now as likely to save the Press. Both of these cases - if the newspapers survive - could be regarded as union victories after a decade in which victories were not the norm.

[10] Source: Daily Labor Report, March 8, 1990, p. B2. The base hourly wage was reported to be $15.18.

employers have attempted to break away from the Bituminous Coal Operators Association and from the pattern established by BCOA and the United Mine Workers. The basic BCOA-UMW agreement (50,000 workers) which will expire in 1993 is a five-year contract which provided for re-openers in 1991 and 1992. A major feature of that contract was a right established for workers covered to obtain certain nonunion jobs at signatory companies which also had nonunion operations. No wage changes were made at re-opener time in 1991, although certain retirement benefits were improved. Wages were also unchanged in 1992. Thus, annualized wage change under the contract was at a below-inflation rate of about 1.3%.[11] Much of the union's energy has gone into shoring up underfunded retirement funds, but recent legislation seems to have assured continued funding and removed a potentially difficult issue from the 1993 negotiations.

The 3-year contract between the Pacific Maritime Association and the Longshoremen's and Warehousemen's union (8,700 workers) which will expire in June provided three increases totaling $2.15/hour on an hourly wage base of $20.33, an annualized increase of 3.4%.[12] Various job-security provisions were also included. As noted, despite the relatively small number of workers involved, a strike could have a disproportionate impact, especially in California.

Contracts expiring between United Parcel Service and the Teamsters (150,000 workers) were originally negotiated in 1990 and provided $1.50 of guaranteed increases plus a capped annual COLA and a lump sum.[13] Assuming a 3% inflation rate in the last year of the contract, the annualized rate of increase of the base wage would be about 3.5%, roughly equivalent to the inflation rate. The Teamsters have a new reform president, Ron Carey, as a result of a court-supervised election; this contract negotiation might foreshadow his approach in 1994 to the National Master Freight Agreement (also 150,000 workers) covering intercity trucking. It might be noted that the 1990 United Parcel contract was ratified by workers against the recommendations of the prior Teamster leadership. The then out-of-power faction of the union to which Carey was affiliated attributed the rejection to an out-of-touch union administration which did not effectively rebut company communications with its employees. Thus, there could be pressure on Carey from this history to achieve a better-than-average settlement at United Parcel.

At the big-3 auto manufacturers, the 1990 contracts which will expire in 1993 followed the 1980s pattern of guaranteed wage increases up front in the first year with lump sums in later years and a COLA clause. If CPI inflation were to run 3% for the last year of the contract, the annualized wage increase over the contract life would be about 3.8% not counting lump-sum bonuses.[14] Thus, workers would have experienced wage increases slightly above inflation. About 277,000 workers are involved at GM,[15] 100,000 at Ford, and 61,200 at

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[11] Source: Daily Labor Report, February 29, 1988, p. B4. The base hourly wage rate has been assumed to be $15.57 based on a shift rate of $124.52.

[12] Source: Current Wage Developments, vol. 42 (October 1990), p. 2.

[13] Source: Current Wage Developments, vol. 42 (November 1990), p. 30; Daily Labor Report, August 23, 1990, p. B4. The base hourly wage was $16.10.

[14] This estimate is made using information on the contract contained in Current Wage Developments, vol. 42 (November 1990), p. 26. Base wages were reported to be $15.75 in 1990. In the calculation of the annualized rate of wage change, a deduction of 14 cents has been made from the estimated COLA payout because of a contractual COLA "diversion".

[15] A parallel contract with the Electronic Workers covers 22,500 workers at GM.

Chrysler.[16]

With mass layoffs and plant closings in the auto industry, especially at General Motors, job security is certain to be a major concern. Adequate funding for various income protection programs is a related concern. Moreover, the Auto Workers are obviously concerned about their perceived vulnerability after the return to work in the Caterpillar strike. The various local strikes at General Motors last summer might be viewed as Caterpillar-related warning signals from the union to the company.

VI. Inflation Jitters and Constraints on Public Policy

Fear of inflation has traditionally put limits on government policies to stimulate the economy. It appears, however, that the limits are tighter now, thanks to developments in the financial marketplace. Figure 12 shows three series: the nominal yield on long-term Treasury bonds, the real yield (using core CPI inflation as the deflator), and the federal budget deficit as a percent of GDP. Although nominal yields have generally fallen, the real yield has shown an uptick as the deficit/GDP ratio has widened.

There are two possible explanations for this uptick. One is a simply flow-of-funds rationale; more bonds to be absorbed require a higher yield to induce investors to hold them. But the second is that investors fear that lack of progress in controlling the deficit will itself be inflationary. Such an explanation would raise the real yield as calculated on the chart using today's relatively low inflation rate. Investors might have a higher long-term inflation expectation than the current inflation rate.

No one can really say which explanation is the correct one. But since there is a reasonable chance that inflation jitters are a factor in recent bond yield developments, limits are placed on stimulatory policies that can be enacted. These limits are reinforced by the recent indications that the economy is expanding anyway and that unemployment will fall of its own accord. Inflation jitters are, therefore, anti-inflationary since they limit the possibility that stimulatory policies sufficient to overheat the economy will be enacted.

In short, it is hard to tell stories that would bring the pay inflation rate (total compensation) or the (core) price inflation rate much out of the 3-4% range.[17] When the recession was first on the horizon, there was a pile up of surplus labor and a drop in productivity, as Figure 13 shows. Then productivity stabilized and grew at a healthy rate, thus taking pressures off unit labor costs. These developments do not presage a wage-price spiral for 1993. Obviously, Middle East crises could send oil prices up and financial panics could send the dollar down. But such developments are not subject to forecast.

VII. Longer-Term Issues

The Clinton campaign highlighted the theme of "investment in people" and

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[16] These figures are subject to downward revision due to layoffs in the auto industry.

[17] Employers who rely on surveys by consulting organizations of projected wage change may find this estimate surprisingly low. Unfortunately, most such surveys include the gross cost of merit increases in the estimates, a procedure which can bias up the figures by 1-2 percentage points. Thus, such surveys are typically predicting seemingly higher rates at present. The Conference Board, for example, predicts 5% for salaried, nonexempt employees; Hewitt Associates predicts 4.6%. Both these estimates are compatible with the 3-4% prediction in the text, once the merit problem is recognized.

particularly mentioned the areas of education and training and universal health care insurance coverage. In addition, Clinton promised to sign a previously-vetoed bill providing mandated family and medical leaves up to 12 weeks (except at small employers). Except for that bill, however, the details of these programs are not yet clear at this writing.

i. Training and Education.

