Foreword

LABOR MARKET analysis owes much to the writings of Clark Kerr. Perhaps it is appropriate for one who has had the privilege of a long and close association with him to comment on the scope and impact of these essays, which have never previously been gathered into a book. The compilation is a most fortunate event not only for those who have read many of the essays at different times and in various sources, but for younger scholars who will be impressed by their freshness and vigor and their timeliness and relevance for many current problems.

There is a long-standing, fundamental dispute among the proponents of labor market analysis. The problem is to determine the relative importance of “market forces” (notably maximization of gain by individual buyers and sellers exposed to competitive conditions and confronted by costs of information and mobility) and “institutional influences” (usually either behavior not consistent with optimal exploitation of opportunities for gain or group behavior designed to provide the members with some insulation from the forces of competition). The positions of the various parties to the debate might be described by paraphrasing James Tobin’s famous statement about a similar debate over the importance of money supply: Market forces do not count; market forces do too count; market forces count for everything. The first position has been attributed to John R. Commons and most of the older institutionalists before and after the First World War; the third, to Milton Friedman and many newer neoclassicists after the Second World War.

The second position was originally espoused (at least in part) by the older neoclassicists like Henry C. Simons and later by newer institutionalists like Slichter, Kerr, and Dunlop. Nowhere was the eclecticism of this approach

more lucidly displayed than in the celebrated essay on "The Balkanization of Labor Markets." In it, Kerr discusses the contributions made by "institutional rules to the creation of more boundaries between labor markets"; and he associates different forms of job control ("manorial" and "guild") with different forms of unionism (industrial and craft, respectively). He notes that tendencies toward the different types of job control have existed in the absence of formal union rules and policies; and he cites the influence of "the specificity of skills and the money costs of transfer." In the "Effect of Environment and Administration on Job Evaluation" he stresses the impact of external market forces (as well as union politics and rivalry) on this important characteristic of the "internal labor market." Indeed the same caution and balance which characterize Kerr's assessment of the effect of unionism on relative wages is evident in his treatment (in other papers) of the effect of unionism on the general level of money wages and on the distribution of income.

Subsequent work in the human capital area has concentrated on competitive, allocationally efficient market forces. But in the fifties, the idea developed that markets might be segregated into areas of all-around good jobs (with high pay, good promotional prospects, and job security through seniority or attachment to a structured market) and all-around bad jobs (low pay, dead-end, short-lived) with special attention to services and trade as a "sponge sector." The idea was revived in the late sixties by young economists, led by Doeringer and Piore. Although they were critical of the Pollyanna implications of neoclassical analysis and analyzed the properties and characteristics of "internal" as well as of "secondary" markets, they at first explained the differences almost exclusively in terms of technological peculiarities and human capital analysis. More recently, however, the role assigned to unions by some analysts of market segmentation has again been upgraded. Such upgrading received unintended support in the sixties from work on the quantitative impact of unionism on interindustrial wage structures. Although the quality and the results of these studies vary widely, they generally suggest greater union influence than the market-forces-count-for-everything school had expected. In a recent attempt to distinguish quantitatively among Kerr's three market classifications ("manorial," "guild," and "open"), Arthur Alexander finds that "manorial" industries (with good jobs) show lower mobility and higher wage incomes than could be predicted solely on the basis of human capital characteristics (as summarized by age and experience) of their employees, and that such "structural" characteristics as

capital intensity, product market concentration, size of firm, and unionism play an important role. Thus the broader interpretations of market segmentation and their renewed emphasis suggest that the pendulum of intellectual fashion has swung once more in the direction of the balanced approach followed by Kerr, Dunlop, Reynolds, and their contemporaries.

Whether events and increased analytic sophistication will prompt the revival of more subtle and controversial aspects of this institutionalism remains to be seen. In denying much of a role to unions and other private market organizations as a means of accounting for persistent wage dispersion within labor markets, conventional analysis asserts the explanatory sufficiency of costs of acquiring various kinds of information; in denying much of a role to inflationary agents, it stresses limitations on their power to buck countervailing competitive forces (to which they themselves contribute). In both cases it is assumed that individuals and their organizations fully exploit whatever opportunities the market holds for them. In these essays, however, the latter assumption is not made and is indeed implicitly denied. Kerr attributes wage dispersion in part to "inertia" — to the fact that "the hard core of the employed" are "sufficiently satisfied with their current jobs." He attributes the "selective impact of union power" on different types of wage differential to the differential "intensity of motivation" arising from the interdependence of worker preference functions as well as to "the amount of power requisite to effect such changes." He attributes the limited inflationary and distributional impact of American unions to their "reasonableness" — the absence of a particular programmatic thrust and bite which in other countries may proceed from radical ideological heritage. This reasonableness, he goes on to say (in "Economic Analysis and the Study of Industrial Relations") can cause restraint if the institution is granted a certain degree of union security; but he warns that there are limits to the tradeoff between wage restraint and institutional security. The existence, the *raison d'être*, and the limitations of the tradeoff all constitute a lesson which should commend itself to the contemporary policymaker.

Kerr's accomplishments and contributions, of course, range far beyond the context of these essays, just as the essays greatly exceed in scope the issues and problems which prompted this Foreword. Among his extracurricular activities was the founding of the Institute of Industrial Relations at Berkeley, which he directed for seven years. The institute is now in its thirtieth year, combining a program of academic research with teaching in the labor, management, and minority communities. This emphasis was, characteristically,

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imparted to it by Clark Kerr, whose personal career has also been stamped by a unique combination of scholarly, policy-oriented, and administrative achievements.

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