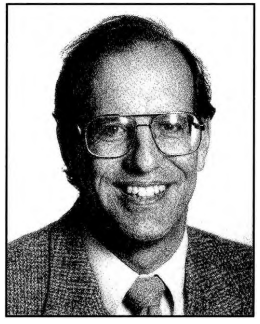
"We encourage the creation of expanded forums for employee and union voice in business decision making, a broadening of the bargaining agenda, and the creation of broader problem-resolution procedures that would supplement the grievance procedure."



Harry C. Katz is the Jack Sheinkman Professor of Collective Bargaining at Cornell's ILR School, where he also directs the Institute of Collective Bargaining. Among his books are *The Transformation of American Industrial Relations* and *Telecommunications: Restructuring of Work and Employment Relations Worldwide.*

David B. Lipsky is Professor of Industrial and Labor Relations at Cornell's ILR School, Director of the Cornell/PERC Institute on Conflict Resolution, and Director of the Cornell University Office of Distance Learning. His books include *Strikers and Subsidies: The Influence of Government Transfer Programs on Strike Activity.*

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Harry C. Katz and David B. Lipsky

THE COLLECTIVE BARGAINING SYSTEM IN THE UNITED STATES

The Legacy and the Lessons

"Allow me, Mr. Mayor, to interrupt you with a question," said K. "Did you not mention once before a Control Authority? From your description the whole economy is one that would rouse one's apprehensions if one could imagine the Control failing."

"You're very strict," said the Mayor, "but multiply your strictness a thousand times and it would still be nothing compared with the strictness that the Authority imposes on itself. Only a total stranger would ask a question like yours. Is there a Control Authority? There are only Control Authorities. Frankly, it isn't their function to hunt out errors in the vulgar sense, for errors don't happen, and even when once in a while an error does happen, as in your case, who can say finally that it's an error?"

"This is news indeed!" cried K.

—Franz Kafka, *The Castle*

From World War II to the 1990s, the collective bargaining system in the United States evolved through two epochs. The first, which lasted from the end of war to the late 1970s, saw the construction and consolidation of what one of us (and his coauthors) has called "the New Deal system of industrial relations" (Kochan et al., 1994). During the second era the New Deal industrial relations system came under severe pressures and it began to be fundamentally transformed. The transformation is still occurring, and we cannot say if or when a new equilibrium will be established.

This essay examines and evaluates the evolution of collective bargaining in the United States between 1945 and 1997. We have a central theme—an hypothesis—that guides our examination. We believe American collective bargaining has been very adept at resolving workplace problems—what might be termed "micro" problems such as individuals' complaints (in unionized settings). On the other hand, collective bargaining in our society has never been adept at (or has been excluded from) dealing with "macro" problems. We have in mind two categories of macro problems. The first is "macro-organizational," by which we mean the issues and concerns associated with the man-

The authors gratefully acknowledge the able research assistance of Scott Bouer and the very helpful suggestions provided by Jean McKelvey and Maurice Neufeld.

agement of the organization or enterprise. The second is "macroeconomic," and we have in mind especially the relationship between the industrial relations system and the macroeconomy.

At the micro level of American industrial relations, a highly effective system of "industrial jurisprudence" evolved over several decades, eventually covering almost all of the unionized segments of American industry in the 1940s and early 1950s (Chamberlain and Kuhn, 1965; Slichter, 1941; Lieserson, 1938). Especially after World War II, well-defined grievance procedures and voluntary grievance arbitration provisions were incorporated in the vast majority of collective bargaining agreements. In addition, unions and employers negotiated detailed provisions—what Dunlop termed "a web of rules"—controlling workplace decisions (Dunlop, 1958).[1] Managers and supervisors still retained the right to make the key decisions, but increasingly their flexibility was constrained by contractual regulations and, ultimately, by arbitral authority.

At its best the American system of industrial jurisprudence not only guarantees fair and equitable treatment of employees, it contributes to the efficient and effective operation of the enterprise (Freeman and Medoff, 1984). But there was a dark side. As the system grew stronger after World War II, it grew more legalistic, more formal, more arcane. For many rank-and-file employees the system became nearly impenetrable, impossible to understand, another bureaucratic mechanism designed to frustrate, not serve them. The union hierarchy was often as bureaucratic and rigid as the corporate hierarchy. Collective bargaining contracts, some as long as three hundred pages, were written for lawyers and by lawyers. For many ordinary employees, dealing with union and management officials was often akin to dealing with the Department of Motor Vehicles or the Internal Revenue Service. At its worst, the industrial relations system was a Kafkaesque nightmare, an unending series of control authorities that never admitted error.

All the while the system of industrial jurisprudence was being elaborated, refined, and perfected, critical macro problems went unattended. The American economy lurched from recession to prosperity to recession, and American manufacturers, battered by foreign competitors, retrenched and retreated. The financial declines suffered by heavily unionized industries had dire consequences for unions and their members, but by and large unions were prevented from being involved (or chose not to be) in management's efforts to prevent catastrophe. Collective bargaining guaranteed workers fair treatment on the job—up until the day the plant closed. Grievance and arbitration cases were often hotly contested—even after the firm declared bankruptcy. Unions received a flow of dues through contractual union security clauses while union representation across the economy declined seemingly inexorably. It looked as though the parties were often arguing over how to arrange the deck chairs on the *Titanic*.

This essay is organized in the following fashion. In the next section we reach back to 1945 and the birth of the postwar system of industrial relations. That year, in the very same month the ILR School was founded, President Truman convened a National Labor-Management Conference in Washington. We examine the debates at that conference because they provide a prism through which we can view the shaping of the postwar system. We then consider the evolution of the New Deal collective bargaining system with special attention to three key features of the American collective bargaining system: the right to strike, the grievance arbitration procedure, and decentralized bargaining structures. We examine each of these features to better understand the strengths and weaknesses of American collective bargaining.

Then we focus specifically on the contemporary period—the 1980s and 1990s—and briefly review the transformation of the New Deal system. The system began to crack because of the stress of the changing economic and political environment—and in particular because of growing international competition, economic stagnation, corporate restructuring, and deregulation. In our examination of recent changes we return to a focus on the three key features of the traditional system

we examined earlier and illustrate how each of these features was modified in the face of the restructuring occurring at the workplace.

