

H.D. Woods Honorary Address.

Bruce Kaufman.

Introduction

We are especially honoured to present the H.D. Wood lecture and to have Bruce Kaufmann give that talk to us. Bruce is a professor of economics at Georgia State University. He is an extremely active researcher and writer. He is the editor of *Theoretical Perspectives on Work and Employment Relations* published by the IRA, and Bruce advises he has fifteen complementary copies if anyone is interested. Bruce also produced the landmark *Global Evolution of Industrial Relations* published by the International Industrial Relations Association in 2004. He and Jim Bennett are co-authors of a book coming out this year on the 20th anniversary, a commemorative volume, of Freeman and Medoff, and he is also a co-editor of *Advances in Industrial and Labour Relations*. Please welcome Bruce.

Lecture

Thank you very much. It's a pleasure to be here. It's particularly a pleasure since right now I'm from the bible-belt from the state of Georgia, but many years ago I was a landed immigrant from Canada. This is the danger of drawing a line between two points because actually it was right when I finished graduate school during the Viet Nam war so you might infer that my travel was for that. It actually wasn't, but I went to UBC for two years, and that was a wonderful experience, so not only do I have many friends here in Canada, but I also had a 'big toe' in the country. Well, now I live in Georgia.

I was invited to speak at a conference in Italy a few months ago and the subject was the future of industrial relations. I was the only American on the programme, and I like to be provocative in my remarks, and I like to try to keep the audience stirred up a little bit, so I opened with my remarks by saying that I was invited because the state of Georgia where I come from is reflective of the future of industrial relations where our union density rate is now less than 5%, but we do have 30 McDonalds in the city. Well, I don't

know how funny they found that, but at least it was provocative.

This afternoon in my remarks, I will attempt to be provocative and you know how it is if you've ever been to a LIRA meeting in the United States. We have a big lunch and then the president gives his or her remarks and within 15 minutes you see peoples' chins hitting their chests. So I'm going to do my very best to keep your chin off your chest and say something that you'll find interesting, maybe provocative, and thought provoking. So my topic today is rescuing and revitalizing industrial relations. I don't believe I have to spend a whole lot of time convincing you that our field of industrial relations is in some trouble. I have two quotations from two former presidents of International Industrial Relations Association, John Nyland from Australia and Thomas Kochen from MIT in the US, and you can read both of those quotations. Look at Nyland: "*It is not being overly dramatic to wonder whether the discipline will survive much beyond the year 2000.*" Well, we're on borrowed time already according to him. And of course, the prognostications of doom and gloom are more advanced in the United States because the decay of our field is the most advanced in the United States. But as I was sitting at the beer tent yesterday with Anne Cross and several other people, and we talked about the state of this association and the state of the field in Canada, and the same signs of decline are there, and I understand the membership in CIRA is declining and so on and so forth. So, I think the quotations I have up here are as applicable to Canada as to the US, although I think the field is in better shape in this country. The question I want to address is how did industrial relations get this way, that is, in this state of crisis, and more importantly, what can we do about it.

Well to think about that, I would like to turn the clock back a hundred years ago and think about who were the founders of our field and what were they trying to do. When we think about what they were trying to do, is it today irrelevant? And if so, does that explain why our field is in decline? Or possibly, have we gone astray from what the founders intended and what their focus was, and is that why our field is at this point? Well, who are the founders of our field? Of course, I encourage you to go out and read my latest book, *The Global Evolution of Industrial Relations*. I think you can get a copy from the International IR Association for \$35 US, and you get 700 pages. You don't get

