



**National Association  
of Manufacturers**

"HOT TOPICS"

Future Worker  
Management

**MANUFACTURING  
MAKES AMERICA STRONG**

**TESTIMONY OF JERRY J. JASINOWSKI**

**PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS**

**before the**

**COMMISSION ON THE FUTURE OF  
WORKER-MANAGEMENT RELATIONS**

**NOVEMBER 8, 1993**



# Manufacturing: The Key to Economic Growth

- ✓ U.S. manufacturing's direct share of the Gross Domestic Product (GDP) has averaged more than 21 percent since World War II. And nearly half of economic activity depends indirectly on manufacturing.
- ✓ U.S. manufacturing productivity growth averaged 3 percent during the 1980s compared with almost zero growth in the rest of the U.S. economy.
- ✓ U.S. manufacturing exports have been the *single main source of strength* in the current economy — contributing 30 percent to 40 percent of the nation's economic growth since 1987.
- ✓ Each \$1 billion of exports creates 20,000 new jobs. Since 1985, exports have saved 4 million jobs in U.S. communities.
- ✓ Manufacturing jobs on average pay 15 percent more than jobs elsewhere in the economy.
- ✓ Manufacturing provides the bulk of technological advances and innovation for the economy.

**Testimony of Jerry J. Jasinowski  
President, National Association of Manufacturers**

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Mr. Chairman and members of the Commission, good morning. I am Jerry Jasinowski, President of the National Association of Manufacturers ("NAM").

The NAM is a voluntary business association of more than 12,000 companies, large and small, located in every state. Members range in size from the very large to more than 8,000 smaller manufacturing firms, each with fewer than 500 employees. The NAM is affiliated with an additional 158,000 businesses through its Associations Council and the National Industrial Council. NAM member companies employ 85 percent of all manufacturing workers and produce more than 80 percent of the nation's manufactured goods. One of the nation's oldest employer associations, the NAM will celebrate its centennial anniversary in 1995.

**Introduction**

This Commission has the opportunity to make an enormous contribution to the vitality of employer-employee relations in this country, and to the strength of American industry. We are grateful for this chance to present our views.

I would like to begin by highlighting a central objective that the Commission shares with the NAM and its members: the goal of increasing workplace productivity and quality. Enhancing workplace productivity and quality improvement is the ultimate aim of the first of the three charges assigned to this Commission. Similarly,

competing in the global economy is the goal of every business; it is also the greatest challenge facing American industry. I would add that achieving high performance should be the aim of every worker as well, since the interests of employees and employers are directly, firmly tied to our ability to achieve mutual successes.

### **The General Economic Setting**

If we are to be successful at increasing productivity in the future, we must understand how it has increased in the past. Let me summarize some historical trends.

Since 1979, productivity in manufacturing has accelerated to 3.1 percent per year, well above its prior trend of 2.5 percent over the 1948-73 period. This revival, however, did not take place in the rest of the economy; in 1979-90, productivity grew by only 1.0 percent in non-farm business as a whole. Even more revealing is the rate of growth in multifactor productivity (output per unit of labor and capital). In manufacturing, this grew by 2.4 percent per year in 1979-90, compared to 0.4 percent in the non-farm business sector.

Reduced to the essentials, the productivity gains in manufacturing reflect three factors. The first is capital intensity. During the period 1979-90, increases in the capital-labor ratio added 0.7 percentage points per year to manufacturing productivity.

The second is an increase in labor productivity, which reflects to some extent increased investment in workers but in large measure also reflects the decline in manufacturing employment. Employment in manufacturing industries peaked at 21

million in 1979, declined by 2.4 million during the 1980-82 recessionary period, increased by roughly one million during the ensuing expansionary period in 1983-1989, and has decreased by 1.5 million since that time.

The third is technological advance. We have recently had a study published in which we used the stock of R&D to explain multifactor productivity, concluding that in the private, nonfarm sector, technological advance accounts for just over 29 percent of total output growth during the period 1955-90. This illustrates the power of technological growth in improving productivity.