We then examine the American industrial relations system's special talent for addressing micro issues and the limited attention paid to macro concerns. In this section we also review some of the lessons for public policy that follow from our assessments of the strengths and weaknesses of the American system of collective bargaining.

The Past Is Prologue

The thirty-six delegates gathered in 1945 at the three-week National Labor-Management Conference in Washington included the highest-ranking business executives and labor leaders in the nation.[2] It was a propitious moment for such a conference—and for the founding of a new school devoted to industrial relations. World War II had ended in August and wartime controls on labor relations were about to be lifted. Many feared that conversion to a peacetime economy would bring about the resumption of the Great Depression, and there was a widespread expectation that the strife and tumult that had characterized American labor relations before World War II would resume in full force. The shape of the postwar industrial relations system could be only dimly perceived.

It was in this atmosphere that President Truman asked Secretary of Labor Lewis B. Schwellenbach and Secretary of Commerce Henry A. Wallace to mount a conference that would, he hoped, set the ground rules for labor and management in the postwar era. In his opening address, on November 6, 1945, the president said, "Our country is worried about our industrial relations. It has a right to be." He implored the labor and management leaders at the conference to work out machinery that would serve to resolve collective bargaining disputes peacefully. He linked the peaceful settlement of labor disputes to the nation's prospects for postwar prosperity. In his view, labor-management cooperation was a necessary condition for economic expansion (*President's National Labor-Management Conference*, 1946, General Committee: 5–9).

Many commentators have considered President Truman's conference an important stepping-stone in the development of the postwar system of industrial relations. The conferees, however, managed to reach agreement on only two issues: they supported the use of "conciliation" (or mediation), rather than compulsory arbitration or fact-finding, to resolve new contract disputes, and they strongly endorsed voluntary arbitration to resolve grievance disputes. The conferees' consensus on these points is considered to have had a significant influence on the spread of grievance arbitration provisions in collective bargaining contracts in the next decade (Slichter et al., 1960: 746–47; Taft, 1964: 565–66).

From our perspective, the president's conference was remarkable in at least three additional respects. First, now we may well question the premise that thirty-six labor, management, and public officials could—if they reached agreement—decide the direction of the postwar industrial relations system. At the time, opposition to the conference came primarily from independent and left-wing unions, which were excluded from the conference.[3] Truman's notion that an elite tripartite group could "furnish a broad and permanent foundation for industrial peace and progress" apparently was widely shared by the press and the general public (*President's National Labor-Management Conference*, 1946, General Committee: 5).

This example of "limited corporatism" (the phrase is Heckscher's, 1988: 50) has had many counterparts, including the effort by the Clinton administration, through the "Dunlop Commission" (the Commission on the Future of Worker-Management Relations), to deal with labor law reform (U.S. Department of Labor, 1994). The Truman conference, the Dunlop Commission, and other related efforts illustrate the potential and the pitfalls of the corporatist approach to policymaking.

The second remarkable feature of the Truman conference is illustrated by the following passage from a speech delivered during the proceedings by one of the key participants: "Labor unions are woven into our economic pattern of American life, and collective bargaining is a part of the democratic process. The nation and management must recognize this fact. I say recognize this fact not only with our lips but with our hearts" (*President's National Labor-Management Conference*, 1946, General Committee: 52). Was this declaration offered by CIO President Phil Murray or Mineworker President John L. Lewis? No. It was contained in the heartfelt remarks of Eric Johnston, president of the U.S. Chamber of Commerce. It is hard to imagine any recent president of the Chamber offering a similar endorsement of unions and collective bargaining!

It may be difficult today to remember that management fealty to collective bargaining was routinely expressed by business executives (especially those heading large corporations) until the 1970s. Such expressions were thought to be emblematic of "the end of ideology" (Bell, 1960; see also Lipsky and Donn, 1987: 328–29).

Third, despite Eric Johnston's exhortation, the conferees failed to reach agreement on any of the critical issues they examined other than grievance arbitration and conciliation, although they did also pass a resolution calling for equal opportunity in respect to race, sex, religion, age, and national origin in determining "who are employed and who are admitted to labor union membership" (*President's National Labor-Management Conference*, 1946, Executive Committee: 50). Secretary Wallace urged the conference to deal with larger macroeconomic issues, such as the relationship between wage bargains and national income. Murray pushed consideration of a national wage standard. But AFL President William Green, as well as the business leaders, did not support either Murray's or Wallace's position. The deadlock that developed on most issues frustrated many participants. The bright promise of the conference had not been fulfilled.

The New Deal System of Collective Bargaining

Looking back, we can see the embryo of the postwar collective bargaining system forming in the deliberations at President Truman's conference. Both labor and management, at the end of World War II, were anxious to rationalize and bring order to a chaotic workplace. Both sides were willing to develop processes and procedures that would serve to regulate employment relationships. At many work sites a broad, if fragile, consensus developed that would last for more than a quarter of a century. Managers would recognize the legitimacy of unions and collective bargaining but only if unions restricted their concerns to well-defined workplace issues.

The Right to Strike and Voluntary Mediation

Perhaps the most important right that unions used to establish or retain their status as an independent representative of the workforce in the New Deal system was the right to strike. At first glance the right to strike might seem like an outmoded and costly privilege unsuited to a world where cooperation between labor and management is needed to foster competitiveness. Strikes also may appear to be unfair because the threat of the strike, or the strike itself, thereby becomes the key determinant of labor and management's bargaining power. Is the system fair when some unions (and workers) have relatively poor employment conditions as a result of their limited strike leverage while other unions (and workers) gain substantial improvements in employment terms because they are able to wage effective strikes?

While the determination of employment terms and conditions through strike leverage may appear unfair in a "limited" sense, in a broader view we find the right to strike to be an essential feature of our industrial relations system. The use of strike leverage is fair because it gives the parties the ability to determine employment terms and conditions *through their own actions*. With the right to strike, an outside and potentially arbitrary force cannot determine bargaining outcomes. Furthermore, because both parties are forced to face the potentially high costs of a strike, both must therefore confront one another and work

through their disagreements. As a result, the solutions that derive from the threat of a strike or its occurrence are more responsive to the needs and wants of the parties than settlement terms dictated by a third party.

