Final-Offer Arbitration and Public-Safety Employees: The Massachusetts Experience

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Final-Offer Arbitration and Public-Safety Employees: The Massachusetts Experience

Abstract

[Excerpt] We conclude that, in terms of its impact on the bargaining process, final-offer arbitration has had a mixed record in Massachusetts. On the one hand, the law must probably be given some credit for preventing police and firefighter strikes; in addition, the rate of arbitration usage was remarkably low compared to experience in other states. On the other hand, the law probably led to more impasses in police and fire bargaining (although the experience in the commonwealth was still favorable compared to other states) and reduced the effectiveness of the mediation stage of the impasse procedures. Perhaps most important, the law failed to gain acceptance with municipal employers in the commonwealth.

Keywords
public safety employees, Massachusetts, final-offer arbitration

Disciplines
Dispute Resolution and Arbitration | Labor Relations | Unions

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Municipal employees in the Commonwealth of Massachusetts have had the statutory right to bargain over wages, hours, and other terms and conditions of employment since 1965. The law was amended in 1973 to allow for final-offer arbitration by package for police and firefighter units. The final-offer arbitration amendments took effect on July 1, 1974, and were scheduled to expire, after a three-year trial period, on June 30, 1977. Thus, during the spring of 1977 the debate on whether or not to extend the provisions of the law was lively and intense. Firefighter and police unions were the main proponents of extension of the law, and organizations representing the city and town governments of the Commonwealth were the main opponents.

Under the Massachusetts statute, organizations of uniformed officers
could petition the State Board of Conciliation and Arbitration for final-offer arbitration only if (1) the employee organization participated in negotiations, mediation, and fact-finding in good faith; (2) 30 days had passed since the publication of the fact-finder's report; (3) prohibited practices proceedings before the State Labor Relations Commission had been exhausted with respect to complaints filed before the date of the fact-finder's report; and (4) an impasse continued to exist. If these conditions were met, the Board of Conciliation and Arbitration would then appoint a tripartite panel, which would conduct hearings. At the conclusion of the hearings, each side would submit its last best offer to the panel. The panel was required to pick either the entire last best offer of the union or the entire last best offer of the employer, and its selection would be final and binding upon the parties.

In addition to Massachusetts, Connecticut, Iowa, Michigan, New Jersey, and Wisconsin now use some form of final-offer arbitration to resolve police and fire disputes. Other states, including Alaska, New York, Pennsylvania, Minnesota, Nevada, Oregon, Rhode Island, Washington, and Wyoming, employ conventional arbitration to resolve police and fire disputes.

The Debate on Final-Offer Arbitration

The debate in Massachusetts in 1977 on the question of continuing final-offer arbitration is symptomatic of a nationwide concern to develop effective and equitable methods of resolving public-safety employee disputes. Final-offer arbitration is a response to some of the criticisms of conventional arbitration. Under conventional arbitration, the arbitrator fashions his award from the various issues submitted to him for resolution. Usually his award is a compromise solution that does not hold entirely with either the position of the union or the position of the employer. It has often been observed that an arbitrator in "conventional" cases will "split the difference" between the final positions of the parties. For this reason, it has been widely held that the parties subject to con-

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3 Massachusetts and Wisconsin practice a "pure" form of final-offer arbitration whereby each party must submit one final package incorporating all outstanding issues and the arbitrator must select what he considers to be the more suitable package. Connecticut, Iowa, and Michigan adopted a variant of the concept allowing arbitrators to consider each outstanding issue separately and select from one or the other side's final positions on an issue-by-issue basis. Michigan further limits final-offer arbitration to economic issues only. New Jersey adopted a statute in 1977 that permits the parties in public-safety disputes to choose any "terminal procedure" to resolve an impasse after fact-finding. Final-offer arbitration is one of the choices available to the parties. If the parties are unable to mutually agree on one procedure, the statute provides that final-offer arbitration by package shall be used to resolve economic issues and final-offer arbitration by issue shall be used to resolve noneconomic issues.
Conventional arbitration withhold concessions during negotiations and present extreme positions to the arbitrator. Consequently, it is argued that conventional arbitration has a "chilling effect" on negotiations, causing the parties to become more intransigent in their positions than they otherwise would be.

