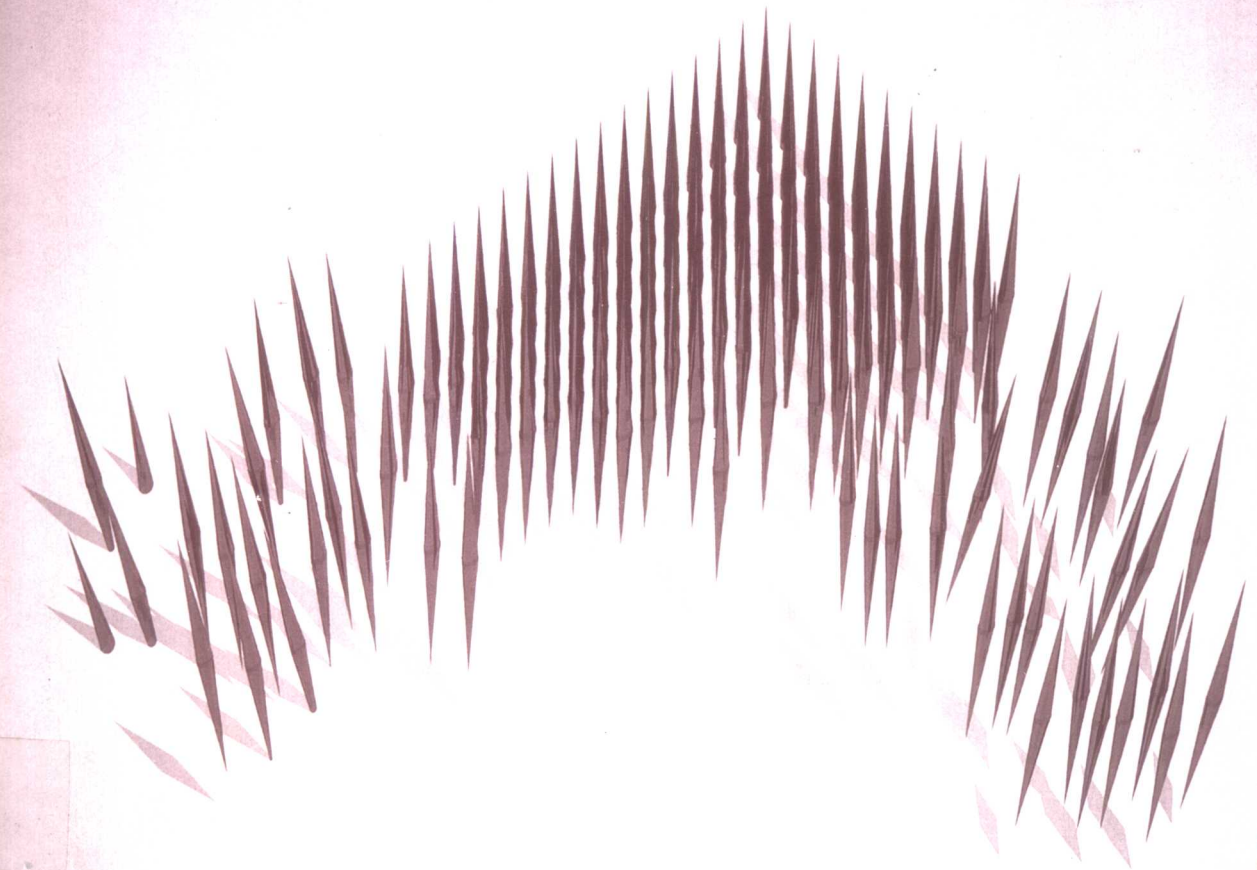


An Introduction to  
**Collective Bargaining  
& Industrial Relations**



**SECOND  
EDITION**

**HARRY C. KATZ & THOMAS A. KOCHAN**

# McGraw-Hill Higher Education

A Division of The McGraw-Hill Companies

## AN INTRODUCTION TO COLLECTIVE BARGAINING AND INDUSTRIAL RELATIONS

Copyright © 2000, 1992, by The McGraw-Hill Companies, Inc. All rights reserved. Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written permission of the publisher.

This book is printed on acid-free paper.

