We can change these trends but it will take a proactive and sustained cross-generational effort to update and modernise the full range of employment policies, practices and institutions that govern work and employment relations – so they can catch up with the economic, technological, workforce and organisational changes that caused the old social contract to breakdown. While these pressures are perhaps most severe in the US, they are visible to many here in Australia and other parts of the world as well. In what follows, I will draw on the US experience by first outlining what made the social contract work for the 30-year period following World War II and why it broke down, and then use this understanding to discuss actions that might start the cross-generational and multi-party dialogue needed to build a new social contract better fitted to today’s environment. I invite you to consider whether or how some of these thoughts might apply or need to be modified to work in Australia.

Rise and fall of the post-war social contract

The US post-war ‘social contract’ was built on the foundation of the labour legislation enacted as part of the New Deal in the 1930s that established a floor of minimum wages and protected workers’ rights to organise and engage in collective bargaining. Then in the mid 1940s, United Auto Workers’ President
Walter Reuther and General Motors CEO Charles Wilson negotiated what was called the ‘treaty of Detroit’, specifying that wage increases would be set to match growth in the cost of living and in productivity (Lichtenstein, 1995). The strength of unions then helped spread this ‘pattern’ bargain across American industry.

This worked because the domestic economy was growing, unions were strong, and international competitors were weak. In the 1980s, this all changed: the manufacturing economy fell into a deep recession, management went on the offensive to avoid and (successfully) weaken unions, and international competitors gained expanding shares of American markets and jobs. As technology advanced and markets opened up, well-paying production jobs got outsourced to lower wage countries. Moreover, as American firms began focusing on maximising share prices – the so-called financialisation of the American corporation (Appelbaum and Batt, 2014), CEOs whose incomes were increasingly tied to stock prices gained the lion’s share of the income produced. The ratio of CEO pay to median workers’ pay rose exponentially from about 30 to 70 to 1 in the 1960s and 1970s, and is now 250 to 300 to 1 or more.

The crisis of the 1980s spurred significant innovations in American industrial relations ranging from efforts to reform workplace practices to increase flexibility, teamwork and employee participation in continuous-improvement processes; collective bargaining reforms to decentralise negotiations and break out of pattern bargaining and/or reduce wages; and high level ‘strategic’ management changes to either avoid further unionisation or work more closely with unions on long term competitive issues (Kochan, Katz and McKersie, 1986). While these changes provided the seeds of a potential new approach to employment relations, they did not diffuse widely and the public policy changes needed to reinforce and sustain them could not be enacted because of a deep and paralysing business-union political impasse.

This was the historical setting prior to the onset of the 2007 financial crisis and subsequent ‘great recession’.

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**Figure 1: The Social Contract in the US, 1945-present**


**Figure 2: Real wages and productivity in Australia, 1965-2007**

Source: Saten Kumar, Don Webber and Geoff Perry, Auckland University of Technology
Now, five years after that recession officially ‘ended’, we find the labour market still struggling to replace the jobs lost and the number needed to absorb new labour force entrants. It is clear that without more proactive efforts the economy will neither close the jobs deficit nor change the 30-year pattern of wage stagnation and growing income inequality.

There is, however, recognition that we cannot simply try to return to past policies and practices. Today, international competition, technological changes that value skilled workers able to support a knowledge-innovation based economy, union weakness and financialisation of corporate practices are realities that have to be addressed in any effort to build a new social contract for the next generation. While the features of a new social contract can, as in the post-war period, only emerge out of dialogue and negotiation among the key stakeholders – leaders of the workforce, business, labour, government and education – some potential elements, derived from both innovations generated out of the post 1980s crises that have proved their value and a growing array of new experiments involving an expanded array of activist groups, may provide a framework for the necessary dialogue and negotiations.

Education and life-long learning

As in the past, education is still the starting point – a necessary but far from sufficient solution to reversing these trends. A highly educated, skilled and innovative workforce is essential to generating the technological breakthroughs and continuous improvements needed to drive productivity and to support an innovation-based economy. Yet there is considerable evidence that the US educational system needs significant reforms and improvements to produce a world-class workforce with both the technical (science, technological, engineering and maths; or so-called ‘STEM’) and behavioural (communications, problem-solving and coordination/negotiations) skills employers are calling for today. US high school students lag behind many of their international peers in science and maths achievement tests; and the number of high school graduates continuing on to obtain technical skills and STEM-related college degrees appears to be inadequate to meet future demand.