While this relationship holds over the postwar period, there is still a substantial unexplained residual during the 1980s, when multifactor productivity increased much more rapidly than technological advance. The most likely explanation is increased efficiency with respect to a whole range of factors within companies including the adoption of high-performance workplace measures.

Now I would like to briefly talk about some options to increase productivity while at the same time not reducing employment. Clearly, in view of the ongoing problem of unemployment, further shedding of labor is not the preferred means for increasing productivity. But how do you increase productivity without further layoffs?

In fact, if you examine the 3 million fewer jobs generated in the 1991-93 recovery, you find that about half of it is due to slowed economic growth and half of it to rising non-production costs. Obviously, one way to increase employment is to achieve higher rates of growth. Beyond that, we can raise both productivity and employment together in several ways. The most important is a reduction in non-

production costs -- consisting of regulatory, legal and health care costs -- that now frequently result in lower profits, reduced wages and diminished employment opportunities. The second avenue is to increase company-level efficiencies that capture much of what is going on in workplace reorganization. Finally, in many but not all cases, we can increase productivity and employment by increasing capital, technology and training in the production function.

### **Containing Non-Production Costs**

Given these facts about productivity, my general economic advice to the Commission is that you reaffirm the importance of economic growth and that you forcefully argue that non-production costs be reduced. Since firms cannot easily pass such cost increases forward in today's competitive global market, the cost burdens are usually shifted back on to workers and the workplace to an extent that negatively affects efforts to improve cooperation, efficiency, job security, employee compensation and collective bargaining.

Regulatory compliance is one of the greatest non-production costs imposed on American business. For instance, the Commerce Department estimated that annual business outlays for pollution abatement and control came to \$54.6 billion in 1990. This estimate does not even account for the impact of the 1990 Clean Air Act Amendments, which are predicted to increase outlays for pollution abatement and control by more than \$30 billion annually. In the aggregate, the National Performance Review reported that regulatory compliance with federal regulation costs

the private sector approximately \$430 billion annually. Put in perspective, private sector costs for complying with federal regulations amount to nine percent of our gross domestic product. While the NAM does not question the benefit of some regulations, their cumulative burden is extraordinary, reducing employment, economic growth and productivity. We would encourage the Commission to stress the need for fundamental review of the regulatory process and its effect on employment and the workplace.

Another significant non-production cost of business adversely impacting employment is health care. The cost of health care has been the focus of significant debate in Washington recently but American employers have been troubled by those costs for years, particularly the issue of cost-shifting. Private estimates indicate that businesses currently incur annual costs in the range of \$218 billion in providing health care for their employees. This cost, per employee, ranges from a low of \$3,000 to nearly \$6,000, depending on the industry sector, degree of managed care and scope of the benefits package. The benefits provided by health care are important to us all -- which we support -- but we cannot ignore the enormous impact it has on cash flow which competes with employment, compensation and training.

Legal costs are perhaps the single greatest non-production cost for many American companies. The NAM recently estimated that in 1992, business payments for *outside* legal services were \$56 billion. The cost of in-house legal services no doubt would increase this figure considerably more. A large portion of companies' legal fees go to proceedings aimed at regulating the employment relationship itself,

under such laws as the Fair Labor Standards Act, Employee Retirement Income Security Act, the Occupational Safety and Health Act, the various civil rights laws and in state wrongful termination cases.

In aiming to avoid unintended harm to American productivity, another goal of this Commission should be a *coordinated* government policy. As underscored in the Vice President's National Performance Review, coordination is not always a hallmark of our government agencies. I will give one example of this failure of coordination, from within a single division of the Labor Department.

In recent years, the Wage and Hour Division has asserted an interpretation of the FLSA that would require employers to provide hour-for-hour overtime compensation to exempt, highly-paid executive employees, merely because those salaried employees could suffer a pay reduction for a partial day's absence from work. This interpretation, often referred to as pay-docking, makes no sense and is inconsistent with historic interpretations of the FLSA. The Wage and Hour Division has admitted that the interpretation is in tension with Congressional intent in the new Family and Medical Leave Act.

