

The original documents are located in Box K29, folder “Rockefeller, David (4)” of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Arthur Burns donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

THE CHASE MANHATTAN BANK
National Association



1 Chase Manhattan Plaza, New York, New York 10015

DAVID ROCKEFELLER *Chairman of the Board*

October 23, 1970

Dr. Arthur F. Burns, Chairman, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue
Washington, D.C.

Dear Arthur:

Thank you so much for your letter of October 14 setting forth the background leading to the Board's decision to exclude bank trust department management from the System's retirement fund.

I naturally hope that this background will be understood by our non bank competitors who might otherwise attempt to capitalize on what could appear to be a lack of confidence in the abilities of banks to perform the required services.

Perhaps the climate that caused your understandable concern will change in the future. If so, we hope that the Board will give further consideration to utilizing the trust facilities of banks to serve the System.

Sincerely,

David



Mrs. Mallardi

October 14, 1970.

Mr. David Rockefeller, Chairman,
The Chase Manhattan Bank, National Association,
One Chase Manhattan Plaza,
New York, New York 10013.

Dear David:

In your letter of September 28, you requested more information concerning the policy considerations which led to the Board's decision to utilize the investment services of several life insurance companies for the management of the System's retirement fund.

As you surmised, the avoidance of conflicts of interest between banks as fund managers and the supervisory role of the System in regard to member banks was a basic factor in our consideration of this matter. This has become an increasingly difficult area to deal with, and it is more than ever necessary in our position to avoid not only actual conflicts but also to avoid any appearance of potential conflicts of interests.

The Federal Reserve's responsibilities include the making of periodic examinations of trust departments of State member banks. Our examiners do in fact counsel and advise with those banks to whatever extent seems desirable and appropriate in connection with their trust departments and their relationships with their customers.

Although the Federal Reserve does not have general regulatory responsibilities for the trust departments of banks, some of the Board's regulations may affect trust department operations. Only a few days ago, for example, the Board acted on a minor regulatory amendment which, depending on how we had resolved the issues in question, could have had some fractional effect on the return paid to beneficiaries of bank-administered trusts. That particular incident was trivial, but the point is clear: had the Federal Reserve retirement fund been lodged with a bank trustee, conceivably it could



Mr. David Rockefeller

-2-

have benefited slightly by a Board decision on the issue in question. You know and I know that no such influence would have swayed the Board in its judgment, nor would I say that the possibility of this or any other Board action would have influenced the manner in which a bank's trust department might have handled our retirement fund. But observers seeking to criticize the Federal Reserve could magnify and distort such possibilities into a charge of conflict of interest.

Our actions in implementing monetary policy, of course, also have an influence on banking behavior. Because their impacts on banks are often greater than on the rest of the financial system, this relationship offers a possible additional target for charges of conflict of interest if critics are so minded.

To me, preservation of the integrity of the Federal Reserve System is so important that I believe we should lean over backwards to guard against even remote possibilities for criticism. All of us realize that this is a difficult problem to deal with and the results may not be satisfactory to all concerned. We struggled for a considerable time with various aspects of the handling of our Retirement System investments, before coming in the end to the conclusion that the responsibility for investment of the funds would best be placed outside the banking system. This may seem to reflect an extreme of caution, but we are convinced that it will help the System to remain above suspicion in its administrative and organizational activities.

I appreciate your having written as you did and I assure you that we fully understand the interest that member banks may have in our decision. I hope this letter will help you in understanding the manner in which we reached our judgment in this particular case.

Sincerely yours,

(Signed) Arthur F. Burns

Arthur F. Burns.

RCH/MS/KAK:mcc





CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

October 14, 1970.

Mr. David Rockefeller, Chairman,
The Chase Manhattan Bank, National Association,
One Chase Manhattan Plaza,
New York, New York 10015.

Dear David:

In your letter of September 28, you requested more information concerning the policy considerations which led to the Board's decision to utilize the investment services of several life insurance companies for the management of the System's retirement fund.

As you surmised, the avoidance of conflicts of interest between banks as fund managers and the supervisory role of the System in regard to member banks was a basic factor in our consideration of this matter. This has become an increasingly difficult area to deal with, and it is more than ever necessary in our position to avoid not only actual conflicts but also to avoid any appearance of potential conflicts of interests.

The Federal Reserve's responsibilities include the making of periodic examinations of trust departments of State member banks. Our examiners do in fact counsel and advise with those banks to whatever extent seems desirable and appropriate in connection with their trust departments and their relationships with their customers.

Although the Federal Reserve does not have general regulatory responsibilities for the trust departments of banks, some of the Board's regulations may affect trust department operations. Only a few days ago, for example, the Board acted on a minor regulatory amendment which, depending on how we had resolved the issues in question, could have had some fractional effect on the return paid to beneficiaries of bank-administered trusts. That particular incident was trivial, but the point is clear: had the Federal Reserve retirement fund been lodged with a bank trustee, conceivably it could



Mr. David Rockefeller

-2-

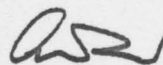
have benefited slightly by a Board decision on the issue in question. You know and I know that no such influence would have swayed the Board in its judgment, nor would I say that the possibility of this or any other Board action would have influenced the manner in which a bank's trust department might have handled our retirement fund. But observers seeking to criticize the Federal Reserve could magnify and distort such possibilities into a charge of conflict of interest.

Our actions in implementing monetary policy, of course, also have an influence on banking behavior. Because their impacts on banks are often greater than on the rest of the financial system, this relationship offers a possible additional target for charges of conflict of interest if critics are so minded.

To me, preservation of the integrity of the Federal Reserve System is so important that I believe we should lean over backwards to guard against even remote possibilities for criticism. All of us realize that this is a difficult problem to deal with and the results may not be satisfactory to all concerned. We struggled for a considerable time with various aspects of the handling of our Retirement System investments, before coming in the end to the conclusion that the responsibility for investment of the funds would best be placed outside the banking system. This may seem to reflect an extreme of caution, but we are convinced that it will help the System to remain above suspicion in its administrative and organizational activities.

I appreciate your having written as you did and I assure you that we fully understand the interest that member banks may have in our decision. I hope this letter will help you in understanding the manner in which we reached our judgment in this particular case.

Sincerely yours,



Arthur F. Burns.