a deal like that very often, and with those 700 pages, do you know how much bedtime reading that is? Who are the founders of industrial relations? You get this right on the dedication page. You don't have to read all 700 pages. Some of these founders are obvious. The first that I would pick out are in this photo. Now for every industrial relations person, this should make your heart beat a little faster. You should get a swelling in our chests. It's of Sidney and Beatrice Webb, and from my own point of view, their book, Industrial Democracy written in 1897, is the most towering intellectual work in our field. So far, it doesn't get any bigger or any better than Industrial Democracy. But there is another founder. This is John Arkanas. Here he is at the University of Wisconsin outside Babson Hall, and he was another founder of industrial relations. In fact, the field of industrial relations had not yet been invented when the Webbs did their work, and as I argue in my book, they went about socialism in England and other capitalist countries, and industrial relations is avowedly a project to preserve a capitalist economy but to soften the rough edges of it. This was Arkanas' point of view, and he was the second founder. Most controversially, and this was the most difficult issue in all of my 700 pages, who do we have in this picture? We have the third founder of industrial relations, John D. Rockefeller Jr. This is totally revisionist, but I will bet all of you people in this room who have read about industrial relations, that you have never seen John D. Rockefeller Jr.'s name at all, let alone as a founder, but I will tell you that he was crucial to our having a field of industrial relations. He wouldn't be in this picture, and he wouldn't be a founder, except for this person in the middle who is near and dear to every Canadian in this room, and we are talking about William Lyon MacKenzie King, one of your former prime ministers, but he was Rockefeller's industrial relations consultant and advisor, and he brought Rockefeller around from a laissez-faire capitalist to a born-again convert to industrial relations, meaning progressive labour management. Our third fellow is just a stalwart, salt-of-the-earth miner, but he has a place in history. So these are our three founders.

Why is our field in trouble? Why is it going in the ditch? We have to think about what they were trying to do, these three founders. I think in most people's point of view, what is industrial relations about? I was at the table just before getting up here, and Bob Hebdon and I were talking about his writing a new industrial relations book. I said,

What is industrial relations? What is your book about? He said it has a variety of topics, but the core subject is labour management relations. There's a chapter or two on management, but the center is labour management relations. I think that as we perceive our field that's what it is about. I'm getting ahead of myself for just a second, but the question is what represents the core of industrial relations. In theory, it is the study of the employment relationship. But in practice, the way our courses are structured, the topics at our conference meetings, they revolve around labour management relations. I have this quotation from the opening of Kochan and Katz's textbook, "*Industrial relations encompasses all aspects of the employment relationship.*". There you have a broad definition, but the two sentences later they say, "*IR professionals have historically given special attention to relations between labour and management*", and if you've used their book, you know what the rest of the book is about. Locke, Kochan and Piore say "*Industrial relations emerged as a distinct field of study in the aftermath of the Great Depression and World War II.*" Do you agree with this? This is conventional wisdom. This is wrong. Now I've put a Canadian in here, and I think the foremost student of the history of our field from Canada is right up here, Roy Adams, and he wrote a very nice chapter on the history of the field in 1993, and this is what he said, "*Industrial relationists tend to focus most of their attention on unions, collective bargaining, and miscellaneous labour market issues.*". I'm just weaving a theme here that in our field, we might have pretensions of studying the entire employment relationship, but let's be real. What do we do? What do we talk about? What do we write about? What's in the textbooks? It's a heterogeneous group of subjects, but the common denominator seems to be unions and collective bargaining. Is that what the three founders were interested in? You might say so. What's industrial democracy about? It seems like it's about unions. What was Kochan famous for? His studies about unions. Why was Rockefeller interested in industrial relations? He was trying to keep out unions. That's the common denominator. Guess what. I'm up here to spin a revisionist story. That is not correct. That is the conventional wisdom. That is the problem with our field, but it is not historically accurate. So I'm here to set it straight.

