Trade Unions and the Economy

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Introduction

THE BOOK'S APPROACH

This book analyses the economic aspects of trade-union operations in a capitalist society.[1] It assembles the results of previous research into the consequences of union actions and attempts to evaluate current controversies about their impact on the economy. Inevitably the conclusions that we draw are based in part upon subjective opinions and our political philosophy. Trade unions are so important and controversial a phenomenon that it would be impossible to find a neutral observer to write a book of this kind. Moreover, discussion of their effects is complicated by the confusion of two distinct issues: the first, what their actual effects are; and the second, whether these are beneficial or harmful.

We try to accumulate as broad a cross-section of professional research and opinion as the length of the book permits. We are aware, however, that like all writers on union affairs the degree of emphasis we accord to various topics and the manner in which we approach them are conditioned by our political perspective. We cannot eliminate this perspective, nor would we wish to, but feel it is essential that we should state explicity our fundamental value judgements concerning union activity. We hope that readers keep these judgements continually in mind and consult some of the work we quote that embodies a contrasting approach to ours. Although we declare our philosophy in this introduction, we are aware that much of it is controversial, so that throughout the book we have kept in mind the importance of allowing readers to draw their own conclusions from the material we present.

We reject the currently fashionable view that trade unions are 'too powerful' which appears to be held by the mass media, many politicians and a growing section of the public. We believe that unions are less powerful than employers, whose possession of the means of production enables them to command decision-making procedures.

It is true that some groups of workers can exert considerable bargaining power because they perform key tasks and are supported by cohesive organisations, while over a wide spectrum of industry unions have accumulated greater strength over the last forty years. However, employers remain dominant since they control the crucial productive decisions (e.g. on output, employment and investment) subject to only limited legal and union restraints. Individual workmen occupy a weak bargaining position in most circumstances, so that unions introduce an element of democracy into an otherwise autocratic work environment by attempting to curb the power of capital through collective organisation. This point of view is currently in danger of neglect; thus much current discussion of industrial disputes seems to us ill-focused, since strikes should be perceived against the background of unequal power. On such a perspective the common attitude which largely blames workers for stoppages of work becomes an oversimplification, because collective action is essential to check the unilateral exercise of employers' authority. However, collective action, like other sources of bargaining power, can be abused.

Economists have traditionally analysed the operation of labour markets as a special case of the price mechanism,[2] but this method involves a number of problems. Workers own only their labour power which they must sell to maintain themselves and their families, but capitalists own funds that enable them to command man-made means of production and so possess bargaining advantages when negotiating terms of employment with individual workmen. Unequal bargaining power and the resulting market imperfections are normal, rather than isolated, occurrences when labour is unorganised.

Labour's weakness in negotiations, the dominance of those supplying capital and the interrelationship between economic and political power are phenomena which may create a demand for workers' organisations to increase their bargaining power. This demand stimulates the development of trade unions, which attempt to establish negotiating rights over their members' wages and conditions of employment. Unions do not introduce power considerations into labour markets, but prevent competition between workers and harness their numerical strength to produce a 'countervailing power'. When workers act as individuals their ultimate sanction is to change their job, which carries the threat of a period of unemployment. Unions possess a wider range of bargaining weapons, while their resources and negotiating expertise enable them to identify favourable opportunities and present demands with greater skill, aggression and market knowledge.

Phelps Brown (1957b) argued that the formation of unions was a response to industrialisation, which placed individual workers at a bargaining disadvantage while subjecting them to a discipline that was essential for efficient factory production. Moreover, cyclical and technological unemployment posed the threat of financial insecurity. Yet the demand for organisation is not equally insistent in all labour markets; thus unions flourish in printing, but fail to develop in temporary office employment. Union growth rests not only on workers' needs but also on their awareness of need and their ability to organise. The degree of unionisation in any trade depends upon individual workers' perceptions of the balance of advantages and costs, which vary over time as well as with the nature of the job. None the less trade unions are a *natural* consequence of the character of labour markets and not exogenous, unnatural or disturbing.