THE CHASE MANHATTAN BANK

National Association



1 Chase Manhattan Plaza, New York, New York 10015

DAVID ROCKEFELLER *Chairman of the Board*

September 28, 1970

Dr. Arthur F. Burns, Chairman, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue
Washington, D. C.

Dear Arthur:

My associates tell me that in rearranging the investment management of the System's retirement fund a decision was made by the Board of Governors to utilize the investment services of several life insurance companies. This information came to us in a letter from Dr. Dan McGill, dated September 10th.

I assume that among the considerations leading to this decision was the avoidance of conflicts of interest between banks as fund managers and the supervisory role of the System in regard to the trust activities of the member banks. If that were a concern, I believe banks' trust departments such as ours have amply displayed a sense of independence and fiduciary responsibility that would allay any such fears. However, I am sympathetic to the nature of the problem that faced the Board.

The banking industry competes actively with the life insurance industry for private pension funds and, as you know, manages the majority of such assets. It would seem to us that the Board's decision may foster conclusions in uninformed circles which could be injurious to the competitive positions of the banks.

If at all possible, we would naturally like to know more about the policy considerations which led to the Board's decision. While we are disappointed, we do take comfort in the statement in Dr. McGill's letter that the decision was to "not use the service of banks at the present time" and therefore we look forward to the time when the banking industry may have the opportunity to further serve the System.

Sincerely,

Dani



FOR FILES
Joan Hobbs

September 11, 1970.

Mr. David Rockefeller,
Chairman of the Board,
The Chase Manhattan Bank,
National Association,
1 Chase Manhattan Plaza,
New York, New York, 10015.

Dear David:

I also welcomed the opportunity we had recently to meet and appreciate the kind remarks in your letter to me of September 4.

In that letter you also expressed your disappointment at the Board's decision that PEFCO could not become a so-called Agreement Corporation and stated the hope that mutual efforts would lead to a satisfactory solution to the present situation.

In our Board deliberations on the PEFCO matter, I fully appreciated, along with other members, the imagination and effort that had gone into the formulation of the PEFCO venture, and I was keenly aware, as were my colleagues, that the troublesome issue was not the merit of the proposed operation but the formal requirements of the law in question. Indeed, after the Board weighed all the argumentation that had been developed since it pronounced itself more than a year earlier about the doubtful permissibility of organizing PEFCO as an Agreement Corporation and after it concluded that the legal obstacles to this form of organization could not be surmounted, it did agree that PEFCO was a proper object for investment via a different and legally permissible vehicle.

As I believe you know, talks were promptly arranged between the PEFCO representatives and Board officials, including Governor Brimmer, to see what might be done through changes in the formula for bank investment in PEFCO. We have also altered our procedures to ensure rapid action on any requests for approving investments involving Edge Act Corporations.



Mr. David Rockefeller

-2-

Our staff remains available to help search for a satisfactory solution, and I share your hope that the efforts will be successful.

With best wishes,

Sincerely yours,

Arthur F. Burns

BN/RS:dch
9-11-70



THE CHASE MANHATTAN BANK
National Association

1 Chase Manhattan Plaza, New York, New York 10015

DAVID ROCKEFELLER *Chairman of the Board*

September 4, 1970

The Honorable Arthur F. Burns, Chairman
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue
Washington, D.C.

Dear Arthur:

As always, it was a special pleasure to meet with you last week, and I do want to thank you for being so gracious with your time.

There was one issue which didn't come up and which was called to my attention upon returning to the Bank this week. As you may know, we have struggled for a good many years to develop constructive supplements in the private sector to the Export-Import Bank's export financing programs. I have thus watched with considerable interest the development of PEFCO, and have high hopes for the contribution it can make, once it is in operation.

It was thus with considerable disappointment that I learned of the Board's decision to deny PEFCO's request to become an "Agreement" Corporation for this seemed to provide a simple solution to an investment problem for smaller banks anxious to participate in the equity of the company. While the Board's action may not ultimately prove critical, it does have the effect of limiting equity participation to larger banks unless some way can be devised to modify the investment restrictions impacting the smaller banks. It seems a great pity to close out any legitimate investor in a project of this kind so clearly in the national interest.

I realize your staff is just as anxious as we are to find a solution, and needless to say, I do hope our mutual efforts will prove successful.

With kind regards and best wishes.

Sincerely,

David



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 11, 1970

To Mr. R. Holland

Subject: PEFCO - Rockefeller letter

From B. Norwood

to Chairman Burns

Here is a letter which Chairman Burns might send to David Rockefeller in response to the latter's note on the PEFCO issue.

My memorandum to Bob Solomon adds some comment that you might want to draw to the Chairman's attention.

I have discussed the matter with David Hexter and Fred Dahl. They concur in the letter (Hexter after reviewing the text, Dahl after I gave the substance to him by 'phone). Bob Solomon has gone over both the memorandum and the proposed letter and approves. I also have obtained Governor Brimmer's concurrence.

Attachment: Memorandum, together with proposed letter to David Rockefeller.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 10, 1970

To Mr. Robert Solomon

Subject: PEFCO -- Proposed Reply by

From Bernard Norwood *BW*

Chairman Burns to
David Rockefeller

Rockefeller letter

In a letter of September 4, David Rockefeller expressed to Chairman Burns disappointment at the Board's rejection of PEFCO's application to become an "Agreement" Corporation. Rockefeller did not directly appeal the decision, but he did express the hope that the mutual efforts of the Board staff and of the PEFCO organizers will be successful.

Proposed reply

Bob Holland spoke to me about the letter and about a possible reply -- desirably for the Chairman's consideration on Friday, September 11. For your review, I attach a draft reply that you may wish to pass along to the Chairman.

Additional considerations

In addition to the points included in the letter, there are some considerations that you might want to draw to the Chairman's attention.

Board reaffirmed previously announced position. The Board's decision that an Agreement Corporation was not permissible under the law did not come as a surprise. The Board examined this question over a year earlier, and Governor Brimmer, with the Board's authorization, announced that position in an address at the May 1969 Convention of the Bankers Association for Foreign Trade. In its recent deliberations, the Board did have a specific application before it for the first time and did have the benefit of extensive legal memoranda from the PEFCO people and from the Board lawyers. Although additional argumentation was developed and although full agreement was not reached among our own lawyers, the Board was rather clear as to which was the preponderant legal view.