The good news is there is considerable momentum in the US focused on addressing these challenges, starting with efforts to expand access to early childhood education. The Obama Administration and equivalents at the state level have applied pressure and created incentives to either reform and improve public elementary and secondary schools or expand funding of private alternative schools. These actions have generated a wave of innovation aimed at, among other things, promoting collaborative teacher-union-school district improvements (Rubinstein and McCarthy, 2014; Bluestone and Kochan, 2011), diffusion of a new common core of curriculum standards, and expansion of the school day or year.

There also is a growing recognition of the need to strengthen the community colleges, vocational schools and labour-management institutions that focus on building technical skills that some employers claim to be in short supply. Indeed, there is ample research and experience about how this can be done by drawing on these institutions. My colleagues and I summarised the elements this evidence suggests are essential to the success of these efforts (Kochan, Finegold and Osterman, 2012):

- Multiple employers in a region or industry sector need to cooperate with one another and with educational and labour institutions to jointly design and fund initiatives to train and hire graduates;
- Classroom education must be integrated with opportunities to apply new concepts and skills in on-the-job settings, an approach proven to be the way adults learn best; and
- Education and training needs to focus on offering workers career pathways, not just skills for initial jobs.

Effective programs take a variety of forms, such as joint union-management initiatives or employer consortia that work closely with community colleges or universities. The challenge lies in expanding the number of successful examples to a scale large enough to achieve a national impact. This will require leadership and cooperation from all quarters – government, business, labour and education.
Government must do a much better job of coordinating training programs that are not now connected to each other and often have different funding requirements. Rather than a hodgepodge of fiefdoms within the federal government, there must be coordination of the disparate programs controlled by the Departments of Defense, Education, Commerce and Labour. Getting maximum gain for federal dollars can happen only if the President insists these departments follow the three funding criteria above.

Business has to face its 'lone ranger' problem. Right now, few individual employers want to spend money training people who will be poached by their competitors. But the business community can better serve itself and young people by mobilising peers in their region or industrial sector to share in the costs of educational programs and provide on-the-job opportunities for students/future employees to apply in practice what they learn in the classroom.

The education establishment must also change its ways. Too often, academics teach what they know, rather than what's needed. And too often, educators resist responding to outsiders telling them what to teach. For universities eager to find a funding strategy to sustain their burgeoning online educational platforms and offerings, what better opportunity is there than working with industry leaders to develop courses that give bright young workers a 'second chance' at acquiring the specific skills employers say are in short supply? Such courses can teach both basic STEM and behavioural skills that are prerequisite to success in the modern workplace.

Labour can do its part by expanding apprenticeships and joint union-management programs, such as proven ones in health care, utilities, hotels and many manufacturing industries, to provide life-long learning and the opportunity to upgrade skills. Labour is often isolated, but it is an important resource for employers or educators willing to engage.

These actions need to be complemented with strategies that promote continued or life-long learning for workers throughout their careers. We have the tools to do this now. Every university and community college is experimenting with online, blended or distance-education courses. And many employers complain that new entrants don’t have the right mix of skills. The obvious solution is for university, community college and industry leaders to get together and design the coursework and on-the-job experiences young workers need to be productive, learn, grow and gain access to better and higher paying jobs.

Retraining and redeployment of workers displaced by advances in technology will also have to be part of the solution. At Kaiser Permanente, no employees have been laid off as electronic medical technologies replaced their 'chart room' workers (Kochan, Eaton, McKersie and Adler, 2009). Instead, Kaiser management and unions negotiated retraining provisions to help affected workers learn the skills needed for available jobs or provided generous severance payments to allow them to find suitable jobs elsewhere. This approach both supports the workers affected and motivates others to continue to foster rather than resist productivity-enhancing technological change.

Internal promotional and career paths that promote and pay people for obtaining new skills is another way to provide incentives for employees to engage in life-long learning and move up the income ladder as their careers progress. Individual firms benefit from reducing turnover, building long-term commitment and loyalty; and the economy benefits from increasing its stock of human capital.

**Alternative wage-setting criteria**

New approaches to wage-setting at the level of the enterprise will be needed to ensure that everyone who works together to generate productivity and profits has a fair chance of sharing in the gains produced.