Here's the common denominator that unites all industrial relations scholars, and it is a rejection of this model. This is where it starts. This is the peak of the mountain for us as intellectuals and as problem-solvers. At this conference, this model has been in

the background or on the table at every session I have gone to. Last night, if you were there, Marie Legotto talked about IT workers and what was the story there? That these IT workers are working incredibly long hours. They're working at night. They're working on the weekend and so on. Now if you believe in this model up here, the picture she was painting was what? This is a labour problem. We need to do something about it. These people don't have time on the weekend or at to have a family. But if you believe in this model up here, what's your standard response? The standard response is that there's no problem here. If those people don't like working on the weekend, what can they do? Well, they can quit and go find something else. And she said in her talk that those people are being compensated far more than they can get at any other job.

I just came from a session that Judy organized that was very interesting on WalMart, and of course to be provocative, I got up and tried to give the counterpoint view about how maybe WalMart isn't so bad, and I can't remember who it was, but one of the people in the audience said that we cannot give any credence to that argument—I'm paraphrasing—that it is better to have jobs even if they are low-wages jobs. We can't tolerate that. Well, if you believe in this model up here, you're not going to buy that argument. This model says that wages should be set by supply and demand, and if there are more people who want those WalMart jobs at \$8/hour, then that is fine, and it is not up to us to be social engineers and go tinkering, trying to get increased wages through unions or something else. So I would just simply claim to you the reason our field is in trouble intellectually is because this model rules the roost. It rules the intellectual roost. The people who count at the IMF, at the White House, at the Harvards and Princetons, they believe in this model, not every last detail of it, but they believe the economy is competitive, and they look at meetings like this and the topics that we talk about as interferences with this model that are undesirable. So we are ruled out of court intellectually, and we are ruled out of court politically.

My basic thesis is that to revitalize and rescue industrial relations, we have to confront that demand and supply diagram, and we have to make an intellectual policy case that although there are broad courses of demand and supply. Richard Freeman came to Georgia State about a year ago and gave a lecture, and it was fascinating because he said in the last ten year, the labour supply curve in North America had shifted to the right by about 2 billion people. That is because in the last ten years, China

and India have become effectively part of our labour market. I think we all have to agree that at that level, there is supply and demand. But what we have to quarrel with is that labour markets are as entirely competitive as that diagram. At any rate, that is where I am headed.

I would like you to think more seriously about what our field is, and I am finding in my book that basically there are three faces to industrial relations. One is the 'science building' face. I got that term from one of my dear mentors, Jeff Barbatch at the University of Wisconsin. I think he is one of the greatest thinkers in industrial relations, and he coined that phrase. That is what we do as intellectuals and as scholars. We try to come with logical generalizations. We pick a subject. And what is our subject? I think it's the study of the employment relationship. And indeed, if you go back and look at the definition of industrial relations, how people defined it in the 1920s. This is when our field started. I'm claiming that its birth year was 1920. It wasn't after the Depression. It wasn't after WWII. It was in 1920 when our field was founded. If you go back and look at how people defined it, it was the study of the employment relationship. Obviously, the employment relationship is broader than labour-management relations. So part of our field in the science building face is the study of the employment relationship.

I think the principal thing that our field is about so far is the solution of labour problems. When you go back, the original IR textbooks were not called industrial relations. These were written in the 1920-1930s. You might not believe this but the very first course I taught at Georgia State was in the fall of 1977, and the title of the course was Dynamics of Labour Problems. Labour problems was a term that existed for 60-70 years, and it came out of the institutional tradition. It's wasn't labour economics then. It was labour problems. Labour problems and industrial relations are opposite sides of the same coin. Labour problems such as child labour, 12-hour workdays in the steel industry, and poverty-level wages. In coal mining alone, there were thousands of people killed every year. All of these are labour problems. What was industrial relations? It was the solution to these problems, and the solutions took a variety of forms. One solution was labour unions and collective bargaining. Another was protective labour laws such as minimum wage laws and social security. Another was progressive labour management which was where Rockefeller came in.