According to the Clinton campaign document "Putting People First," worker training will be encouraged by requiring employers to spend 1.5% of payroll on training. This proposal - based on European examples - will require careful definition and monitoring if it is to have a significant impact. That is, the definition of training will have to be laid out in a manner which can be audited for compliance. Many activities in firms could be labeled "training" including routine orientations for new hires. Costs might be attributed to the learning curve new workers experience on the job, i.e., lower productivity until they get up to speed. A too-liberal definition of training might thus have little impact. A very strict definition might be burdensome, although in the long run the incidence of the costs of payroll taxes and similar expenditures tend to fall on wages. In short, the "meat" of the required-training program will be in the details, not the concept.

Apart from job-linked training, there is the continuing concern about the state of American education, especially at the high-school level, and about the transition from school to work. As Figure 14 shows, when measured by Scholastic Achievement Test (SAT) scores, high schools are not functioning effectively. However, one of the difficulties of diagnosing the problem is that our measurements of it are not very good. Educational experts point to the changing pool of SAT test takers as at least part of the explanation of recent poor measured performance. "Putting People First" speaks of national (standardized) exams and "tough standards". Since education is primarily in the hands of state and local governments, developing reliable statistical measures of performance could be an important federal contribution. And unlike other proposals, it need not involve a substantial budget outlay. Data on educational outcomes need to be provided in such a way that adjustment for demographics and tracking over time will be possible.

ii. Health Insurance.

As Figure 15 shows, about 13% of the population (30.8 million) has no medical insurance. Almost all such persons are under age 65 since Medicare provides coverage to practically all elderly individuals. Of those with health insurance, 89% have private coverage (including some with public and private coverage). And of those with private coverage, 81% have their coverage through an employer. They are either covered as employees or as dependents of employees. Put another way, health insurance through the employment relationship already covers 71% of the population which has insurance from any source; the figure rises to 77% when confined to those under 65 (and generally not Medicare-eligible).[18] Hence, the notion of extending employer-provided coverage to soak up most of the uncovered population has proven attractive.

But as in the case of the mandated-training proposal, the details of how this extension is to be made are critical. First, adding more coverage by itself could increase medical inflation. Employers have been pre-occupied with health care cost containment for a decade. But the results of their efforts have not been dramatic. This lack of success is not surprising; why should we expect employers who are expert in producing goods and services for their customers also to be expert in complex medical matters? Thus, any

[18] As Figure 15 shows, 62% of the entire population had job-related health insurance in 1988.

proposed extension of coverage must contain cost-restraining devices, a proposition easy to state but difficult to implement - especially if the nastier aspects of rationing are to be avoided. Reliance on employers alone to hold down costs will not work.

Second, for a decentralized, privately-run system to operate on a unified basis, there will need to be complex mechanisms of transfer payments or other types of risk pooling between insurance carriers (and self-insured employers). Otherwise, costs per employee will vary depending on workforce characteristics, a particular problem for small employers. Issues such as denial of coverage for "pre-existing" conditions need to be addressed by spreading the risks around. Each employer must effectively pay the cost for an "average" employee, even if its workforce is above or below average in risk.

Third, there are numerous problems involving coverage of part-timers, the self-employed, people who change jobs often, people who drop out of the labor force for long spells, and people not in the labor force at all and who are ineligible for coverage as dependents. All of these issues must be addressed eventually if universal coverage is to be achieved. All of them have the potential to create strong opposition among health providers, insurance carriers, and employers. Reforms in this area will not be simple and may have to be enacted in stages.

VIII. Three Proposals in the Employment Area

Due to a variety of economic forces, employees are increasingly being requested to "participate" and to "cooperate" at work while at the same time the employment relationship (and job security) is becoming more tenuous. There is an obvious contradiction here. Workers are being asked to enhance performance, but their compensation does not necessarily provide any share of the potential gains. As job security erodes, the incentive to assist in productivity enhancement also declines (since productivity improvements may lead to employee displacement). In the union sector, in particular, pressures by management for "flexibility" and cost saving have led to bitter strikes, which do not improve the labor-management climate. How can these contradictory forces be resolved?

In what follows, three suggestions are put forward as public policy recommendations for the new administration. These are 1) increased use of profit sharing and related pay systems to add flexibility and encourage job stability, 2) encouragement in the union sector of interest arbitration as an alternative to the strike/lockout as a dispute resolution device, and 3) an effort to define what is - and what is not - included in the employee-employer contract through an updated version of the post-World War II White House labor-management conference called by the Truman administration.

i. Flexible Pay and Employee Financial Participation.

In recent years, those who have written, discussed, or promoted various forms of labor-management cooperation have usually had in mind employee involvement in decision making. Such programs vary from old-fashioned suggestion boxes to quality circles and employee involvement committees, and to the few American examples of worker representation on corporate boards. However, if employees are to play a role in enterprise management, the pay system should provide elements of financial participation often associated with managers. Specifically, corporate performance should be reflected in pay. Additionally, job stability is an important element in eliciting worker cooperation and the pay system should encourage such stability.

A variety of pay schemes over the years have geared pay to individual, group, or company performance. These range from individual piece rates and commissions, to group "gain sharing" plans, and to profit sharing and employee stock ownership. All of these arrangements stand in contrast to the fixed-wage-per-unit-of-time-worked systems conventionally in use. However, not all of these plans are equally worthy of public policy intervention.

Piece rates and commissions need no special encouragement. They are adopted in circumstances when their use is deemed most effective according to micro-level conditions. However, profit sharing and certain forms of gain sharing have a claim on public resources since their benefits include macro-level positive externalities. The potential job stability they can engender at the micro level would help provide a more stable macro environment.

Systems of employee participation in management, along with the general climate of labor-management cooperation, are enhanced by job security and stability. However, under the widely-used fixed wage system, employers adjust to downward pressures in the product market by layoffs. Generally, pay is relatively sluggish in adaptation; employment is the major source of employer flexibility.

Profit sharing can be used as an employment stabilizer since profitability - and hence the profit-related component of pay - is likely to be linked to product market conditions. Pay will rise in good times and decline in bad, potentially allowing less employment variation and greater job security. Some economists, in addition, believe that profit sharing has an employment-expanding (job creating) effect, through a reduction in the marginal cost of hiring.