3 4 5 6 7 8 9 0 DOC/DOC 0 9 8 7 6 5 4 3 2 1 0

ISBN 0-07-228631-8

Vice president/Editor-in-chief: *Michael W. Junior*

Publisher: *Craig S. Beytlen*

Senior sponsoring editor: *John E. Biernat*

Editorial coordinator: *Erin Riley*

Marketing manager: *Ellen Cleary*

Senior project manager: *Beth Cigler*

Production supervisor: *Rose Hepburn*

Director of design MHHE: *Keith J. McPherson*

Cover designer: *Trudi Gershenov Design*

Cover and part image: *Photonica*

Supplement coordinator: *Susan Lombardi*

Compositor: *York Graphic Services, Inc.*

Typeface: *10/12 Times*

Printer: *R. R. Donnelley & Sons Company*

### *Library of Congress Cataloging-in-Publication Data*

Katz, Harry Charles (date)

An introduction to collective bargaining and industrial relations

Harry C. Katz, Thomas A. Kochan. — 2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-07-228631-8 (acid-free paper)

1. Collective bargaining. 2. Industrial relations. I. Kochan,

Thomas A. II. Title.

HD6971.5.K38 2000

331.29—dc21

99-26769

<http://www.mhhe.com>

This book provides an introduction to collective bargaining and industrial relations. It is appropriate for students and industrial relations professionals including unionists, managers, and neutrals. The strength of this text lies in its logical coherence and its comprehensive coverage of contemporary developments.

### ***Key Features***

The key features of the text include the following:

- A three-tiered strategic choice framework guides the text in a unified manner (presented in Chapter 1).
- A thorough grounding in labor history (Chapter 2) and labor law (Chapter 3) assist students in learning the basics.
- Boldface key terms in text and an end-of-book glossary define the terms.
- Related web sites are provided at the end of the chapters.
- The influence of business and union strategies is examined in Chapters 5 and 6 with numerous contemporary illustrations.
- The processes of contract negotiation (Chapters 8 and 9) and contract administration (Chapter 11) are considered, with frequent comparisons to nonunion practices and developments. Four grievance arbitration cases covering a range of current issues are offered in Appendix C.
- Thorough analysis of participatory processes and their relationship to collective bargaining are made in Chapter 12.
- The special aspects of collective bargaining in the public sector are spotlighted in Chapter 13.
- A separate chapter on comparative and international issues (Chapter 14) culminates the frequent comparisons made throughout the text. Chapter 14 includes discussion of Japanese, German, Polish, and Korean industrial relations developments; the emergence of a single EU market; the pressures created by multinational corporations; and the lessons for the United States from foreign practices.
- Two mock collective bargaining exercises, one in the private sector (involving blue-collar workers) and one in the public sector (involving police officers), are included in Appendixes A and B. A self-contained, easily usable PC disk is available that allows students to engage in contract costing and financial forecasting with the private sector bargaining exercise.
- An extensive *Instructor's Manual*.

## Central Themes and Text Organization

The text follows a three-tiered strategic-choice framework. We introduce the reader to collective bargaining by simultaneously moving across and downward through the three tiers of industrial relations activity. We move across the framework by examining how environmental forces shape collective bargaining, then turn to the process of collective bargaining, and continue moving across the framework by analyzing bargaining outcomes. As the discourse moves from the environment to the bargaining process and then to bargaining outcomes, it follows in the tradition of John Dunlop's seminal work, *Industrial Relations Systems*.

The text also moves downward through the three-tiered framework by examining how business and union strategies constrain the process and outcomes of collective bargaining. After considering strategic issues we analyze the middle tier of bargaining, where contract negotiation and administration are so important. Further down we examine workplace issues such as the organization of work and communication procedures. We (along with Robert McKersie) originally developed this three-tiered framework in our book, *The Transformation of American Industrial Relations*, 2d edition (Ithaca: ILR Press, 1994).

By examining the influence of business and union strategies on industrial relations, this book provides a broader focus than most other introductory texts. Yet, we feel the student must understand the influence of Wall Street, production strategies, union choices, and other strategic forces to accurately comprehend how collective bargaining works in the modern economy. A separate chapter examining participatory processes and their connections to collective bargaining (Chapter 12) is the result of our concern for workplace issues. Worker and union participation programs have become a central part of many labor-management relationships, particularly in the manufacturing sector. Students and professionals must study this development to adequately prepare for the realities they will experience in the industrial relations world.

