Collective Bargaining and Industrial Relations,

Editor:

The publication of Thomas Kochan’s *Collective Bargaining and Industrial Relations* (1980) is a welcome mopping-up action in the establishment of a new scholarly tradition in the study of trade unions and collective bargaining. It is especially welcome because it brings together again the research of labor economists and industrial relations scholars whose paths had increasingly diverged in the fifties and sixties. This divergence was the result of dramatic technical changes in the way economics and the other behavioral sciences are practiced. Perhaps because of the commitment to practical experience in arbitration, mediation, and labor law, these methodological changes were eschewed by many industrial relations scholars and labor economists. As early as 1954, the first Nobel Prize winning economist, Paul Samuelson, remarked that the only place left for economists without basic quantitative skills was the study of labor economics. As Kochan shows, however, technical change must ultimately be accommodated. A glance at the current issue of this journal (or any of its competitors) is enough to demonstrate that the serious quantitative study of industrial relations has arrived. It is this research that Kochan draws together in a virtuoso and wide-ranging display of the mastery of the methods of several disciplines.

Although it is more than a textbook, Kochan’s work is also welcome because it can admirably serve that role as well. Perhaps like many economists, my original exposure to the academic study of industrial relations was through an undergraduate labor economics course. In my case, the course was taught by the flamboyant labor economist and arbitrator Orme Phelps, who, of course, used his own text. Although it covered the necessary economics, the book’s strong point was its lively discussions of labor history and industrial relations. (I still remember the description of Walter Reuther taking a shotgun blast from a management thug; and early editions helped students to memorize labor’s lineup by portraying America’s labor leaders in the positions of a football team, with George Meany as quarterback!) When a separate and more detailed course in collective bargaining was
requested and eventually created, the best available text for the new course turned out to be virtually content-free. (Phelps felt so badly about requiring students to purchase this text that he allowed me to select a book from his personal library as a form of money back guarantee.) Largely because of this, the fledgling course soon disappeared. Kochan’s book is the first I have seen that might change this state of affairs.

For one thing, the book does not deny the traditional practical concerns of those who study collective bargaining. Students (and others) are naturally interested in how collective bargaining, arbitration, and mediation are conducted. Kochan’s discussion of mediator strategies (pp. 279-283) is an example that will not only meet, but enhance, this interest. Other examples include a discussion of the tactics firms use to remain nonunion (a French company used executives’ spouses to offer “free lessons in French cooking to employees and their families”), and discussions of the effect of intraorganizational political battles on negotiations.

Kochan’s book is also comprehensive. It contains a basic review of labor law, a discussion of the impact of the new regulatory laws covering occupational safety and employment discrimination, and a long survey of management goals and policies in collective bargaining. This last survey is carried out with the assistance of a special questionnaire of management policies that provides some of the first new information since the publication of Slichter, Healy, and Livernash’s huge The Impact of Collective Bargaining on Management. No one will be surprised to find that managers still want to remain nonunion, but this material also dramatically demonstrates the way in which the new quantitative methods of industrial relations have entered the practical world. The preparation and negotiation of new labor contracts requires an entire corps of labor and computer specialists.

There is often a temptation to serenade a book that uses the methods of several disciplines for its success in the application of methods about which the reviewer knows least, and then to lament its failure in the application of methods the reviewer knows best. The inference is that the work of each discipline has, by its own standards, been poorly handled. Quite to the contrary of this stereotype, I found Kochan’s discussion of the economic analysis of collective bargaining to be excellent. The emphasis throughout the book on the role that the insulation of wages from competition has in the determination of bargaining structure and bargaining success is exceptional. Likewise, the complicated state of the evidence on the effect of collective bargaining on wage structures is reduced to a useful and readable summary.1 As a

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1 There are some technical problems to be overcome in later editions. For example, a mysterious Table 3 is discussed on p. 74, but does not appear in the book. I also imagine that Daniel Hamermesh may not adopt the book as a text: his name is misspelled in five different places.
result, the book could even be titled the Economics of Collective Bargaining. It could certainly serve as a text for a course with such a title.

Kochan’s book is more than a text, however, and research lacunae are examined throughout it. Although I agree with Kochan on the desirability of filling these gaps in research, I also came away with the uncomfortable feeling that the quantitative progress made to date in industrial relations research is often superficial because of its weak theoretical underpinnings. In fact, the theoretical discussion of labor contracts has become an extremely popular topic in economics as our failure to understand the complex nature of the employment relationship has become more obvious. Interpreting the employment relationship as a formal contract is attractive to economists because phenomena that appear otherwise inexplicable sometimes yield successfully to an economic analysis based on optimizing behavior when the long-term nature of the employment relationship is recognized. Predicting the terms of such labor contracts has become an important task and testing these predictions offers great opportunities for those interested in industrial relations research. Collective bargaining agreements offer one of the few sources of data for testing hypotheses about the determination of contracts. Such agreements are, after all, explicit contracts, and they may serve as the prototype data for tests of models that will be useful in the explanation of the terms of the implicit contracts struck in the larger nonunion sector of the economy. Ironically, the desire to understand the nature and determinants of these contracts, which has always been center stage in the study of industrial relations, has only now achieved the recognition it deserves in economic analysis.²