Public Policy Implications: At present, deferred profit sharing (under which the bonus is placed in a trust fund, typically for retirement) receives the same tax benefits as other forms of pensions. Essentially, employer contributions are not subject to employee income tax when paid into the fund, although the contribution is immediately deductible from corporate income taxes. Tax liability for the employee is deferred until receipt. There is no tax benefit at all to cash profit sharing or gain sharing plans under which the bonus is paid directly to the employee.

The tax treatment of profit sharing needs to be changed to give both types of profit sharing, cash and deferred, roughly equivalent advantages. At the same time, the definition of profit sharing must be narrowed to include only plans which link bonuses to a specific formula. Unfortunately, at the present time, many plans offered as "profit sharing" need have no relationship to profits. Employers may adopt such "profit sharing" plans merely to escape the more rigorous regulation of pensions. **True profit sharing plans should also be encouraged by such agencies as the Federal Mediation and Conciliation Service and the U.S. Department of Labor.** Gain sharing plans, which often are essentially plant or division profit sharing, should receive the same advantages as profit sharing.

Since the mid 1970s, Employee Stock Ownership Plans (ESOPs) have received a variety of tax advantages. Yet the evidence that they substantially enhance productivity, stabilize employment, or even "share the wealth" is weak at best. ESOPs have often been adopted as financial devices or as tools in corporate takeover fights. **Reducing tax advantages to ESOPs could provide resources for enhancing those currently given to genuine profit sharing plans.**

Finally, **the data collection efforts of the U.S. Bureau of Labor Statistics (BLS) with regard to all forms of flexible pay should be enlarged.** Currently, there are no overall data on the use of piece rates, commissions, and gain sharing. Some information on profit sharing is collected, but it is nowhere near as detailed as that provided for pensions. Information on ESOPs from the BLS seems inconsistent with claims made by ESOP advocates concerning the supposed widespread use of ESOPs. An effort needs to be made to reconcile the divergent estimates so that intelligent policy can be made.

ii. Dispute Resolution Procedures.

There has long been a paradox in union-management relations: Virtually all union contracts feature so-called "rights" arbitration as the final step of the grievance procedure. In most cases, a private arbitrator is hired to make a legally-binding decision when grievances arise over contract interpretation. As a result, grievances arising under existing contracts are usually resolved without a strike. In sharp contrast, arbitration is rarely used to settle private-sector "interest disputes," essentially disputes over the negotiation of new contracts when old ones expire. Strikes and lockouts become the major devices available to settle private interest disputes if impasses develop.

It is commonly asserted that strikes are rare and that, therefore, fostering alternatives to the strike is not an important public policy objective. This assertion is extremely misleading. First, those who make it often point to the small amount of working time lost to strikes. But since most of the private sector is now nonunion, most working time is effectively not subject to strike activity. Second, strikes in the large contract sector, the sector in which individual contracts may cover thousands of workers, are not negligible in frequency. They occur often enough to make employers averse to collective bargaining. Such strikes can also attract considerable media attention, putting the public focus on the frictions and tensions in union-management relations. The overall labor-management climate is not enhanced by the kind of disputes that have occurred in recent years at firms such as Caterpillar or Eastern Airlines.

Those who object to interest arbitration usually argue that arbitrators will split-the-difference between the parties, thus discouraging genuine pre-arbitration negotiations. But the academic literature suggests that this interpretation is naive and incorrect. Moreover, remedies for the problem, if it exists, are available. Final-offer arbitration, in which the arbitrator must choose the offer of one side or the other and cannot compromise, is an example.

Another anti-arbitration argument that has been made over the years is that arbitrators will not understand the nuances of the labor-management relationship and will therefore make "bad" decisions. This argument is most peculiar, given the fact that the same parties are willing almost universally to trust arbitrators to handle rights disputes (grievances). If arbitrators can understand the nuances when making decisions on grievances, why would they suddenly become ignorant when interest disputes are involved?

Public Policy Implications: At present, the 1947 Taft-Hartley Act contains language [Sec. 201(b)] providing only general encouragement for "voluntary arbitration." In practice, the role of the Federal Mediation and Conciliation Service (FMCS) is confined to offering mediation and to providing lists of private arbitrators (mainly for rights disputes). **Public policy should be proactive in encouraging interest arbitration.** An absolute mandate would be inappropriate but fostering interest arbitration is a worthy goal.

First, the FMCS and U.S. Department of Labor should facilitate training in the practice of interest arbitration, both for arbitrators, potential arbitrators, and for union and management representatives. There are various forums through which such training could occur, notably the many industrial relations centers at universities around the country. Groups such as the American Arbitration Association and the National Academy of Arbitrators should clearly be involved.

Second, proposed changes in labor law dealing with striker replacements should be accompanied by strong encouragement for use of interest arbitration. In fact, the AFL-CIO agreed to language along these lines when the striker replacement issue was before Congress in June 1992. Under the so-called Packwood proposal, the FMCS would offer to establish panels to hear disputes. If the union rejected the offer, or if it rejected the recommendation of the panel, the employer would be free to replace strikers. Similar language should be included in whatever new legislation is adopted. While technically, the panels were described as fact-finders, the proposal is close to interest arbitration and should be pursued.

iii. A White House Conference on the New Employment Relationship.

In 1945, a special White House Labor-Management conference was called to pursue an improved industrial relations climate. Union membership had expanded rapidly during the prior decade and a wave of strikes had followed the dismantling of wartime wage controls. Although unions and employers disagreed more often than they agreed, the conference did put before the public the major labor relations issues of the future. It also produced agreement on the (good) idea of encouraging grievance arbitration.

At the present time, more is at issue than just union-management relations. Indeed, because the large majority of workers are now nonunion, the issues today revolve around more generic issues of job security, health benefits, family leaves, use of contingent workers, training, etc. At the same time, there are symptoms that the status of the employee-employer contract is increasingly uncertain and under strain.

Litigation surrounding the employment relationship has increased, notably in the wrongful-termination field. Workers' compensation and equal employment opportunity - programs originally designed to meet very specific objectives - seem increasingly to be used as external grievance procedures. In part because of the decline in the coverage of collective bargaining, employees often see a need to regulate the employment relationship through legislative means, e.g., proposals for mandated family leaves and health insurance or the already-passed requirements for 60 days' advance notice of mass layoffs and plant closings. Employee voice will be expressed through legal and legislative channels if other means are not available. The American employer community has not understood this consequence of declining unionization and is puzzled and upset by the legal/political climate.