This is only one example of the sort of ill-considered government policy that imposes pointless costs on American business. The NAM urges that no matter what the particular problem or policy under consideration, the Commission must be wary of increasing non-production costs on employers and employees.



## **The Elements of High Performance**

In order to compete in today's global economy in a way that increases productivity without reducing employment, the proper aim of every American employer and employee should be a high performance workplace. Defining a "high performance workplace" is not easy and it is clear that not every business reaches success by the same route. But there are several characteristics that "high performance workplaces" tend to share.

As you may be aware, the NAM has been engaged in a cooperative effort with the Department of Labor for nearly two years on this question. Based on 18 focus group meetings with corporate executives and workers, some conducted jointly, and on the economic analysis above, we identified the following:

- Providing the capital investment and technology that workers need;
- Appropriately increasing training and the investment in human capital;
- Continuing to improve safety and working conditions in a manner that increases workplace flexibility; and
- Encouraging a culture that empowers workers for greater participation, improves labor-management communications and cooperation, rewards performance, and generally moves the enterprise toward greater teamwork.

Further, four cross-cutting themes emerged from both worker and CEO focus groups as imperatives to increased productivity, particularly as they are affected by cooperation and participation. The collective view was that manufacturers must:

- Improve communications between workers and management;
- Find ways to continually develop and upgrade worker skills;

- Empower front-line workers to use those enhanced skills; and
- Make a total commitment to quality in all products and services.

These characteristics and themes are all recommendations to which the NAM subscribes. They also are values that run throughout the definitions of the three duties with which this Commission has been charged. The full definition of the first duty is to find means of increasing productivity *through* cooperation and participation. The second and third duties also have much to do with labor and management working together.

The terms cooperation and participation particularly underlie much of the remainder of what I have to say today.

### **Participation and Cooperation**

One familiar means of achieving participation and cooperation between labor and management is, of course, collective bargaining between an employer and the union representing its employees. Our system of industrial democracy demands that employees be able to choose, freely, to unionize or, equally important, not to unionize.

Where unions are present, they can and often do aid cooperation and participation. But non-union companies have made significant strides in increasing participation and empowerment and, some would argue, have been on the forefront of employee involvement. This may be due to the flexibility of these types of worksites, as well as the growing sophistication of human resources departments. Employers

have focused in recent years upon employee education and participation as a means of meeting the needs of today and constructing the workplace of the future. Businesses recognize the importance of responding to the needs of their employees and creating a human resources system that integrates corporate and individual concerns.

These companies have of course adopted a number of different means of fostering worker participation. Nearly all should be encouraged. But one type of employee involvement that currently merits special attention is the treatment of employee committees under federal labor law. Some regard the National Labor Relations Board's recent *Electromotion* decision as sounding a death knell for employee committees. It is not at all clear that this is so.

First, some employment lawyers believe that the implications of *Electromotion* have been exaggerated. The Board made clear throughout that case the fact-bound nature of its decision. Moreover, the lead opinion for the Board emphasized at the outset that the decision was "not intended to suggest that employee committees formed under other circumstances for other purposes" would be illegal, for example, to improve quality or efficiency.

Second, if *Electromotion* does have the broad import some have attributed to it, then the fact remains that a decision so adverse to employee committees was at best *permitted* by the NLRA; it was not compelled by the Act, and therefore *Electromotion* to that extent can and should be disavowed by the new Clinton Administration Board.

Third and last, if such an agency interpretation is not forthcoming, then the value of employee involvement, in whatever form it takes, is sufficiently great that the

NAM would support legislation to amend the NLRA to permit such programs.

Employee participation is one of the leading goals of employers and employees alike; an Act and an agency designed exclusively to serve these two groups should not stand in the way. Nor, if legislation proves necessary, should legislative reform be made to depend on other goals that are less important and on which there is less agreement.