Board aware of effect of negative decision. The implications of the ultimate Board decision were brought out in the deliberations. For example, the Board was informed that a negative decision on the application would be a serious threat to PEFCO's emergence. Some banks, especially the smaller ones, might decide not to participate and PEFCO might thereupon falter because Justice might consider it too restrictive or because minimum capital might not be forthcoming.



New Ex-Im specter. The situation of PEFCO is now even more dismal than those observations suggested. A new factor is the prospect that the Export-Import Bank will be "taken out of the budget" (a bill having recently been introduced, with apparent Administration concurrence, to do this). Some key PEFCO organizers fear two adverse effects of this prospective change in Ex-Im's position. First, Ex-Im will be competing in the market against PEFCO and all others for funds. Second, Ex-Im, once in command of new funds, will be more likely than otherwise to want to lend directly than to defer to PEFCO and other private interests. The prospect of this new Ex-Im threat is certain to cause some PEFCO backers, perhaps large as well as small, to falter in their efforts to bring that organization into operation.

Two million dollar Edge capitalization. One difficulty posed by the need for banks to invest indirectly through Edge Corporations rather than directly in an Agreement Corporation might be looked at as a problem of arithmetic. The small banks which now have no Edge Act Corporations through which they might invest and which would have to form such Corporations account for PEFCO capital subscriptions on the order of \$400,000. Yet the minimum capitalization -- required by law not merely by Board regulation -- of a new Edge Corporation is \$2 million. Even if all these banks organized collectively a single Edge Corporation, what would persuade them to put up their share of \$2 million when the sole objective of forming an Edge Corporation is to get them to provide their share of the \$400,000 PEFCO investment?

Board-PEFCO mutual efforts. The Board staff has met with the PEFCO representatives to explore alternative possibilities. There seemed no profit in going over the Agreement issue again, and thoughts were turned to techniques for direct investment by banks, for indirect investment through Edge Act Corporations, and to providing a record the PEFCO organizers could use to show Justice they had been sincere and assiduous in trying to avoid a situation that might run afoul of U.S. antitrust laws and policies. One new thought thrown out for exploration was that of the larger banks providing funds to PEFCO additional to their presently envisaged subscriptions, which additional funds might be lent by PEFCO to Edge Corporations to aid them in meeting the Edge Act subscription requirements. Another was that a small bank could put up \$2 million to capitalize an Edge Corporation (or a fraction of that amount if the Edge Corporation were formed by a group of banks) and that the Corporation would then deposit a good part of that in an account at the shareholder bank. There are uncertainties or drawbacks to these gimmicks.



To: Mr. Robert Solomon

- 3 -

September 10, 1970

Further steps. We do not know whether a solution can be found. We continue to be willing to do more brainstorming on our own or "on a mutual basis." I am getting in touch again with several staff members to ensure that we are making a full effort. However, the PEFCO people, armed with the formal Board letter that had been drafted after the Board decision and after discussion with them, wanted to see what they could do with Justice. We will try to clarify their plans, in the light of Rockefeller's indications of a desire for possible further Board staff work, to see what might be desired on their part and what might be feasible on ours.

Attachments: 1. Draft reply from Chairman Burns to David Rockefeller.
2. Letter from Rockefeller to Chairman Burns.

cc: Messrs. Holland
O'Connell
Hexter
F. Solomon
Dahl



THE CHASE MANHATTAN BANK
National Association



1 Chase Manhattan Plaza, New York, New York 10015

August 7, 1970

DAVID ROCKEFELLER *Chairman of the Board*

552-2222

552-3255

Call

Dr. Arthur F. Burns, Chairman
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue
Washington, D. C.

*confirmed
8/20/70
cm
Thurs. Aug. 27*

Dear Arthur:

I am delighted that it is possible for you to join with some of my associates and myself on Monday, August 24. I suggest that we meet at 6:30 p.m. at the International Club. The Williamsburg Room has been reserved.

We would be very happy to have you by yourself. On the other hand, should you wish to bring anyone else with you, please do not hesitate to do so. In the latter event, would you be kind enough to ask your secretary to advise my office so that the proper number of places can be put at the table.

*Called
8/17/70
cm*

We are all looking forward with much pleasure to seeing you on the 24th.

Sincerely,

*(207)
BR.
6-5492
Dan
1225-
19th St
NW*

*Called
8/18/70
to cancel
296-
7350*



May 6, 1970

Dear David:

Thank you for sending me a copy of "Labor and the American Community." I am glad that the book is out. It was a pleasure for me to be associated in the early stages of this enterprise, and I look forward to the opportunity of reading -- or at least perusing -- the book in the near future.

With warm regards,

Sincerely yours,

Arthur F. Burns

Mr. David Rockefeller
30 Rockefeller Plaza
New York, New York

AFB:ccm



April 28, 1970

Dear Mr. Rockefeller:

Your letter of April 21st and the copy of "Labor and the American Community" have been received in Dr. Burns' absence from the office. He will return on May 4th and I shall bring them to his attention at that time.

Sincerely yours,

Catherine C. Mallardi
Secretary to the Chairman

Mr. David Rockefeller
30 Rockefeller Plaza
New York, New York

ccm



30 Rockefeller Plaza
New York, N. Y. 10020

Room 5600

April 21, 1970

Dear Arthur:

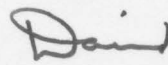
I am delighted to be able to send you enclosed an advance copy of Labor and the American Community. The formal publication date is April twenty-third, at which time the book will be available for sale throughout the country.

It has occurred to me that since you will undoubtedly be seeing a number of reviews discussing one or another aspect of the book, you might be interested in having a copy of the enclosed summary prepared by the staff of Special Studies. Although it is impossible to predict which sections of the book will receive the greatest attention from critics and other writers, I would call your attention to Chapters 11 and 12, "Collective Bargaining in the Public Sector" and "Frontiers of Substantive Bargaining," pages 22-26 in the summary; and also to the Conclusion, pages 30-34 in the summary. The conclusion not only reflects the tenor of the preceding text, but also contains the principal recommendations of the study.

Again, let me say how much I appreciate your participation in the discussions held with the authors over the past three years.