Final-offer arbitration is designed, at least in theory, to overcome this defect. If either party adheres to an unreasonable position, it runs a high risk of losing the arbitration case to its bargaining opponent. Thus the parties no longer have an incentive to withhold concessions during negotiations. Rather, the Draconian nature of arbitral decision-making under this process should cause each party to assume a stance that will appear more reasonable than its opponent's to the arbitrator. If these assumptions about the dynamics of the process are correct, then final-offer arbitration ought to decrease reliance on outside neutrals and lead to more voluntarily negotiated agreements.4

The final-offer technique has been criticized, however, on several grounds. First, inexperienced negotiators may not correctly perceive the risk involved in using final-offer arbitration and, if this is so, the presumed incentive to concede and compromise will not be present. Second, negotiators may perceive the risk, but may also be so convinced that their position is correct and just that they do not modify or compromise their stance in negotiations or the initial impasse steps. Third, arbitrators, for one reason or another, may not be able to discern the more "reasonable" of two offers and may select final offers that are not in the public interest. Fourth, under final-offer arbitration by package, a party may present a final offer that is eminently reasonable except for one so-called "sleeper" issue that is totally unacceptable to the other side or unreasonable by other standards. Thus, arbitrators can be confronted with the dilemma of choosing between two final packages, each of which may contain one or more unacceptable demands. In sum, final-offer arbitration does not guarantee that awards made by arbitrators will necessarily meet tests of fairness and equity.5

In addition to the potential problems pointed out in the preceding paragraph, critics of the law in Massachusetts contended that final-offer arbitration clearly favored the unions, had—contrary to the theory of the technique—actually stifled the bargaining process, and had resulted


5 See, for example, Charles Feigenbaum, "Final Offer Arbitration: Better Theory than Practice," Industrial Relations (October 1975), pp. 311-17.
in inflationary wage settlements. They pointed to the fact that unions won approximately two-thirds of the cases going to final-offer arbitration in the commonwealth. Some of the critics were particularly sensitive to the statutory requirement that municipalities must fund an arbitration award, whereas the funding of settlements reached through negotiations or other impasse steps could be put to a vote by the elected representatives of the town or city. Since arbitrated settlements were guaranteed funding, the critics contended that unions had little incentive to engage in meaningful preimpasse bargaining. Finally, the critics argued that the selection of the union's final position in a few well publicized, visible cases had created a high-wage pattern that other municipalities had been forced to follow even when their public-safety employee disputes had been resolved short of arbitration.⁶

Supporters of final-offer arbitration denied that it resulted in inflationary outcomes, claiming that salary settlements awarded in arbitration cases simply followed comparable settlements reached in other sectors of the economy. Furthermore, supporters argued that the statute's effectiveness was evidenced by the fact that there had been no work stoppages by public-safety employees during the law's existence. Finally, they argued that the proportion of union "victories" could not be used to judge the fairness of the law, since such a "box score" takes no account of the quality of the offers made by the parties to the arbitrator.⁷

In the remainder of this paper, we analyze the effect of final-offer arbitration on the process of police and firefighter bargaining in Massachusetts, focusing particularly on whether the availability of final-offer arbitration created a "chilling effect" in public-safety disputes.⁸

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⁶ Paul C. Somers, An Evaluation of Final Offer Arbitration in Massachusetts (Boston: Massachusetts League of Cities and Towns Personnel and Labor Relations Bulletin, November 1976). Mr. Somers is director, personnel/labor relations of the MLCT. As pointed out later in the text, the MLCT has been the major opponent of final-offer arbitration in Massachusetts.

⁷ Richard K. Sullivan, "Final Offer Arbitration: The Massachusetts Experience," printed by the International Brotherhood of Police Officers. Mr. Sullivan is counsel to the IBPO, one of the major organizations representing police officers in Massachusetts.