Because of the rarity of perfect competition[3] in labour markets, power is an integral feature of their operation, made explicit by the development of collective bargaining. Neoclassical theory concentrated upon the establishment of equilibrium under competition on the assumption that the price mechanism was the major method of taking economic decisions, but imperfections create an uneven distribution of power which may be exploited to alter the market mechanism or to affect its results. Moreover, the conditions within which labour's supply and demand interact may be changed by the effective deployment of power. The emphasis upon competition has yielded analytical insights but the operation of bargaining strength requires greater attention from economists than it has yet received. In these confusing circumstances professional students of labour markets tend to divide into two groups, economic theorists and industrial relations experts, each often believing in the irrelevance of the other. Only isolated attempts have been made to integrate theory and practice.[4]

This book aims to contribute towards such integration through an analysis of the major areas of trade-union economic activity. The task is attempted by removing unrealistic neoclassical assumptions, e.g. a perfectly competitive labour market is regarded as exceptional. Market analysis is placed within the context of social relations – which can influence the methods of production; thus the laws and conventions relating to property ownership affect the control of income opportunities and the distribution of output. Technical change and social development are interrelated. Changes in productive techniques modify social conditions, e.g. the building of railways, but production and distribution can vary between economies in the same state of technical knowledge when their systems of resource ownership differ (see Robinson and Eatwell, 1973). Therefore, the social character of employer–worker relations provides the framework within which labour markets operate.

SYNOPSIS OF THE SUCCEEDING CHAPTERS

Chapter 2 analyses the imperfections existing in unorganised labour markets which place workmen at a bargaining disadvantage with their employers and thereby stimulate trade-union development. We consider some of the influences that determine the demand for union services and the changing structure of union organisation, while fluctuations in the degree of unionisation over time are discussed.

Chapter 3 looks at the scope available for one union to change wage differentials in its members' favour and traces the extent to which an association has been discovered between relative wages and the strength of trade unions across labour markets. It has not proved difficult to find some association, but its strength varied between different types of differential, different countries, different industries and different periods. Consequently the extent to which unions influence the pattern of differentials remains a controversial issue.

Chapter 4 analyses the phenomenon of a cost-push inflation at national level, either inaugurated or accelerated by union pressure for higher money wages. This pressure became more effective under the changed labour-market conditions brought about by the maintenance of full employment between 1940 and 1970.

One of the major aims of the union movement is to secure a fundamental redistribution of income in favour of workers. Changes in the share of the national product claimed by labour and property are described in Chapter 5 and the opportunities available to unions for increasing the proportion paid to labour are considered.

Trade unions do not restrict themselves to bargaining about their members' wages but also attempt to achieve more favourable non-pecuniary conditions of work. The employment contract subjects workers to factory organisation and discipline, which unions attempt to modify by entering into manpower management. Chapter 6 defines various possible relationships between capital and labour in terms of the shifting frontier of control between employers' authority and the rights achieved by unions for their members.

All these aspects of union activity possess consequences for society as a whole, so that governments become inextricably involved in labour markets. Chapter 7 considers the relationship between the state and trade unions. Traditionally, U.K. governments supported voluntary collective bargaining and reduced their intervention to a minimum, but such a policy became untenable during the last decade. In particular the strengthening of tendencies towards cost-push inflation stimulated the search for alternative strategies to achieve the simultaneous existence of full employment and stable prices under current labour-market conditions. This led to attempts by the state to restrict union operations and to control the determination of prices and incomes.

Chapter 8 stresses the inadequacy of conventional theories of labour-market operation given the importance of bargaining power and suggests that a more embracing theory of trade-union activity is required.

2

An Economic Analysis of Trade-Union Development

INTRODUCTION

Economists usually portray the process of wage determination as an extension of the theory of value in which the role of competition is emphasised with the aid of concepts developed in other branches of economic theory, for instance marginal analysis based on income-maximising assumptions. Labour-market institutions in general, and the development of trade unions in particular, tend to be discussed separately and are conventionally regarded as 'distortions'. Such an approach implies that the existence of unions is abnormal, and that compared with the operation of 'free' market forces they work to the detriment of the economy, even if they prove to be a source of relative advantage to specific groups of workers.

