

THE ECONOMIC CONDITIONS FOR INDUSTRIAL DEMOCRACY

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Although much has been written about industrial democracy in recent years, little of it has been of an analytical nature, concerned with explaining the development of the subject. As a result, we are in the middle of a period of active concern about reforms of the company structure without understanding why interest in such matters has arisen in the first place. Certainly the interest in worker representation at board level expresses a desire for greater worker involvement in decision making, but why this should have developed in recent years, in fact from about the mid 1960's, rather than, say, the mid 1950's is still not clear. If interest in the subject seems to blossom at some times and fade at others, it seems desirable to understand why this is so before major legislation is accepted modifying our company structure and our industrial relations system.

In fact, historically, there have been three periods of active interest in industrial democracy. First, from 1910 to 1921 when schemes of industrial unionism, syndicalism, guild socialism and different forms of worker control were put forward; proposals were made for nationalisation and worker control in a number of industries and an unofficial shop steward movement was active from 1915 until 1921. The second period stretched from 1935 till about 1951. It began with rearmament and the reappearance of the shop steward movement in the aircraft industry though its influence quickly spread throughout the whole engineering industry. This movement remained active and influential until 1947 when the Confederation of Shipbuilding and Engineering Unions' rules were modified to allow such bodies to be absorbed into the official trade union structure. At the same time nationalisation legislation dealt directly with worker participation and established the form of the public corporation; it resolved the debate about the place of the union representative on the Board of the public corporation and created committees for joint consultation. The period ended when nationalisation legislation ceased in 1951.

The third period began in the mid 1960's with industrial democracy being an issue with which the Donovan Commission, appointed

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in 1965, were actively concerned. Since then, interest in the subject has grown steadily.

These distinct cycles of concern pose a problem requiring an explanation. Why do such periods exist? One tentative theory, put forward by P. Brannen and others in their study of employee directors in the steel industry (*'The Worker Directors'* 1976), sees them as crisis periods in which employment and economic activity are high but increases in pay and profits are limited; collective bargaining is then seen as failing to produce significant gains for labour due to the ability of employers or governments to stop or discourage pay increases; and the frustrating of trade union power in this way is seen as encouraging it seek control over industry by schemes of participation. But this is no more than an outline explanation giving broad reasons for the importance of the three periods.

The explanation argued here is that concern for industrial democracy arose in each period because of reasons and events in each period; but the basic reasons in each case appear to be low productivity or a low wage-income ratio which reflected low real incomes; and these indicated a concern about inequality in society. In each case industrial democracy appears to have been a reaction to these factors.

INDUSTRIAL DEMOCRACY 1935-51

Although events in the first and third periods are well known and need little further discussion, the period 1935-51 has received less attention, particularly the years prior to the advent of the features of this period may illustrate the kind of issues that brought a revival of interest in industrial democracy.

Concern about democracy at this time is seen in the re-establishment of the unofficial shop steward organisation which operated from 1935 throughout part of the engineering industry but had significant influence throughout the whole industry. This organisation aimed at a national agreement for the aircraft section of the engineering industry which, because of rearmament, had problems of dilution of skills and of limited increases in pay. By 1940 the movement had been widened to include the whole engineering and shipbuilding industries in the country and the organisation renamed the Engineering and Allied Trades Shop Stewards National Council. A similar organisation was set up in the Clyde. The Council, like its predecessor in the first world war, was concerned with union recruitment, the enforcement of union agreements, wage claims, disputes and a national agreement to regulate dilution in engineering; it was concerned also with the level of profits in engineering and the imbalance between pay and profits which had appeared by the mid 1930's.

By 1940 the unofficial movement was sufficiently well established in engineering and shipbuilding throughout the country that the official union movement made strenuous attempts to suppress it. Thus in 1940, and also in later years, the Scottish TUC recommended member

unions to withdraw the credentials of shop stewards who attended meetings of the unofficial organisation and it tried to dissuade anyone from giving financial support to the unofficial body. The War Cabinet was also concerned about the establishment of such an organisation and in 1941 instructed the Minister of Information to ensure that no undue publicity was to be given to meetings or conferences of the Shop Stewards National Council.¹⁾

Nevertheless the movement flourished and in 1943 the Scottish movement appointed its own full-time secretary.

