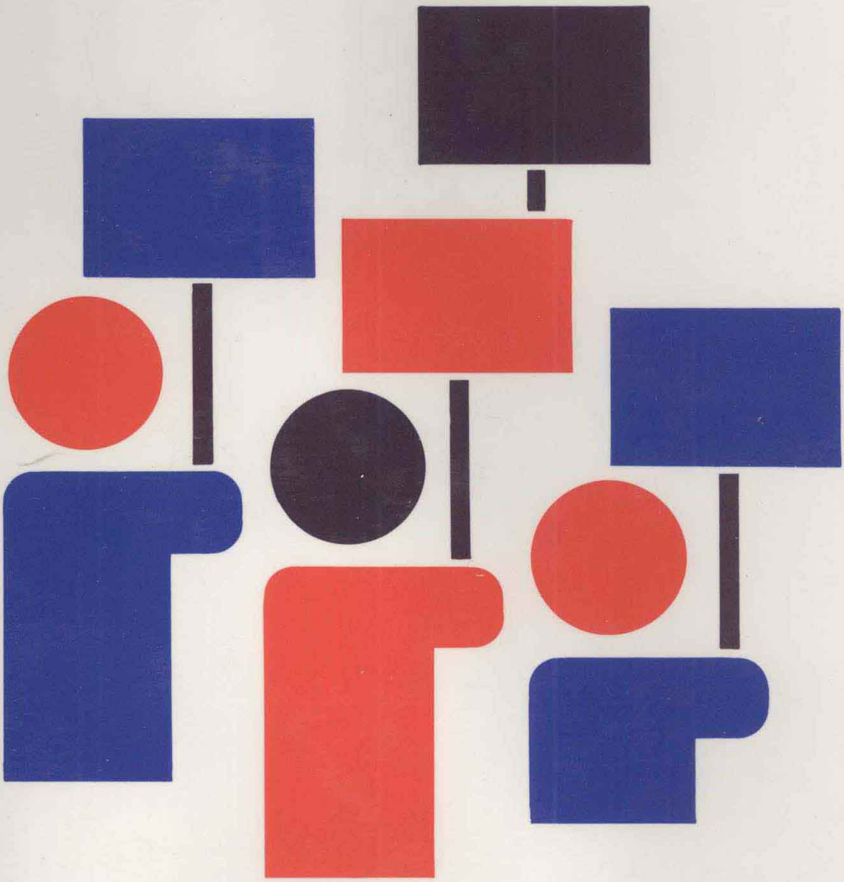
UNION BUSINESS

TRADE UNION ORGANISATION AND FINANCIAL REFORM IN THE THATCHER YEARS



PAUL WILLMAN, TIM MORRIS, AND BEVERLY ASTON

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The usual disclaimer applies. The errors we have retained we covet as our own.

Contents

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1 Introduction: unions in the 1980s

It would be hard to argue that the 1980s was a successful decade for British trade unions. Whether one turns one's attention to membership levels, to union density, or to the outcome of several of the larger disputes of the decade, the picture is one of retreat or defeat. Union influence over various aspects of government policy directly or indirectly affecting industrial relations was minimal. Successive pieces of legislation dealing with the rights of trade unions and of their members were criticised and rejected by unions themselves yet enacted, apparently with a level of popular support which must have included that of many union members. In 1983 and 1987, many of those members reaffirmed their rejection of the policies of the Labour Party, the preferred political party of many union leaders, voting instead for the confirmation of policies which, not just pragmatically or occasionally but ideologically and systematically, rejected values and beliefs close to the core of British trade unionism. The latter half of the decade saw a distancing between the previously closely linked institutions of the labour movement. Not only was the Labour Party in opposition seeking to reduce a perceived source of electoral disadvantage by stressing the independence of its policy making from the views of trade union leaders but also, within the TUC, there were splits over both organisational and political matters, resulting in the expulsion of EETPU in 1988, the most serious split within the movement since 1945.