The third face of industrial relations is the ethical/ideological face. And let's be real. Economists like to say that economics is totally objective, and it doesn't have values, but that is not true from my perspective. I think we are more open. I think it's fair to say that at the WalMart session that I just came from there was an ethical/ideological face in the room. It was very clear that there was an ideological position to be taken there. I think the ethics of our field is that we do not consider labour to be a commodity. Many other things are traded in markets like wheat and steel. Those are commodities. But we do not care if steel is housed in a place below zero. We do care about how labour is treated because labour is embodied in a human being. I think that defines our community of interest; to some degree, we are all concerned about workers. We're not too concerned about wheat or coal, but we are concerned about workers. And this is certainly part of what empowers much of Roy's writing about labour rights and human rights. We don't care about coal rights or wheat rights, but we do care about human rights. I think the second typical thing that we all care about is industrial democracy. We'll define that differently, but from my point of view, it is some element of voice and due process in the workplace. Those are the three faces of industrial relations.

Why do we have to be against that supply-and-demand diagram? Why do we have to be against that neoclassical economic model at the core. I think of neoclassical economics as an inverted pyramid. What is at the very bottom of that inverted pyramid is the competitive model of demand and supply. This one diagram is the most important diagram in all of economics, and it is what entire edifice of economics is built on. Why do we have to be against it? If we are going to be successful as a field, we have to come up with some intellectual reasons that carry weight that other intellectuals will respect about why that diagram doesn't make sense on a purely logical and intellectual point of view. Now to a degree with intellectual, scholarly arguments, who cares but intellectuals? But nonetheless, Milton Friedman didn't win a Nobel Prize and monetarism didn't sweep the world for awhile except on the power of some of the ideas he put out. So ideas do count for something. What I am going to tell you is that the reason we can't believe in the competitive labour market model is partly because there is no subject for us to study. If you really take the logic of that model back to the foundation, in a competitive labour market there is no employment relationship to

study. You may say, how is that? Ronald Coates won the Nobel Prize for this idea and it hasn't seeped into our field yet. But what he showed and what helped him win the prize is that when there are zero transaction costs, then firms dissolve, and then the entire economy dissolves in a congerie of a one-person firm. The entire economy is a system of family farms for example. This is what we all teach in ECO101 to demonstrate that demand and supply are fairly hard. But is there an employee in the relationship in an economy of family farms? No, because everyone is self-employed or else they are independent contractors. When you remodel your kitchen, do you hire employees to do it? That would be for a labour market. There would be employment relationships to study. But what do you do when you remodel your kitchen? You hire an independent contractor. That's buying and selling through a product market. There are commercial relations but there is no industrial relation.

Why do we have to take on that competitive model? Because with the competitive model, there are no labour problems for us to study. There are no labour problems for us to propose institutional solutions to. When was the last time you picked up a journal of labour economics or any economic journal and read about labour problems? When is the last time you saw that term? There are no labour problems any longer. Robert Lucas from Chicago—Chicago being that death star circling our field—won the Nobel Prize for his theory, the inter-temporal substitution hypothesis, about why so many people were employed during the Depression. To industrial relationists and institutional economists, that's a labour problem because the competitive market system wasn't functioning. You didn't have an equilibrium. But Robert Lucas won the Nobel Prize for saying 'You want to know why they were unemployed? It's because they optimally decided to have leisure during the Depression because wages were low and job opportunities were low.' So a rationally optimizing individual looking over an entire life cycle says they will have leisure in the 1930s and then move their work to the 1940s when there will be a better job market. Unemployment disappears as a labour problem.