Generally, the product markets in which American employers operate have become less stable over the past two decades. Sources of the instability include deregulation (in transportation, communications, utilities, and financial services), flexible and volatile exchange rates (affecting all industries which are export-oriented or import-competing), and the spread of technology to low-wage exporting countries. Also destabilizing the employment relationship are shifts in technology which appear to be favorable to smaller - and less stable - employers, pressures from the "market for corporate control" and corporate restructurings, and the greater scrutiny by financial markets concerning the firms in which investments are held.

American employers (and employers in other countries as well) have reacted to the uncertain economic climate by changing human resource policies toward less commitment <u>to</u> employees. Phenomena such as the "white-collar recession" and the dropping or diminution of health insurance for retirees are symptomatic of an employer retreat from guarantees and security for workers at all occupational levels. Unions are viewed as potential sources of inflexibility and, hence, are avoided by employers where possible. At the same time, employers want more commitment <u>from</u> employees in the form of cooperation and flexibility. Where unions exist and cannot be dislodged, employers often press for cooperative relations. There is an obvious contradiction between these two developments. How can more commitment from employees (and unions) be expected when there is less commitment by employers to them? Aggravating the contradiction is the aging of the baby boom; older workers generally will want more job security at a time when the labor market is offering less.

At present, the U.S. has adopted a piecemeal approach to these issues: the use of litigation and item-by-item legislation to resolve each new point of tension in the changing employment relationship. Public policy would be assisted by focusing on the larger issue of what the new employment contract should contain. Should there be due process procedures for employee terminations? If so, should courts decide such cases or should internal nonunion arbitration systems be encouraged? Should the U.S. continue to depend heavily on the employment relationship for social welfare functions such as retirement income, e.g., company pensions? Or should either government or the individual be the primary unit for such functions, e.g., Social Security or Individual Retirement Accounts? If job changing (voluntary and involuntary) is becoming more common, what will become of employer-provided training systems? Will employers invest in their employees if the employment relationship may not last long enough for the investment to be recouped? What then is the role for the formal education system in providing worker skills?

Public Policy Implication: To address such issues, **a White House Conference on the New Employment Relationship should be called.** Participants would include employer representatives (including representatives of small businesses), union officers, government officials, educators and academics, and others in the employment field (representatives of employment agencies, temporary employee supply firms, etc.). While it is difficult to provide for direct representation of employees at such an event, surveys of worker opinion and expectations could be undertaken in advance of the conference. A survey data base would thus be available to conference participants and the general public.

The purpose of such a conference would be major recommendations concerning issues relating to job security, employee benefits, due process at work, acquisition of training, union-management relations and other areas which are affected by the changing employment relationship. Full agreement cannot be expected on all issues. But as in the case of the 1945 conference, at least the larger picture will emerge and the major questions will be on the table.

IX. Summary

The bottom line for the short-term in terms of inflation - as noted at the outset - is that 1993 is not going to be a year in which inflation is a central concern. Barring an exogenous event such as a Middle East oil crisis, the economy is unlikely to heat up fast enough to trigger an inflationary outburst. For the longer term, a variety of initiatives in such areas as health care, education, and training were proposed in general terms in the Clinton campaign. The key to success or failure in these initiatives will lie in the details, which at this writing have not been laid out.

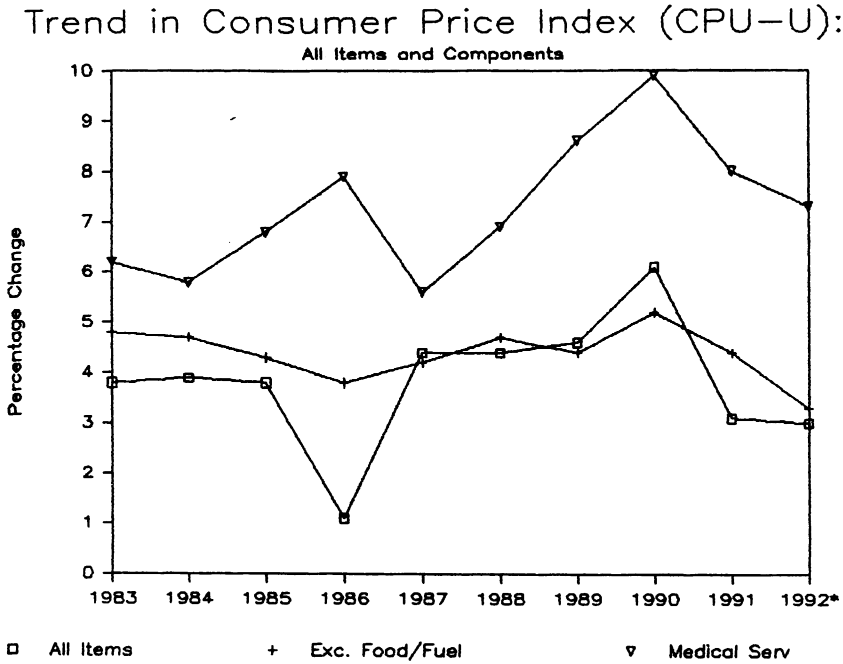
In addition to those matters which received substantial campaign attention, three other suggestions for labor-market policy are worth considering. These are:

*Provision of equivalent tax incentives for cash and deferred profit sharing and similar pay systems to reward employee participation in management and to enhance job stability and security.

*Encouragement of the use of interest arbitration as an alternative to the strike to settle labor disputes. Linkage of interest arbitration to proposed legislation limiting replacement of strikers.

*Calling a White House Conference on the New Employment Relationship to examine the conflicting pressures on employers and employees. Consensus may not be reached on all matters at such a conference but at least the issues for public policy in the labor market will be clarified.