The strike is perhaps even more important as a mechanism that provides more balance to the distribution of power between labor and management as compared to a world where labor is denied this right. Without this right, management has an inevitable undue advantage.

The strike is also useful because it serves as a pressure valve drawing the attention of both sides, and gives each side the opportunity to vent its feelings regularly and quickly. Societies essentially have a choice between the occasional disturbances associated with strikes or suffering the pent-up frustrations and periodic crises that occur in systems that restrict labor's right to strike, a situation epitomized by the instability and social conflict that have periodically exploded in South Korea.

An important feature of our industrial relations system that has reduced the frequency and length of strikes is the mediation services that are available to labor and management through federal and state agencies. The professional and voluntary nature of these services has worked well. Also, the emergency dispute resolution procedures provided through the Taft-Hartley amendments have served to constrain conflict in the few cases where they have been initiated (Cullen, 1968). Developing countries, in particular, searching for ways to provide greater stability and regularity in industrial relations, would be well advised to imitate the American mediation and emergency dispute procedures (Katz et al., 1993).

In the New Deal system management insisted on its "right to manage"—on controlling strategic decisions on products, prices, investments, and other matters "at the core of entrepreneurial authority." (The term is drawn from the Supreme Court decision in *First National Maintenance*.) Management also insisted on its right to manage the workforce. Especially in manufacturing industries, employers negotiated provisions in collective bargaining agreements that reserved for management the right to hire, fire, discipline, and otherwise control decisions affecting their employees subject to provisions in their collective bargaining agreement (Chamberlain and Kuhn, 1965: 100–114). As the postwar system developed, unions increasingly ceded to management control over the *substance* of workplace decisions, but insisted that management adhere to certain *standards* and *procedures* in making such decisions.

The Grievance Arbitration Procedure

The postwar growth of grievance arbitration—spurred in part by Truman's conference—is clearly a significant factor that served to reduce industrial conflict. The grievance procedure with binding third-party arbitration as the final step in the dispute resolution mechanism has long been heralded as the most innovative feature of American collective bargaining (Kuhn, 1961). There is much justification for this high praise.

A grievance arbitration provision in a collective bargaining contract is almost always paired with a "no-strike, no-lockout" provision. As a consequence, the use of grievance procedures and arbitration has dramatically reduced (although not totally eliminated) the occurrence of work stoppages during the term of a contract. The grievance procedure, particularly the final recourse to arbitration, also provides an equally important check on unwarranted actions by managements that seek to alter employment terms during the term of the agreement. These procedures thereby limit autocratic actions by either management or labor and create orderly procedures that resolve disputes arising during the term of a labor agreement. In that way, the procedures provide an important balancing of power during the life of a labor agreement and complement the power-balancing role served by the right to strike during contract negotiations. The grievance arbitration procedure also promotes procedural fairness. As noted by others, the grievance hearing gives both sides a chance to "present their cases" in an open and judicial manner.

The grievance system contributed to the reduction in industrial conflict (particularly those strikes of long duration and those

involving violence) that occurred as the New Deal system matured (Ross and Hartman, 1960). It is perhaps an irony that the decline of industrial conflict in the United States corresponded with the rise of conflict and confrontation throughout the rest of our society.

Unions, of course, did aggressively pursue wage increases throughout the postwar period until the dawn of the concession era in 1979. Increasingly unions expanded the scope of their influence to include other economic supplements, such as pension and health care plans. At the apex of their power, American unions succeeded in winning wages that were as much as 30 percent greater than wages earned by comparable non-union workers (Freeman and Medoff, 1984). A key attribute of the postwar wage-setting system was its decentralized structure.

Decentralized Collective Bargaining and Wage Setting

In the United States, although there is a wide variety of bargaining structures, most collective bargaining occurs at either the company or plant level. Even though a few industries, such as bituminous coal, intercity trucking, and basic steel, traditionally bargained on a multi-company basis, compared to the bargaining structures in other countries collective bargaining in the United States was and remains relatively decentralized (Katz, 1993).

Decentralized collective bargaining spurred innovation. Since bargaining was occurring at numerous and varied levels, labor and management had the opportunity to experiment with a variety of compensation techniques and methods. The consequence was the creation in the unionized sector of many compensation innovations that later spread to the non-union sector. In the early post–World War II years, for example, company-paid life insurance, health benefits, and cost-of-living escalators were first introduced into major collective bargaining agreements and then spread throughout the economy. The union sector later introduced supplemental unemployment benefits, "thirty-and-out" pensions, and a host of other compensation innovations.

A key feature of post–World War II collective bargaining that resulted from decentralization was the separation of wagesetting from the determination of work rules and work practices. It has been commonplace in the contracts covering industrial (and many other) workers to have wages and fringe benefits set at the company or multi-plant level, while work rules (particularly the specific form and content of the job classification structure) have been set at the local (often plant) level. Again, there were good reasons for this practice. Setting wages at a more centralized level allowed the union to enjoy standardized labor costs and avoid the sort of whipsawing that might have followed from more localized wage determination. Determining compensation at the company level also benefited companies by simplifying the administration of complex fringe benefit programs. Work rules were left to be set at more local levels because it was at these local levels that the needs of particular plants or workers could be addressed in a more flexible manner.

Transformation Redux

While the traditional collective bargaining system performed reasonably well during its heyday, it came under severe pressures by the late 1970s. The American system of industrial relations had been moving through a period of transformation for nearly fifteen years, but—as in 1945—no one can be certain what shape the fully transformed system will take. Partisans from several camps are struggling to control the destiny of the system, and no one knows which camp will win out. Will we have a system of high-performance work organizations, featuring self-managed teams and union participation in enterprise decision making? Or will we have a union-free system operated by human resource managers, lawyers, and consultants, possibly constrained only by government regulations? Will we witness a resurgence of pragmatic, job-control unionism and the return of traditional labor relations? Or will we see highly developed forms of union and employee participation spread throughout industry?

Our crystal ball is not any clearer than anyone else's. We can, however, summarize some of the significant changes that have occurred in

the postwar, New Deal system of collective bargaining. (More comprehensive accounts are contained in Kochan et al., 1994; Heckscher, 1988; Bluestone and Bluestone, 1992.)