With best wishes,

Sincerely,



David Rockefeller

Dr. Arthur F. Burns
Chairman
Federal Reserve Board
Federal Reserve Building
Constitution Avenue and 20th Street, N.W.
Washington, D. C. 20551



J. G. Dustan
March, 1970

Summary
Labor and the American Community

by
Derek C. Bok and John T. Dunlop

The accelerating change that characterizes all sectors of our society makes it increasingly apparent to many Americans that the institutions that served the country well in the past are not fully meeting the needs of the present. Many institutions must adapt to a changing environment and perform functions that as recently as twenty years ago were virtually unknown.

The union movement, like government, business, universities, and other institutions, has in recent years attracted much criticism. Those who point to grievous failures of unionism are not confined to businessmen beset with what they regard as unreasonable demands by union leaders. Indeed, much of the criticism comes from academicians, civil rights leaders, and spokesmen for urban and youth groups, all of whom see in the labor establishment many of the same defects they find in other American institutions.

In a continuation of its policy of encouraging a knowledgeable examination of various institutions that generate the basic policies of our society, the Special Studies Project of the Rockefeller Brothers



Fund asked two scholars -- John T. Dunlop, professor of economics at Harvard University, and Derek C. Bok, dean of the Harvard Law School -- to analyze trade unions and the collective bargaining system in the United States. The result of their two-year examination is Labor and the American Community.

In the belief that collective bargaining cannot be thoroughly understood unless one also recognizes its relationship to the internal structure of unions and the community at large, the authors divide the volume into three sections: (1) the internal operations of unions, (2) their bargaining relations with employers, and (3) their relations with the local and national communities of which they are a part.

Based on the premise that unionism is an enduring institution in Western industrial society, the authors explore and explain the tensions and conflicts that have arisen in organized labor's multiple relationships. Through understanding the cross-currents in which the union movement operates, the authors believe that all those concerned with improving the quality of unionism -- labor leaders as well as representatives of other institutions and the general public -- will be better equipped to deal intelligently with the challenge facing organized labor now and in the future.



Trade Unions and Public Opinion

The authors begin by examining opinions expressed over the past thirty years about the unions and their leaders. In fact, the perceptions, and in many cases, the misperceptions and stereotypes, concerning unionism, are central to the entire volume. For the authors find that to a greater extent than is generally acknowledged, labor organizations are molded, guided, and frequently limited by the views of the public, employers, intellectuals, and, of course, the members themselves.

Although probably no institution in America attracts more contradictory opinions than the union movement, four groups queried -- the general public, the business community, workers, and intellectuals -- tend to share three attitudes: namely, that unions have a legitimate place in our society and that workers have a right to join unions and through them, to bargain collectively to improve their wages and working conditions. And all the above-mentioned groups, specifically including members of unions, also agree that there should be legally imposed limitations on unions' power, particularly in those cases in which it causes hardship to others.

Beyond these agreements, however, sharp differences emerge that foreshadow the dilemmas faced by unions today. The appropriate



social and political role of unions, for example, arouses sharply differing opinions. On the one hand, businessmen feel that unions have already amassed excessive economic power that has given them a disproportionately strong voice in politics, and that therefore, they should be required to reduce their activities in the political sphere. The intellectual community, on the other hand, is critical of unions for their lack of dedication to social reform, for paying too much attention to negotiations at the bargaining table and too little to matters of broader political and social concern to the whole community -- in short, for not being active enough in politics. For their part, union members favor some political activity, but their support of political action has declined over the past fifteen years. In any case, they would prefer to have their leaders continue to spend most of their time securing higher wages and bigger benefits for the membership.

For disparate reasons, the public, businessmen, and intellectuals often are in agreement that the union member is used to further goals of the union leader that do not necessarily harmonize with the member's own interests. The businessman frequently assumes that the member, if unfettered from the influence of the leader, would side with business in labor-management conflicts. Conversely, the intellectual often feels that the member is inherently more interested in liberal social and political causes than the leader, whom he sees as a slave of repetitious bread-and-butter unionism.



A Profile of the Labor Movement

Examining the quantitative dimensions of unionism, the authors ask such questions as: How big is it? What kind of people are union members? Where do they work? What do they earn? To cite only a few answers, unions today comprise 28 percent of the nonagricultural workforce, making unionism relatively smaller in the United States than it is in other industrial countries. One in three male nonagricultural workers is a union member; for women, the rate falls to one in seven. Typically, a union member earns between \$5,000 and \$10,000 a year and has a high school education (but no more). The densest clusters of union members are found in the Northeast, on the West Coast, and in the North Central parts of the country.

Democracy, Union Government, and the Interests of Members

Over the years, one of the most frequently voiced criticisms of unions has reflected concern about the corrupt practices of union leaders. Despite the reported evidence of corruption appearing in the press, the authors find the incidence low in relation to the total number of unions and, in fact, the incidence of corruption in unions no higher than it is in other institutions. The authors' conclusion,



and one that is central to the book, is that union members have undoubtedly suffered more from inefficient and unimaginative administration than they have lost through corruption and undemocratic procedures.

Scores of studies have focused on the subject of democracy in unions, and many writers have taken unions to task for the paucity of formal procedures through which members can communicate their interests to their leaders. A review of the various formal procedures (elections, conventions, referenda) and informal means (collective bargaining, the grievance mechanism, political activity) through which members can make their wishes known to their leaders indicates that there is more opportunity for membership involvement in the decisions of the union than is generally acknowledged by those who look only at the formal methods of union government. It is the authors' contention that the most important issue is the amount and nature of democracy that is practical in order to represent the members' interests and at the same time to give due regard to the interests of the community at large.

The Protection of Minority Interests

Unions must be concerned with a number of minorities -- .
Negroes, skilled and other occupational groups, older workers,



white-collar workers, and any other special interest group within the union. In the case of the Negro minority, the problem for the unions is no longer merely the elimination of discrimination, but now one of developing policies and programs that will enable Negro workers to overcome the effects of generations of discrimination. Here, the AFL-CIO can play an important role by providing technical assistance to national and local unions, by helping them recruit minority groups and revise seniority and other promotion systems that keep Negroes from higher-wage jobs, and by aiding in the establishment of training programs run by unions alone or by unions and employers together. At the level of contract negotiations, both unions and employers will continue to have many problems to solve in order to improve the lot of the Negro worker, and accommodations will vary widely among different industries and even among different companies. Unless unions make a real effort to prepare Negroes for high-wage jobs and to promote them to positions within the union hierarchy, new unions of low-wage Negroes will develop, and the same kind of separatism will be created in the union movement that threatens other areas of our life.