Figure 1

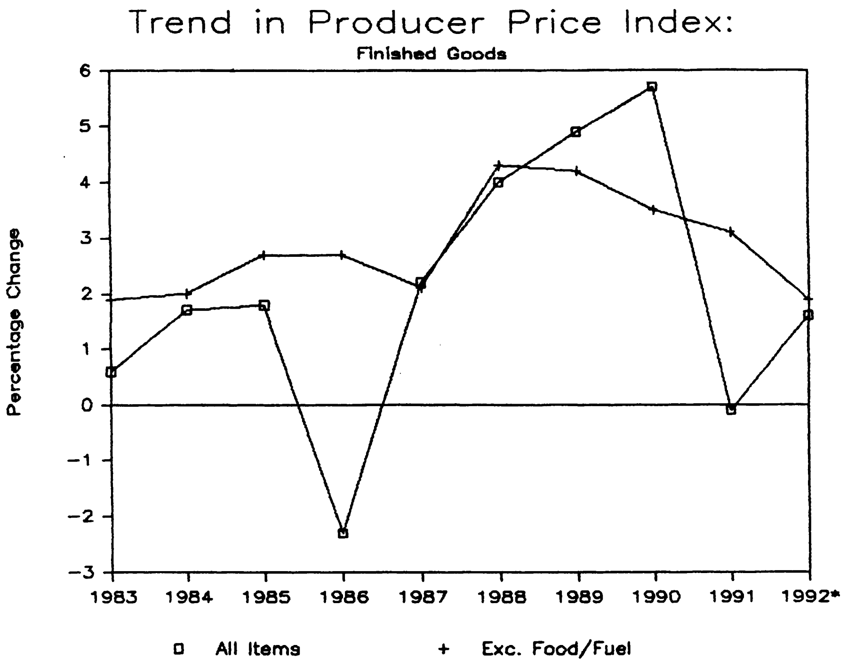


Source: U.S. Bureau of Labor Statistics

*Twelve months ending September 1992.

cpi.pic

Figure 2

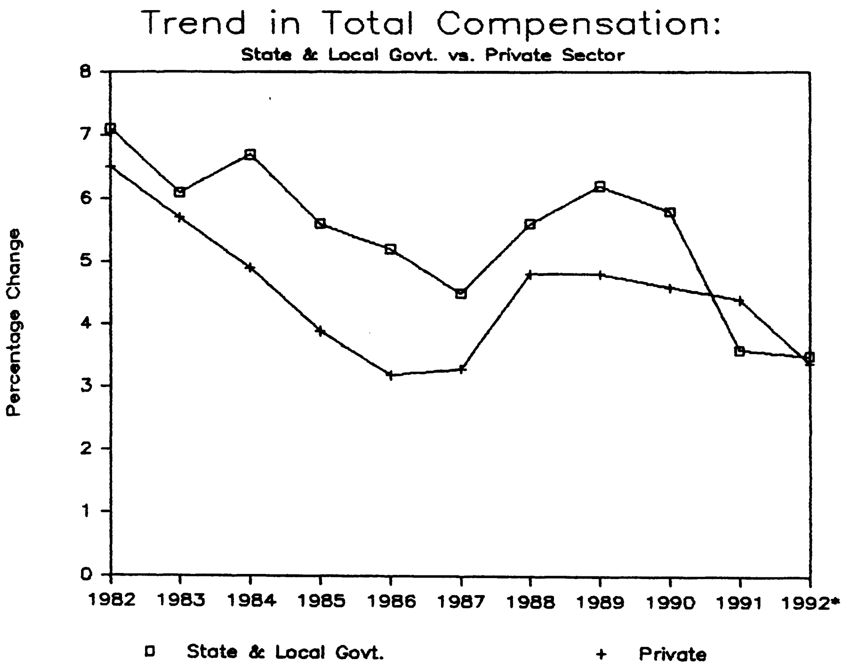


Source: U.S. Bureau of Labor Statistics

*Twelve months ending September 1992.

ppi.pic

Figure 3

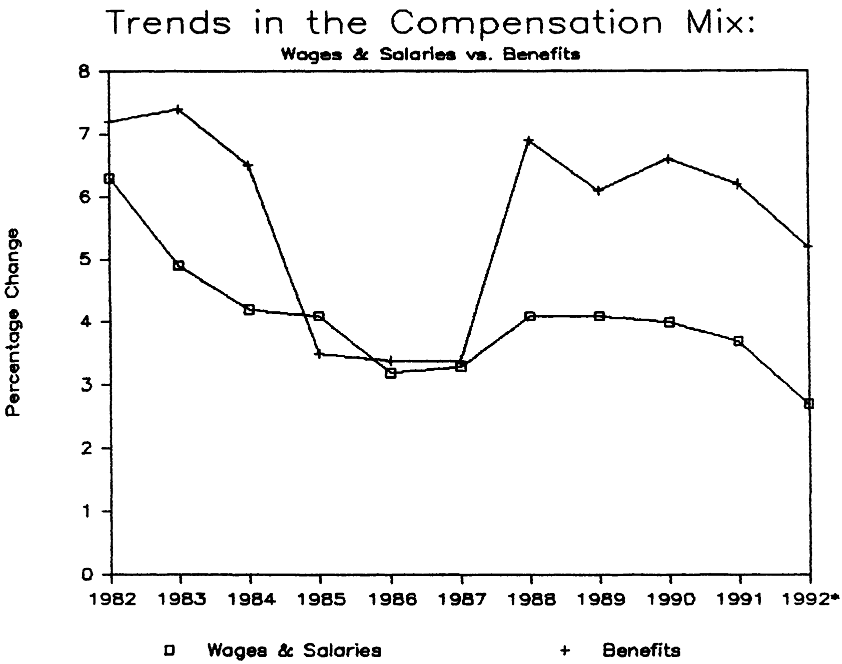


Source: Employment Cost Index of U.S. Bureau of Labor Statistics

*Twelve months ending September 1992.

s&lpvt.pic

Figure 4



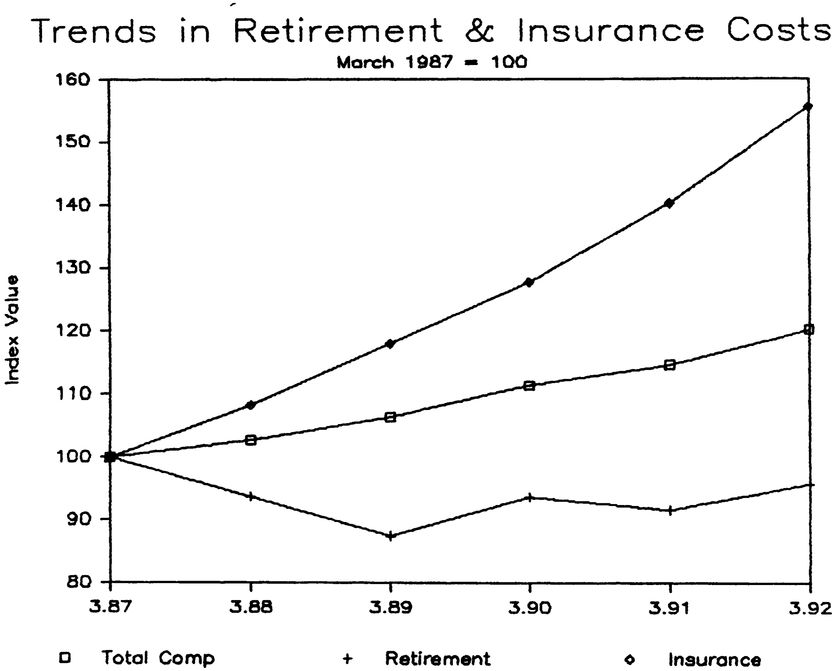
Source: Employment Cost Index of the U.S. Bureau of Labor Statistics

*Twelve months ending September 1992.