The Decline of the Union Movement

In 1945 President Truman had to reckon with the political power of the unions represented by Bill Green, Phil Murray, and John L. Lewis. In 1965 President Johnson had to reckon with George Meany, Walter Reuther, and Jimmy Hoffa. In 1985 President Reagan largely ignored the labor leaders then in office. Over the course of the postwar period, the arc of union influence declined toward insignificance.

The decline of union influence corresponded to, and may have been caused by, the erosion of union membership. Union membership as a proportion of the labor force has been declining since 1953, from 26 percent to 11 percent in 1996 (Freeman and Medoff, 1984; Kochan et al., 1994). Particularly sharp declines in union strength began in the late 1970s.

Concession bargaining in the 1980s was an obvious manifestation of the decline of union influence. Concession agreements were the prism through which economic, political, social, and technological forces worked their will on the parties. Throughout the postwar period American unions, following Samuel Gompers's dictum, had sought "more"; now they had to settle for less. At many work sites unions agreed to wage freezes and cutbacks; they gave up deferred wage provisions and cost-of-living clauses. They agreed to help control spiraling health care costs by accepting co-pay arrangements and large deductibles in their health insurance policies. They agreed to convert from defined-benefit to defined-contribution pension plans; in some cases they accepted employee stock ownership plans (ESOPs) and profit-sharing schemes in lieu of standard pension plans. In sum, the wage premium (and, more broadly, the compensation premium) that organized workers enjoyed through most of the postwar era declined during the 1980s. As a consequence, unorganized workers had less incentive to form or join unions.

The Legitimization of Management Opposition

Management opposition to unions gained a new legitimacy in the 1980s. One would have to search hard to find a contemporary CEO who shares Eric Johnston's sentiments. The key event that brought management opposition out of corporate executive offices was President Reagan's firing of twelve thousand air traffic controllers in August 1981. The air traffic controllers were engaged in an illegal strike, and the president acted with the full authority of federal law. Nevertheless, the president, in effect, put his stamp of approval on union busting. Many employers needed little coaxing to follow the president's example. As Bluestone and Bluestone note, "They rolled up their sleeves, took a deep breath, and proceeded to imitate a management style pioneered by the Prussian military" (Bluestone and Bluestone, 1992: 8).

Frank Lorenzo, the CEO of Eastern Airlines, Fred Curry, head of the Greyhound bus line, and a handful of other employers hired strikebreakers and used a variety of other tactics designed to break their unions. Ironically, their get-tough tactics often proved ineffective and self-defeating—Eastern and Greyhound were driven into bankruptcy (Bluestone and Bluestone, 1992: 8–9). Even if Lorenzo, Curry, and other union-busters represent the fringe of American management, there were many employers in the mainstream who embraced union-free and union-avoidance strategies. Some scholars maintain that management opposition was the principal cause of the decline of unionism in the United States (Lawler, 1990; Freeman and Medoff, 1984).

Shifting the Burden of Risk and Uncertainty

At the apex of their power, American unions succeeded in winning from employers numerous contractual provisions that served to protect their members from the risks and uncertainties of the marketplace. Product markets are (perhaps now more than ever) extremely volatile, heavily subject to cyclical and structural changes. Sales, revenues, and profits rise and fall; prosperity is followed by recession, and fortunes wax and wane. There is risk and uncertainty in the labor market also. Companies shut down or relocate; jobs come and go.

Workers continue to suffer accidents, illnesses, and other disruptions in their lives while the social safety net is eroding. Both employers and employees are subject to hazards and perils, and it is worth considering who bears the costs of these risks and uncertainties.

Through most of the post–World War II period, the costs associated with risk and uncertainty were shifted from employees to employers. For example, in the precedent-setting UAW-GM contract of 1948 Walter Reuther succeeded in getting an "annual improvement factor" and a cost-of-living provision included in the autoworkers' contract (Katz, 1985). The principle that workers' wages should rise with productivity and be protected from inflation was established. Reuther's breakthrough was copied by unions and employers in most of the core industries. Employers thus assumed more of the costs associated with the uncertainties of inflation.

Similarly, industrial unions (but not craft unions) negotiated defined-benefit pension plans in the late 1940s and 1950s: in principle, if not always in fact, employers were obligated to set aside whatever sums of money were actuarially required to pay the pension benefits they had promised their employees. Conceptually, defined-benefit pension plans require specific employer contributions regardless of the market conditions faced by the employer. These contributions protect retirees and employees participating in the plans and shift the risks to employers.

Unions also negotiated various job guarantees (fixed work crews and no-layoff provisions) and income protection schemes (supplemental unemployment benefits and severance pay provisions). All of these contract provisions protected employees from the vagaries of competition and the marketplace, and shifted the attendant risks to employers.

But this picture changed dramatically in the 1980s. During the concession era, many unions gave up the income and job protections they had previously won. Employees were increasingly called upon to share the cost associated with market volatility and individual hazards. Contingent pay—pay based on the worker's or the firm's performance—became commonplace. Profit-sharing, gain-sharing, and skill-based pay plans spread through industry. Increasingly the fortunes of employees were linked to, not dissociated from, the fortunes of employers.

A Diversity of Participation

If American unions have been in serious retreat in recent years, they have also had a few victories to celebrate. Unions in the public sector have generally fared better than unions in the private sector. About 40 percent of all government employees are organized for collective bargaining purposes. The proportion is close to 75 percent for public school teachers (Burton and Thomason, 1988). In some political jurisdictions, budget cutbacks have put public sector unions on the defensive, forcing concession agreements similar to those in the private sector. But in most state and local governments, unions have become more firmly entrenched over the course of the last two decades.

In the private sector, there are some well-known cases of exemplary union-management relationships: UNITE/Xerox, Chemical Workers/Shell-Sarnia, American Flint and Glassworkers/Corning, and UNITE/Levi Strauss. Particularly noteworthy is the UAW's relationship with Saturn, which many commentators maintain is the leading example of a high-performance work system in which the union and the employer are full-fledged "partners" in the management of the enterprise (Kochan et al., 1994; Bluestone and Bluestone, 1992).