A set of bedrock pay-for-performance principles were laid out over 60 years ago by Joe Scanlon, a former Steelworkers Union leader, MIT instructor, and father of the Scanlon Plan, a most durable pay-for-performance plan (Lesieur, 1957).
They remain just as relevant as design principles for future pay-for-performance plans:

- Include all employees in the organisation in the pay-for-performance plan to encourage cross-occupational and cross-level cooperation, not competition;
- Use incentive pay as a complement to—not a substitute for—fair base wages and benefits;
- Provide employees an independent employee voice in designing and administering the plan and in generating and evaluating suggestions for continuous productivity improvements/savings; and
- Recognise that the Achilles heel of any performance-sharing formula lies in changes in technology, market conditions, product/service mix, or organisational strategies that require adjustments to the plan. Ensure that making changes in the formulae for calculating productivity, profits and gains to be shared are technically sound, transparent and trusted by all parties (employees, managers and investors).

If a union is present, it can provide this independent voice and monitoring. But that is seldom the case today. Just as it took a new labour law in the New Deal to lay the foundation for twentieth century unions and collective bargaining, America needs a new, modern law that opens up new avenues for worker voice and representation, including but not limited to enterprise-wide works councils where all employees have a right to participate as equals in discussion of pay and other human resource policies.

The toughest nut to crack will be changing the corporate ‘norms’ about salary ratios separating CEOs and average employees. New federal rules will soon require publication of these ratios in corporate reports. Transparency is a good first step. Giving workers seats on the board would also help. So would taxing high-level incomes pre-1980s rates (Piketty, 2014). But corporate boards may need stronger pressures to change the ways CEOs are paid. Today, unions aren’t strong enough to do this alone. They need to be joined by a chorus of voices including HR professionals, policy makers,
middle managers and professionals (today’s ‘average’ employees), and voters – all calling for more equitable, productive, motivating and sustainable pay setting policies across America.

**Alternative corporate forms**

Alternatives to the standard shareholder-maximising firm are also available. Today over 12,000 Employee Stock Ownership Plans (ESOPs) plans are in place in the US (Blasi, Freeman and Kruse, 2014). The most successful follow the four principles above – they engage all employees as owners and build a culture of shared ownership and commitment that motivates everyone to work together and benefit together from the success of the enterprise. Expanding ESOPs would help. A new corporate form called Benefit Corporation also shows promise and has been authorised in 23 states (Benefit Corporation Information Center, 2014). Benefit Corporations build a commitment to address environmental and social (workforce and community) sustainability objectives directly in their corporate charters, giving these goals equal status to achieving fair returns to shareholders. Further innovations along these lines for next-generation start-ups and emerging firms would help challenge the financialisation view of the firm that grew out of the 1980s.

**Next-generation unions and sources of power**

One of the biggest open questions facing both America and to some extent other countries is what will fill the void left by union decline. Presently, less than 7 per cent of private sector workers have union representation, down from a peak level of about one-third of the workforce in the 1950s. While reproducing unions and collective bargaining in the mirror image of their past is neither likely nor viable, some alternative means will be needed to provide the next generation workforce with the voice and bargaining power needed to assert and achieve its interests. Indeed, the crisis in worker representation has sparked considerable innovation both within the labour movement, among labour and community group coalitions, and among an
expanding number of networks at local, national and global levels. These range from religious-based groups and worker centres (Fine, 2010; Bobo, 2010), to students mobilising against sweatshop conditions, to international coalitions of NGOs, governments, international agencies, employers and unions aimed at upgrading conditions in global supply chains (Locke, 2013). One common feature of these emerging efforts is their reliance on social media, publicity and information-sharing now made possible via internet and smartphone technologies. Experimentation with ways of using these social media tools as sources of power for workers around the world is likely to continue to grow.

Moving from local innovations to national policies

All these developments suggest that there are ample ideas, experiments and options available to support dialogue, discussion and negotiation among future workforce, business, government, education and other leaders. History teaches us that national solutions and foundational policies like those incorporated into the New Deal legislation of the 1930s grew out of innovations first developed and demonstrated to work at local levels. Let us hope that we are now close to the point of choosing from the considerable range of local innovations underway those that are best suited to building a foundation for a new social contract fitted to the future world of work and responsive to the needs of the generations to come.

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References