Note: Data refer to private sector.

benefits.pic

Figure 5

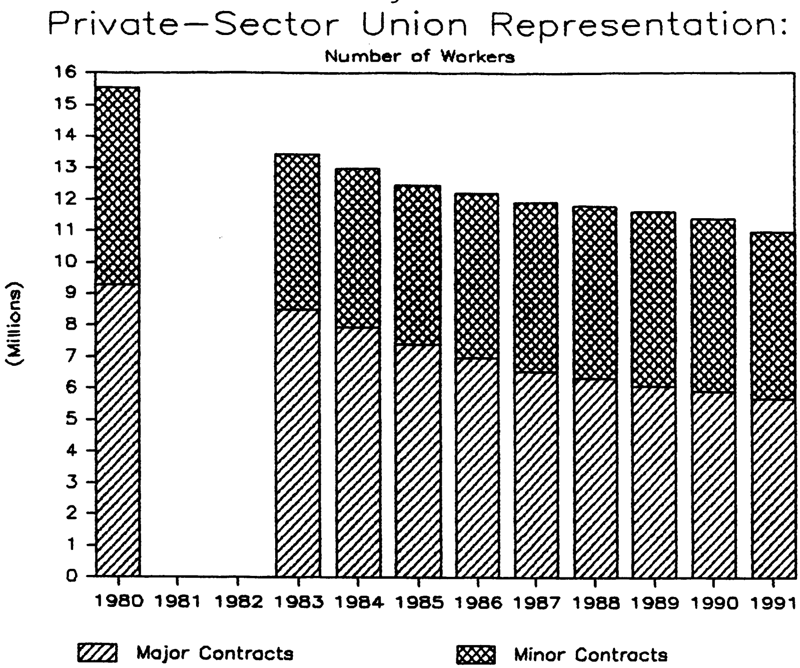


Source: Employer Costs for Employee Compensation survey
of U.S. Bureau of Labor Statistics

Note: Data refer to private sector.

insur.pic

Figure 6

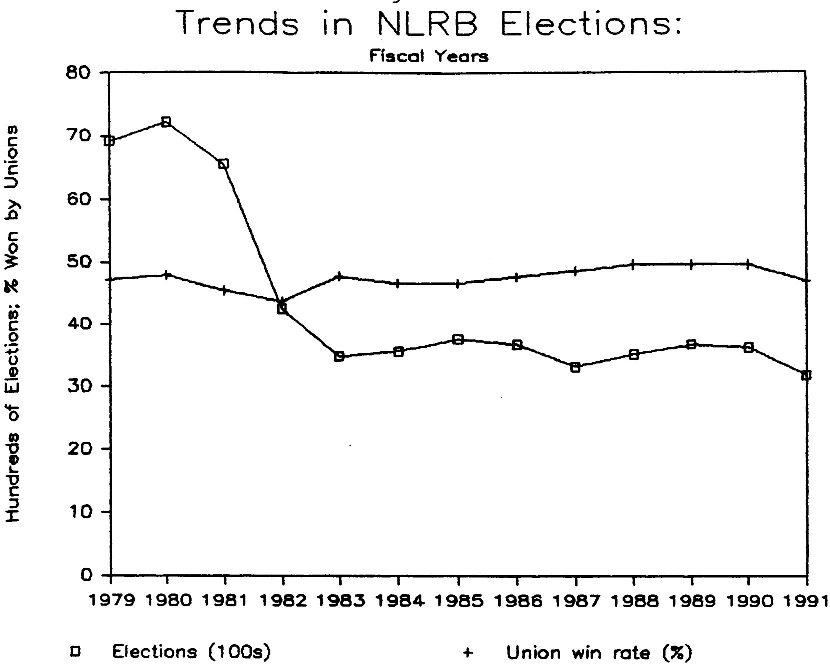


Source: U.S. Bureau of Labor Statistics

Note: Major contracts are those covering 1,000 or more workers. Minor contracts are all other contracts. Minor contract representation is estimated by subtracting major representation from total union representation in the private sector as reported in the Current Population Survey.

member.pic

Figure 7

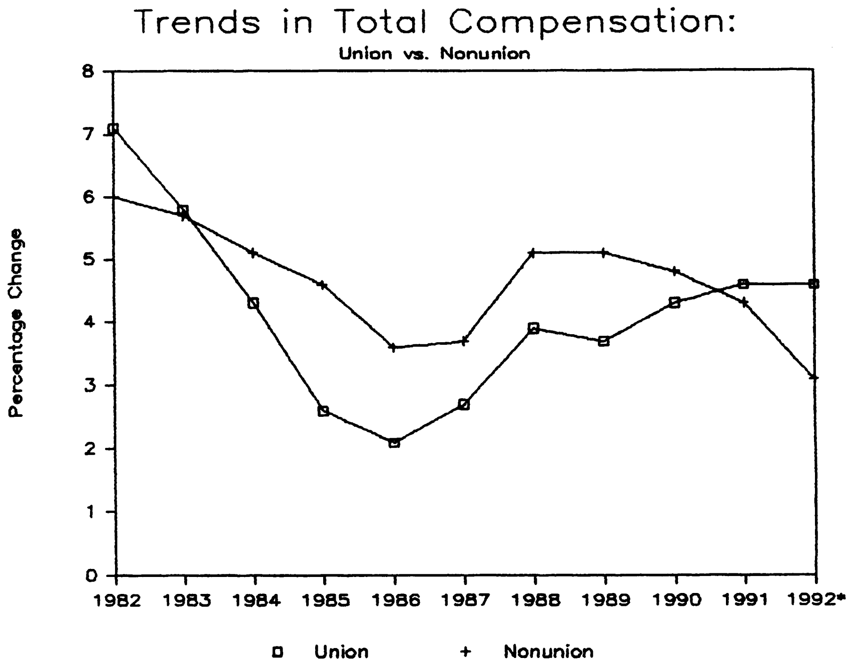


Source: National Labor Relations Board

Note: Data refer to representation elections only. Decertification elections are not included.

