WESTERN CLASSICS

A. C. PIGOU

THE ECONOMICS OF WELFARE

VOLUME TWO

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PART III

THE NATIONAL DIVIDEND AND LABOUR

CHAPTER I

INDUSTRIAL PEACE

WHEN labour and equipment in the whole or any part of an industry are rendered idle by a strike or lock-out, the national dividend must suffer in a way that injures economic welfare. Furthermore, the loss of output for which these disputes are responsible often extends much beyond the industry directly affected. This is well illustrated by the fact that, during the coal strike of March 1912, the general percentage of unemployment over the whole body of trade unionists in the United Kingdom was no less than 11 per cent, as against an average level for March during the ten years 1903–12 of $5\frac{1}{2}$ per cent; while in the strike of 1921, which, it must be remembered, occurred in a period of marked industrial depression, the corresponding percentage was as high as 23 per cent. The reason for this is that a stoppage of work in an important industry checks activity in other industries in two ways. On the one hand, by impoverishing the people actually involved in the stoppage, it lessens the demand for the goods the other industries make; on the other hand, if the industry in which the stoppage has occurred is one that furnishes a commodity or service largely used in the conduct of other industries, it lessens the supply to them of raw material or equipment for their work. Naturally not all strikes and lock-outs produce this secondary effect in equal measure. The larger the range they cover and the more fundamental the commodities or services they supply, the more marked is their influence. Coal and transport service, for example, are basal goods essential to practically all industries, and a miners' or a railway servants' strike will, therefore, produce a much larger indirect effect

than a cotton-workers' strike of the same extent and duration. But, in some degree, all stoppages of work inflict an indirect injury upon the national dividend by the reactions they set up in other industries, in addition to the direct injury that they carry in themselves. It is true, no doubt, that the net contraction of output consequent upon industrial disputes is generally smaller than the immediate contraction; for a stoppage of work at one place may lead both to more work at the same time in rival establishments and to more work at a later time (in fulfilling delayed orders) in the establishments where the stoppage has occurred. It must be admitted also that, on some occasions, the direct damage caused by strikes and lock-outs is partly compensated by the stimulus indirectly given to improvements in machinery and in the organisation of work. Mr. Nasmyth, in his evidence before the Trades Union Commission of 1868, laid very great stress upon this. "I believe," he said, "that, if there were a debtor and creditor account made up of strikes and lock-outs with the interests of society, up to a certain point they would be found to have been a benefit. Such has been the stimulus applied to ingenuity by the intolerable annoyance resulting from strikes and lock-outs, that it has developed more than anything those wonderful improvements in automaton machinery that produce you a window-frame or the piston-rod of a steam-engine of such an accuracy as would make Euclid's mouth water to look at. These things are pouring in in quantities as the result of the stimulus given to ingenuity through the annoyance of strikes. It is not being coaxed on by some grand reward in the distance, but I think a kick from behind is sometimes as useful as a gentle leading forward in front."[1] These reflex effects of conflict are, no doubt, important. But it would be paradoxical to maintain that the reaction of the industrial organism against the evils threatening it ordinarily outweigh those evils themselves. By adapting itself to

[1] *Minutes of Evidence*, p. 71. Clifford (*Agricultural Lock-out*, p. 179) describes the way in which farmers were stimulated by the 1874 dispute to improve their organisation, and to do the same work as before with fewer men. In like manner, the great anthracite coal strike in the United States in 1902 led to the invention of economical methods of utilising other fuels, which continued to be employed after normal conditions had returned.