⁸ For another assessment of the Massachusetts law, see Interim Report of the Governor's Task Force on Chapter 150E and Impasse Procedures, report submitted to Governor Michael S. Dukakis in September 1976. The Task Force, consisting of labor, management, and neutral representatives, had little statistical evidence on which to base an evaluation and so concluded that it was "premature to properly evaluate the law's success." Nevertheless, the Task Force recommended that the final-offer law be extended for an additional two-year period. See also, Lawrence T. Holden, Jr., "Final Offer Arbitration in Massachusetts," Arbitration Journal (March 1976), pp. 26–35. Mr. Holden was chairman of the Massachusetts Board of Conciliation and Arbitration for three years, until 1975.
Final-Offer Arbitration and the "Chilling Effect"

Exhaustive data gathered from the files of the Massachusetts Board of Conciliation and Arbitration allow us to trace the use of impasse procedures in police and fire negotiations over the period from fiscal year 1972 to December 31, 1976, of fiscal year 1977. Information was also gathered on the incidence of impasse in teacher negotiations in order to allow some comparisons to be made between groups of Massachusetts public employees that bargain with and without final-offer arbitration as the final step.

When these data were broken down into two periods—encompassing the three fiscal years preceding the date that the final-offer arbitration amendments took effect and the two and one-half years that elapsed from the date of the new law to December 31, 1976—we found that the number of impasses declared in police, fire, and teacher negotiations increased from 371 in the prelaw period to 630 in the postlaw period; this is an increase of nearly 70 percent. Most of this increase, however, is accounted for by a higher incidence of impasse in police and fire negotiations. The highest percentage increase in impasses occurred in firefighter bargaining; in the prelaw period there were 61 impasses, while in the postlaw period there were 157 impasses, an increase of 157 percent. Police impasses increased from 107 in the prelaw period to 198 in the postlaw period, an increase of 85 percent. By contrast, teacher negotiations resulted in impasses in 202 cases in the prelaw period and 272 cases in the postlaw period, an increase of 33 percent. Thus, this first level of analysis certainly does not indicate that final-offer arbitration promoted the settlement of police and fire disputes without the use of third-party neutrals.

Our second test of the existence of a "chilling effect" involved calculating the proportion of police and fire negotiations that resulted in impasse. As shown in Table 1, we found that the proportion of police and fire impasses increased from 28 percent in the last prelaw year to over 53 percent in the first year under final-offer arbitration. In the second year of the law, however, the proportion decreased to 42 percent. Caution must be used in concluding that this test demonstrates the existence of a "chilling effect." Clearly, many factors determine whether or not
TABLE 1
Proportion of Police and Fire Negotiations Resulting in Impasse in Massachusetts, FY1972-FY1976

<table>
<thead>
<tr>
<th>Year</th>
<th>Police and Fire Negotiations</th>
<th>Impasses</th>
<th>Proportion Resulting in Impasse</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>203</td>
<td>39</td>
<td>19.2%</td>
</tr>
<tr>
<td>1973</td>
<td>237</td>
<td>60</td>
<td>25.3%</td>
</tr>
<tr>
<td>1974</td>
<td>249</td>
<td>70</td>
<td>28.1%</td>
</tr>
<tr>
<td>1975</td>
<td>267</td>
<td>143</td>
<td>53.6%</td>
</tr>
<tr>
<td>1976</td>
<td>281</td>
<td>121</td>
<td>42.1%</td>
</tr>
</tbody>
</table>

*Source:* For the number of police and fire negotiations, Somers, *An Evaluation of Final Offer Arbitration*, p. xviii.

the parties will declare impasse. Certainly the bargaining environment of 1975-76 was different from that of 1972-74. The combination of tightening constraints on municipal finances, significant increases in unemployment in Massachusetts because of the recession that began in 1974, and higher rates of inflation probably made negotiated settlements more difficult to achieve in 1975-76 than they had been in earlier years. Still, it is likely that some part of the increase in the proportion of police and fire impasses can be attributed to the availability of arbitration in 1975-76.