nlrb.pic

Figure 8



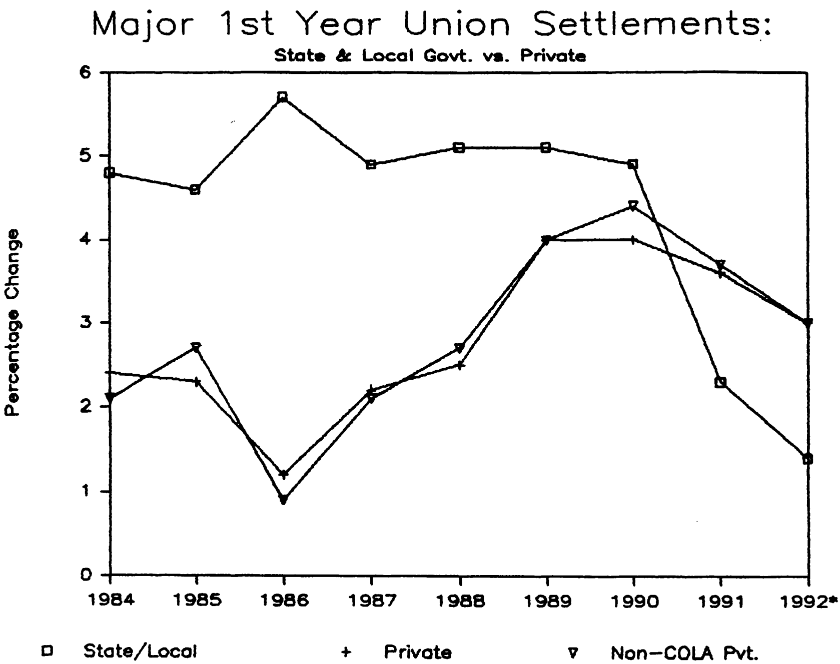
Source: Employment Cost Index of U.S. Bureau of Labor Statistics

*Twelve months ending September 1992.

Note: Data refer to private sector.

union.pic

Figure 9

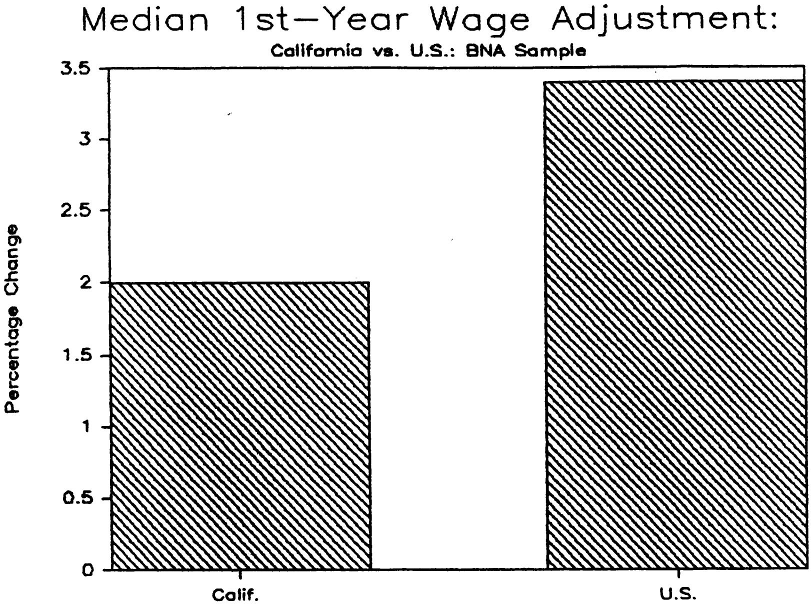


Source: U.S. Bureau of Labor Statistics

*For state and local settlements, first 6 months of 1992. For private and private-non-COLA settlements, first 9 months of 1992.

major.pic

Figure 10

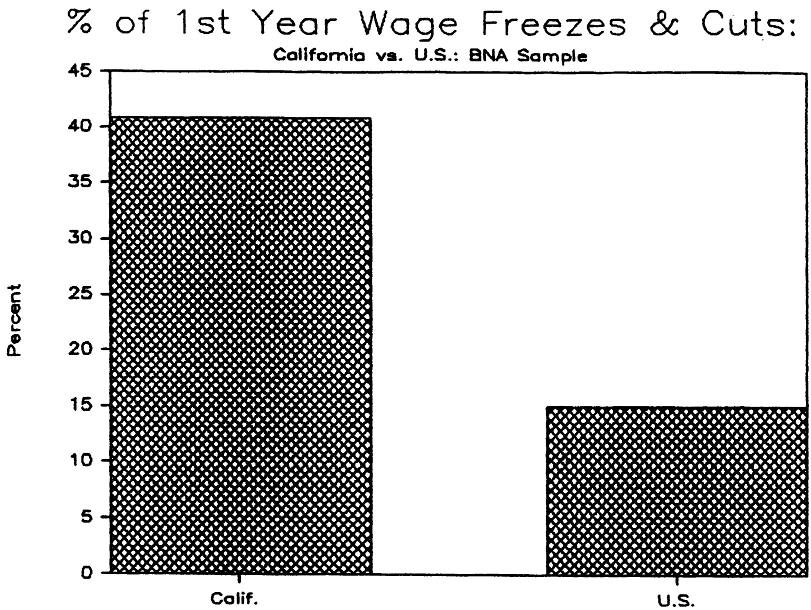


Source: Bureau of National Affairs, Inc., Daily Labor Report, various issues.

Note: Data refer to the first 9 months of 1992.

calmed.pic

Figure 11

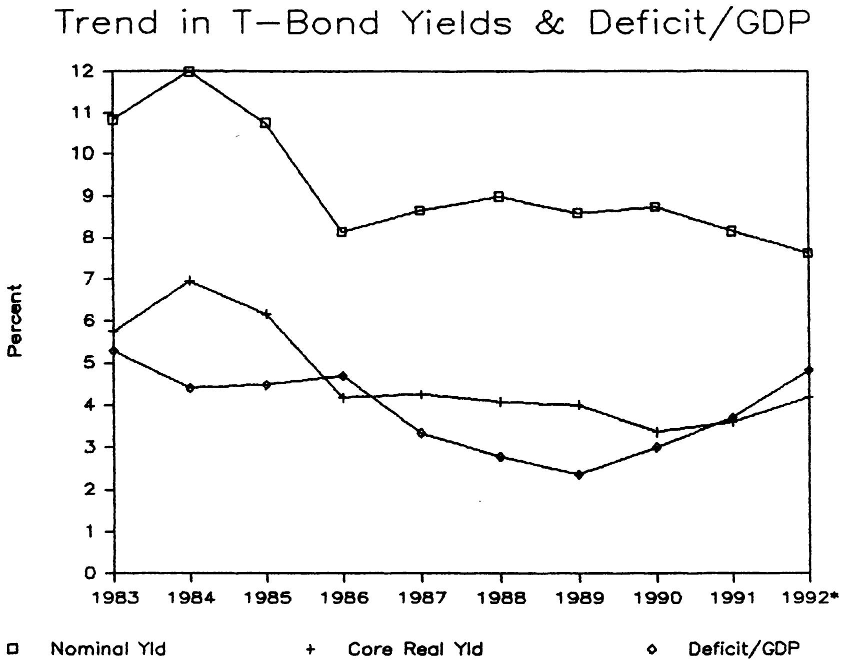


Source: Bureau of National Affairs, Inc., Daily Labor Report, various issues.