injurious changes of environment it can, indeed, lessen, but it cannot altogether abolish, the damage to which it is exposed. An excellent parallel is afforded by the effects of a blockade instituted by one State against the ports of another. The immediate effect both upon the blockaded State and upon neutrals is an obvious, and sometimes a considerable, injury. By altering the direction and character of their trade they may reduce the extent of their losses. It is even conceivable that the search for new trade openings may lead to the discovery of one, *which otherwise would not have been found*, and which is possessed of advantages great enough to outweigh all the evils of the blockade period. Any such result is, however, extraordinarily improbable, and nobody, on the strength of it, would dream of suggesting that blockades in general are likely to do the world more good than harm. So with industrial disputes. It is conceivable that one of them may stir to action some otherwise mute, inglorious inventor; but it is immensely unlikely that it will, at best, do more than slightly antedate the discovery that he makes. On a broad view, the hypothetical gain is altogether outweighed by the certain loss of production in the industries directly affected and in related industries, the raw material of which is cut off, or the product of which cannot be worked up into its final stage. Moreover, there may be lasting injury to the workpeople, in industrial careers interrupted, a load of debt contracted to meet a temporary emergency, and permanent damage to their children's health through the enforced period of insufficient nourishment. The extent of these evils varies, of course, partly with the degree to which the commodity whose production is stopped is consumed by the poorer classes, and partly with its importance for life, health, security and order. But, in any event, the aggregate damage with which industrial disputes threaten the national dividend is very grave. It has been pertinently asked: "Would any Board of Managers attempt to run a railway or start an electric-lighting plant, or operate a mill or factory, or send a liner to sea, with a mechanical equipment which was certain to break down periodically and lie in inevitable idleness until repairs could be patched up? And yet that is almost an absolute analogy

to the state of labour conditions throughout nearly the whole range of such enterprises."[1] Anything that makes it less likely that these break-downs will occur is bound to prove of substantial benefit to the national dividend. Hence the eagerness of social reformers to build up and fortify the machinery of industrial peace. They recognise, indeed, that in the work of pacification constitutions and agreements cannot accomplish much. In industrial, as in international negotiations, perfection of machinery counts for far less than good faith and good will. Care must, therefore, be taken not to stress unduly matters of mere technique. Nevertheless, the type of machinery employed is certain to have some effect, and may have a considerable effect, both directly and also by its reflex influence on the general attitude which employers and employees take to one another. It is, therefore, important to the present purpose to examine the principal problems which have to be faced in building up machinery, through whose aid it is hoped that industrial peace may be preserved.

[1] Goring, *Engineering Magazine*, vol. xx. p. 922.

CHAPTER II

THE CLASSIFICATION OF INDUSTRIAL DIFFERENCES

§ 1. A NECESSARY preliminary to analysis is some classification of differences. The classification which naturally suggests itself in the first instance is one based upon the character of the matters in dispute. Such a classification yields two divisions, each in turn containing further subdivisions. The divisions comprise respectively differences about "the fraction of wages" and differences about "the demarcation of function." Differences about the fraction of wages may be subdivided into:

(1) Those connected with the reward of labour, generally raising an issue as to the money rate of wage, but sometimes touching such matters as workshop fines or the amount of special allowances, whether in money or in kind;

(2) Those connected with the doing and bearing of the employees, generally involving the question of hours.

Differences as to demarcation of function include, besides the well-known, but relatively unimportant, "demarcation disputes" between kindred trades, all quarrels arising out of claims by the workpeople to a larger share in the work of management. They generally relate to:

(1) The way in which work is apportioned between different classes of workmen and machine tools; or

(2) The sources from which the employer draws his workpeople; or

(3) The voice allowed to workpeople in the settlement of working conditions.

The second of these subdivisions includes all questions concerning discrimination against, preference to, or exclusive employment of, trade unionists.

§ 2. For many purposes the above classification is the most convenient to follow. But for the task of constructing machinery for preserving industrial peace it is not of serious value, because in practice the design of the machinery never turns upon distinctions between wages differences, differences about hours, or differences about the demarcation of work. We have, therefore, to seek some classification better adapted to the purpose in hand. In this search we are driven to follow two lines of thought, neither of which affords exact or sharp distinctions, but both of which, as will presently appear, somehow run together and yield a compound classification. They turn, respectively, upon the degree of self-sufficiency enjoyed by the parties to the difference and upon the extent of the theoretical ground which they have in common.