It is unlikely that a perfectly competitive labour market has ever existed; when the economic conditions of the parties concerned are unequal, legal freedom of contract enables the superior in strength to dictate terms. Workers own only their labour power, which they must sell to maintain themselves and their families, but capitalists own funds that enable them to command man-made productive resources, and so possess the bargaining advantage when negotiating wages and working conditions with individual workmen. The formation and growth of trade unions is a response to the inequality of bargaining strength in most unorganised labour markets which stimulates a demand for collective employee organisations to negotiate, and thereby improve, wages and working conditions. The widespread existence of such organisations can hardly be regarded as exceptional 'distortions'.[1]

THE FACTORS PROMOTING INEQUALITY OF BARGAINING POWER IN UNORGANISED LABOUR MARKETS

There are many causes of employer dominance in unorganised labour markets. Industrialisation created a sizeable class whose only means of livelihood was the sale of its labour power. The necessity for an immediate sale is overwhelming: workers may accumulate savings, but these are usually small in relation to family commitments, so that a failure to sell labour power produces a substantial drop in living standards in a short space of time. An inability to complete negotiations between employers and individual workmen leads to a loss of potential income for each, but this loss will be more severe for the worker, since the employer can often replace the services of one man. Even when this proves impossible, the loss of profit is rarely complete and may be offset by a rearrangement of the remaining workforce.

Wage-earners suffer from the relatively short duration of their contracts; before the Contracts of Employment Act of 1963[2] these could normally be terminated at a week's notice, so that all workers were quickly at the mercy of fluctuations in the demand for labour. By contrast, while the incomes of businessmen and professional staff vary over a long period, they are fairly predictable in the short run. As a result of their limited resources and inability to enter into long-term contracts, most workers suffer from financial insecurity. Consequently unless labour is scarce they tend to accept whatever wages and conditions are offered during individual negotiations. Labour power cannot be stored because every day of unemployment involves a loss of part of the asset. It is more vulnerable than capital, which can be maintained intact for future use even when losing potential current income.

Usually a large number of sellers of a specific type of labour confront a smaller number of buyers, so that a worker has fewer alternatives available if he is dissatisfied with the terms offered. Competition for jobs tends to be greater than competition for workmen, and greater competition produces a disadvantageous negotiating position. The sheer fact of numbers also makes it harder for workers to fix a minimum acceptance wage informally, and then enforce it, than for employers to agree upon a maximum offer.

Most individual workers lack the relevant knowledge for wage bargaining. They are ignorant of their value to a particular employer, and tend to be imperfectly aware of alternative job opportunities.

The employer, on the other hand, controls the flow of revenue from which wages are paid, so that he alone knows the gain obtained from recruiting an additional worker. He also knows the current price of labour in other local firms and, approximately, in other regions. The employer's greater knowledge extends to the art of bargaining; his experience of wage negotiations is usually wider, so that he can often achieve his desired goal by skilful manipulation of the weak position of most potential employees. He is accustomed to issuing orders and obtaining obedience, while his status in society is greater than that of his workers. All these influences contribute to employers' dominant position in wage negotiations. The consequent market imperfections are a normal occurrence in the absence of trade-union organisation.[3]

Employer dominance extends beyond wage negotiations to a control of the productive process and the behaviour of workers participating in it. Employers and workers may be equal parties at law to an employment contract but they are never equal in practice. When industry is privately owned its fundamental dynamic is the earning of profits; the suppliers of capital, or their hired representatives, take all important production decisions, while labour is treated as a marketable commodity and the individual worker's livelihood is at the mercy of economic and technological changes. The employment contract inevitably subordinates workers to a structure of managerial discipline, which is designed to maximise the effort and application they supply in return for wages: the job environment, hours of work and behaviour in the factory are prescribed for them. Workers cannot change these conditions without managerial consent, but employers can initiate change unilaterally by issuing orders that they expect to be obeyed. The employment contract is thus inherently unequal: the ownership of capital becomes an instrument of social control and a legally free sale of labour power involves some surrender of the worker's freedom.