The Administration of Unions

At a time when organizations of many types are analyzing their procedures, it is appropriate for unions to examine their day-to-day



operations on the basis of accepted criteria of good administration. The authors explore such seemingly humdrum matters as the organization structure of unions, the precision with which they define their long-range goals and establish orderly short-range objectives to attain them, the extent to which budgeting is used as a managerial tool, and the kinds of personnel policies that make the best use of existing staff and attract competent newcomers.

With the exception of those few unions that have initiated organizational innovations, the authors find that unions in general do not use their organization structures and personnel as effectively as they might. In many instances craft unions are excessively decentralized, and locals develop what amounts to autonomous operations. Conversely, many industrial unions are so centralized that local leaders have little administrative leeway, and the incentive for local leadership to develop is lacking. Many union organizing programs are unplanned, and the union's inability to service and satisfy new members within its present or an altered organization structure can spell dissatisfied members and internal strife.

The adaptation of accepted policies of personnel administration would, the authors believe, be an important means of helping serve their members more effectively. For example, the fact that union officers at all levels are elected rather than appointed poses a



problem that is exacerbated by the shrinking pool of talented or competent workers seeking union office. Could not new apportionments of elected versus appointed officers be explored, the authors ask. To counteract the many inherent obstacles to good personnel administration, the authors urge unions to re-examine their whole system of incentives and rewards, many of which currently emphasize avoidance of harmful action rather than encouragement of improved performance. Other union practices that deserve critical scrutiny are financial incentive systems and retirement programs -- or the absence of them.

In education and training for leadership, unions, by and large, lag far behind businesses and other institutions in both the quality and quantity of their programs. Today, unions find themselves in an increasingly complex world with staffs unequipped through training and education to deal with the problems at hand, much less plan imaginatively for the future. Although it is unrealistic to advocate the introduction of wholesale changes in all union training and education programs, the authors do suggest that a few of the larger and more affluent unions could begin to institute innovations that other smaller unions could then imitate, adapting pilot programs to their own needs.



The AFL-CIO

Although in recent years, the growth of the AFL-CIO's influence over constituent unions has paralleled its increase in staff, there still is much it can do to strengthen the union movement and help to deal creatively with emerging political and social problems. Because the Federation is removed from the daily pressures existing in individual unions, it is in a unique position to plan and innovate, and even to speculate in a way in which few individual unions can. Indeed, leadership from the Federation in matters of organizing, budgeting, planning, and education and training could have a marked influence on member unions. Similarly, the Federation should encourage research on a wide spectrum of subjects, ranging from pragmatic questions of organizing, to the attitudes of younger members, the effects of increased affluence on members, the impact of the suburban exodus, and the relationship of some of the quasi-unions of professional people to the union movement as a whole. In the field of administration, the AFL-CIO could hire consultants who are knowledgeable in management and at the same time, familiar with the special conditions of unions, to guide member unions in their efforts to improve their administrative procedures. It could encourage further mergers among units that are too small to operate effectively and could give real impetus to education and



training by establishing a training institute for members. (Indeed, the Federation has indicated that such a step is planned.) The training institute should, the authors feel, set an example to individual unions, help them to raise their performances, and strengthen the currently weak tie between unions and universities.



Collective Bargaining in the United States: an Overview

When most people think of unions, they think first of union and management representatives negotiating with each other, but the collective bargaining process actually has three distinct phases: (1) the negotiation of the contract with the employer, (2) the administration of the contract and the handling of day-to-day grievances, and (3) joint consultation between the union and the employer during the life of the agreement. One or more of these functions is involved in the five major aspects of bargaining on which the authors focus -- dispute settlement, productivity, inflation, unionization of the public sector, and new frontiers of collective bargaining.

Alternatives to Economic Conflict in the Private Sector

Tracing the public's attitude toward the union movement over the years, one finds periodic valleys, times when the public is especially critical of unions in general, which in most cases can be correlated with strikes that have received national attention. It is the authors' conclusion that strikes bring the union movement and the institution of collective bargaining more adverse criticism than any other activity. They examine the broad question of whether there is a way of preventing these conflicts, or at least reducing those that are having an increasing impact on our national life.



Public concern about strikes has many bases -- the harm that strikes may cause the innocent bystander, evidence of disregard of laws in public employment, and the high incidence of strikes in America as compared to other industrial societies. The authors contend that compulsory arbitration and labor courts, frequently advocated as a cure for strikes, are not the answer to the complex disputes that have beset the country in recent years. Use of these methods, they believe, would bring greater rigidity to union-employer relations, destroy the present effectiveness of collective bargaining, and make contracts more difficult to enforce. Alternatively, they suggest improvements in our present system of collective bargaining that the negotiating parties and government, separately and together, could effect.

The negotiating parties themselves could institute some improvements. Both groups should make careful preparations in ascertaining the interests of those they represent. National bodies in the labor movement and business could help iron out negotiating problems arising locally. If leaders of both groups could make greater efforts to discourage exaggerated expectations among their constituents, bargaining could proceed more smoothly than it does today.

Other steps to improve collective bargaining could be taken by the parties themselves with the initiative of government. For government could play a constructive role in the system by stimulating



research, focusing attention on areas of greatest controversy and concern to improve the process in these areas, helping to put together outside groups to work with the negotiators in problem sectors, and, possibly, creating special agencies to assist unions and employers in resolving difficulties in industries that have been the focus of a high degree of public concern.

It is only after these measures have been tried that the authors suggest that additional legislation might be used to help solve disputes, and even in these times, legislation should be used sparingly. Ad hoc legislation might occasionally help in particular industries or disputes; also, Congress might order no-strike-or-lockout periods where labor-management problems persist in a particular sector. Legislative initiative might take the form of Congressional studies of specific situations or problems. Indeed, Congress itself might require proposals for collective bargaining reform from labor and management in certain sectors.