But the shop steward movement of the 1930's and 1940's did not bring the same disruption as occurred with the first shop steward movement. Some dilution had occurred during the rearmament period. But the rapid introduction of dilution during 1939 and 1940 was resisted by the union movement and it was not until 1941, when unemployment had fallen and labour shortages had begun to appear that dilution was accepted and a significant rise in dilution occurred.²⁾ Indeed it has been accepted that the general application of the dilution of labour was approached very slowly in order to ensure that the problems of 1915-18 did not recur and to discourage any development of a strong unofficial movement.³⁾ And the slow introduction of a system of controls over the use of labour by means of District Manpower Boards, National Service Officers and Inspectors of Labour Supply was also aimed at avoiding the mistakes of 1915-18.⁴⁾

These trends in government policy helped to ensure that interest in industrial democracy during 1935-47 was never as important as had existed during the First World War. A further important reason in this respect was the lack of control over pay during the war years also the high excess profits tax that was established by 1940. By contrast, controls over pay and the existence of profiteering during 1914-18 appear to have encouraged an interest in industrial democracy. Discussions between the government, IUC and the Confederation of Employers Organisation over the regulation of pay, compulsory arbitration and control of the labour supply began in March 1939.⁵⁾ They continued throughout 1940 and demands by the government for wage controls were again successfully countered by the TUC in 1941.⁶⁾ After this date the government made no further attempts to control wages.

'Official war histories' have argued that an important reason for the unofficial movement being less important in 1939-45 than in 1915-18

¹⁾ Public Record Office Cab. 65/19 Meeting 104(4).

²⁾ P. Inman "Labour in the Munitions Industries" (1957) (p. 51) H.M.D. Parker "Manpower" (1957) (p. 70), T.U.C. "Labour", February 1974. W.K. Hancock and M.M. Gowing "British War Economy" (1949) (p. 313).

³⁾ Hancock and Gowing (p. 148), M. M. Postan "British War Production" (1952) (p. 151), Inman (pp. 34-48).

⁴⁾ I. L. O. "Wartime Transference of Labour in Great Britain" (1942), Cab 21/1142 "Ministerial Committee of the War Cabinet on Economic Policy" (1940).

⁵⁾ R. R. O. Cab 21/1142.

⁶⁾ T. U. C. "The T. U. C. in War-Time", Inman (pp. 315-7) Report of the 72nd and 73rd Annual T. U. C. (1940 and 1941), T. U. C. "The Trade Unions and Wage Policy in War-Time" (1941).

⁷⁾ Hancock and Gowing (p. 148).

and for industrial democracy being of less concern at that time was the decision to introduce controls over labour and the system of dilution at a very slow rate and with labour's approval. This was undoubtedly so. But the different approach to pay and profits during 1939-45 than in 1915-18 was also extremely important.

The significance of pay and profits in promoting an interest in industrial democracy during each of the three periods mentioned can now be seen by examining their influence, along with other factors in the determination of real incomes.

REASONS FOR TRENDS IN INDUSTRIAL DEMOCRACY

Any rise in real pay in industry has been shown to depend on the rise in productivity, the ratio of average pay to average income, i. e. the pay-income ratio, and the rate at which goods produced are exchanged for consumer goods, i. e. the barter terms of trade.⁸⁾ Over the long period, productivity has tended to be the most important of the three factors in determining pay as the figures below show.

Table 1
U. K. Average Annually Cumulated Per Cent Change⁹⁾

	Real pay	Industrial Productivity	Pay-income ratio	Barter terms of trade
1871-95	1.94	2.06	-0.15	0.05
1895-1913	-0.11	0.03	-0.32	0.16
1924-38	1.68	1.79	-0.63	0.49
1949-59	2.16	2.07	0.13	-0.02

But the pay-income ratio is also important. This is the ratio of the average pay per employee to the average income per head of the occupied population. It thus shows the share of the total product per head that goes to the average employee. This ratio will move inversely with the trade cycle, with profits rising faster than pay in the recovery bringing a fall in the ratio in the boom and an opposite trend in the slump.