Although the breakup of the Bell system in the 1980s resulted in some rocky labor relations in the telecommunications industry, by the 1990s AT&T and its unions (the Communications Workers, the IBEW, and independent unions) had not only overcome their difficulties, they had negotiated some particularly innovative agreements on health care, work and family issues, employee involvement, business unit–based bargaining, and employee training. Labor relations in a number of the baby Bells also improved significantly.

Some unions, bucking the trend, experienced significant growth in the 1980s and 1990s. The Service Employees International Union, which organizes in the health care and public sectors, as well as the service sector, grew substantially. The United Food and Commercial

Workers, which focuses its effort in retail and wholesale trade, also saw its membership rolls expand.

Even where industries were contracting and union membership declining, unions often found employers willing to expand union participation in decision making. In 1993, for example, the Steelworkers negotiated a series of agreements with the basic steel companies that provided for union and worker representation on a host of company- and plant-level committees concerned with business issues. The UAW, in addition to its pioneering agreement at Saturn, negotiated other agreements with the major auto producers that contained innovative employee participation provisions (Katz and MacDuffie, 1994).

Indeed, employee participation, involvement, and empowerment schemes have become the labor relations totems of the current era. Everywhere, in both union and non-union companies, management pays obeisance to such schemes. Managers' commitment to participation in the 1990s matches their commitment to collective bargaining in the 1940s. It may be equally heartfelt, but in some places it may also be equally shallow.

For their part, unions retain a degree of skepticism about management's newfound commitment to employee empowerment. Many union leaders fear that management's encouragement of employee participation is merely a ruse to weaken unions or keep them out of the enterprise completely (Heckscher, 1988: 116–17). On the other hand, most union leaders also see the potential gain in participatory arrangements and know from experience that while some managers are genuinely committed, some are not (Katz, 1988).

Almost everyone nowadays is in favor of enhanced employee participation. Liberal Democrats and conservative Republicans alike sing its praises. Charles Heckscher points out that a poll conducted by the Opinion Research Corporation found that 86 percent of business executives and 76 percent of union leaders strongly favored cooperative labor relations (Heckscher, 1988: 270). If Democrats, Republicans, labor leaders, and business executives all favor cooperation and oppose adversarialism, is it likely that all have the same concept in mind? Have we been witnessing the reality of cooperation, or merely the rhetoric?

We believe that the contemporary infatuation with participation and cooperation is expressed in concrete terms in only a small proportion of labor-management relationships. Scratch the surface and one is likely to find that management control and labor-management adversarialism are very much alive and well.

Adjustments in the System

Yet, as the transformation described above developed, the three features of the traditional American collective bargaining system described earlier did adjust. We now focus on those adjustments.

The Withering Away of the Right to Strike

If the United States has not quite entered an era of genuine labor-management cooperation, it has nevertheless experienced a dramatic long-term decline in the overt forms of industrial conflict (the principal form being the strike). Ross and Hartman in 1960 predicted the "withering away of the strike," and their prediction now appears a valid one. In 1946 there were nearly five thousand strikes in the United States and more than 1 percent of total working time was lost to work stoppages. Nowadays strike activity is less than one-tenth of those levels. Scholars have enumerated a long list of reasons for the decline of industrial conflict. A major reason is the decline of the labor movement: weakened unions simply cannot risk a strike against strong employers. It should be noted that union weakness was not the reason Ross and Hartman expected strike rates to decline. On the contrary, they expected a decline in conflict to follow from the expansion and maturation of collective bargaining.

Some have claimed that the right to strike is now a meaningless privilege in the United States in the face of the ready access management has to permanent striker replacements and management's ability to shift production to other sites or to use technology to substitute for striking workers. Although economic pressures, such as intensified international and non-union competition, have clearly reduced labor's

bargaining leverage in recent years, we believe it is a gross exaggeration to claim that the strike is now a meaningless threat. Nor is the role of the strike eliminated because of the restructuring occurring in work organization and the emergence of greater worker and union participation in decision making.

In our view, strikes and the threat of a strike continue to provide labor with bargaining leverage, even at sites where new industrial relations have blossomed, and will continue to do so because new work systems do not and cannot eliminate all the conflicts of interests that divide labor and management. Nevertheless, the frequency of strikes declined sharply for a number of reasons. After Reagan fired the air traffic controllers, an increasing number of employers were emboldened to exercise their legal right to replace striking employees. The labor movement then began an effort to obtain legislation that would prevent employers from permanently replacing striking employees, but its efforts were unsuccessful.

Some scholars have noted the growing "technological obsolescence" of the strike. The term was coined by James L. Stern in 1964. In industries like telecommunications, utilities, chemicals, and oil refining the introduction of automation and sophisticated technologies allowed employers to operate for long periods without bargaining-unit employees. It was not necessary in these industries for employers to *replace* strikers; they could operate quite adequately by using their own supervisory personnel and non-union workers (Hutchens et al., 1989).

The declining effectiveness of the strike can also be attributed to the growth of conglomerates and multinational corporations, which are in a better position to subsidize struck facilities than smaller domestic companies. International competition, more generally, constitutes a serious constraint on a union's propensity to strike; unions fully realize that a strike against a domestic company that competes with foreign producers may imperil both the company's and the union's very existence.

There are still other reasons for the decline of the strike. Since recession and high levels of unemployment deter unions from striking, the protracted recessions of the early 1980s and early 1990s surely served to reduce strike activity. The law, through its restrictions on secondary boycotts, jurisdictional disputes, organizing strikes, and other forms of concerted activity, is another explanatory factor.

The Limitations of the Grievance Arbitration Procedure

While the grievance procedure is a valuable mechanism for the resolution of specific problems that arise during the life of agreements, it has severe limitations as a mechanism to address the wider issues that now confront labor and management. Again, the problems are most apparent in the face of the recent escalation in efforts to reorganize work and restructure labor-management relations along more participatory lines.