At least as important to the creation of a participatory, cooperative workplace environment is the need to modify the trend in recent employment legislation to transform employment law into tort law. The use of juries as arbiters of the employment relationship, the movement toward punitive damages, and the criminalization of employment law all skew the employer-employee relationship away from cooperation. This Commission should strongly speak out against this trend.

### **Rewards of Participation and Cooperation**

I would like to spend the remainder of my time suggesting some other benefits of participation and cooperation between labor and management. As discussed, participation and cooperation can increase productivity. They can also make workers' jobs more pleasant and satisfying. By meeting these ends there is something else that participation and cooperation can accomplish: they can help reduce the extent and costs of government intervention in the employment relationship.

As previously noted, legal costs are one of the significant non-production cost factors. A workplace characterized by cooperation and participation can reduce these legal costs in a number of ways. Where there is participation and cooperation,

disputes will arise less frequently. When disputes do arise, the company and its employees are more likely to agree to arbitrate their disagreements than to invoke the legal system and all its expense. For example, an increasing number of non-union companies are using peer grievance-review procedures that are viewed as successful from both the employer and employee perspective.

Methods of alternative dispute resolution, or ADR, are gaining acceptance among proponents of judicial reform, who report great savings for the courts and parties: one arbitration service has reported that its 142 participating companies saved more than \$100 million in legal costs in 1990 alone. It should be remembered that ADR was once the preferred means of resolving employment disputes particularly in collective bargaining. Employment lawyers have the know-how to be at the forefront of this national movement toward ADR.

But most important, where employees are participating and cooperating in the enterprise, there is less need for regulatory requirements in the first place. Much of the federal employment regulation of the last three decades has aimed at conditions that effective employee groups are capable of addressing.

Therefore, as the Commission recommends steps to increase employee participation in the workplace, it would do well to consider areas where this greater labor-management cooperation warrants a concomitant reduction in federal intervention. These reductions in regulation might be proposed broadly, where labor relations seem generally capable of performing a role taken on by the federal government. Or the reductions might be framed as exemptions for companies

demonstrating particular regard for worker participation and cooperation. Pilot initiatives, on an industry or sector basis, should be considered.

The Commission should consider other alternatives to direct government regulation. OSHA, for instance, has developed a highly successful voluntary compliance program; the program now has a waiting list, and the agency is considering expanding participation. The National Performance Review includes a recommendation that would provide incentives to employers who use certified third parties to audit their safety and health programs. And sticking with OSHA, we need to place greater emphasis on performance-based standards which identify the goal to be achieved rather than the "command-and control" approach of dictating every detail of compliance.

Privatization of some enforcement functions also shows promise. The Labor Department devotes considerable resources every year granting "exemptions" for transactions involving employee benefit plans that technically appear to be, but substantively are not, prohibited transactions. There is no reason such independent reviews could not be performed by private institutions much like accounting firms, whose currency is their thoroughness and integrity and who would face great financial liability for breaching this trust.

### **Conclusion**

This Commission will have performed a great national service if it does no more than to initiate a continuing national dialogue among employer representatives,

employee representatives, and government officials on American employment policy. Such a dialogue would itself foster greater confidence and cooperation among the parties to the employment relationship. It would also be an important first step to a more considered, more consistent national employment law and policies.

This Commission's highest aim should be to remove current excessive regulatory and legal roadblocks to the ability of employers and employees to create a high performance workplace and thereby effectively compete. Job security and job quality depend on the ability of business to compete in a global economy.

In this regard, perhaps a good analogy to draw and apply to the Commission's deliberations is the framework of the Vice President's National Performance Review. How do we make the system perform in a more effective manner by empowering employees to do their jobs better, and by eliminating excessive regulations and streamlining those that remain?

The NAM joins others in the employer community in supporting your efforts to meet the challenges of the workplace of the future. We stand ready to offer whatever may be necessary to ensure that constructive and balanced recommendations emerge from this Commission.