The quantity of capital required to put technological advances into effect has risen substantially since the eighteenth century until the amounts necessary are now far larger than most people can acquire during a lifetime. The scarcity of the ability to supply finance on the scale needed for industrial efficiency enables those who possess it to secure a commanding economic position.

The disparity in the bargaining strength of employers and unorganised workers has been denied by a number of economists. For instance, Hutt (1973) argued that there will be no unequal bargaining advantage if the individual worker is free to withdraw his labour after due notice and can refuse to work at the wage offered. The actions of collective organisations then become restraints of trade. Such a view fails to recognise the importance of differential power in labour markets where few alternatives exist, since employers are unable to find another workforce easily and the workers as a group cannot find other employment. In these circumstances every transaction depends to some degree upon force and inequalities exist between individuals buying and selling labour.

In response to these inequalities workers seek to increase their bargaining power and to protect themselves from managerial control; this search stimulates the formation and growth of trade unions. Unions attempt to establish negotiating rights over their members' wages and conditions of work, so that the labour force becomes involved, through its elected representatives, in the determination of its job environment. Such involvement is impractical outside very small establishments without formal union organisation. Trade unions aim to defend, and hope to improve, their members' standard of living and social status. Successful policies to achieve this have repercussions that extend beyond the immediate bargaining situation, since their overall effect is to limit the power of employers, whose arbitrary authority is replaced by agreed rules. Unions thus seek to limit managerial authority over labour after its hire in addition to improving wages and conditions of work.

THE DEMAND FOR TRADE-UNION SERVICES

The demand by workers for collective organisation to counteract the bargaining strength of those owning capital is not equally insistent under all circumstances; thus workers become more aware of their common interests when employed in large rather than small establishments and in urban rather than rural environments. The growth in demand for union services is influenced by the occurrence of events which inject a consciousness of their unfavourable position into the lives of the unorganised. Trade-union development depends upon workers' awareness of their needs and upon their ability to organise; the emergence of the first stable unions among craftsmen illustrates these points.

Bose (1975) argued that capitalists are 'at the mercy' of their workers as they cannot produce and earn profits without employing labour. Our analysis implies that capitalists and workers can never be equally dependent on each other, while certain conditions must be fulfilled before workers exercise any influence over managerial decisions. First, labour must act as an organised group: a worker depends for his livelihood upon retaining a particular job, but capital relies for its profit not upon the employment of an individual but of a labour force as a whole. Second, labour needs the ability to impose costs upon its employer in the event of a disagreement. Such an ability implies the existence of effective unions capable of remedying the bargaining weakness of individual workers by, for instance, increasing their 'waiting power' and replacing a mass of isolated negotiations by one collective bargain.

Conventional microeconomic theory, reformulated by Holt (1970), analyses labour markets in terms of stocks of unemployed workers and job vacancies, and of a search process for mutually satisfactory bargains; the various flows to and from these stocks generate negative feedbacks which reduce the amplitude of fluctuations and hold the market close to equilibrium. Wage changes are generated by individual offer and acceptance decisions as workers and vacancies flow through the market, and depend upon the aspirations of workers and employers and the rate at which these change with the duration of the search process. These factors undoubtedly influence the process of wage determination, but a theory concentrating upon their operation fails to explain the origin of trade unions in response to the inherent employer dominance of unorganised labour markets.

Once this role of trade unions is appreciated, attention centres upon the phenomenon of bargaining power, which can be defined in a general sense as the ability to get one's own way and in economic terms as the ability of an individual or group to fix or alter the conditions of exchange in its own favour. A crucial aspect of bargaining power is the ability of one party to a negotiation to impose a loss upon the other by refusing to conclude an agreement. The infliction of losses becomes crucial in labour markets, where the employer is unable to recruit an alternative workforce and the workers as a body cannot find alternative employment. Chamberlain (1951) defined bargaining power as the ratio of costs of disagreement to costs of agreement for each party, i.e.

The bargaining power of a trade union =