If all was not gloom, the bright spots were scarce, and did not illuminate any clear path to recovery. As strike rates fell, and public perception of mighty union bosses attenuated, the overall popularity of unions appears to have risen (Edwards and Bain, 1988): popularity did not, however, translate into a willingness to join. If the decline of union membership at the outset of the decade abated, it was not reversed. When employment began to expand again in late 1982, it was not reflected in a rise in union membership. Real earnings rose substantially across the decade but union membership and, in the opinion of many observers, union power, declined. It was not a good advertisement.

The response of trade union leaders varied, both over time and between unions. There emerged in the early part of the decade a fundamentalist reaffirmation of the socialist principles of trade unionism manifest in a total rejection of 'Thatcherism' and a faith in the good offices of a returning Labour administration to restore the rights and privileges accorded to trade unions in the Social Contract period, for which a certain nostalgia emerged. It had not seemed such a golden age when they were in the midst of it. Over time, in the face of attempts to assert a 'new realism' by the TUC leadership, fundamentalism died but its demise was a lingering one in NUM and several other public-sector unions. By contrast, in EETPU and several other private-sector unions – particularly those made into private-sector unions – fundamentalism was stillborn. For several, the events of the 1980s which caused trade unions organisational and financial problems were seen to be the result primarily of irreversible economic changes rather than ephemeral political ones and the appropriate response was both adaptive and strategic, involving changes to organisational structure and union policy, rather than simply reactive, involving rejection of government policy.

In the 1980s, therefore, analysts were presented with the spectacle of a union movement unevenly committed to and unevenly capable of change. Trade unions are ostensibly democratic, poorly resourced organisations whose rejection of commercial values and practices has in the past often left them devoid of the services of those with business expertise. Many are specifically designed *not* to be led from the top and several have constitutions involving a mixture of checks and balances which imply that they are not to be led at all. If one combines this appreciation of the structural difficulties with the observation that many of those then in charge of trade union affairs had, in their careers, seen only expansion, then the public image of a union movement appearing simultaneously to be in crisis but unable to respond becomes more understandable.

In such circumstances, many analysts questioned whether trade unions had a future. The reemergence of a crude form of convergence theory encouraged comparisons with the long-term decline of union membership in the USA. Financial matters were often to the fore. Both the TUC and the Labour Party suffered retrenchment after well-publicised financial difficulties. In both 1990 and 1991, Congress was told about the TUC's financial problems and about proposals for settling them. Unions themselves suffered unevenly and in different ways, but NUPE, MSF, and AEU all experienced financial difficulties covered in the press. The financial problems of NUM were recurrent news items from the time of the strike itself to the publication of the Lightman Report in 1990. Several mergers, such as that leading to the absorption of the Boilermakers' union by NUGMW at the start of the decade and the merger of NUR with NUS at the end, were induced by financial crisis.

Others, notably Bain (1986) took a more relaxed view, arguing that the events of the 1980s, though traumatic, could not be understood in isolation. From this viewpoint, the unusual *rise* in membership from 1974 to 1979 was at least as exceptional as its subsequent sharp fall, notably to 1982. It remains the case that levels of union membership and union density are not unusually low for the post-war period. The events at the start of the decade were, in the more extreme view, simply a one-off adjustment of union membership following a rapid, perhaps overdue, structural adjustment in sectoral employment shares in the UK in which highly unionised manufacturing industries suffered rapid contraction while private services, in which union density has been low, expanded.

Neither view captures the nature of change in British trade unions in the 1980s. It does not sit well with the former, 'structural decline' view that the rate of decline in union density in the UK has been slow in the latter half of the decade nor that many of the large, TUC-affiliated trade unions are reporting membership expansion at the turn of the decade; none has 'gone broke'. The 'structural adjustment' view may well be closer to the truth but it fails to spell out the extent of change in British trade unions across both the 1970s and 1980s.

Across the two decades, there has been a substantial shift in membership composition: male manual workers now comprise a smaller proportion of total union members than in the past and female, white-collar workers, particularly in the public sector, a higher. Union membership has, through mergers, become more highly concentrated in the larger unions. Particularly in the 1980s and partially under the pressure of statutory requirements, both the policies and internal procedures of trade unions have altered. In many unions, an older generation of leaders has retired and a younger set, often of different social and educational backgrounds, has taken their place. There has been a considerable amount of organisational change, often exogenously induced.