§ 3. Under the former of these two heads the determining factor is the relation between the bodies which control negotiations and those which are directly affected by their result. Both the employers and the workpeople implicated may be entirely independent, or both may be subordinate branches of larger organisations; or the employers may be independent and the workpeople a branch; or the employers a branch and the workpeople independent. This distinction is, however, somewhat blurred in practice, because to be a branch of a wider organisation is not the same thing as to have no control over negotiations affecting one's own interests. The extent to which local organisations are subordinated in this matter to national unions varies greatly in different times and places. They may be left entirely free; they may be free to make, but not to denounce, agreements; they may be offered advice or deprived of strike pay; or they may be mere branches, compelled to carry out the instructions of the central executive. Consequently, in this form of classification, no sharp dividing lines can be drawn.

§ 4. The same remark applies to the latter of the two forms distinguished above. In every industrial difference there is *some* common ground between the parties. Even when they diverge most widely, both sides agree that the decision ought to be "just." Sometimes the full limit of

agreement is expressed by this phrase. A case in point is the coal strike of 1893, in which the employers understood by justice payment according to efficiency, and the workpeople, in a vague way, payment according to needs. The common basis is wider when it is agreed, whether formally or informally, that justice, rightly interpreted, is the doctrine that the wage level should move in the same general direction as some accepted external index. This stage is often reached when the wages of a small group of workmen are in question; for it is generally recognised that these ought not, as a rule, to move very differently from the average wage level of other men in the neighbourhood engaged in similar employment. It is also reached with regard to the wages of larger groups, when the doctrine is accepted that, other things being equal, wages ought, in some sense, to follow prices. Thus, throughout the series of arbitrations in the North of England iron trade studied by Mr. Price, "there is a general agreement that the basis of award is to be primarily the relation of wages to selling price."[1] The common ground here, however, is merely that wages shall rise when prices rise and fall when prices fall. The question of what proportion should hold between the two movements, or what change on the one side "corresponds" to a given change on the other, is left unanswered. A further stage is reached when the exact proportion that the wage change ought to bear to a given change in the index is agreed upon. This is done where employers and employed, in any locality or firm, accept, as in the spinning industry, the average efficiency wage of the trade or district as their own standard, or when wage is related to price by a definite sliding scale. Here the common ground, so far as principle is concerned, is complete, and differences between the parties can only arise upon matters of fact.

§ 5. The discussion of the two preceding sections shows that no sharp divisions are to be found along either of the lines of classification which have been discussed. This, however, is not the last word upon the matter. It may still be necessary, here as elsewhere, for the student with a practical

[1] L. L. Price, *Industrial Peace*, p. 62.

end in view to depart somewhat from the majestic continuity of Nature, and to erect an arbitrary landmark of his own. Such a landmark may be made out of the common division of industrial differences into "those which concern the interpretation of the existing terms of employment," and "those which have to do with the general terms of future employment."[1] This distinction is analogous to one familiar to the theory of jurisprudence. "The settlement of such general questions may be likened to an act of legislation; the interpretation and application of the general contract may be likened to a judicial act."[2] The place assigned to any particular difference is made to turn primarily upon the question whether or not it is governed by a formal agreement between the parties. All differences which arise when there is an agreement are called "interpretation differences," and are distinguished from "those which arise out of proposals for the terms of engagement or contract of service to subsist for a future period."[3] Furthermore, these differences are often identical with those which superior organisations undertake to settle on behalf of their local branches; they "are for the most part limited to particular establishments, of little importance and often purely personal";[4] dealing, it may be, with controversies of fact concerning quantity, or quality, or the more precise definition of the mutually accepted pattern of quality itself. "General questions," on the other hand, are, for the most part, equivalent to those in which independent organisations are directly concerned; they are "frequently of wide interest, affect large bodies of men, and are the most general cause of strikes and lock-outs on a large scale."[5] Of course it is not maintained that interpretation differences in the above sense are *necessarily* of minor importance. Not only, as with judge-made law, may the act of interpretation slide insensibly into that of alteration, but also what is called interpretation may cover as wide a field, and raise questions quite as fundamental, as those treated in the general agreement. For example, there is no difference in this respect