Our writing on participation is heavily influenced by the findings of our own field research. Nonetheless, in contrast to the *Transformation* book, this text is less prescriptive or predictive. Our goal in this text is to convey the challenges and issues posed by the new participatory processes. We hope that critics of these programs will learn as much from our discussion of these issues as will supporters of the programs.

The focus in this book also is broadened by our concern for international developments. We highlight international comparisons and pressures through examples throughout the text and focus on these issues in a separate chapter (Chapter 14). International events, including the democratization movements in eastern Europe and developing countries such as Korea, are some of the most exciting developments of the day. Readers should understand the central roles that industrial relations problems and labor unions play in these events.

Extensive coverage of developments in the nonunion sector also distinguishes this book from others. The nonunion sector is important in its own right given the decline in U.S. union membership. Furthermore, analysis of the nonunion sector contributes to an understanding of the pressures and changes occurring within the union sector.

The public sector has increased in importance as unionization has declined in the private sector. We examine the special features of the public sector in Chapter 13.

Our broad focus helps the reader gain a full understanding of collective bargaining. We present numerous illustrations throughout the text, some of which are highlighted as cases. Knowledge of labor history and labor law help ground the reader in the workings of American collective bargaining. These topics are covered early in the book (Chapters 2 and 3).

Students also can expand their understanding of collective bargaining through the two mock bargaining exercises provided in the appendixes. The first of these exercises involves a fictitious private sector manufacturing firm, "D. G. Barnhouse."

Full instructions for this exercise and recommendations gained from our own classroom experience are provided in the *Instructor's Manual*. A self-contained computer disk for use on a PC is available at no charge from Irwin/McGraw-Hill. This disk allows the student (even those with no previous computer experience) to cost Barnhouse contract settlement terms and forecast the financial and employment implications of alternative settlements. We have used this contract-costing disk in our classes and highly recommend it.

The second mock bargaining exercise, provided in Appendix B, involves the police of "Queen City." This exercise gives students a feel for the role that political and urban pressures exert in public sector bargaining.

The four grievance arbitration cases in Appendix C illustrate a range of contemporary developments and enable students to test their skills as third parties.

### ***Instructor's Manual***

In addition to suggestions about how to use the mock bargaining exercises and supplementary material for those exercises, the *Instructor's Manual* includes: a test bank, overhead transparency masters, answers to the end-of-chapter discussion questions, chapter outlines, lecture outlines, and a listing of recommended supplementary films (and videos) and the companies that sell those materials. In our teaching of introductory collective bar-

gaining, we have found that the mock bargaining exercises and films help convey how bargaining really works. We would appreciate hearing your reaction to the text and these materials.

### ***Acknowledgments***

A number of people assisted in the development of this book and we are deeply grateful to all of them. Ben Whipple developed the remarkably simple contract-costing program available for use with the D. G. Barnhouse mock bargaining exercise. Able research assistance was provided by Jessica Kastin and Justin Mayer. Secretarial and administrative support beyond the call of duty was provided by Jackie Dodge and Lori Ard. The staff of Irwin/McGraw-Hill, Erin Riley and Beth Cigler, improved this book in many ways.

We are also grateful for the expert guidance of the following manuscript reviewers: Marvin Levine, University of Maryland; Leonard Bierman, Texas A&M; Jeffrey Arthur, Fairfield University; and Suzanne Crampton, Grand Valley State University.

This book is dedicated to our many teachers. It was they who generated the spark that led us into the field of industrial relations, a field we continue to find stimulating and rewarding. We hope this book can generate similar sparks for the reader.