Rapid and severe membership loss in the early 1980s also induced in many unions an organisational response, which focused on a concern with financial matters. Such loss was, with its attendant income loss, literally unprecedented for incumbent union managers charged by the membership with stewardship of the union in general and its funds in particular. In many unions, financial information was scarce and systems of financial control non-existent. Moreover, rule-book provisions, often of considerable antiquity, made such systems difficult to implement. Even where union concerns were not primarily financial, or financial crisis was not imminent, policies adopted in the face of membership difficulties often had financial implications. There emerged concern with the effective management of union resources which required both policies and personnel which trade unions, emerging from the relatively benign membership environment of the 1970s, did not possess.

The main purpose of this book will be to document these changes in the management of trade unions in the 1980s. The central argument is that, although unions are not primarily concerned with the maximisation of any measures of financial return, the availability and management of financial resources becomes particularly important in periods of crisis or change. We shall seek to substantiate the proposition that the last decade has seen considerable, perhaps unprecedented, change in the management of trade union resources. Although such change has in many cases been induced by external events, we shall argue that it has subsequently offered opportunities for trade union leaders to develop policies and services which are to the unions' advantage. We shall thus, through documentation of financial changes, seek to understand changes in the overall pattern of union government.

The perspective adopted throughout is thus that of the union manager whether termed General Secretary, President, or Secretary/Treasurer, and the problems discussed are the problems they have faced. This is very much a study of what has been termed 'formal' union organisation, but the importance of lay organisation and participation is not ignored. Throughout, we shall consider the impact of lay, 'free' participation on union resources and policy. In different unions, the proportion of total resources provided by subscriptions, levies, 'free' membership activity, and by employers through provision of facilities varies substantially.

Our perspective thus differs from many recently adopted, both in its focus on the formal rather than informal union and in its concern with financial matters. The justification for this is partly pragmatic. On the basis of arguments we hope to justify in the body of the text, we feel that, compared to the 1970s, formal union activity was becoming more important as, in many unions, lay activists' influence declined. Similarly, financial crisis induced unprecedented financial concern which seemed worthy of investigation.

However, there are other reasons. It seemed appropriate to look at the unions' formal structure in the 1980s as no serious study had focused on the period from 1975 onwards (Undy *et al.*, 1981). There was thus a gap in our knowledge of the evolution of union structure and management of over a decade. It seemed appropriate to begin with financial matters not only because they were of concern to union leaders but also because no serious analysis of union finances had occurred for over 20 years. The financial resources and rules of trade unions were important factors in explaining the rise of trade unions in the nineteenth century (Webb and Webb, 1907) and in the 1950s, Roberts' analysis of union government contained the famous dictum: 'Those who control the purse strings control the union' (1956: 343). However, we know little about the financial structure and performance of the UK trade unions since the 1960s (Latta, 1972).

The structure of the book is as follows. Chapters 2 and 3 present aggregate and disaggregated data on union financial performance. Chapter 2 looks in the aggregate at the period since 1950. Chapter 3 looks in more detail at the fortunes of different unions in the 1980s. Both chapters provide a picture of recurrent financial difficulties, which raises the question of how unions seek to manage their financial affairs. Chapter 4, a theoretical chapter, therefore describes the role of financial matters in union behaviour. It attempts to derive testable propositions about union behaviour emerging from analysis of their financial structure and objectives. The implications of this are explored in Chapter 5 which looks at the politics of union finances, focusing in particular on the ways in which financial arguments are brought to bear on policy formulation and their influence on union behaviour.

Chapter 6 looks specifically at the importance of union size and union growth: the influences of financial matters on membership decisions, including arguments about economics of scale, are assessed as is the role of financial matters in the encouragement or impedence of union mergers. Chapter 7 focuses on strikes and assesses the impact both of strike activity on union finances and of union financial status on the decision to strike.