[1] *U.S.A. Industrial Commission*, xvii. p. lxxv. [2] *Ibid.* p. lxxvi.
[3] *Royal Commission on Labour, Report*, p. 49.
[4] *Ibid.* p. 49. [5] *Ibid.* p. 49.

between the question how many pounds a ton of coal is to be taken to contain, or how much "topping" the men must put upon a car-load, and the question what the wage per ton or car-load ought to be. Moreover, it sometimes happens that general questions are deliberately submitted for discussion on what are apparently interpretation references. For example, in the pottery boom of 1871, it was arranged that, for each branch of the trade, an individual case should be selected for arbitration, and that the whole branch should act in accordance with the award.[1] On subsequent occasions exactly the same result was achieved by general arbitrations of the ordinary type. Similarly, it is not maintained that differences as to the terms of a future contract, to be made otherwise than by the interpretation of some overshadowing agreement, must *necessarily* affect large bodies of men. Where the local branches of ill-organised trades have to negotiate new contracts for themselves without reference to such an agreement, the number of men affected by any difference which may arise must be small. Nevertheless, the sentences quoted above from the American Industrial Commission and the British Royal Commission on Labour represent the facts sufficiently well to provide the basis of a rough practical classification.

[1] Cf. Owen, *Potteries*, p. 142.

CHAPTER III

VOLUNTARY ARRANGEMENTS FOR CONCILIATION AND ARBITRATION

§ 1. It is well known that, as industries become better organised and the associations of employers and employed grow more powerful, differences about matters other than general questions are more and more likely to be adjusted. It is not in the interest of powerful organisations to fight about a little thing, and it is generally, though not, of course, always, in their power to control small bodies of their members. Various arrangements—the most perfect, perhaps, is the famous system of "professional experts" in the Lancashire cotton industry—are made for the prompt and effective solution of minor difficulties. We need not pause to examine them. The real problems to be faced are found in connection with those broad general questions, of the successful treatment of which by purely voluntary means the United Kingdom may fairly claim to provide the classical example.

§ 2. In any study of the comparative advantages of different types of machinery devoted to this end, the first question to decide is whether it is better to rest content with a simple agreement—which must, of course, be subject to renewal or denunciation from time to time—to employ defined conciliatory processes when a conflict is threatened or to set up and maintain permanently in being some regularly constituted organ of negotiation. Upon the right answer to this question there is a fairly general consensus of opinion. Unless there is some machinery already established, it will be necessary to appoint negotiators at a moment of heated controversy, and the attempt to do this may not only involve delay

but also afford opportunity for obstruction and friction. More generally, as Professor Foxwell observed many years ago: "The fact is that, where human beings are concerned, where personal relations should be formed, and where moral forces are at work, a certain permanence of conditions seems to be essential. The altruistic and social feelings, which are the very cement of the social fabric, and enormously lessen the irksomeness of effort and the friction of industry, seem to require time for their development, and frequently cannot exert their full strength unless they are embodied in the symbol of an organisation."[1] No doubt, when the Associations upon both sides are exceptionally strong and the relations between them exceptionally satisfactory, this consideration loses much of its importance. In general, however, there can be no doubt that the prospects of peace will be substantially improved by the establishment of permanent Boards containing representatives of employers and employed meeting together regularly. They will be still further improved if these Boards are entrusted, as was contemplated under the Whitley Scheme for national, district, and local industrial councils in each principal industry, not merely with the settlement of differences, but with general collaboration in determining conditions of work, methods of remuneration, technical education, industrial research, improvement of processes, and so forth. For, working jointly at these broad problems, the representatives of employers and employed will come to regard themselves more as partners and less as hostile bargainers, and, consequently, when differences between them do arise, not only will the general atmosphere of discussion be a good one, but also both sides will have at the back of their minds a feeling that extreme action must at all costs be avoided, lest it destroy an organisation proved capable of much valuable work in their common interest.