Two interrelated problems limit the effectiveness of the grievance procedure in addressing the extensive reorganizations under way. One problem arises from the narrow focus of the grievance procedure on specific workplace problems. The grievance procedure is adept at addressing issues such as whether an individual has been treated fairly with regard to a performance evaluation, a disciplinary action, or bumping rights. Yet, the key problems confronting labor and management these days concern wider organizational matters such as the nature of work organization, training methods, revisions of pay systems (often involving the introduction of more contingent pay), the exchange of information concerning business plans and investments, and the comparative economic and industrial relations performance of work sites and work groups. Disputes commonly arise over decisions concerning the design and implementation of new work practices. These disputes generally cut across and combine problems that involve a number of work practices and many workers and, often, a number of different sites across a labor agreement's jurisdiction. The grievance procedure is not designed to resolve problems where tradeoffs must be made across issues or modifications made in a number of work practices.

Secondly, when the grievance procedure has been employed to settle disputes concerning these wider issues, it is often cumbersome and inadequate. Part of the difficulty that the grievance procedure

has in dealing with work reorganization problems follows from the status quo orientation of grievance arbitrators. As the research literature shows, arbitrators tend to adhere to judicial-like due process and to make decisions that follow well-established standards and norms (Bazerman, 1985). But arbitrators are not a good source for new ideas and new practices. Arbitrators are neither ill-meaning nor poorly trained. Rather, the identification of appropriate new practices in the work reorganization domain typically requires the sort of trial and error and experienced-based knowledge that arbitrators or other outsiders do not possess.

As a consequence of the difficulties the grievance procedure has encountered with problems that cut across issues, labor and management in recent years have created more informal discussion processes and modes. As a result, the grievance procedure is increasingly becoming less central and less helpful to shop floor dispute resolution. Instead, labor and management are turning to forums, field tests, and other mechanisms that provide more effective resolution of problems.[4]

If the problem were only that the grievance procedure is ill suited to solve the sorts of issues that are at the center of shop floor industrial relations these days, then we might merely lament the procedure's loss of relevance. Unfortunately, there is something more troubling that has resulted from the legacy of grievance arbitration: the grievance procedure itself must bear some of the blame for the slow response by labor and management to workplace problems. The grievance procedure to some extent contains a narcotic element that discourages the development of expertise within the workforce and plant-level management.

In the well-functioning grievance system a few external experts—third-party arbitrators—settle shop floor problems by relying on their understanding of workplace problems and fair solutions that they develop through many diverse experiences. Previous analysts of the grievance system have heralded the virtues of this cadre of broadly knowledgeable arbitrators (Chamberlain and Kuhn, 1965). The problem labor and management have with this system is that the logic of the new systems of work organization requires workers and managers on the shop floor to become the experts in resolving shop floor problems. Yet, the long-standing existence and previous success of the grievance system lead workers and managers to avoid developing such expertise on the grounds that they can always rely on the arbitrators to settle disputes. Management has long denied workers participation in workplace decisions so as to protect managerial control and prerogatives. Unfortunately, the grievance procedure serves to reinforce this strict hierarchy.

Where the parties continue to have ultimate recourse to arbitrators to solve shop floor problems, the legacy of written grievances and formal hearings lives on. A telling example of the harmful efforts of this legacy is provided in the administration of the GM-UAW Jobs Bank program at an auto plant in Rochester, New York.[5] The Jobs Bank was initiated in the 1980s with the goal of developing more "internal flexibility" in the allocation of labor in General Motors plants. The program promoted flexibility through the redeployment of otherwise laid-off workers as substitutes for workers on the line who then had the opportunity to attend training programs. In addition, the plan also was to use the Jobs Bank as a conduit to reassign laid-off workers into "nonconventional" job assignments and thereby, in effect, avoid the rigidities that derived from the job classification structure found in GM-UAW local contracts.

Once the Jobs Bank program began to operate at the Rochester Products plant, however, both labor and management quickly began to write and then argue about detailed rules regarding such matters as the role of seniority in Jobs Bank assignments. A few months into the program a long manual of rules had been negotiated specifying elaborate procedures regarding the administration of the Jobs Bank at this plant. When the labor and management officials who were administering the program were asked why they were creating such elaborate rules, they pointed to the experience they had acquired in such rule-making through the grievance procedure and suggested that they were doing just what they and others in their respective organizations thought was appropriate to settle shop floor problems. It is ironic that in a program

designed to create more internal flexibility, the parties were constrained by the model of and their experience with the grievance system.

In addition to a cadre of well-trained arbitrators, what is needed now are more workers, local union officers, supervisors, and managers who have an understanding of the dynamics, pressures, and alternative work practices within and across industries. Adjustments are occurring. In response to this need for internally generated shop floor experts, there has been a subtle shift under way in labor education toward the very sort of industry education that we believe is missing in the grievance and arbitration procedures. For example, at Cornell University's School of Industrial and Labor Relations, the Division of Extension and Public Service has shifted over the past ten years away from traditional grievance and shop steward training in the direction of programs that teach new modes of labor-management bargaining (often called win-win bargaining) and provide background information that helps unionists and managers to develop expertise on work reorganization and participatory roles. This shift in labor education is consistent with the idea that workers need knowledge developed through practical experience in order to provide effective use of the "voice" opportunities that collective bargaining provides.

While we worry about the unfavorable spillover effects that the grievance arbitration procedure may have on the ability of labor and management to innovate in work reorganization, we certainly do not believe that the grievance procedure is without value. It can continue to play a useful role in settling some shop floor problems, particularly those dealing with individual complaints regarding discipline. What might be the best solution would be the creation of informal and integrative problem-solving procedures that deal with work reorganization alongside a grievance procedure used to settle individual-based complaints.

Bargaining Structures Become Even More Decentralized

An important virtue of the American collective bargaining approach lies in the fact that labor and management have the authority to determine their own bargaining structure and have used that discretion to fashion structures that fit their needs. The historical avoidance of multicompany or sectoral bargaining has proved to be particularly valuable in the face of recent pressures for substantial interindustry and intercompany wage variation as a result of heightened and varying competitive pressures.

Labor and management have responded to these economic pressures in recent years by decentralizing collective bargaining and wage setting even further, often to the plant level (Katz, 1993). In the process, many of the few multicompany bargaining structures have either disappeared as in basic steel or eroded as in trucking and coal. The decentralized form of collective bargaining in the United States has allowed the parties to respond to environmental pressures without the sort of wider structural and legal changes required to allow decentralization in other countries like Australia. We attribute some of the revitalization that has occurred in American unionized settings (particularly in a number of manufacturing firms) from the mid-1980s on, to the flexibility found in our decentralized bargaining structures.