Chapters 8 to 12 present five short case studies of trade unions. Chapter 8, on NUM, indicates the impact of a major dispute on the union's financial position, and also discusses the extremely unusual financial structure of NUM. Chapters 9 and 10 focus on and contrast the very different financial structures and fortunes of GMB and AEU. Chapter 11, on BIFU, describes the move from impecunity to solvency through membership growth of a private-sector, white-collar union. Chapter 12, on EETPU, looks at a system of tight sophisticated financial controls. The purpose of these cases is not simply descriptive. We hope to show the close relationship between financial changes and changes in union government and policy: the argument will be offered for all unions that financial reform has been a prerequisite for the achievement of the union's objectives.

Chapter 13, in conclusion, draws out some of the implications for trade union structure and policy in the 1990s of the data presented. The argument is that unions are employer-dependent organisations with reasonably flimsy resources which exacerbate the difficulties of their financial

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position by inter-union competition. Expansion of trade unionism into poorly unionised areas implies the need for greater employer dependence, for the preservation of managerial discretion by union leaders, and, above all, for the avoidance of competition.

Throughout, we base our analysis both on the statutory returns made by trade unions and on our independent research conducted between 1987 and 1989. A full description of the research methods appears at Appendix 1. We have covered events up to the end of 1989, though on occasion we have included consideration of subsequent events where this seemed appropriate. Unless stated to the contrary, all figures are expressed in 1989 prices and the present tense is used to refer to the state of events at the end of that year.

2 The financial status of British trade unions, 1950–1989[1]

1 Introduction

There have been three systematic studies of the financial status of British trade unions in the post-war period. All relied on the statutory returns described in Appendix 1. Roberts (1956: 343–95) analysed change across the period 1936–50, Latta (1972) looked at the decade 1960–70 and Willman and Morris (1988) looked at the period 1975–85. All three studies described the financial performance of particular unions as well as the financial status of unions as a whole. Their findings indicate that the financial fortunes of British trade unions have been highly variable over the last 40 years. In this chapter, we shall seek to present an up-to-date picture of the aggregate financial status for the post-war years and in the next a more detailed, disaggregated picture of events in the largest unions in the 1980s. We shall try to provide an explanation of aggregate changes and an account of the sources of variation in financial performance between unions.

The structure of the chapter is as follows. Section 2 discusses the findings of previous studies, and outlines the ratios used here. Section 3 presents the overall picture of union finances from 1950 to 1989. Section 4 discusses the implications of these trends. Section 5 concludes.

2 Previous studies of trade union finances

Although analysis of the financial status and arrangements of trade unions was central to the Webbs' classic study, particularly of the 'new model' unions (1907: 162–283), many more recent studies have not considered financial matters. The major exception is Roberts' (1956) study of trade union government and administration which systematically considered subscriptions, the management of union funds, expenditure, assets, and political funds. Roberts was concerned to document changes between 1936 and 1950 both in the aggregate and on a disaggregated basis. Across the period, he found that union subscriptions increased less than wages and prices; union administrative costs per capita also rose by more than per capita subscriptions. Subscription income thus came to account for a smaller proportion of total income and unions were required to 'fill the gap' with other forms of income, notably from assets, including income from investments. In addition, between 1936 and 1950, union expenditure rose, but working expenses increased far more rapidly than expenditure on friendly society benefits in part, Roberts argues, because of the post-war expansion of state benefits.

Roberts also found substantial differences in subscription levels, often related to the level of benefits paid, in expenditure, and in assets. In 1950 assets were held in British government securities (50%), in municipal securities (10.5%), and as cash deposits (23.9%) (Roberts, 1956: 387). Compared with 1936, this represented a shift away from municipal securities. He noted that, because of the risks of high levels of unemployment and large-scale strikes, unions required substantial liquid funds. He also speculated, in advance of more recent developments, on the likely beneficial impact on the necessary level of liquidity and on rates of return on assets of a centralised, rather than piecemeal, investment policy.[2] Overall, the picture he presented for 1950 was one of a solvent union movement, but one which was inhibited by a lack of finance. The trends for income and expenditure did not, at the time, give him cause for optimism.