But at times, the pay-income ratio has fallen more than economic recovery would have indicated. The years prior to 1914 are one instance where this occurred; 1935-38 is a second case; and the years following 1970 will be seen to provide a third.

⁸⁾ E. H. Phelps Brown and M. H. Browne »A Century of Pay« (1968) (ch. 11).

⁹⁾ E. H. Phelps Brown and Browne (1968) (tables 13 and 30). E. H. Phelps Brown and Browne »Distribution and Productivity under Inflation 1947-57«, Economic Journal, Vol. 70 (1960).

Changes in the pay-income ratio and in productivity thus appear to produce conditions periodically that lead to a demand for industrial democracy. Real pay will tend to depend primarily on the rise in productivity, the most important of the three factors. But if the rise in productivity is small or non-existent, real incomes will depend largely on changes in the pay-income ratio. And even if this factor remains relatively stable there is likely to be considerable concern about equality in society since any rise in real incomes can then only really come from this source. This requires a freely operating collective bargaining system unrestricted by any norms of incomes policy or limitations on bargaining activity. The pay-income ratio will thus not only reflect equality in society at any time but also the extent to which union activity and the trend in union membership has helped to keep average pay in line with other incomes.

The third influence on real pay, the terms of exchange between goods produced and those consumed has generally been of secondary importance. Occasionally, as in the early 1920's or in the early 1970's, the terms of trade have changed greatly and affected real pay. But these events have been exceptional.

How have the three factors noted above affected real pay and brought periodic demands for industrial democracy? The relevant figures for 1895-1913 are given below.

(a) Period I

Table 2
Average Annual Percentage Change in U. K.

	Real Wage Earnings in Industry	Productivity in Industry	Wage-income ratio in Industry	Terms of Trade
1895-99	+1.0	+1.5	-1.8	+0.8
1900-04	-1.0	-1.4	+1.9	-0.4
1905-09	+0.6	+0.6	+0.1	+0.4
1910-13	-0.7	+0.0	-1.5	+0.4

Source: Estimated from E. H. Phelps Brown and M. H. Browne »A Century of Pay« (1968) (Appendix 3).

The annual percentage change in the three factors, estimated over a long period, would normally sum to the percentage change in real pay over this period. Here, calculations have been over short periods in order to see the changes that occurred in the different factors; as a result, the totals do not sum exactly to the change in real pay. Here in the early 1900's productivity fell drastically but recovered slightly and then remained stable in the years up to World War I. During the same period the wage-income ratio eventually moved against labour. Hence by 1913 real wages had fallen largely as a result of increasing inequality in society. And this had occurred at a time when trade union

membership and strike activity were rising rapidly. The massive rise in union membership and in conflict in pre-1914 years failed to protect labour's real income or to ensure an equitable society. Under these conditions attempts at reform of the trade unions and of the economic and political system were inevitable; and proposals for industrial unionism, guild socialism and other systems were the result. When existing inequalities were then legally enforced through the Treasury Agreement and the Munitions of War Act, 1915, a reaction in the form of the shop steward movement could have been expected.

Two significant factors appear to have been operating here contributing to a demand for industrial democracy; the falling trend in real wages since 1900 and the tendency to a decline in the wage-income ratio after 1905. Both factors suggest that stresses were existing within the system from this time. It is not surprising, therefore, to note that some writers trace the origins of the shop steward movement from about the same time.¹⁰

(b) *Period II*

The relevant figures for the three factors determining real wages during the second period are given below. Again short periods of time have been taken to identify changes in individual factors and the sum of all factor changes do not total exactly to the change in real wage earnings.

Table 3
Average Annual Percentage Change in U. K.

	<i>Real Wage Earnings in Manufacture</i>	<i>Productivity in Manufacture</i>	<i>Wage-income ratio in Manufacture</i>	<i>Terms of Trade</i>
1927-30	2.4	2.0	0.0	-0.3
1931-34	2.3	1.7	0.1	0.2
1935-38	0.1	2.2	-2.2	0.0

Source: Estimated from E. H. Phelps Brown and M. H. Browne »A Century of Pay« (1968) (Appendix 3).