Although it is by no means true that use of one or more of these measures would guarantee the end to strikes, careful analysis of individual disputes and possible solutions to them can, in many cases, avoid economic conflict. Here, the authors stress the importance of defining the nature of the dispute. Does it concern the substance of the agreement -- wages, crew size, working conditions, incentives, and the like? Or does it revolve around the relations between the particular labor and management organizations involved -- the number of previously



negotiated contracts, leadership problems between the two groups, and so forth? Or does it concern the structure of bargaining -- the design of the negotiations themselves, the time of the expiration dates of the contract, relations between two or more unions bargaining with the same management, or controversies concerning the range of plants or employees to be included in the scope of the negotiations.

In disputes involving the substance of the contract, questions of wages and benefits usually are amenable to arbitration. If the substantive issues involve more complex subjects such as crew size or incentive systems, arbitration is likely only after a long strike. Outside study, on the other hand, may help to resolve complicated issues. In the case of disputes concerned with internal problems between the negotiating groups, an experienced neutral with powers of fact-finding and recommendation may be the best means of settlement. Where the government plays a major role in the relationships of the two parties, its participation may help solve the conflict. When members or constituents refuse to ratify agreements made by their leaders, greater efforts by the leaders to keep their constituents or members informed about the progress of negotiations may be useful. Similarly, a review of ratification procedures by a union may forestall an impasse between members and their leaders when a proposed contract is put to a vote.



Disputes involving the structure of bargaining have attracted most public attention and often proved the most difficult to settle. Indeed, these disputes may persist over many years, with accommodations in bargaining arrangements made bit by bit through negotiations often characterized by prolonged stoppages. There is no easy solution to such disputes. If inter-union rivalries are involved, mergers among the unions may be the answer. Another solution may be an agreed-upon joint negotiating committee. Here, as in other cases, no solution is fool-proof, and not every dispute can be solved by the happy choice of the right bargaining technique.

The Impact of Collective Bargaining on Productivity

Next to strikes, probably nothing causes so much public disapproval of unions as "featherbedding," a word that appears frequently in discussions of the need for greater productivity through technological innovations. The authors pose the question of the extent to which featherbedding has reduced our industrial output and prevented needed technological advances. The answer is by no means clear. Numerous instances can be cited of collective bargaining agreements that have obstructed new technology, forced management to pay for what it considers excess labor, and slowed the introduction of technological



change. On the other hand, some agreements have fostered union-management cooperation that has increased productivity and the quality of management.

On balance, the authors find that agreements generating uneconomic work practices are on the decline. There are several reasons for this trend. The introduction of new capital equipment often has provided the occasion to review and alter previous uneconomic rules. Some industries are so highly automated that they present few manning problems, and even more important, modern industrial managers are increasingly alert to the necessity of meeting work-rules issues at their early stages before they have solidified into featherbedding practices.

Given this generally positive conclusion, the relevant question is: How can the participants in a collective bargaining agreement prevent further uneconomic practices from being developed in the future? On management's side, alertness to incipient featherbedding is called for, plus a willingness to take the initiative in proposing changes in rules or practices to obtain greater efficiency or managerial flexibility. Once ineffecient practices are entrenched, they are infinitely harder to eradicate than they are to prevent. A detailed objective study of the situation may help management convince the workers that comfortable though their present uneconomic practices may be, to continue them would have a long-range negative effect on the industry, and therefore



on their jobs. In some cases, a long strike has proved to be the only means of getting workers to compromise and thus reach an accord with management.

Historically, legislation has not been an effective tool in preventing or eliminating inefficient practices. The authors suggest, however, that government administrative bodies might play a useful role in combatting featherbedding in the future. These bodies might, for example, initiate detailed factual reports on sectors with serious problems. Often, the issues are complicated, and seldom are they clarified in the heat of negotiations or a strike. A second means by which government could help prevent the development and spread of uneconomic work practices lies in maintaining full employment. Workers' opposition to rules changes frequently is based on a fear of losing their jobs. Coupled with full employment, government and management should provide training programs, relocation allowances, and better information on the job market so that skilled workers who lose their jobs would be able to find others of equal pay.

Collective Bargaining and Inflation

A third aspect of collective bargaining is its relationship to the nation's economic health. In recent years, most comment in this regard has focused on inflation. Although there appear to be nearly as



many explanations of the causes of inflation as there are economists, a good deal of popular attention has centered on recent wage settlements, which are seen as the culprits for inflation rates of 4 and 5 percent a year. Although the authors, along with most other economic experts, lay the major share of the blame on government fiscal and monetary policies, they acknowledge that collective bargaining agreements and unionism itself can have inflationary effects on the economy.

The authors identify a few of the obvious ways in which collective bargaining can have an inflationary effect on the economy. As a result of collective bargaining contracts, wage decreases in periods of business declines are disappearing. In sectors where unionism is new, sharp wage increases are common. It should be noted, however, that long-term contracts can exert either an inflationary or a stabilizing effect on wages, depending on the course of the economy and the provisions of the agreement. On the whole, long-term agreements have been a stabilizing force and have enabled both parties to work on common problems affecting productivity.

Apart from the effect of the actual contract itself, unions contribute to inflation in other ways. In situations in which many unions bargain with a company that is not well organized to resist union pressures, one union often tries to exceed the increases obtained by another, with an inflationary result. The demand by skilled workers for



special increases over those obtained for all the members of a union also has an inflationary effect. Less directly, the union movement's encouragement of government spending on social and economic welfare and its espousal of expansionist monetary and fiscal policies tend to add to inflationary pressures.

What can be done by the negotiating parties themselves and by government to curb these inflationary tendencies? Labor and management could, the authors suggest, work to correct inter-union rivalries or divisions within employer groups, as both these tensions have an inflationary effect. The government could stimulate imports or bring other corrective pressures to bear in situations in which unions in industries insulated from outside competition obtain unduly high wage gains. And government could encourage both labor and management to exercise restraint over wages and prices to the mutual long-term advantage of both groups. Although devising a government policy that encourages such restraint is a delicate matter, the opportunity is at hand, the authors believe, to formulate new policies and new machinery for the future.