A third test of the "chilling effect" of final-offer arbitration is based not on the total number of cases going to impasse, but on the number that actually ended with a final-offer award. Our evidence indicates that 37 final-offer awards were issued in the first two and one-half years of the law. In fiscal 1975, less than 9 percent of police and fire units involved in negotiations resorted to arbitration; in 1976 this proportion dropped to less than 2 percent. In other words, over the first two years of the law 93 percent of those municipalities that negotiated new police and fire contracts did so without relying upon arbitration. Thus it appears that final-offer arbitration in Massachusetts may have led to greater reliance on impasse procedures in police and fire negotiations, but clearly did not lead to a large number of cases being settled by arbitration itself.

What impact did final-offer arbitration have on the effectiveness of mediation and fact-finding in resolving public safety disputes? Table 2 provides information on the stage of settlement for the prelaw (1972-74) and postlaw (1975-77) periods. It is clear from this table that the relative proportion of cases settled through mediation declined in the post-law period: about 60 percent of police and fire impasses were settled in mediation in 1972-74, compared to 33 percent in 1975-77. By the same token, however, the proportion of mediated teacher cases also declined, from 78.5 percent of impasse cases in 1972-74 to 44.5 percent in 1975-77.
### TABLE 2
Stage of Settlement by Unit, Before and After the Massachusetts Final-Offer Arbitration Law

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawn</td>
<td>5</td>
<td>4.9</td>
<td>2</td>
<td>3.7</td>
<td>6</td>
<td>3.0</td>
</tr>
<tr>
<td>Mediation</td>
<td>64</td>
<td>62.1</td>
<td>32</td>
<td>59.3</td>
<td>157</td>
<td>78.5</td>
</tr>
<tr>
<td>During fact-finding</td>
<td>13</td>
<td>12.6</td>
<td>4</td>
<td>7.4</td>
<td>16</td>
<td>8.0</td>
</tr>
<tr>
<td>Following fact-finder’s report</td>
<td>19</td>
<td>18.4</td>
<td>15</td>
<td>27.8</td>
<td>20</td>
<td>10.0</td>
</tr>
<tr>
<td>In arbitration</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Following arbitration award</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>16</td>
<td>10.6</td>
</tr>
<tr>
<td>Remand to parties</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>1.9</td>
<td>1</td>
<td>1.8</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>100.0</td>
<td>54</td>
<td>100.0</td>
<td>200</td>
<td>100.0</td>
</tr>
<tr>
<td>Pending</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>47</td>
<td>—</td>
</tr>
</tbody>
</table>
Therefore, it is difficult to say to what extent one can attribute the apparent decline in the effectiveness of mediation in public-safety disputes to the availability of arbitration as a final step in the procedure. Staff mediators on the Board of Conciliation and Arbitration, in interviews with the authors, were nearly unanimous in believing that they became less effective in achieving settlements after the arbitration statute was passed, but surely the deteriorating economic environment of the post-law period had some impact on their effectiveness.

The data in Table 2 give some support to the proposition that fact-finding retained its viability as a dispute-settlement technique after the adoption of final-offer arbitration. Before the law, about one-third of public safety impasses were resolved during fact-finding or immediately following the issuance of the fact-finder’s report; a slightly higher proportion (and a much larger number of impasses) were settled in this manner after passage of the law. Moreover, another 10 percent of the impasses were settled “in arbitration,” but short of the issuance of an arbitration award; in these cases either the parties reached a settlement on their own or the arbitrator successfully mediated an agreement. These data, however, do not completely convey the critical importance of fact-finding under final-offer arbitration. Examination of the final-offer awards showed that in all but a few cases the arbitrator selected the final-offer package that came closest to (or was identical to) the fact-finder’s formal recommendations. Of all the statutory criteria that the arbitrator is instructed to apply in final-offer cases, the fact-finder's report clearly appears to have been the most compelling to arbitrators. It is not an overstatement to say that, with rare exceptions, in Massachusetts final-offer awards were in fact determined during the fact-finding process.