**Harry C. Katz**  
**Thomas A. Kochan**

**PART I**

---

**INTRODUCTION**

**Chapter 1**

A Framework for Analyzing Collective Bargaining and Industrial Relations 2

**Chapter 2**

The Historical Evolution of the U.S. Industrial Relations System 17

**Chapter 3**

The Legal Regulation of Unions and Collective Bargaining 49

**Chapter 4**

The Role of the Environment 73

**PART II**

---

**THE STRATEGIC LEVEL OF INDUSTRIAL RELATIONS AND STRUCTURES FOR COLLECTIVE BARGAINING**

**Chapter 5**

Management Strategies and Structures for Collective Bargaining 102

**Chapter 6**

Union Strategies and Structures for Representing Workers 116

**PART III**

---

**THE FUNCTIONAL LEVEL OF INDUSTRIAL RELATIONS**

**Chapter 7**

Union Organizing and Bargaining Structures 142

**Chapter 8**

The Negotiations Process and Strikes 175

**Chapter 9**

Dispute Resolution Procedures 212

**Chapter 10**

Contract Terms and Employment Outcomes 235

**PART IV**

---

**THE WORKPLACE LEVEL OF  
INDUSTRIAL RELATIONS****Chapter 11**

Administering the Employment  
Relationship 268

**Chapter 12**

Participatory Processes 298

**PART V**

---

**SPECIAL TOPICS****Chapter 13**

Collective Bargaining in the Public Sector 326

**Chapter 14**

International and Comparative Industrial  
Relations 358

**Chapter 15**

The Future of U.S. Labor Policy and Industrial  
Relations 389

---

**APPENDIXES****Appendix A**

Private Sector Mock Bargaining Exercise 405

**Appendix B**

Public Sector Mock Bargaining Exercise 425

**Appendix C**

Grievance Arbitration Exercises 441

**Glossary**

---

**INDEXES**

**Name Index** 467

**Subject Index** 471

**Part I**

**Introduction**

**Chapter 1**

**A Framework for Analyzing Collective Bargaining and Industrial Relations 2**

- The Participants 2
- Assumptions about Labor and Conflict 3
- The Three Levels of Industrial Relations Activity 4
- The Institutional Perspective 5
- The Performance of Collective Bargaining 7
- The Plan of the Book 8

**Chapter 2**

**The Historical Evolution of the U.S. Industrial Relations System 17**

- The Colonial and Preindustrial Era 17
- Early Unionism 19
- The Need for National Unions 26
- The Rise of the AFL 30
- The Evolution of Management in Industrial Relations 31
- The Rise of Industrial Unionism 34
- The New Deal Labor Policy 36

- The Post-World War II Evolution of the New Deal System 39

**Chapter 3**

**The Legal Regulation of Unions and Collective Bargaining 49**

- The Conspiracy Doctrine 49
- Legislation Granting Rights to Collective Bargaining 52
- The National Labor Relations Act 54
- The Taft-Hartley Act 59
- The Landrum-Griffin Act 60
- The Value of Collective Bargaining 61
- Public Sector Labor Law 63
- Employment at Will 63
- Direct Regulation of Employment Conditions 65
- Important Administrative Agencies 69

**Chapter 4**

**The Role of the Environment 73**

- A Conceptual Framework to Analyze the Environment 73
- Bargaining Power 74
- The Economic Context 75
- The Legal and Public Policy Context 84
- The Demographic Context 87



The Social Context	92
The Technological Context	93
Recent Environmental Pressures on Collective Bargaining	95

## Part II

### **The Strategic Level of Industrial Relations and Structures for Collective Bargaining**

#### **Chapter 5**

##### **Management Strategies and Structures for Collective Bargaining 102**

Management's Strategic Choices—Theoretical Considerations	102
Alternative Industrial Relations Systems	103
Management Attitudes toward Unionization	107
Management Structures for Collective Bargaining	111

#### **Chapter 6**

##### **Union Strategies and Structures for Representing Workers 116**

Unions and Politics	116
Union Growth and Membership Characteristics	118
Models of Union Growth	123
Explanations of Recent Union Declines	125
Union Structures for Collective Bargaining	128

## Part III

### **The Functional Level of Industrial Relations**

#### **Chapter 7**

##### **Union Organizing and Bargaining Structures 142**

Union Organizing	142
------------------	-----

##### **Nontraditional Union Organizing**

Tactics	154
Bargaining Structure	160
Determinants of Bargaining Structures	162
Pattern Bargaining	167

#### **Chapter 8**

##### **The Negotiations Process and Strikes 175**

The Four Subprocesses of Negotiations	176
Management's Wage Objectives in Negotiations	181
The Dynamics of Management's Decision-Making Process	183
Union and Worker Involvement in Negotiations	187
The Cycle of Traditional Negotiations	189
Strikes	193
Strike Activity	196
The Role of Strategy in Negotiations and Strikes	204