Here's an example. I happen to like this because it comes from the courts. You know companies that pay their workers in script? The companies don't pay cash for wages, and instead use paper written by the company. Some people took that to court and said that wasn't fair. The Pennsylvania Supreme Court said that a law mandating a company to pay cash for wages is unconstitutional. Why? Because it abrogates

freedom of contract, and from an economical point of view, it abrogates competitive reason. If you don't like being paid in script or if you don't like working at WalMart, what can you do? You quit. Or John Arkanis, let's get him back in here. He was one of the biggest proponents of workers' compensation laws where the state would put up an insurance program and tax the employers to get money to pay injured workers. These laws were repeatedly declared unconstitutional and were declared anti-social by the classical economists. Why were classical economists be against such laws? Because they allow workers to double-dip. If you read Adam Smith, what do we know? Jobs that are more dangerous will pay higher wages. The workers in these dangerous jobs are already getting compensated because they are getting more pay. So then if they get injured and get a workers' compensation payment, they're getting paid twice. What I am trying to point out when you follow this competitive reasoning, there are no labour problems. Everything is some sort of optimal and efficient outcome.

What happens to our field? It has no utility or use. We are simply obstructionists of demand and supply. We should just go away. But what about the ethical/ideological face of industrial relations? The problem is that with competitive markets, they do give workers voice, but it's a negative kind of voice. What is it? It's voting with their feet. You don't like it? Find something else. I think from an industrial relations point of view, this isn't necessarily right because it puts the burden of adjustment on the worker. Now if you had a competitive market where demand equaled supply, then you have enough jobs out there and if you leave one job, you can readily find another. That's not a bad world, and many professors play that game. If you don't like it at York, you go to Western Ontario. But for many workers and many labour markets, there is a dearth of jobs. There is an excess supply of labour. When then we say that if you don't like it, you can quit, there's a problem. Also competitive markets undersupply desirable workplace conditions. The one that John Arkanis listed as number one is security. Security is the very antithesis of competitive markets. Competitive markets are constantly churning. But as human beings, we want some security. That is undersupplied in a competitive market by definition. Fairness, Jeff Harbeck talks about fairness all the time. We're not calling interest to the inefficiency, but fairness is crucial to us as human beings. Often competitive markets don't provide fairness. I'd happily tell you about my colleague who is paid \$40,000 more than I am. I think that's more because I am immobile in the

market as I have a wife and children in Atlanta, and he has much more mobility. The market just prices salary differentials like that, but is it fair? He thinks it is, but I'm not so sure.

What is industrial relations? I'm asking you to reconceptualize our field. I'm arguing that industrial relations is basically the labour economics of positive transaction costs. With positive transaction costs, you get an employment relationship. In a perfect market, you don't have costs. You don't have mobility costs or information costs. The thing that always left out of that is that you don't have transaction costs. There's no cost to buying and selling. Therefore, a critic would say this is likely an economic theory of production where there are no production costs. Can you imagine that? What would that theory look like? We have a theory in economics where these two curves cross where there is no cost to buying or selling. No wonder it works efficiently. No wonder it is the best of all worlds. But it's artificial because there are costs to buying and selling, and when you have costs of buying and selling, Koch showed this is what causes firms to form. This why General Electric and IBM have hundreds of thousands of employees. But what happens when you have firms? They are an imperfection in the market. The very existence of a firm is an imperfection. This is the crucial thing. In common is the one who invented the transaction idea so it comes back to our founder. With positive transaction costs, we don't have competitive markets by definition because they are imperfect markets. They have positive transaction costs. Positive transaction costs, if you take much economics, you know you have moral hazard, principal-agent problems, externalities, and public goods. Each one of those is a cause of a labour problem, and the minute you have a labour problem, what do you have? A justification for an institutional intervention in the market to correct that labour problem.

Where some of us have gone wrong or overenthusiastic is that just because you have a labour problem doesn't necessarily mean there's some institutional fix—a union, a minimum wage law—because all of these things have their own problems. We have to be a bit more balanced or nuanced when dealing with the defect of the market *versus* the defect of our institutional solutions, but nonetheless, I'm just trying to open the door to allowing this to be a possibility. So industrial relations is partly the economics of positive transaction costs. It is also the study of labour problems, and in particular, the usage of institutions to make imperfect markets and firms work with greater efficiency

and fairness. I also believe that ethically it is a commitment to individual freedom in a capitalist free market system but in the context of balance, fairness, and fundamental human rights.