On the assumption that monetary and fiscal policy provides an economic environment conducive to high employment and stability,



the government must develop special machinery and policies to curb inflation. The mechanisms suggested by the authors include:

-- The establishment of a continuing body to gather facts, issue reports, and make recommendations regarding trouble-spots in the economy that contribute to price and wage increases at periods of high employment.

-- A reorganization of government policies and procedures regarding procurement of goods and construction, the use of stockpiles, the policies of regulatory agencies, and the like, at all levels of government.

-- Inauguration of a policy to encourage discussion of the general problems of inflation and economic activity on a continuing basis and to develop general guides for private and public decisionmakers on methods of curbing inflation.

Direct government intervention in the collective bargaining process should be reserved for the most unusual circumstances. The government could, however, play a vital role in the control of inflation by the development of manpower programs to alleviate shortages of specialized skills through programs of training, education and upgrading; better manpower projections; and the improvement of labor market information.



To date, unions, employers, and consumers have reacted to inflation and high employment in ways that reflect an assumption that prosperity and high employment will be of short duration. Unions insist on increases while the getting is good. Management raises prices in the belief that it will not be able to during a future economic decline. Consumers vacillate between spending high earnings and saving them for a rainy day. With a continuation of prosperity, however, changes may take place in attitudes and expectations that will make it somewhat easier to achieve reasonable price stability. Indeed, the speed with which these changes occur may largely determine the capacity of the economy to sustain precariously high employment without substantial inflation.

Collective Bargaining and the Public Sector

Strikes, productivity, and inflation all raise grave issues in the private sector. In the public sector they cause increasingly heated controversy. On this latest frontier of unionism, such questions as the right of public employees to organize and bargain collectively, the scope of their negotiations, the impact of unionization on efficiency, and most especially, the right of employees in the public sector to strike, are matters of serious debate throughout the country. Although state by state, public employees are slowly winning formal recognition of their



unions, a significant number of work stoppages at state and local levels still arise over union recognition. Therefore, the enactment of state legislation or city ordinances to provide an agency to resolve these issues is essential to the orderly development of employee unions and collective negotiations.

Once a negotiating relationship has been established, concern shifts to the resolution of disputes over the terms of employment. Here, the authors suggest that it is probably wise to ask the parties themselves to design their own negotiating procedures. The government, however, must provide a general procedure in the event the parties' methods fail. Should direct negotiations meet with no success in resolving a dispute, there is wide agreement that provision should be made for mediation between the employee organization and the government unit involved.

In the case of an extended impasse or strike, however, proposed solutions differ widely. One view contends that government employees should be allowed to strike, except when the health or safety of the public is threatened. A second opinion insists that if the impasse cannot otherwise be settled, no strike of public employees is permissible, and binding compulsory arbitration should be used to resolve the dispute. A third view suggests that recommendations be made by a fact-finding body, with further mediation around these recommendations. Then, if these last-named methods fail, the



appropriate legislative body should review the dispute and enact a statute prescribing the terms and conditions of employment. This final procedure, in the authors' view, provides a role for both expert opinion of neutrals and legislative judgment on questions beyond the province of the labor-management specialist, and is consonant with the separation of functions existing within the American governmental system.

So far, most strikes in public employment have taken place without benefit of settlement recommendations, and similarly, there have been few strikes growing out of legislative enactments derived from fact-finding recommendations. There are, however, no procedures that offer a guarantee that a strike will not take place. The significant issue, the authors believe, is not whether there will continue to be isolated strikes in the public sector, but rather whether the system of industrial relations emerging in this sector is to use the strike as a means to settle disputed wages and working conditions, or whether it is to eschew the strike as a basic tool of decisionmaking. Certainly, avoidance of strikes is the clear choice of public policy. Therefore, it is incumbent on both public agencies and public-sector unions to develop staffs skilled in negotiations and sufficiently imaginative to find new ways of devising orderly bargaining procedures.



Frontiers of Substantive Bargaining

Are there other areas, the authors ask, in addition to wages and benefits, to which both labor and management might fruitfully devote their attention? Since the end of World War II, a prime topic of collective bargaining in Western Europe, and particularly in Germany, has been the demand of unions that they be allowed to participate with management in the administration of the company. To date, "co-determination" has had, at best, mixed success from the point of view of both management and labor. Because of this record and because of special obstacles in this country, programs to share the responsibility for managing are unlikely to be the subject of collective bargaining negotiations in the near future. Far more promising is the possibility that unions and employers might work together to improve the quality of workers' jobs.

There are three avenues through which such improvements might be made. Training and education programs established through bargaining contracts -- programs that range from upgrading skills, to basic education, to college courses -- would enable workers to gain new skills and better jobs. (Moreover, higher expenditures on training are required in a full-employment economy.) Greater self-determination for the worker is a second area of possible improvement. In most current agreements specifying different benefits and levels of compensation for various groups



of workers, there is little opportunity for the individual worker to change the mix to suit his own needs. With the use of the computer, latitude in individual choice that once would have been impractical may now permit the individual worker to select the benefits he wishes from the total negotiated package. A third and more radical area of change is the nature of work itself. Recent studies have shown that the long-term satisfaction derived from a job involves recognition, responsibility, achievement, variety, and interest, rather than the more superficial factors such as wages, working conditions, and methods of supervision. Historically, most union bargaining efforts have concentrated on the latter group of subjects. However, assuming recent studies are correct, if unions wish to improve the long-term satisfaction of their members, then labor leaders must begin to think about expanding the area of bargaining into ways in which jobs are organized and controlled. As yet, few unions or managements have grappled with the problems presented by routine work. Both groups have tended to seek palliatives rather than examining the root of the problem. It is the authors' contention, however, that unions might reap enormous rewards if they made an effort to enrich the work experiences of their members.



Having explored unions' internal structure and operations in the first section and their relations with employers in the second, the authors turn in the third and final section to other groups with which the unions come into contact. These are the non-working part of the members' lives and the national and local communities in which the unions live.

Beyond Better Wages and Working Conditions

No study of the union movement would be complete without discussion of the increasing number of benefits and services that unions provide their members. In addition to such expected items as pensions, health insurance, and even some recreational facilities, individual unions have included labor-operated banks, resort spas, apartments, retirement homes, education programs, and today, an ever-growing variety of medical services in the non-wage benefits they offer their members. Although devising programs that the members use and to which they and the employers are willing to contribute is by no means easy, an expansion of such programs might, the authors believe, enable unions to make a fresh appeal to the unorganized and offer current members the chance for closer involvement in the life of the union.