Impact of Arbitration on the Process of Bargaining:
Comparisons with Other States

The negotiating experience of police and fire units in Massachusetts can be compared with experiences in other jurisdictions where either final-offer or conventional arbitration has been made available to the parties. Table 3 summarizes the impasse experience and arbitration usage in six states for which data are available. What is clearly apparent

10 Holden, who looked at the Massachusetts experience after one year, believed that “fact-finding has become in reality the cornerstone of the entire impasse procedure. For those disputes that are not going to get resolved at the bargaining table, fact-finding is where the concrete for the foundation of an arbitration award is first poured. It is very difficult to recast the foundation once it has been laid since one party or the other will normally adopt the fact-finder’s recommendations as its last, best offer.” Holden, pp. 28–29. We found that the arbitration award differed significantly from the fact-finder’s recommendation in only five or six cases.
in the table is the marked contrast between the relative use of arbitration in states using the final-offer form and the relative use in states using the conventional form. On the one hand, less than 7 percent of the negotiations subject to final-offer arbitration in Iowa and Massachusetts ended with the issuance of an award in the years surveyed. On the other hand, in Pennsylvania and New York where conventional arbitration is employed, 29 or 30 percent of police and fire negotiations ended with the issuance of an arbitration award. In Michigan, where final-offer arbitration by issue is used, 16.3 percent of negotiations ended with an arbitration award. In Wisconsin, which uses final-offer arbitration by package, 10.4 percent of negotiations ended with an arbitration award in the first two years of the statute's existence, but this proportion increased to 13-15 percent in the following two years. The award rate also seems to have increased over time in Michigan, but the six years of experience recorded for Pennsylvania show no strong trend in arbitration usage one way or the other. Although the data are incomplete, there is also some evidence in Table 3 that final-offer arbitration by package is related to a lower incidence of impasse in negotiations than either final-offer by issue or conventional arbitration. This result is, of course, consistent with the "theory" of final-offer arbitration.

In sum, the comparisons presented in Table 3 should give some comfort to the supporters of final-offer arbitration. The prediction that the parties would be more likely to reach agreement on their own and rely less on arbitration if the final-offer form rather than the conventional form were used seems to be borne out by these data. Several caveats need to be mentioned, however. First, rates of usage of impasse procedures and arbitration are dependent on the precise structure of the impasse procedures, on the way these procedures are administered within the state, and on the acceptability of the procedures to the parties. No attempt can be made here to compare such factors across the states listed in Table 3. Second, rates of impasse and arbitration usage are probably also affected both by the precise nature of the relationships between the parties and by the environment in which they bargain. Kochan and his colleagues, for example, found that the level of hostility in the bargaining relationship, the size of the city, the extent to which

### TABLE 3

Comparison of Impasse Experience and Arbitration Usage in Massachusetts with Other States Having Arbitration Statutes

<table>
<thead>
<tr>
<th>State</th>
<th>Years</th>
<th>Type of Arbitration</th>
<th>No. of Negotiations</th>
<th>No. of Impasses</th>
<th>Impasses as % of Negotiations</th>
<th>No. of Arbitration Awards</th>
<th>Arbitration Awards as % of Negotiations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa</td>
<td>1975-10/1976</td>
<td>Final-offer by issue</td>
<td>372</td>
<td>255</td>
<td>68.6</td>
<td>25</td>
<td>6.7</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1975-76</td>
<td>Final-offer by package</td>
<td>548</td>
<td>264</td>
<td>48.2</td>
<td>36</td>
<td>6.6</td>
</tr>
<tr>
<td>Michigan</td>
<td>1973-76</td>
<td>Final-offer by issue</td>
<td>540</td>
<td>NA</td>
<td>NA</td>
<td>88</td>
<td>16.3</td>
</tr>
<tr>
<td>New York</td>
<td>1974-76</td>
<td>Conventional</td>
<td>118</td>
<td>78</td>
<td>66.1</td>
<td>34</td>
<td>28.8</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1969-74</td>
<td>Conventional</td>
<td>276</td>
<td>NA</td>
<td>NA</td>
<td>83</td>
<td>30.1</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>1973-74</td>
<td>Final-offer by package</td>
<td>249</td>
<td>86</td>
<td>34.5</td>
<td>26</td>
<td>10.4</td>
</tr>
<tr>
<td></td>
<td>1974-76</td>
<td>Final-offer by package</td>
<td>260-300</td>
<td>144</td>
<td>48.0-55.4</td>
<td>38</td>
<td>12.7-14.6</td>
</tr>
</tbody>
</table>