Latta focused on the decade 1960 to 1970 but, referring to Roberts' work, he prefaced his analysis with a brief resume of changes since 1950. He noted that, despite the optimistic views of several commentators in the early 1960s, the financial position of many unions remained poor (1972: 393). In that decade, the TUC itself, in its evidence to the Donovan Commission, had remarked that trade unionism was provided to members 'on the cheap' (TUC, 1966: 137).

Latta's own analysis of the decade looked at data for the set of unions with more than 30,000 members in 1970. His conclusions focused on differences between unions, such as that between manual industrial unions with a secure financial base and relatively stable or declining membership on the one hand and, on the other, poorer white-collar unions which needed to expand to remain solvent. However, he did note widespread loss of assets and, for several unions, periods when expenditure exceeded income. Overall he observed 'a marked decline from the period surveyed by Roberts' (1972: 409). He suggested that a change in financial policies on the part of many unions was a prerequisite for financial security in the 1970s.

The third study, by Willman and Morris (1988), looked both at the aggregate picture and at the financial affairs of the set of 56 unions with more than 20,000 members in 1984. They found that, between 1975 and

1985, real income both from subscriptions and investment grew. Real worth was static, despite substantial membership loss from 1979. However, real expenditure also increased substantially. In the aggregate, unions were solvent across the period; short periods of insolvency for several unions were associated with national strike action or very rapid membership loss in the period 1979–81. Subscription income fell as a proportion of total income, while investment income increased, particularly after 1981. Expenditure on benefits fell as a proportion of total expenditure, continuing the trends noted by Roberts. Overall, they concluded that, given the loss of members, 'the data convey a picture of remarkable financial health' (1988: 96), even though, historically, the union movement as a whole was relatively impoverished.

Willman and Morris also found substantial differences between unions. White-collar unions in particular experienced massive percentage increases in real subcriptions and assets from 1975 to 1985. Older, manual unions remained rich but accounted for a much smaller proportion of total union wealth. The richest unions tended to be the largest; both per capita subscription income and per capita administrative costs, which were highly correlated, were lower in the largest unions. This may be evidence of economies of scale in administration in the larger unions, or it may simply indicate that levels of membership service are lower in the larger general unions than in the smaller craft or industry unions.[3]

Taken together, these studies provide a set of snapshots of union finances at particular points in time; the entire picture is not visible. Some findings are difficult to reconcile. Given the general picture of financial difficulty and decline in 1950 and again in 1970, how have unions continued to survive? Is there any simple relationship in the aggregate between union membership and union solvency or wealth; in particular, how have union finances weathered the substantial membership losses since 1979? Why were unions able to raise real per capita subscriptions in the period 1975–85 but not in previous decades? Why did real wealth apparently decline overall between 1950 and 1985?

In order to answer these questions, we shall focus on the returns from 1950 (i.e., the end of Roberts' period of study) to 1989, the latest year for which a full return is currently available, and specifically on income, broken down between income from members and other income, expenditure, divided between administrative expenditure and benefits, and net worth, that is the value of year-end union funds. This measure is preferred to the gross assets figure, which takes no account of liabilities.[4] In all cases, figures are calendar year-end totals. Several per capita measures of income, expenditure, and assets are also used and in all cases the membership series used is that of the Certification Officer's returns.

Our measures and several ratios derived from these basic data are defined as follows.

(a) *Source*: Certification Office Returns

$$\text{Solvency} = \frac{\text{Total income}}{\text{Total expenditure}}$$

$$\text{Subscription dependency} = \frac{\text{Subscription income}}{\text{Total income}}$$

$$\text{Acid test} = \frac{\text{Total net worth}}{\text{Total expenditure}}$$

$$\text{shortfall} = \frac{\text{Subscription income}}{\text{Total income}}$$

$$\text{Subscription ratio} = \frac{\text{Real per capita subscription income}}{\text{Real weekly pay}}$$

$$\text{Return} = \frac{\text{Total other income}}{\text{Total net worth}}$$

(b) *Source*: Department of Employment

Inflation	Average annual inflation rate
Unemployment	Average annual percentage rate
Strikes	Working days lost, in thousands, per annum
Real weekly pay	Weekly gross earnings of full-time male manual workers over 21 (on adult rates) whose pay was unaffected by absence. This is a proxy for average earnings, a full series of which from 1950 was unavailable.