Here, real wage earnings in manufacture continued to rise throughout the late 1920's and early 1930's; but from the mid 1930's they became stable at the same time as the wage-income ratio moved significantly against labour. This coincides with re-establishment of an unofficial shop steward movement as noted earlier. Again, concern about industrial democracy in industry was occurring under conditions of increasing inequality.

This trend towards inequality was clearly occurring under the impetus of rearmament. Changes of excessive profits in arms produc-

¹⁰ W. R. Scott and J. Cunnison (1924).

tion had been voiced by 1936 and were repeated in 1937, at the same time as claims were made of significant speculation in the metals markets.¹¹ Proposals to apply a graduated tax on profits arising from rearmaments or from the general recovery of production were vigorously opposed and a straight 5 per cent tax on business profits was eventually applied. At the same time there were complaints that existing agreements on pay and conditions were not being observed and under-payment of agreed wage rates was occurring with little protest from official union organisations.¹² These factors seem to have provided the basis for the movement in the wage income ratio already noted.

The government saw the various problems of rearmament as issues that should be settled by negotiation between labour and management. It accepted that it may have to assist in resolving some issues, like dilution, at some stage; but it preferred to leave the two parties to settle their own issues as far as possible, an attitude it maintained till the early years of the war.¹³

But the trade unions were not only highly suspicious of the aims of rearmament; they were also highly sceptical of the value of such agreements.¹⁴ They saw them as providing terms for the rapid introduction of semi-skilled and unskilled labour, widespread use of female labour and new conditions regulating training, overtime and other issues. The fear was that once the new arrangements were introduced they were there to stay despite agreements providing for the restoration of previous conditions, at the end of the rearmament period. And they feared that at the end of this period there would also be high unemployment. Hence the Minister of Labour warned the Cabinet in 1936 that the trade unions were likely to seek assurances from the government of protection against such unemployment by the use of schemes for redundant workers and similar measures before any new arrangements could be introduced; and since the government had assisted firms to extend their plant and equipment and had agreed that they would not suffer loss when the rearmament programme was complete, the Minister thought that the government might be asked to give a similar commitment to labour.¹⁵

In the event, when an attempt was eventually made at a formally negotiated agreement in May 1938 between the Engineering Employers Federation, the A. E. U. and the C. S. E. U., it failed.¹⁶ But this was not only a failure to make an agreement; it reflected a general failure to regulate change during this period, and created the conditions that allowed the wage-income ratio to move against labour. The substantive agreements that were made in engineering during the 1980's in any case failed to restore the cuts in pay made in 1931

¹¹ P. R. O. Cab. 21/666; Cab. 21/703; House of Commons Debates Vol. 309, 1935-36; Vol. 314; Vol. 321, Vol. 319.

¹² C. L. Mowat »Britain Between the Wars 1918-1940« (1955) (p. 571) A. E. U. Monthly Journal, May 1937. New Propellor, June 1937.

¹³ House of Commons Debates, 9/3/1936, col. 1834-4; Vol. 333, col. 1410-13.

¹⁴ A. E. U. Monthly Journal, 1937.

¹⁵ P. R. O. Cab. 21/702 »Defence Programme — Labour Issues Involved« (1936).

¹⁶ P. R. O. Cab. 21/704 »Rearmament Programme, Co-operation of Trade Unions« (1938). The Economist 16 April 1928. The Times 25 March 1938.

even by 1939¹⁷) and the A. E. U. was charged with lack of aggressiveness in its activities at this time.

But as already argued, the social inequalities reflected in the wage-income ratio never became significant during 1939-45 for the reasons mentioned. Hence although there was an interest in industrial democracy at the time nationalisation legislation was being drafted, the issue was never urgent and there was little pressure to develop significant forms of participation in industry.

(c) Period III

What has been the trend in real incomes and in the three factors determining it in the post-war years? And, in particular, have the same conditions appeared creating a demand for industrial democracy that existed in the earlier periods?