Why is industrial relations in crisis and the neoclassical model triumphant? I think the answer has three parts. The science building's neoclassical economics has a very well developed theory and you can study it semester after semester and it has lots of graphs and mathematics. Industrial relations has never developed much of a theory. About the best we have is Dunlop's industrial relations system model, and that is quite a sorry competitor. We haven't really developed our theory. I think the theory to come will be based on transactions costs. Problem solving, in today's era, the neoclassical's deregulation program appears to offer better performance than the IR program of substantial trade union and labour law interventions in the markets. I think ethically and ideologically there has been a big shift in our North American societies and in the world in general, that individualism and materialism are running rampant and are displacing collectivism and senses of social justice. It's really the economic model of every man or every woman for him/herself all guided by the 'invisible hand' is coming to reality.

To rescue industrial relations, I believe the first priority is that we have to develop some kind of industrial relations theory of an institutional heterodox nature, and I outline some things here like the behavioural model of the human agent and Burn's governance structures, but I'm running out of time so I will pass over that.

In terms of problem solving, our first priority is to use IR theory to develop an integrated 21st century policy program for labour, but I think it has to recognize there is an imperfect market, some employer power, etc, and we need to link equity and efficiency. The problem is—at this meeting and in reading industrial relations journals—that the solutions to labour problems that we put forward are too heavily invested in some old tools of the past that are not so effective as they used to be and sometimes cause more problems than they solve. Areas of rethinking that I put forward for your thoughts are scaling back the welfare state and also scaling back trade unions. You might say there isn't much to scale back. You might say there isn't much to scale back. This would certainly be true in my country and increasingly so in yours, but certainly a trade union density in the 30-40% range like we used to have might not be so effective

today. The current IR program might exacerbate what Commons and myself view as the number one problem: unemployment. You can look at this graph. This shows the unemployment rate of western Europe since 1970 to the current time. All I would ask you to think is if our field is going to prosper we have to put on the table for intellectuals and policy makers a program of employment solutions that makes things better rather than makes things worse. I ask you to think the things we put forward in our meetings or that we advocate in industrial relations, are they part of this problem? Do they cause that? Or are they part of the solution?

I'll just put forward for you to think about it that maybe our traditional industrial relations program has contributed more to that than it has solved, and that is part of our problem.

Not only do we need industrial relations theory and a somewhat reconfigured policy program, we need to flesh out our ideological and ethical positions, make them overt, and then wave the flag in support of them. Basically, as I suggest, we're talking about some version of Maslow's hierarchy of needs where of course efficiency is important as the economists talk about, but that is at the bottom level of Maslow's hierarchy. But that's not where we stop. At that point, the economists stop and 'wash their hands' and say 'Oh, we can't talk about fairness or any of that because it's nonscientific'. I don't think we can accept that. As human beings, we have to incorporate considerations of fairness even though we might disagree about them. I just want you to think of Maslow's hierarchy as a way that we can conceptualize our ethical position in this field and give some weight to fairness as well as to efficiency. I'm putting on the table that even in our darkest hour where industrial relations seems threatened on every front that it's possible our field could be reborn, and that it would be a theory of the employment relationship in imperfect labour markets. In imperfect labour markets, you have firms, firms that need to be managed. So we have room in our 'tent' for human resource management. You wouldn't have a field of human resource management if you had competitive labour markets because there's no firms to manage. We'd have a labour program that balances labour protection and security with individual freedom, business innovation, and competition. We'd have a normative human welfare commitment to a world of work that combines efficiency, social justice, and human development. Right now the Chicago School has swept the field, and they

are really on the intellectual mountaintop and the policy mountaintop, but there is still room and opportunity for Wisconsin and all the people who believe in that tradition to come back and make a real contribution. So, folks, get your t-shirts! Wisconsin will come back and have its day. Thank you.