#### **Chapter 9**

##### **Dispute Resolution Procedures 212**

Mediation	212
Fact-Finding	224
Interest Arbitration	225
Nontraditional Dispute Resolution	231
Key Organizations and Agencies Involved in Impasse Resolution	232

#### **Chapter 10**

##### **Contract Terms and Employment Outcomes 235**

Tracing the Effects of Union Wage Increases	235
Union Effects on Employment Conditions	237
Union Effects on Wage Administration	242
Union Effects on Fringe Benefits	243
Union Effects on Work Rules	245
Management's Response to Work Rules	253

## Part IV

---

**The Workplace Level of Industrial Relations**
**Chapter 11****Administering the Employment Relationship 268**

- The Grievance Procedure 268
- The Historical Evolution of Grievance Arbitration 271
- The Functions of Grievance Procedures and Arbitration 275
- How Arbitration Works 277
- The Connections between Grievance Procedures and Other Aspects of the Labor-Management Relationship 280
- Evaluating the Performance of the Grievance System 283
- The Duty of Fair Representation 285
- Responsiveness to Labor and Employment Laws 287
- Alternatives to the Grievance Procedure in the Union Sector 288
- Conflict Resolution in Nonunion Settings 291
- Should Due Process Be Mandated by Federal Law? 294

**Chapter 12****Participatory Processes 298**

- The Evolution of Worker and Union Participation 298
- The Links between Teamwork, Participation, and Work Restructuring 305
- The Debate Surrounding Participatory Programs 312
- Assessing the Effects of Participatory Processes 315

## Part V

---

**Special Topics**
**Chapter 13****Collective Bargaining in the Public Sector 326**

- The Evolution of Public Sector Collective Bargaining 326
- The Legal Regulation of Public Sector Unionism 330
- Differences in the Bargaining Process between the Public and Private Sectors 334
- Public Sector Bargaining Structures 337
- Management Structure in the Public Sector 339
- The Effects of Public Sector Bargaining on Outcomes 342
- The Use of Interest Arbitration 344
- Participatory Programs and Work Restructuring in Public Schools 346
- Normative Premises 352

**Chapter 14****International and Comparative Industrial Relations 358**

- Industrial Relations in Germany 359
- Industrial Relations in Japan 365
- Industrial Relations in Multinational Firms 368
- NAFTA 373
- The European Union 375
- Industrial Relations in Developing Countries 378
- Should the U.S. Import Industrial Relations Practices from Abroad? 382

**Chapter 15****The Future of U.S. Labor Policy and Industrial Relations 389**

- The History of Government-Promoted Labor-Management Dialogue 391
- Alternative Directions for Future National Labor Policy 395

---

**Appendixes**
**Appendix A****Private Sector Mock Bargaining Exercise 405**

Bargaining between D. G. Barnhouse Co., Inc.,  
and the United Metal Products Workers  
405

Collective Bargaining Agreement 408

Background Data 416

## **Appendix B**

### **Public Sector Mock Bargaining Exercise 425**

Bargaining between Queen City, New York, and  
the Queen City Police Association (Ind.)  
425

Background Data 432

Agreement between Queen City, New York, and  
the Queen City Police Association 434

## **Appendix C**

### **Grievance Arbitration Exercises 441**

Case 1: In the Matter of Arbitration between  
International Brotherhood of Electrical  
Workers, AFL-CIO, Local 4000, and ABC  
Wire Making Company 441

Case 2: In the Matter of Arbitration between  
American Federation of Teachers Union,  
Local 3000, and Homer City School  
System 442

Case 3: In the Matter of Arbitration between  
Minnesota Mining & Manufacturing Co.  
and Oil, Chemical & Atomic Workers  
International Union, Local 6-75 445

Case 4: Productivity Bargaining for Meter  
Readers: A Mediation/Arbitration  
Process 447

