

***Trade Unions
in the
Developed
Economies***

Edited by E. Owen Smith

Trade Unions in the Developed Economies

EDITED BY
E. OWEN SMITH



CROOM HELM LONDON

© 1981 E. Owen Smith
Croom Helm Ltd, 2-10 St John's Road, London SW11

British Library Cataloguing in Publication Data

Trade unions in the developed economies.

1. Trade unions

I. Smith, E. Owen

331.88 HD6483

ISBN 0-7099-1907-7

Printed and bound in Great Britain by
Biddles Ltd, Guildford and King's Lynn

ACKNOWLEDGEMENTS

The editor wishes to make two important acknowledgements. First, he again wishes to place on record his appreciation of the able secretarial help provided by Mrs Gloria Brentnall. He also hopes that the book will prove a small consolation to his family for the various physical and mental absences — especially during their Christmas holidays, 1980 — that this book entailed. The proof stage was reached during the Easter holidays, 1981 and his wife assisted him in compiling the Name Index.

CONTENTS

Acknowledgements

Introduction	1
1. Australia <i>L. Cupper and J.M. Hearn</i>	13
2. France <i>J.R. Hough</i>	43
3. Japan <i>G.C. Allen</i>	73
4. Sweden <i>T.L. Johnston</i>	97
5. The United Kingdom <i>E. Owen Smith</i>	123
6. The United States of America <i>A.W.J. Thomson</i>	155
7. West Germany <i>E. Owen Smith</i>	178
Notes on Contributors	208
Name Index	210
Subject Index	214

INTRODUCTION

Eric Owen Smith

The aim of this book is to offer a collection of studies on the growth, structure and policies of trade unions in seven developed economies.

The contributors, with the exception of Dr Hearn, are economists interested in the general affairs of the country concerned. They were asked to analyse the growth, structure and policy of trade unions in that particular country. As far as possible the early growth of trade unions has been summarised so that a post-Second World War analysis could be undertaken. In all cases, however, many important features of collective bargaining were evident before this date. Basically, the *growth* section contains an examination of the extent to which conflict between the parties has either increased or decreased. This often, though not always, necessitates an appraisal of the roles of the government, the courts and third-party involvement. All developments are viewed against a backcloth of general economic developments and the statistical data generally deal with trends rather than particular developments at any one point in time. The *structure* section contains an analysis of how changes in the structure of the labour force have been reflected by changes in the structure of trade unions. Inter-union relations are examined in this and other contexts. Finally, the *policy* section contains an analysis of the main bargaining issues and the methods employed to achieve these goals.

Australia (Chapter 1) affords an excellent example of a country where the wage determination process is subject to a high degree of third party involvement. In order for this system to operate, a detailed set of rules governing collective bargaining as a whole have been introduced. In consequence, Australian unions are in general highly centralised and trade union growth has been stimulated. Trade union policy has recently consisted of challenging certain aspects of arbitration and technological change. Significantly, the arbitration system was introduced following a period of intense industrial unrest and, as in the case of the United Kingdom, there has been a resurgence of conflict of late. There are two further features common to both Australia and the United Kingdom. First, the high level of trade unionisation ('density') which has recently displayed an expansionary trend. Secondly, there is a complex trade union structure. Australia

2 Introduction

resembles France, Japan and Sweden in that all four countries have several central union organisations, although there have been significant changes in Australia and Japan in recent years.

France's trade unions (Chapter 2) are characterised by their financial weakness, and by their political and religious divisions. The sympathies of the central trade union confederations range from Communist to Catholic. Numerous regional and factory unions are affiliated to the various confederations. On the other hand, the employer associations are much stronger. At the factory level, too, there is very little effective collective bargaining — this time due to the relatively more powerful position of the individual employer. Trade union density is quite low, although non-unionists often support their organised colleagues. As in West Germany, the propensity to strike has been reduced by rising material prosperity, but in 1968 the whole country was convulsed with strike action. Normally, however, the typical French strike is of short duration due to the financial weakness of the unions. Finally, in contrast to the growing trend among their Australian counterparts, French trade unions do not typically employ professionally qualified staff.