While decentralization may have spurred experimentation and flexibility, at the same time it deters the diffusion of innovative ideas. In earlier periods, the slow spread of new compensation ideas that originated in innovative unionized firms could be tolerated, but the heightened intensity of international competition means that natural time-consuming diffusion is now a drawback. Thus, although at some sites labor and management have found ways in recent years to link employee compensation more directly to employee skills through pay-for-knowledge, or to company or plant performance through gain-sharing programs, there are many more firms and unions that have been slow to learn of these innovative techniques. Recent data reveal a haphazard and often piecemeal adoption of teamwork and participatory industrial relations (Osterman, 1994; Eaton and Voos, 1992).

This problem of slow diffusion of innovation provides the rationale for government to become involved in educating and encouraging innovative practice. Although market pressures also provide incentives for learning, these incentives appear to be weak and indirect. At the same time that government action is needed to spread good ideas, it is

important to remember that innovative practices most often originate in the parties' practical experimentation and give-and-take.

Other problems emerged as a consequence of the separation of compensation from work-practice determination found in traditional collective bargaining negotiations. Although this separation may have made sense in earlier periods, it makes much less sense now. Again, recent competitive pressures and changes in the organization of work are compelling. In the current environment labor and management are struggling to introduce team systems of work and spread participatory industrial relations. This reorganization of work and industrial relations is often driven by the need to shift problem solving down to the shop floor and work group level, and effectively utilize new technologies that require quick responsiveness and direct worker input into the resolution of quality and production problems. Yet, the separation of compensation and work-practice determination at different bargaining levels makes it difficult to alter work organization radically. Team systems of work, for example, often function best where they are accompanied by "contingent" compensation systems that link employee pay to either employee skills or economic performance. The introduction of new work methods thus requires trade-offs across pay and work practices, trade-offs that are difficult to arrange where these issues are negotiated at different bargaining levels.

The Need to Address and Coordinate Macro and Micro Issues

How has the American industrial relations system performed overall and how can that performance be improved? Our evaluation and recommendations are guided by the fact that effective industrial relations requires mechanisms that address both macro- and microeconomic issues. With regard to macroeconomic issues, we have in mind broad pay and employment trends in the economy and sectoral economic dislocations and adjustments. Microeconomic issues concern shop floor-level performance, problem and conflict resolution, and employee representation. Our assessment of the American system in this section of the essay considers how our system compares to the industrial relations systems in two of the most successful economies of the post–World War II period: Japan and Germany.

Macroeconomic Issues

The success of an industrial relations system in part depends on its ability to meet macroeconomic pay and employment goals. Experience has shown that even where wages are set at sectoral or even more decentralized plant or company levels, it is important to have institutions ensuring that these lower-level bargains add up to noninflationary and high-employment outcomes. Concern for noninflationary pay outcomes may appear unnecessary in the face of the low inflation rates that have appeared in the United States and elsewhere since the mid-1980s. Yet, there is no reason to assume that low inflation is likely to persist on its own accord. Consequently, it is important for national industrial relations systems to possess some sort of macroeconomic "coordinating" mechanism to press for noninflationary pay settlements. Such coordinating mechanisms have played significant roles in helping countries such as Germany and Japan to experience low inflation in the post–World War II period (Soskice, 1990).

In Japan, collective bargaining occurs primarily at the enterprise level and pay increases are set in enterprise agreements. There is, however, much coordination in pay setting across enterprises in Japan. This coordination occurs through the simultaneous occurrence of pay bargaining in the so-called Spring Offensive, the pattern-setting role played by key settlements, and the heavy consultation involving government, labor, and management in the establishment of the key settlements.

In Germany, coordination occurs in wage setting through the negotiation of sectoral collective bargaining agreements. Although this sectoral bargaining occurs in a manner different from Japanese coordination, it involves a substantial amount of pattern bargaining and multipartite consultation.

While Japan and Germany (and a number of other countries with low inflation) have in common mechanisms that coordinate wage bargaining and focus explicitly on the macroeconomic consequences of more decentralized pay negotiations, the United States suffers from the absence of such coordinating mechanisms. Although decentralized pay bargaining provides to negotiators in the United States the flexibility to respond to microeconomic pressures as they see fit, this decentralized bargaining can produce, and in the past has produced, inflationary pay outcomes.

The United States faces a particular problem in developing such coordinating mechanisms because of the low level of union representation. Given the limited representation of employees by unions, it is difficult to see how we could design institutions that coordinate pay setting even if we were determined to do so. In other countries, such coordination is facilitated by the presence of unions that represent a sizeable share of the workforce and traditions that extend the terms of collective bargaining agreements to cover unorganized sectors and employees.

In the face of the substantial economic restructuring that is occurring across industries and the need for large investments in physical and human capital, the United States also suffers from the absence of coordinating mechanisms that might cushion the social and private costs associated with these dislocations. Although it may be rational for a firm to lay off employees whenever demand for that firm's products falls, simultaneous layoffs across many firms can produce harmful economy-wide trauma. In recent years the United States has experienced an increase in long-duration unemployment spells, particularly for middle-aged and older laid-off employees. Accommodating this sort of dislocation through government or private income transfer programs has proved costly. It would make more sense to find mechanisms that enhance intra- and interfirm mobility and avoid the unemployment spells in the first place.

There are also clear, rational microeconomic practices that produce inefficient macroeconomic outcomes regarding employee training. In the modern economy firm-level training is needed to meet the needs of technological innovation and workplace reorganization as well as to respond to shortfalls in primary and secondary education. Unfortunately, in our system, there is a tendency for underinvestment in training because firms face the prospect that highly trained employees will move to other firms that have not borne the expense of training.[6]

What is missing in the United States is mechanisms that deal with training needs and economic adjustment through the coordination or stimulation of local activity. Such mechanisms go against our decentralized collective bargaining structures and private sector fears of "governmental intrusion." In other countries—Germany, for example—the provision of training and employment adjustment is provided through initiatives involving strong employer associations. Once again our system falls short because of the historical tradition of weak employer associations and the fact that the associations that do exist are focused on political lobbying and not industrial policies.