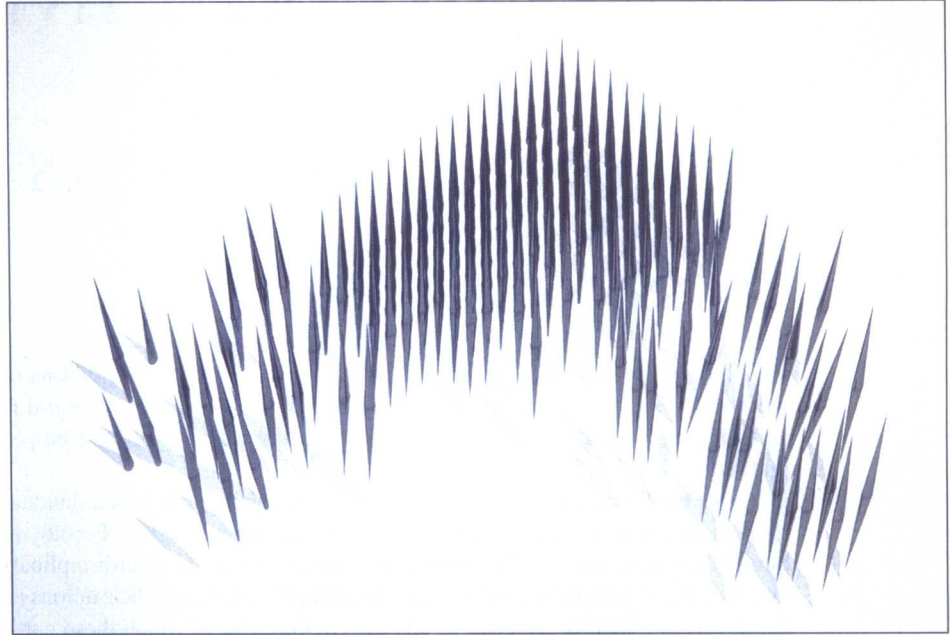
## **Glossary 451**

## **Indexes**

**Name Index 467**

**Subject Index 471**

# I INTRODUCTION



- 
- 1 A Framework for Analyzing Collective Bargaining and Industrial Relations 2
  - 2 The Historical Evolution of the U.S. Industrial Relations System 17
  - 3 The Legal Regulation of Unions and Collective Bargaining 49
  - 4 The Role of the Environment 73

# 1 A FRAMEWORK FOR ANALYZING COLLECTIVE BARGAINING AND INDUSTRIAL RELATIONS

Whether we are at work or at leisure, we are affected by the conditions under which we work and the rewards we receive for working. Work plays such a central role in our lives and in society that the study of relations between employee and employer cannot be ignored.

This book traces how labor and management, acting either as individuals or as groups, have shaped and continue to shape the employment relationship. Employment is analyzed through the perspective of **industrial relations**, which is the interdisciplinary field of study that concentrates on individual workers, groups of workers and their unions and associations, employers and their organizations, and the environment in which these parties interact.

Industrial relations differs from other disciplines that study work because of its focus on labor and trade unions and on the process of collective bargaining. Thus this book describes how collective bargaining works and helps explain, for example, why it may lead to high wages in one situation and to low wages in another.

The study of industrial relations focuses on the key participants involved in the process, the role of industrial conflict, and the performance of collective bargaining. This chapter defines these various aspects of industrial relations and describes how this book analyzes them.

---

## The Participants

The key participants (or parties) involved in the process of industrial relations are management, labor, and government.<sup>1</sup>

### *Management*

The term **management** refers to those individuals or groups who are responsible for promoting the goals of employers and their organizations. In fact, management encompasses

at least three groups: (1) owners and shareholders of an organization, (2) top executives and line managers, and (3) industrial relations and human resource staff professionals who specialize in managing relations with employees and unions. Management plays key roles in negotiating and implementing a firm's industrial relations policies and practices.

### ***Labor***

The term **labor** encompasses both employees and the unions that represent them. Employees are at the center of industrial relations. Employees influence whether the firms that employ them achieve their objectives, and employees shape the growth and demands of unions.

### ***Government***

The term **government** encompasses (1) the local, state, and federal political processes; (2) the government agencies responsible for passing and enforcing public policies that affect industrial relations; and (3) the government as a representative of the public interest. Government policy shapes how industrial relations proceed by regulating, for example, how workers form unions and what rights unions may have.