Labor in State and National Politics

The authors leave the economic sphere and move on to unions' political and social activities at the national and local levels. Beginning in the thirties, when the labor movement forged a closer identification with the Democratic party than had existed in its early years, it has continued, despite widespread diversity within its ranks, to strengthen its generally liberal political stance. Labor's political influence at the national level varies from very little in the case of the judiciary, to fairly extensive in the case of the executive branch of government during Democratic administrations, to a great deal in the case of a few Senators and Congressmen. In most instances of legislative lobbying, however, opposing organizations exert a countervailing pressure. Thus, union influence is unlikely to be dominant.

Labor Unions and the City

At the local level, unions' activities in the community outside the political sphere frequently have more impact than do their efforts to campaign for particular candidates or get out the vote of their members. Some 75,000 union representatives serve on the boards of community health and welfare agencies, and there are a number of instances of union participation in government-sponsored training



programs for the poor. However, union efforts to organize the poor into locals based on residence rather than jobs have met with more frustrations than success, and so far, the traditional union structure has not proved easily adaptable to this new field of community endeavor. A major determinant of the success of community projects is the quality of the local community leadership, and since it is difficult for a union or any other organization to produce a charismatic leader -- particularly from a community with which the union may have few close ties -- lack of leadership will continue to be a large obstacle to effective union organization at the community level.

Can unions do more than they are at present to confront urban problems? Such an effort clearly is needed both by the community and by the unions themselves, whose long-run health depends to some extent on deeper involvement in the community. A successful liaison with community groups would help unions recruit low-income workers -- often from minority groups -- and would enhance unions' political influence in urban areas. If the union movement continues to operate outside these groups, it will increasingly isolate itself from forces of growing change and power in the community.

To help solve some of the manifold problems besetting our communities, the authors contend that the AFL-CIO must become a source of new programs and ideas. The effort will call for greater



resources devoted to community affairs on the part of the Federation, and at the same time, greater influence over the community programs of constituent unions. At the local level too, unions must try to become centers of new ideas by developing capacities to identify emerging community needs and to assist in creating new programs to meet these needs. Perhaps labor's greatest contribution to community efforts should be in getting jobs for the hard-core unemployed and developing training programs for them. Also, unions could use their staff officials to help organize groups of the disadvantaged with a view to identifying and developing individuals with leadership ability. In some cases, union pension funds might be used to help meet community problems by, for example, investing in mortgages for low-income or aged groups.

There are, the authors conclude, many obstacles to these community actions, but unions at all levels must realize that involvement in the community will, in the long run, considerably strengthen the union movement.

Conclusion

In the face of the many criticisms, the authors believe it is important to review the manifold accomplishments of unions. First, their very existence has helped to gain general acceptance for rates



of pay and working conditions that prevail, even in unorganized plants. Second, unions have been instrumental in fashioning the form of compensation -- in putting a major portion of their members' earnings into health and welfare benefits, old-age pensions, and unemployment and severance compensation. Perhaps the greatest contribution of unions has been obtaining fairer treatment for their members at the workplace and virtually eliminating error, malice, favoritism, and other human failings of supervisors in the dismissal, discipline, promotion, and preferment of workers. Fourth, unions are the strongest institution for representing politically both their members and many unorganized workers. One has only to compare the legislative accomplishments of well-organized groups such as veterans and the unorganized draftee to realize the value of effective organization to gain political, economic, and social goals. In fact, the AFL-CIO has been the major political force seeking to extend laws to cover currently unorganized and low-paid groups.

Despite these accomplishments, unions face many and growing challenges. They are confronted with a continuing threat of controls to curb inflationary wage increases and prevent disruptive strikes. They must try to maintain and even increase their importance in the eyes of their members, many of whom did not experience the Depression and the early struggle of the union movement. They must come to terms with the pervasive problem of race, exercising leadership in the workplace and the community. Also, they need to develop greater respect for unions in the society as a whole.



Because the structure of the American union movement is so decentralized and dispersed, the leaders of the AFL-CIO, the heads of the international unions, government officials, and representatives of universities and foundations must all work toward meeting these challenges. The authors suggest that for unions, such seemingly mundane steps as better staff training, a new emphasis on research and improved administration, and more imaginative, more carefully planned, community programs will be important steps. For union leaders, even these efforts will demand greater flexibility of mind, less sensitivity to constructive criticism, a willingness to reach out to universities, and an attempt to overcome old dogmas and old prejudices toward intellectuals.

Government's role in helping the union movement serve its members and society more effectively might lie in the area of the development of labor market policies -- the amalgam of programs that seek to train the labor force for new jobs, facilitate the movement of workers from one area to another, and give economic security to those who are displaced from one job and searching for another. More informally, government can encourage union leaders to meet with public and employer representatives to consider long-range issues of importance to all parties. A third area in which government assistance would be of value would be that of subsidies. Much could be



done, for example, to provide research that would help unions overcome troublesome problems or develop new areas for constructive action. Another might involve training programs for leaders and staff.

Universities and colleges too could play a role in helping unions with education and training. Today, there is little communication between the union movement and the academic community. To remedy the situation, the authors recommend that organized labor take the initiative in seeking methods of cooperation and points of contact within higher education that can offer to unions the same kind of useful interchange that has benefited business, government, and charitable institutions in this country. In a similar vein, the authors urge foundations to play a role in helping to finance union programs in the community, new services for members, and better-conceived and broader research.

The need for building bridges to other institutions underscores the special isolation of the union movement in American society. It is not an ideological separation, but rather a more tangible estrangement from universities and foundations, from government (as evidenced by the paucity of union officials in high government positions), and even from business itself, with the exception of bargaining and grievance confrontations. If unions fail to bridge the gap with other elements of society, if they find themselves in the position of being



taken more and more for granted by their members, they will become largely ignored in the major developments of society and rather widely disliked as a necessary evil.

Today, more than anything else, the union movement suffers from isolation from the main streams of thought and social change, an isolation that is dangerous for the institution of unionism and for society as a whole. This study attempts to show some of the ways in which this isolation can be overcome. Indeed, the study itself is a first step in this direction.