Obvious social differences apart, the striking feature about trade union growth and policy in *Japan* (Chapter 3) is the number of similarities to Germany. Indeed, the most significant exceptions are structural in character: they lie in the amount of plant bargaining and the number of enterprise unions in Japan, where France or the USA are in some respects the more appropriate analogues. But in both Japan and Germany trade unionism has been outlawed on two occasions, the most recent case being prior to and during the Second World War. In both countries trade union leaders were imprisoned. In both countries (following the war) the occupational forces initially stimulated the formation (Japan) or reconstruction (Germany) of strong trade unions. The emergence of the Cold War put an end to the unqualified encouragement of trade unionisation by the occupation authorities. The 1950-52 co-determination controversy in Germany is directly analogous to the resistance to management's attempts to reimpose paternalistic control at the Omi Silk Company in 1954. Employees in both countries, along with France, enjoyed rapidly rising living standards during the post-Second World War era. A concomitant of this has been the relative industrial harmony over the period taken as a whole. Annual bargaining tends to be ritualistic in nature. High fringe benefits are another common feature, as was the existence of a dual labour market — that is 'temporary' indigenous (Japan) or foreign

(Germany) workers who did not enjoy secure employment in the event of a recession. Japan's central trade union organisations are generally opposed to the capitalist system. One third of Japan's trade union members remain outside these organisations because they prefer not to engage in political debate. In the United Kingdom the dichotomy between TUC and Labour Party affiliation is more marked: white-collar unionists are virtually all affiliated to the TUC, but relatively few are affiliated to the Labour Party.

It is apparent from Chapter 4 that Sweden's white-collar employees have succeeded where their counterparts in the UK failed, namely in establishing central organisations which are independent of the manual worker's central organisation. As in other countries the central organisations' policy tends to be mainly dictated by the larger affiliates. Collective bargaining is highly centralised and co-ordinated, although there were some unofficial disputes in the late 1960s. (There was also a serious lockout/official strike in 1980.) As in West Germany, one finds a large element of industrial unionism, at least among the 25 unions organising manual workers. White-collar workers, on the other hand, tend to be organised on a loose cartel basis. Trade union density is extremely high, even though there is an absence of closed shop provisions. However, the growing white-collar trade union movement is an area of uncertainty and difficulty. Public sector unionism, in common with so many of the other countries covered in this book, is expanding rapidly. The private sector employers' association has become increasingly concerned about the role of the public sector as pay leader – a feature also discernible in the UK. In Sweden, the private employers insisted in 1980 that they should remain the bell-wether in shaping what happens during the annual pay round. As in the UK, there was a great deal of industrial relations legislation in the 1970s. As in West Germany, there were developments in the field of industrial democracy.

In the case of the *United Kingdom* (Chapter 5), the recent conflict contrasts with the consensus and co-operation which extended from the late 1920s to the 1950s. The 1940s and 1950s marked a period of high employment and generally improving living standards. Trade union density remained constant. The consensus was gradually ruptured by both shop floor and employer militancy – with some of the government's legislation exacerbating the situation in the 1970s. All kinds of legislation – including provisions against unfair dismissal – became increasingly important in the field of collective bargaining. Rising tax liability undermined real wage growth. (The Swedish

government informs negotiators of its fiscal strategy before each wage round, but this has not prevented real wages from falling.) Trade union density increased dramatically. However, trade unions are financially weak. Significantly, white-collar unionism was mainly responsible for the expansion in union membership, as in Australia. Nevertheless, the duration of strikes has not reached the levels recorded before and after the First World War. There has been a notable, growing trend in the 1970s for the parties to draw up more formal procedure agreements which often stipulate, among other things, third party involvement in dispute resolution.

Employers in the *United States of America* (Chapter 6) were particularly opposed to the rise of trade unionism. They were also much less likely to be organised themselves and collective bargaining, when it eventually emerged on a wider scale, was nearly always decentralised. As in Japan, West Germany and the United Kingdom, the law also constrained the rise of unions in the USA. Rather like the United Kingdom's case, 'enabling' legislation was necessary before trade unionism could get off the ground. Also like the United Kingdom this legislation was to be a controversial issue. Even after the merger of the craft and industrial orientated central federations in 1955, there was still a good deal of inter-union conflict. Further rifts were caused by the expulsion of several trade unions from the central federation for corruption. Unlike Australia, Sweden, the UK and West Germany, trade union density has fallen of late. The reasons for this decline are explored in some depth. The local union in the USA is generally more powerful and better organised than its counterparts elsewhere, although some centralisation is taking place. Finally, it should be noted that the USA is the home of business unionism. Add to this the complete lack of any labour or socialist party in American politics, and the contrast with every other study in this book becomes most marked.