3 Union finances: the aggregate picture

Figure 2.1 shows an index of aggregate union net worth, total income, and total expenditure, all in real terms at 1989 prices; it also shows an index of union membership. Across the post-war period, real income and expenditure have risen steadily and broadly in line. As a result, the union movement has remained solvent, although the short-term stagnation of real income in the late 1960s and late 1970s caused solvency to decline; in the early 1970s, the series is interrupted. During the sustained membership loss of the 1980s the union movement has, in the aggregate, remained solvent. Real net worth has, however, fallen since 1950. Rising at broadly the same rate as income and expenditure in the 1950s and 1960s, it began a steady decline in 1967 which lasted until 1981. The union movement as a whole is poorer in real terms in 1989 than it was in 1950 and its reserves

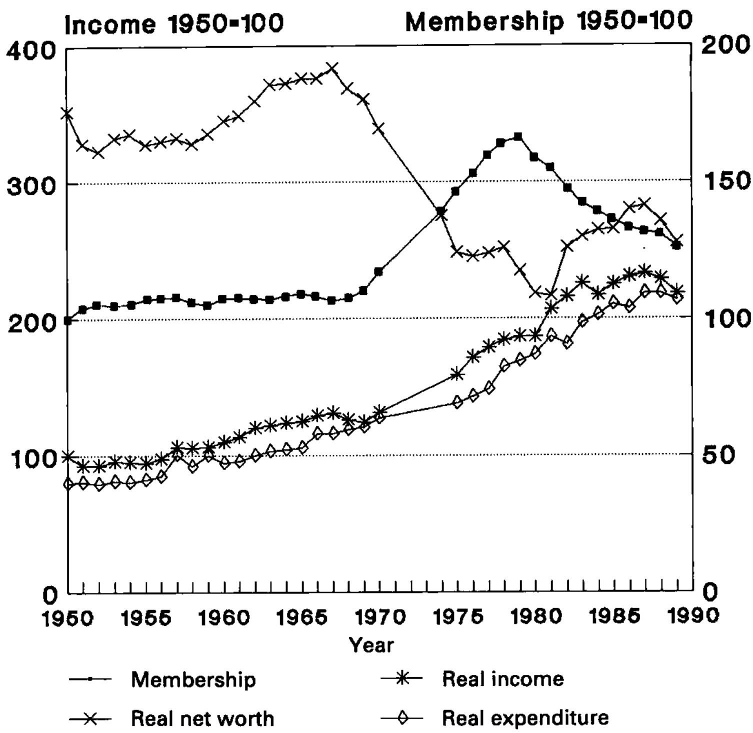

Figure 2.1. Financial indices, UK unions
Source: Certification Office

have fallen sharply as a multiple of annual expenditure. This is a point of some importance and we shall return to it below.

Overall, Figure 2.1 indicates financial health and stability from 1950 to 1966, a period of financial decline during membership growth from 1967 to 1981 and some financial recovery during membership decline in the 1980s. However, the figure conceals important changes in the composition of income and expenditure over the period.

There has been a long-term decline in subscription dependency. In 1950, 89% of union income came from subscriptions, falling slowly to 85% by the interruption of the series in 1971 and to 82% by 1989. Income from investments has filled the gap.[5] There has been a more radical shift in the composition of union expenditure. While there has been a steady rise in real total expenditure and real administrative costs, real benefit expenditure has been roughly static; indeed, there has been a fall since 1970. In 1950, for example, administrative costs accounted for 58.7% of the total and benefits for 32.3%. As late as 1970, these figures were 60% and 29.6% respectively. By 1986, a steady and steep rise in administrative costs led

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