Notes: NA = not available or not applicable. Impasse data short of arbitration are not available for Michigan. The Michigan statute requires the parties to petition for mediation 30 calendar days prior to requesting arbitration (Stern, et al., pp. 44, 51). The Pennsylvania statute does not require mediation or fact-finding prior to arbitration (Stern, et al., pp. 8-12.) The Pennsylvania and New York data are based on samples of municipalities. Data for the other states are based on (more or less) complete counts. The Massachusetts data for 1975-76 exclude the fiscal 1977 data reported in Table 2. The Michigan and Wisconsin data include police and fire cases, but exclude data for deputy sheriffs, who are also subject to final-offer arbitration in these two states.
the union employed pressure tactics in negotiations, and the use of outside negotiators all ranked ahead of the nature of the impasse procedures in determining the stage of settlement of disputes in New York. Again, the importance of such variables cannot be controlled in the comparisons made in Table 3. Third, the experience in Wisconsin and Michigan indicates that over time the parties may come to lean more heavily on the use of arbitration, that a "narcotic effect" may develop with the passage of time, even under final-offer arbitration. There has not been enough experience in Massachusetts, Iowa, or elsewhere to know whether this is an inevitable tendency. Finally, there is neither enough data nor sufficient controls to conclude on the basis of Table 3 that final-offer arbitration by package clearly does promote voluntary settlements and reduce reliance on impasse procedures. Although the data in Table 3 are encouraging in that respect, it should be recalled that the rate of impasse usage in Massachusetts was significantly higher under final-offer arbitration than it had been under fact-finding.

We conclude that, in terms of its impact on the bargaining process, final-offer arbitration has had a mixed record in Massachusetts. On the one hand, the law must probably be given some credit for preventing police and firefighter strikes; in addition, the rate of arbitration usage was remarkably low compared to experience in other states. On the other hand, the law probably led to more impasses in police and fire bargaining (although the experience in the commonwealth was still favorable compared to other states) and reduced the effectiveness of the mediation stage of the impasse procedures. Perhaps most important, the law failed to gain acceptance with municipal employers in the commonwealth.

Policy Epilogue

In June 1977, the Massachusetts legislature passed, over the governor's veto, a two-year extension of a revised version of the final-offer arbitration statute. The following important revisions were made in the statute: (1) the parties by their own agreement may now waive the fact-finding step; (2) if fact-finding is not waived, the arbitrator may select the fact-finder's recommendations instead of either side's final offer; (3) the parties by their own agreement may choose a single arbitrator rather than a tripartite panel, and, finally, (4) the scope of arbitral issues was reduced and now excludes appointments, promotions, most work assignments, most transfers, and minimum manning requirements on shifts.

Extension of the law did not end the battle, however. In the aftermath of the legislative override of the governor's veto, the main organization opposing the law, the Massachusetts League of Cities and Towns, announced its intention to place the final-offer arbitration question on the ballot in the 1978 state elections. This move apparently prompted the police and firefighter unions to enter into discussions with the League in an effort to avoid a referendum on the issue. With the assistance of Professor John Dunlop, the parties reached a compromise agreement on a set of recommended amendments to the statute and submitted their recommendations to the legislature for consideration. The legislature accepted the recommendations and in November 1977 created a joint labor-management committee, consisting of six public-safety employee representatives, six municipal employer representatives, and an impartial chairman, all appointed by the governor, and empowered it to intervene at its own discretion in any police or fire dispute at any stage prior to arbitration. The committee has broad authority to act in the cases over which it assumes jurisdiction and can, for example, order the parties to continue bargaining, attempt to mediate a settlement of the case, order conventional arbitration, or allow the case to go forward under the regular statutory procedures to final-offer arbitration. The committee will be chaired by Professor Dunlop and will begin to operate in January 1978. Of course, it remains to be seen what impact this new approach will have on the process of public-safety employee bargaining in Massachusetts.  