---

## **Assumptions about Labor and Conflict**

### ***More Than Just a Commodity***

One of the most important assumptions guiding the study of industrial relations is the view that labor is more than a commodity, more than a marketable resource. For instance, because workers often acquire skills that are of special value to one firm and not to another, the possibilities for them to earn as much "in the labor market" as they can at their existing employer are limited. In addition, changing jobs often costs workers a lot: moving locations can be expensive and can also entail large personal and emotional costs. For these reasons and others, labor is not as freely exchanged in the open, competitive market as are other, nonhuman, market goods.

Furthermore, labor is more than a set of human resources to be allocated to serve the goals of the firm. Instead, employees are also members of families and communities. These broader responsibilities influence employees' behaviors and intersect with their work roles.

### ***A Multiple Interest Perspective***

Because employees bring their own aspirations to the workplace, industrial relations must be concerned with how the policies that govern employment relations, and the work itself, affect workers and their interests, as well as the interests of the firm and the larger society. Thus, industrial relations takes a **multiple interest** perspective on the study of collective bargaining and industrial relations.

### ***The Inherent Nature of Conflict***

A critical assumption underlying analysis of industrial relations is that there is an inherent conflict of interest between employees and employers. That conflict arises out of the clash of economic interests between workers seeking high pay and job security and employers pursuing profits. *Thus, conflict is not viewed as pathological.* Although conflict is a natural element of employment relations, society does have a legitimate interest in limiting the intensity of conflicts over work.

### ***Common as Well as Conflicting Interests***

There are also a number of common interests between employers and their employees. Both firms and their work forces can benefit, for example, from increases in productivity through higher wages and higher profits.

At the workplace there is no single best objective that satisfies all the parties. *The essence of an effective employment relationship is one in which the parties both successfully resolve issues that arise from their conflicting interests and successfully pursue joint gains.*

Collective bargaining is only one of a variety of mechanisms for resolving conflicts and pursuing common interests at the workplace. In fact, collective bargaining competes with these alternative employment systems. Not all employees, for example, perceive deep conflicts with their employers or want to join unions. In dealing with their employers, some workers prefer individual over collective actions. Others exercise the option of *exit* (quitting a job) when dissatisfied with employment conditions rather than choosing to *voice* their concerns, either individually or collectively.<sup>2</sup>

One of the roles for public policy is therefore not to require unionization and collective bargaining for all workers, but to provide a fair opportunity for workers to choose whether collective bargaining is the means they prefer to resolve conflicts and to pursue common interests with their employer.

### ***Trade-Offs among Conflicting Goals***

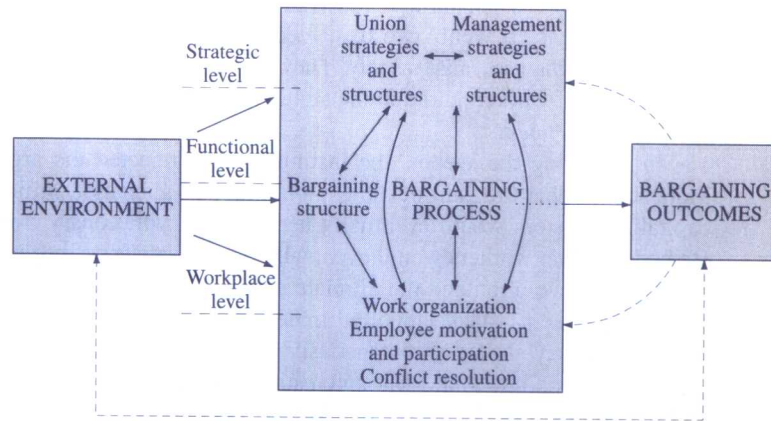
Since many of the goals of the major actors—workers and their unions, employers, and the public or the government—conflict, it is not possible to specify a single overriding measure of the effectiveness of collective bargaining. Focusing on any single goal would destroy the effectiveness of collective bargaining as an instrument for accommodating the multiple interests of workers and employers in a democratic society.

Unions could not survive or effectively represent their members, for example, if employers were completely free to suppress or avoid unionization. Likewise, employers could not compete effectively in global or domestic markets if collective bargaining constantly produced wages or other conditions of employment that increased costs above what the market would bear.