Figures reflecting the trends in real earnings, productivity and the pay-income ratio are given below; the figures are averages for 5 year periods with separate figures for 1971-75 which excludes 1972.

Table 4
Average Annual Percentage change in U. K.

	Real Weekly Earnings Full time manual men		Productivity			Terms of Trade
	Manufac.	All Indus.	Output per man hour worked Manufacture	Total output per person Employed	Pay- Income Ratio	
1951-55	3.5	3.6	2.2	1.7	-0.1	+0.2
1956-60	3.1	3.2	2.6	2.1	+0.1	+2.5
1961-65	2.5	2.7	3.4	2.3	+0.3	+1.0
1966-70	2.6	3.1	3.8	2.7	+0.3	+0.4
1971-75 (excl. 1972)	2.9 (1.7)	4.1 (2.8)	3.4 (2.6)	1.4 (1.2)	-0.3 (-0.2)	-3.1

Sources: Earnings: British Labour Statistics Historical Abstract 1968 and later volumes, and Department of Employment Gazette. Productivity: G. D. P. at constant prices per person employed given in Department of Employment Gazette, October 1977 and earlier issues; figures of output per man hour worked in manufacturing from issues of National Institute Economic Review. Pay-income ratio: figures of pay and Gross Domestic Income before providing for stock from C. S. O. National Income and Expenditure 1966-76; figures of employment from British Labour Statistics, various issues.

17) J. B. Jeffreys 'The Story of the Engineers' (1945) (p. 242-3).

The figures show that real earnings continued to rise during the 1950's and early 1960's, but that by the late 1960's the rise in real earnings had stabilised. And by the early 1970's real earnings, if the exceptional year of 1972 is excluded, had fallen. This pattern is not unexpected in the light of the trend in productivity, the main determinant of industrial incomes. Productivity showed much the same trend, continuing to rise throughout the 1950's and early 1960's; and although the average annual rise in productivity continued to improve during the late 1960's, productivity was by then falling as seen in the figures for the early 1970's. This levelling off in productivity began after the peak of 1968 and continued into the early 1970's; by the mid 1970's any positive annual percentage increase in productivity had largely disappeared.¹⁸ At the same time, the annual percentage change in the pay-income ratio, which had remained positive for most of the postwar years became negative in the early 1970's. The percentage changes that have occurred in this factor during the post-war years have always been small and their influence on real pay have been equally small. Nevertheless the slight trend for labour's share to increase that had existed during the 1960's was now reversed.¹⁹ It seems unlikely that the changes in this ratio arose from changes in the composition of the national income with expansion in sectors where labour's share was small, and contraction where the share was large. A recent investigation has shown that the effects of changes of this kind have been very small.²⁰ Changes seem likely to have occurred for other reasons.

Annual percentage changes in the terms of trade are the third factor influencing real pay. Like the pay-income ratio, average annual changes in this factor have been relatively small throughout most of the post-war years and it was not until 1973 and 1974 that the terms of trade moved significantly against the U. K. These changes undoubtedly affected the level of real pay and encouraged an interest in industrial democracy, but this interest had already been established by that time. For this reason the influence of the terms of trade, as a factor initiating an interest in industrial democracy, seems doubtful.

ASSESSMENT OF THE THREE PERIODS EXAMINED

In each of the periods studied the annual improvement in real income has begun to decline or has become negative, either because of changes in productivity and income distribution, as occurred in the first and third periods, or purely because of distribution changes as happened in 1935-38. Industrial democracy may then be a reaction to

18) See National Institute Economic Review No. 71, Feb. 1975, (pp. 17-20) for further evidence of the trend in productivity 1950-74.

19) For evidence of a slight increase in labour's share in the company sector see A. Glynn and B. Sutcliffe 'British Capitalism, Workers and Profits Squeeze' (1972), and also A. B. Atkinson 'The Economics of Inequality' (1975).