In *West Germany* (Chapter 7) there is a detailed legal code which permeates every aspect of collective bargaining. In many areas this law is judge made — and the judiciary takes a dim view of the economic disruption caused by strike action. Moreover, the employers are powerfully organised. They may legally lock out employees whose union has called a strike at other establishments in their money wage bargaining region. Before a union may legally call a strike, it must observe a demanding procedure, although it must be emphasised that German trade unions are financially strong and no constraint in this respect operates. Rising economic prosperity and real wages since 1948 have further reduced the amount of conflict, as has the absence

of workplace bargaining. Although union density is fairly high, inter-union competition has undermined their ability to organise the growing white-collar labour force. In any case, German trade unions owe their origins to the political and religious organisations who founded and fostered their growth. Hence, the movement remains to the fore in securing more general political aims, including an extension of industrial democracy.

The basic political lesson emerging in all cases seems to be clear. In all highly industrialised countries the kind of relationship which should exist between the trade unions and the state presents one of the leading problems of our time (Flanders, p.96). Trade union legislation in Britain has, for example, been enacted and repealed by Labour and Conservative governments in turn. In promising the TUC the repeal of the Conservative Employment Act, 1980, if and when Labour were returned to office, the then Labour Party leader (James Callaghan) made three conditions. First, 'there must be a complete understanding between us both before we assume office. We need a new partnership to work together.' Secondly, 'we must agree on the need for planned and orderly change necessary in the industrial system. Not all the changes will be pleasant . . .' Thirdly, 'we must define a fresh relationship between the state and the trade unions once and for all' (*The Times*, 3 Sept. 1980, p.1). The Conservative Secretary of State for Employment (James Prior), in introducing his 1981 *Green Paper* on trade union immunities (a topic discussed in Chapter 5), made a similar point. He said: 'the continuing absence of a well defined, stable, and acceptable relationship between government on the one hand and trade unions and employers' associations on the other had contributed to damaging dissension' (*The Times*, 16 Jan. 1981, p.1).

In consequence trade unions and politics are inextricably intertwined. The British Labour Party was founded by the early trade unions, whereas the political and religious movements formed trade unions in most continental countries (cf. Kahn-Freund, p.47). Continental unions, however, had to use their strength to achieve political goals common to the working class as a whole, whereas British unions concentrated on the labour market and job control (loc. cit.). In the USA there was a political development which resembled that of Britain (ibid., pp.48 and 60n). In Australia, France, Germany and Japan serious inter-union conflict has been caused by political differences. Nowadays, many large white-collar trade unions in Britain are not affiliated to the Labour Party, but the essential political importance of

accommodating trade unions remains a topical and critical issue, irrespective of party political predilections.

This political importance of trade unions derives from the economic implications of collective bargaining. About 80 per cent of all employees in Sweden were unionists (Chapter 4). By 1978, 54 per cent of the labour force in Britain were members of trade unions (Chapter 5). This so-called density ratio was 43 per cent in the FRG (also in 1978 – see Chapter 7), while in the USA about 30 per cent of the non-agricultural labour force are organised (Chapter 6; Rees, 1979, p.115). In Australia, density was as high as 57 per cent in 1973; in France it may have been lower than 20 per cent in 1968; in Japan it was 33 per cent in 1978 (chapters 1, 2 and 3, respectively). Moreover, many employees who are not members of trade unions effectively have their wages fixed in accordance with the outcome of collective bargaining by way of convention, third-party decision or defensive employer tactics (Trevithick and Mulvey, p.86). In other words, the effects of collective bargaining extend beyond the limits of its coverage (Rees, 1979, p.115). Wage inflation is therefore largely the outcome of the process of collective bargaining – as is demonstrated by the studies contained in this book.

The increase in labour's share in the national income might also be attributable to the rise of trade unions, although this is a controversial and highly inconclusive area. For example, a union may succeed in negotiating a short-run increase in money wages but this may induce an employer (or employers) to substitute capital equipment in the long run (Rees, 1977, pp.88-90). In order to arrive at this so-called 'share', one calculates the total income from employment in relation to the national income. For example, the development of labour's share in the Federal Republic of Germany (FRG) displays an increasing trend: it increased from 58 per cent in 1950 to 71 per cent in 1979 (Bundesminister für Arbeit, *Statistisches Taschenbuch 1980*, Table 1.5). Among the many factors which affect the share of wages, one in particular is of overriding importance in the case of the FRG. Between 1950 and 1979 the numbers of self-employed decreased. During the same time period, the proportion of employed persons in the total labour force rose from 68 per cent to over 86 per cent (*ibid.*, Table 2.5). This process was mainly the result of a migration from agriculture and the artisan trades which led particularly to an increase in the service sector of employment. One can eliminate the influence of this factor by calculating how labour's share would have developed, if the structure of the labour force had

remained constant — say by using the 1960 structure as a base.