---

## **The Three Levels of Industrial Relations Activity**

This book uses a three-tiered approach to analyze the operation of industrial relations.<sup>3</sup> (Exhibit 1-1 provides the framework for this approach.) First we consider the environmental

**EXHIBIT 1-1***Conceptual framework for the study of collective bargaining*

contexts of collective bargaining; then we look at the operation and outcomes of the bargaining system.

The top tier of industrial relations, the **strategic level**, includes the strategies and structures that exert long-run influences on collective bargaining. At this level we might compare the implications for collective bargaining of a business strategy that emphasizes product quality and innovation against a business strategy that seeks to minimize labor costs.

The middle tier of industrial relations activity, the **functional level**, or collective bargaining level, involves the process and outcomes of contract negotiations. Discussions of strikes, bargaining power, and wage determination feature prominently here.

The bottom tier of industrial relations activity, the **workplace level**, involves those activities through which workers, their supervisors, and their union representatives administer the labor contract and relate to one another on a daily basis. At the workplace level adjustment to changing circumstances and new problems occurs regularly. A typical question at this level, for example, is how the introduction of employee participation programs has changed the day-to-day life of workers and supervisors.

It is through the joint effects of the environment and the actions of the parties within this three-tiered structure that collective bargaining either meets the goals of the parties and the public or comes up short.

## The Institutional Perspective

The perspective that guides our analysis of industrial relations was first developed by institutional economists at the University of Wisconsin. John R. Commons (1862–1945), the person who most deserves the title of “father of U.S. industrial relations,” identified the essence of institutional economics as “a shift from commodities, individuals, and exchanges to transactions and working rules of collective action.”<sup>4</sup> Commons and his



fellow institutionalists placed great value on negotiations and on compromise among the divergent interests of labor, management, and the public.

The institutionalists in the United States were heavily influenced in their thinking by Sidney and Beatrice Webb, two British economists and social reformists, who were members of the Fabian socialist society. They viewed trade unions as a means of representing the interests of workers through the strategies of *mutual insurance, collective bargaining, and legal enactment*.<sup>5</sup>

In following the Webbs, the institutionalists rejected the arguments of Karl Marx. Marx argued that the pain of the exploitation and alienation inflicted on workers by the capitalistic system would eventually lead to the revolutionary overthrow of the system. He believed that workers would eventually develop a class consciousness that would pave the way for revolution and the ultimate solution to their problems—a Marxian economic and social system. Marx supported trade unions in their struggles for higher wages, but he believed they should simultaneously pursue the overthrow of the capitalistic system.

There were, however, some interesting similarities in the views of Commons, Marx, and the Webbs. Like Marx and the Webbs, Commons and other institutional economists rejected the view of labor as a commodity, for two fundamental reasons. First, the institutionalists saw work as being too central to the interests and welfare of individual workers, their families, and their communities to be treated simply as just another factor of production.<sup>6</sup>

Second, the institutionalists echoed the Webbs and the Marxist theorists by arguing that under conditions of “free competition” most individual workers deal with the em-

### Box 1-1

## Beatrice Webb on the Balance of Power between Employee and Employer

If the capitalist refuses to accept the workman's terms, he will, no doubt, suffer some inconvenience as an employer. To fulfill his orders, he will have to “speed up” some of his machinery, or insist on his people working longer hours. Failing these expedients he may have to delay the delivery of his goods, and may even find his profits, at the end of the year fractionally less than before. But, meanwhile, he goes on eating and drinking, his wife and family go on living, just as before. His physical comfort is not affected: he can afford to wait until the labourer comes back in a humble frame of mind. And that is just what the labourer must presently do. For he, meanwhile, has lost his day. His very subsistence depends on his promptly coming to an agreement. If he stands out,

he has no money to meet his weekly rent, or to buy food for his family. If he is obstinate, consumption of his little hoard, or the pawning of his furniture, may put off the catastrophe; but sooner or later slow starvation forces him to come to terms. And since success in the higgling of the market is largely determined by the relative eagerness of the parties to come to terms—especially if this eagerness cannot be hidden—it is now agreed, even on this ground alone, “that manual labourers as a class are at a disadvantage in bargaining.”

Source: Mrs. Sidney Webb, ed., *The Case for Factory Acts* (London: Grant Richards, 1901), pp. 8–9.