Bargained Work Rules

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per occurrence were much different, primarily because Detroit routes served supermarkets 5 days each week, whereas the Chicago agreement prevented shifting from a 6- to a 5-day delivery system Individual drivers did not work 6 days in Chicago, but a substitute driver had to be employed to serve as a relief driver one day for each of five routes

It should further be noted that earning levels of all wholesale route drivers in Chicago were higher for fewer hours worked and less product delivered than in Detroit. Both had earning levels which were quite high by 1968 standards The average wholesale route driver earned $295 per week in Chicago and $238 per week in Detroit Weekly earnings in manufacturing as reported by the Bureau of Labor Statistics were about $140 in Chicago and $174 in Detroit during September, 1968. In addition to wages, the cost of fringe benefits was about $2500 per man per year in Chicago and $2077 in Detroit

As a result of the combination of lower labor productivity, higher earning levels, and fringe benefit costs in Chicago, the labor cost attributable to the delivery of a quart of milk to a wholesale customer was nearly twice that incurred in Detroit (1.86 cents in Chicago vs 0.95 cents in Detroit). One should remember that these were 1968 earnings and benefit levels

Because it would take more trucks in Chicago than in Detroit to deliver the same quantity of milk, the costs associated with truck ownership and operation would also be higher on a per-quart basis in Chicago. Restrictions in the use of labor can affect the productivity of other resources

Chicago and Detroit are both large metropolitan markets and geographically close Much of the cost difference between the two markets can undoubtedly be attributed to differences in "collective bargaining structures." Chicago's dairy industry was and is completely organized by one international union. One local represented all wholesale route drivers. Employers bargained as a group with the Teamsters union. All competitors operated with identical labor agreements and experienced identical interpretations and administration of them

By comparison, Detroit dairy workers were represented by two separate unions and each company bargained individually with the union representing its workers Contracts differed, and interpretations could also vary from company to company Restrictions on labor productivity could not be written into a labor agreement and enforced unless they were included in all others To do otherwise would allow some dairy companies to achieve lower costs and would simply shift business and jobs to some other company A dairy company could not be expected to bargain away its ability to compete, and a union would be unwilling to improve employment opportunities in firms represented by a rival union Competition, both among dairy companies and between rival unions, tended to prevent collectively bargained clauses which would slow adoption of cost-reducing practices To have obtained productivity-inhibiting clauses, such as those found in Chicago, in the Detroit labor agreement would have required cooperation among competing firm managers in addition to agreement between an AFL-CIO union and the Teamsters Either possibility would have been unlikely and even if mutual agreements had been achieved, enforcement of them would have been impossible Each union might have interpreted the agreement differently. For example, a union official striving for members might close his eyes to prohibited practices if it would improve the firm's ability to compete, particularly if it would lead to more business and thus create more jobs for his members.

The Chicago performance was an example of the power that can be brought to bear by a large powerful union There is some evidence, however, that the results were at least partially attributable to management's willingness to concede them. By bargaining away cost-reducing opportunities open to competing firms, or by making these opportunities less attractive, the status quo could be preserved. While this conclusion was suggested by the preponderance of evidence, no specific incident or action by itself was very conclusive Perhaps a hypothetical example can illustrate why competing firms would willingly bargain away access to productivity-increasing practices.

If a few firms serve a small geographic area, such as that of a large city, with a perishable bulky product which buyers find quite uniform from company to company, then managers of those firms tend to compete by seeking cost-reducing practices which will allow them to meet or beat the prices offered by other firms selling the product. Opportunities for cost reductions frequently vary from company to company For instance, if one company is serving only large supermarkets and another predominantly restaurants, it is conceivable that limiting route services would be an acceptable means of lowering distribution costs for one and not the other. The supermarket people might be willing to accept less service and perform some functions themselves for a share of the savings. The restaurant owners might need and require these services since they would have no acceptable means of handling the job themselves Furthermore, if the cost-reducing firm passes some of the savings on to the buyer, and the buyer in turn passes them on in price reductions, some restaurants might shift to buying from the supermarket In such a case, the firm which couldn't innovate might lose part of its market Volume of business would decrease As size of the business became smaller, unit costs would increase and the firm might be forced to go out of business. Competing firms, therefore, might be interested in preventing cost-reducing innovations which they would find impossible to utilize in their own businesses By bargaining away opportunities for innovation, employers in a multi-employer bargaining group can exercise some control over competing firm costs and ultimately over prices offered Prices tend to remain higher than they otherwise would

Firms in nearby markets would not be likely to take part of the business because a bulky perishable product is expensive to transport. Such a situation can exist as long as the difference between actual costs and those which would be "possible" if no restrictions on productivity were imposed is not in excess of the cost of hauling the product from potential suppliers. Furthermore, a labor union might pressure wholesale buyers to refuse product from out-of-towners on threat of jurisdictional disputes. Increases in labor productivity or shifting of jobs to some other area would mean a loss of union members. That would not be in the union's or business agent's best interests.

The hypothetical example does not indicate that such a situation exists It does, however, give an indication of the incentives which might lead to collective bargaining conduct of this nature in a market-wide bargaining relationship.

Under these conditions it would pay unions and firm managers to cooperate. A union could preserve jobs and relatively high rates of pay. Business firms could protect profits and prevent or slow the threat of cost competition from potential innovators. Only consumers and producers, to the extent that "over" pricing reduced consumption, would lose.

Summary

Margins for milk sold in Chicago supermarkets were 1.7 cents per quart higher than in Detroit. Differences in distribution labor costs and other operational costs appeared to account for slightly over half of this difference While this doesn't seem like a great difference, it was conservatively estimated that actions under this collective bargaining relationship cost Chicago area consumers an additional $16 million per year for their bottled milk.

Limitations on labor productivity in food marketing firms have added to food costs. How much the forgone productivity-increasing opportunities have cost consumers is unknown Whether the limitations result from the power achieved by many of our labor unions or from competitive strategies of firm managers or both, they nevertheless increase the size of the food bill.

+Brewer, Thomas A. Unpublished PhD Dissertation, Department of Agricultural Economics, Cornell University, Ithaca, N Y

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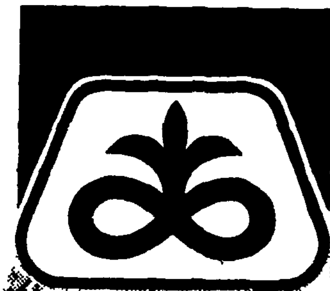

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