20) A. P. Thirwall 'Changes in Industrial Composition in the U. K. and U. S. and Labour's Share of National Income 1948-1969', Bulletin of Oxford Institute of Economics and Statistics, Vol. 34, 1972.

this trend in real incomes and represent a protest at the failure of the economic system to maintain a steady rise in living standards. The importance of expectations of a constantly rising standard of living has been emphasised again recently,²¹⁾ and it may be this factor rather than inequality in society that is the significant factor. Certainly the estimates shown for the pay-income ratio in recent years suggest that no important trend towards increased inequality in society, at least as measured by this index, has occurred. In addition, recent estimates of the Gini coefficient for families at different income levels in the U. K., between 1961 and 1971, showed that inequality had not changed to any great extent during this period, either before or after taxes and benefits had been considered.²²⁾ Studies also by R. J. Nicholson²³⁾ and the reports of the Diamond Commission²⁴⁾ show that for the post-war years no evidence exists of any move towards greater inequality in the distribution of personal incomes or in earnings that would, by itself, provide an explanation for the interest in industrial democracy.

Some slight changes have occurred in the distribution of personal incomes with a movement from the extremes to the middle range. But in general such changes have been relatively small and the predominant feature of the distribution of incomes has been its stability.

And yet inequality in society has been a source of concern since the mid 1960's and is reflected in the existence of the Diamond Commission and in the many studies of inequality made at the present time. As soon as real incomes cease to grow at an expanding rate, the distribution of incomes becomes important and equality in society becomes a matter of concern if for no other reason than the fact that the wage-income ratio provides a method of improving real incomes as long as collective bargaining is left free to operate.

This underlines the third factor, along with the trend in real incomes and the concern about equality in society, important in explaining the interest in industrial democracy at particular times. The three periods studied are also periods of dissatisfaction with attempts at maintaining incomes; the system failed in each case to maintain satisfactory incomes and in the end controls over incomes and the use of labour tended to be introduced. Industrial democracy would then seem to be a reaction not only to failures to maintain incomes but also against attempts to use controls to regulate incomes. This has been shown to be important in each of the three periods studied.

²¹⁾ E. H. Phelps Brown »A Non-Monetarist View of the Pay Explosion« Three Banks Review No. 105, March 1975.

²²⁾ J. L. Nicholson »The distribution and redistribution of income in the U. K.« in D. Widdern's »Poverty, Inequality and Class Structure« (1974).

²³⁾ R. J. Nicholson »The Distribution of Personal Income« Lloyds Bank Review No. 83 (1967).

²⁴⁾ Royal Commission on the Distribution of Income and Wealth Report No. 1. Cmnd. 6171 (1975). Tables 15, 22 and tables G5 to G8 of Appendix G.

CONCLUSION

Industrial democracy appears to have been a reaction to the failure of the system to maintain a steady rise in real incomes. From this has followed an increased concern about equity in the system and attempts to regulate incomes in the light of the change in economic conditions; and these factors have led to further interest in industrial democracy. While these problems remain, concern about industrial democracy will continue.

EKONOMSKE PRETPOSTAVKE INDUSTRIJSKE DEMOKRATIJE

Robert T. Buchanan

Rezime

Polazeći od toga da se interes za uvođenjem industrijske demokratije u proteklih sedamdeset godina u Britaniji menjao — autor je nastojao identifikovati činioce ekonomske prirode koji su opredelili javljanje takvih interesa. Analiza koju je sproveo odnosi se na tri različita perioda: 1910. do 1921; 1935. do 1951. i od sredine šezdesetih godina do danas, kada je interes za uvođenjem industrijske demokratije naglo porastao. Polazeći od opšte teze da su zahtevi za radničkom participacijom u industrijskim preduzećima Britanije jačali naročito u periodu kriza, kada je rast dohodaka usporen — autor je koristio nekoliko analitičkih pokazatelja da bi pokazao da je slabljenje produktivnosti rada, niski koeficijent odnosa između prosečne nadnice i prosečnog dohotka zaposlenog stanovništva (i sa tim u vezi jačanje nejednakosti u društvu) — predstavljao neposredni ekonomski čini-lac pojačanih nastojanja britanskih sindikata za uvođenjem industrijske demokratije. Autor nalazi da industrijska demokratija predstavlja reakciju na opadanje dohotka i porast ekonomske nejednakosti.