§ 3. The constitution of the Boards or Councils has next to be considered. The essential point is that the representatives of either side, and particularly of the workmen, should have the confidence of their clients. The mechanism by which this can best be secured varies somewhat according

[1] *The Claims of Labour*, p. 190.

to the character of the two organisations. In some of the Boards in the Iron and Steel industry, and in the Railway Conciliation Board under the agreement of 1914, representatives are appointed by a vote of the employers and employed connected with separate firms or districts. When, however, the Associations are strong, this device is not necessary. The confidence of the rank and file in the Board can be obtained without it. The important thing is that the chief Association officials should have confidence in it. If they are convinced, the loyalty of the rest is as well assured as it can be; if they are not convinced, the authority of the Board is worthless. Consequently, though delegates from different works may still attend to supply information, the Board ought, essentially, to represent the Associations themselves. The old forms, where they exist, may be retained, and new Boards may be started, whose forms are copied from the old. But the representatives must always be controlled by the officials of the Associations, and, in many instances, may also, with advantage, be appointed by them.

§ 4. The next point has reference to procedure. The fact that "general questions" are important, and bear directly upon the permanent interests of all concerned, makes the discussion of them, both on the Board itself and among those who will be bound by its decisions, peculiarly delicate. Consequently, even when the relations between the parties are good, it is important that everything which might engender irritation should be excluded from the machinery of industrial peace.

From this principle the most obvious inference is that technicalities and lawyers should not be admitted before the Board. Such a policy—apart altogether from the saving in cost and time—tends to reduce to a minimum the appearance, and hence, indirectly, the reality, of opposition between the parties. There is less of a struggle for victory, and, therefore, less fear of the introduction of "matters of sentiment." In the practice of the chief English Boards and in the report of the Labour Commission the policy of excluding legal representatives, and the legal forms which may be expected to accompany them, is fully recognised. Finally,

the conciliatory, as distinguished from the litigious, character of negotiations is often still further emphasised by an arrangement, in accordance with which the chairman (a representative employer) and vice-chairman (a representative workman) sit side by side at the Board, thus securing opportunities for conference at critical points in the discussion.[1]

A second inference is that the Board should not be allowed to pronounce upon any matter by the vote of a bare majority. When the solidarity of both of the two sides is complete, there is, of course, little prospect that any vote will be given which is not either unanimous or equally divided. But, when organisation is less perfect, there is always the possibility of defection on the part of one or two representatives of either party. To allow the result of the discussion to be determined by such an incident is to court grave danger. So much dissatisfaction might be aroused that the whole conciliatory machinery would be immediately overturned. It is true that these difficulties do not seem to have been experienced in this country, and that, in a number of instances, the rules provide for a bare majority vote, subject, of course, to the condition that, if equal numbers of employers and employed happen to be present, only equal numbers shall have the opportunity of voting. In the United States, however, where, owing to the weakness of the Unions, there is a greater probability of cross-voting, things have worked out differently. Thus, Mr. Durand, Secretary of the Industrial Commission, asserted, both that the bare majority method will not work, and also that decision by unanimous agreement had become the ordinary practice.[2]

Thirdly and lastly, it will not, as a rule, be desirable for the meetings of the Board to be conducted, like those of the American interstate bituminous coal conferences, in public. It may, indeed, be held that such a system has educative advantages; but, on the other hand, the policy of deliberation *in camera*, which is usual in England, may be expected to

[1] As in the Midland Iron and Steel Board (Ashley, *British Industries*, p. 57).

[2] *Industrial Conciliation Conference*, p. 43. It may, perhaps, be suggested that a decision by a large majority, *e.g.* seven-eighths of those present, would be a still better plan, as it would eliminate the possibility of obstructive tactics on the part of a single faddist.