The new focus in economic analysis is an attempt to explain why particular employment arrangements arise and what determines the compensation that is made for the various components of these arrangements. The basic building blocks for this explanation are the employer’s technology, the nature of product demand, and the preferences of workers. As always in economics, the goal is to explain why it may be jointly profitable to workers and employers for particular employment arrangements to evolve and what the compensation for these arrangements will be. In this new literature, the enormous richness and heterogeneity in the characteristics of individual jobs is finally acknowledged. Kochan’s book conveys less of the sense of this heterogeneity than would be useful. The enormous diversity in payment systems, overtime premium arrangements, shift differentials, and other job characteristics is only briefly indicated.

Many of these new economic analyses have been useful because the

²Some of the implications of this new view for economic research on wage and employment determination, as well as its tradition in economic analysis, are examined by Abowd and Ashenfelter (1979).
distinction between the efficiency and distribution characteristics of labor contracts has not prohibited successful research (see, e.g., Brown, forthcoming; Card, 1980). Of course, in the analysis of two parties with some bargaining power, conventional economic analysis cannot predict all the terms of an agreement. Efficient labor contracts exist only when, given the information available to the parties, the total welfare of the two parties combined cannot be increased by a contract change. The efficiency of labor contracts will not generally determine all of the terms of a contract, but different economic environments will generally be consistent only with some forms of efficient contracts. For example, when workers dislike risk more than do employers, the greater the amount of unpredictable inflation the greater is the likelihood that an efficient labor contract will contain a cost-of-living escalator. This no doubt explains, in part, the spectacular growth, decline, and renewed growth of cost-of-living clauses in collective bargaining agreements over the post-war period. I have no doubt that the forms these clauses take may also be amenable to economic analysis.

Progress in the study of labor contracts has resulted because a successful bargaining model for determining all of the terms of a labor contract is unnecessary for understanding the determination of some of its terms. Another area where this approach has been successful is in the analysis of systems of arbitration. The growth of innovative dispute settlement procedures in the public sector originally drew on the pioneering work of Carl Stevens (1966), and his suggested final-offer scheme has been adopted in many states. It is only recently, however, that Stevens’ remarkably original discussion has been carefully formulated or used in the empirical analysis of existing arbitration systems. The importance of this research carries beyond its immediate significance for the design of public employee dispute resolution statutes. Arbitration systems are a form of third-party settlement procedure that is growing in the private sector as well. Moreover, arbitration arrangements take a form much like other judicial systems for dispute resolution. The difference is that negotiated settlements and arbitration awards can be measured and observed relatively easily. As a result, arbitration systems offer a valuable opportunity for investigating the general characteristics of third-party dispute resolution systems.

This research has already begun to provide new insights into the nature of dispute settlement in the presence of an arbitration statute (see Farber and Katz, 1979; Ashenfelter and Bloom, 1981). It is becoming clear that expectations about arbitrator behavior may have a significant influence on whether the two parties negotiate a settlement and on what terms. It has been suggested, for example, that arbitrators often appear to be splitting the difference between the parties’ last offers because the parties have
chosen to position themselves around what they expect is the arbitrator's preferred position (Farber, 1981). If this is the case, arbitrator preferences are having a profound influence on negotiations, and critiques of arbitrator behavior based on the assumption that they use mechanical split-the-difference decision rules is seriously misplaced. It is also becoming clear that the design of arbitration systems confronts a tradeoff between the likelihood of a negotiated settlement and the influence the arbitrator's views may have upon the outcome. After all, the simplest way to guarantee that the parties will negotiate a settlement is to specify the outcome that will be imposed if they do not agree and to make the parties pay the cost of the arbitration proceedings. Since neither party could ever do better than the specified outcome, simply agreeing to it outright would be the cheapest and the inevitable outcome. This also guarantees, however, that the negotiated settlement is effectively dictated by the arbitrator. In the practical world this dilemma corresponds to the observation that the arbitrator can send the parties scurrying toward settlement by revealing what he thinks is fair; but he sends them scurrying toward a settlement they might not otherwise have considered. Quantifying the terms of this tradeoff will be important for the future design and understanding of the arbitration system.

I have mentioned these examples of the new research in industrial relations in the hope that when it comes time for Kochan to revise his impressive Collective Bargaining and Industrial Relations there will be significant research with a stronger theoretical basis for him to report. In the meantime, teachers of collective bargaining can finally feel free to assign a text without fear of having to pay up on any money back guarantees they've offered.

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References


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