Note: Data refer to the first 9 months of 1992.

calconc.pic

Figure 12

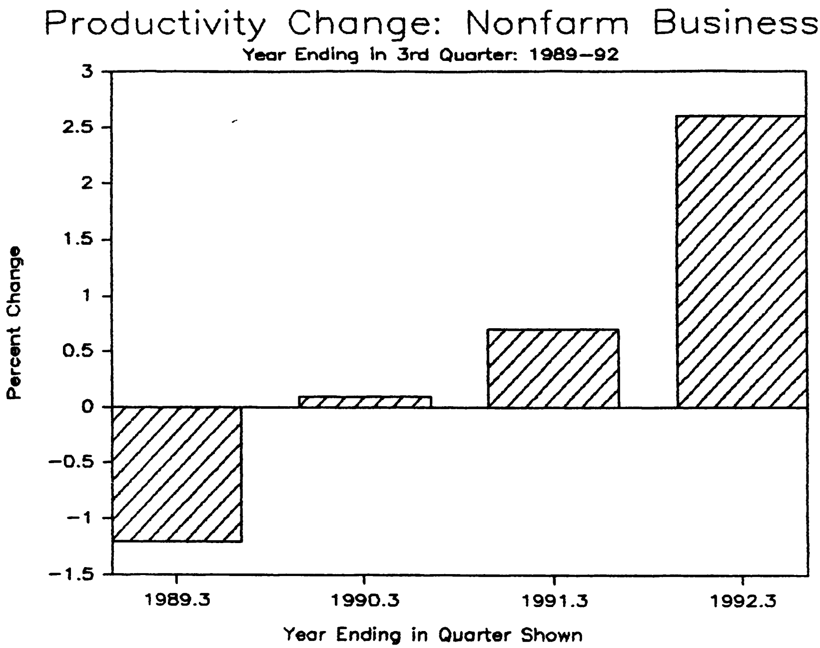


Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics

*Year ending 1992-III. Deficit/GDP is an estimate.

yield.pic

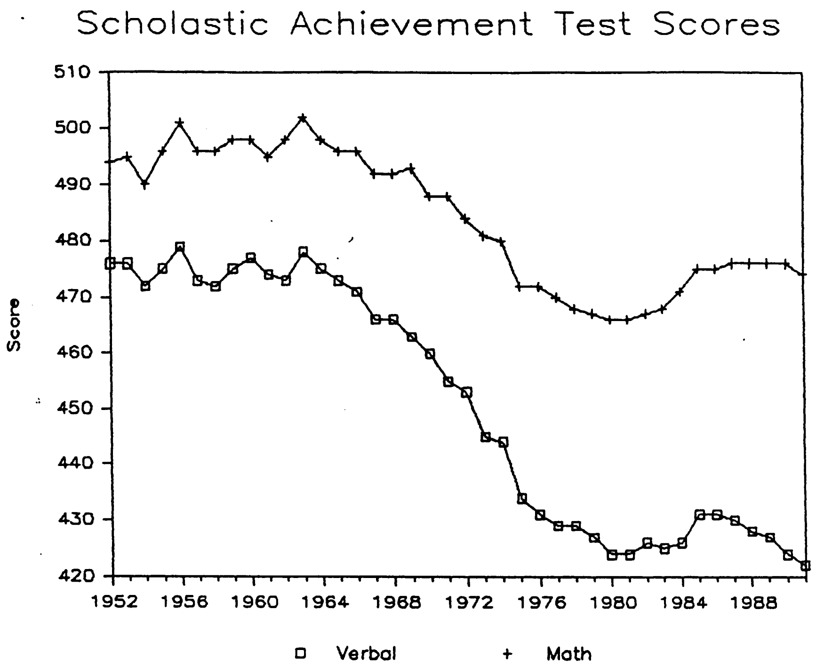
Figure 13



Source: U.S. Bureau of Labor Statistics

prod.pic

Figure 14



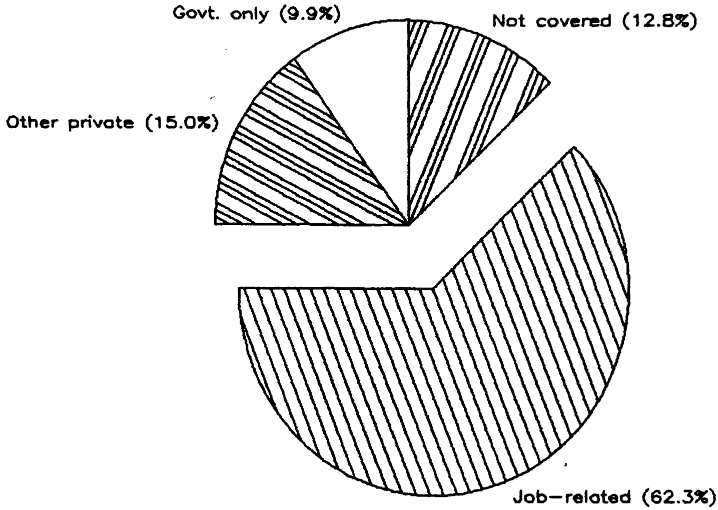
Source: Educational Testing Service

sat.pic

Figure 15

Health Insurance Coverage

of the U.S. Population: 1988



Source: U.S. Bureau of the Census, Statistical Abstract of the United States: 1991 (Washington: GPO, 1991, p. 100.

Note: Many individual who have government-provided health insurance also have private coverage. This is especially true for Medicare recipients who often buy supplementary private policies. Such persons are not included in the "govt. only" category.

health.pic