Microeconomic Issues

At the microeconomic level there are a number of virtues that follow from the decentralized collective bargaining traditions that exist in our country. Although our system has these micro-level strengths, it also has some weaknesses, including the fact that so low a percentage of employees are represented by unions. Furthermore, our exclusive representation system provides an all-or-nothing representation choice to employees and is not responsive to those employees who desire representation through a mechanism other than a trade union. Perhaps even more importantly, current economic pressures are producing a heightened sense of insecurity among employees that grows out of the extensive downsizing and internal restructuring occurring in American firms and firms in other countries. As a result, a mismatch is appearing between corporate needs for flexibility and employees' needs for security (Cappelli et al., 1997).

Our system lacks a representation procedure that enables employees, particularly unorganized employees, to have a voice in the process of corporate restructuring. For this reason we, like a growing number of our colleagues, favor the initiation of a government-mandated system of employee representation. We are not certain whether such representation should come through mandated works councils of the German variety or, rather, should be allowed to develop through legislation that permits voluntary employee representation procedures that are not, in fact, a form of company unionism.[7]

In the unionized sector there is at least a mechanism to address microeconomic issues, although we are not fully satisfied with the form or operation of existing procedures. As discussed earlier in this essay, we would encourage the creation of expanded forums for employee and union voice in business decision making, a broadening of the bargaining agenda, and the creation of broader problem-resolution procedures that would supplement the grievance procedure.

Macro and Micro Coordination

The challenge confronting all industrial relations systems is to create both macro and micro institutions that deal with economic pressures. There is a tendency in analyses of industrial relations or public policies to focus on one or the other of these levels. Yet, both levels need to be examined *and coordinated* since the problems handled through activities at one level overlap with those of the other. For example, at the macro level there is a need for wage settlements that are consistent with price stability, while at the micro level plant-level contingent-pay procedures are currently expanding. Thus, increasingly, it does not make sense to think of pay as only a macro or micro issue. Similarly, while there is a tendency for system-wide underinvestment in training and a resulting need for industry-wide or sectoral programs to deal with training, meaningful training requires input from shop floor-level actors who understand where technology is heading and have hands-on knowledge of training deficiencies. Again, the stark separation of macro and micro issues does not make sense.

Conclusions

For over twenty-five years, until the concession era of the 1980s, the New Deal system of industrial relations more or less held together (Kochan et al., 1994). For most of the postwar period, the labor movement achieved trendsetting agreements, and non-union employers scurried to keep up with advances introduced in organized firms. In the 1960s and 1970s, however, it was non-union firms—IBM, Motorola, and Kodak—that introduced innovative workplace policies while unionized firms became the followers. In the 1980s non-union firms continued to be the trendsetters, although the elaboration of employee participation processes in the union sector began to shift the innovative edge back to that sector.

Did the postwar era really bring an "end to ideology"? With hindsight, it is possible to say that unions and employers merely found it convenient to paper over their ideological differences for the sake of a pragmatic accommodation at the workplace. Mainstream unions did not seek to become partners in the enterprise, not even junior partners. Unions came to terms with the American system of free enterprise—a system supported by law and custom and, ultimately, by the will of the American people.

Within that system, American unions could exercise profound, if carefully circumscribed, influence. They could be the vehicle workers used to share the affluence and status of the American middle class. They could provide their members with a measure of job protection and income security. They could ensure that workers received due process and fair treatment on the job. They could affect the development of public policies through their lobbying efforts and influence on electoral politics. And they retained a potent weapon—the right to strike—although increasingly it was channeled and controlled.

But management always retained the core of its authority. Its ability to control the enterprise and the workforce was part of the implicit social contract between employers and unions in the United States. As Kochan et al. note, the postwar industrial relations system worked

because "it provided stability while also satisfying other basic economic and organizational needs of labor and management" (1994: 45). The industrial relations system and the macroeconomy were mutually reinforcing (a point President Truman would have appreciated) although not directly connected. A long period of sustained economic growth allowed unions to push up wages with little fear of negative consequences and attain a sense of security.

Of course, it was a false sense of permanency. By the 1980s, many forces—recession and economic stagnation, foreign and non-union competition, deregulation and divestiture—had undermined the New Deal system of industrial relations. The American industrial relations system is now only in part the system that Phil Murray, Eric Johnston, and the others imagined they were creating in 1945. It is most decidedly not a centrally controlled system of wage setting; it has become much more highly decentralized than either labor or management thought was desirable in the 1940s.

Furthermore, the labor movement has become more of a paper tiger than either its friends or its foes thought possible. Switching metaphors, Humpty Dumpty has fallen off the wall, and it is unlikely he can ever be put together again.

Since the realization that the old system cannot be resurrected has now spread widely, our country is in the midst of a struggle to develop and then diffuse a new industrial relations system. As we work our way through this process, it is critical that both macroeconomic and microeconomic problems be managed. Furthermore, now more than ever an effective industrial relations system is one that provides for coordination across issues as the reorganizations under way in work and worker-management relations increasingly blur the distinction between shop floor and economy-wide problems.

The challenges are daunting, but we can draw much strength from the depth of our historical legacy. ■

Notes

1 Well before World War II a web of rules emerged where craft unions took hold in industries such as the building trades and among transport teamsters.

2 The 1945 conference is thoroughly analyzed in Harris, 1982: 111-18. For other perspectives on the conference see McClure, 1969: 51-64; Seidman, 1953: 223-24; and Taylor, 1948: 206-10.

3 See *New York Times*, November 6, 1945, p. 1, and subsequent daily coverage by the *Times* through November 29. The independent unions picketed the conference the day it began, but the union leaders invited to participate crossed the picket lines.

4 These include the "mutual growth forums" involving Ford and the UAW, the "joint boards" involving the UNITE and Xerox, and the "forum" involving the Champion International Corporation and the UPIU.

5 At the time of the incident referred to in this text this plant was part of the Rochester Products Division within General Motors. It subsequently became part of the AC Rochester and then other divisions within General Motors.

6 This disincentive for microeconomic investments in training can lead an economy into a low-skill trap (Finegold and Soskice, 1988).

7 What we have in mind is finding a resolution to the Electromation case controversy that allows employee group participation processes in non-union workplaces.

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