Labour's share is dramatically changed when calculated in this manner. In the 1950s there was a continual increase in the income from entrepreneurship and wealth (Meissner and Unterseher, pp.40-42). This was associated with the post-war recovery of the West German economy, the increase in investment and the considerable formation of private productive resources promoted by tax measures. Since 1960, however, the imputed share of labour has begun to increase again: labour market strains have been increasingly felt for most of this period. Hence a fall in labour's share from 65 per cent in 1950 to 60 per cent in 1960 was translated into a recovery to 64 per cent by 1979 (Bundesminister für Arbeit, *Statistisches Taschenbuch 1980*, Table 1.5). This latter rising trend was interrupted during the 1969 'profits explosion' and there has been a similar fall from 66 per cent in 1974, when unemployment increased. Trade union 'pushfulness' may be postulated as one variable underlying developments in labour's share since its recovery (Pen, pp.162-6 and 199-206).

One recent estimate indicates that in *relative* terms trade unions in the USA may have increased their members' differential over non-unionised workers by 20 per cent (Rees, 1977, p.74). On other cross-sectional bases the effect in both Britain and the USA may be even larger according to *which* union/non-union differential (inter-industry, occupational, sex, etc.) is being considered and whether inflationary pressure is more pronounced than usual (ibid., pp.70-75, and Metcalf in Blackaby, p.50). On a time-series basis, trade unions generally appear to have a once and for all impact in terms of raising their members' differentials over non-unionised labour (the so-called 'impact effect'). Thereafter, they seem to retain this lead while market forces also pull in the same direction. Over the whole span of a trade cycle, money wage levels are perhaps no higher than they would have been without trade unions. As a result of the presence of trade unions, however, rises probably came sooner and cuts, if any, later (the so-called 'ratchet effect'). Average pay would therefore have been higher (Phelps Brown, p.184). The effect of unions on resource misallocation, that is to say because wages have been higher, but employment and productivity lower, than in a competitive equilibrium position, seems to have been minimal: the loss of output was probably in the order of 0.14 per cent of national income. The costs of unemployment and restrictive work practices are much higher (Rees, 1979, pp.149-51). In other words, the impact of unions on relative wages is only one of the many variables which contribute to the

typically uncompetitive nature of labour markets (Rees, 1977, p.88). Evidence from Sweden (Chapter 4) even suggests that heavily organised labour markets may be under greater pressure to innovate. All that has been said in this paragraph could, to varying degrees, be extended to cover the other economies studied in this book. The notable exception (at present) is Japan where an entirely different system of wage differentials operates.

Governments, employers and the courts in different countries have reacted in various ways to the rise of trade unionism, although in general, historical terms the movement met with determined opposition. Nowadays, the right to strike may be embodied in a constitution, statute or custom, but in practice the right will always be qualified. For example, in the FRG strikes may only be called by union leaders after a collective agreement has expired and a 75 per cent majority have voted in favour of strike action; social security benefits are not paid to strikers' families and picketing is strictly limited. The British Conservative government is attempting to move in a similar direction.

Lengthening experience of high levels of employment (until 1974) and the growing complexity and integration of productive processes have both endowed even the smallest work group with the potential power to disrupt production. The costs of disputes have risen as the capital/labour ratio has increased: employers are anxious to ensure optimum use of increasingly expensive plant and equipment. This does not mean to say that workers cannot also incur financial losses as a result of strikes. The financial ability of unions, especially in France and Britain, to anything like compensate for loss of earnings out of strike funds is limited. Most union assets are not easily realised. In the FRG these assets consist of huge businesses entirely owned by the unions. Furthermore, social benefits for the families of strikers, where they exist, do not necessarily imply that strikes will increase if such benefits are a constant proportion of net earnings: the pattern of stoppages could remain the same, once the parties in industrial disputes readjust to these payments. An analysis of all these crucial economic factors essentially requires, first, an estimate of the extent to which the growing latent power of trade unions is utilised and, secondly, the relative economic welfare significance of strikes in terms of lost output. Some observers would argue that such diverse factors as machinery breakdowns and sickness cause greater output losses than strikes. Moreover, some countries view strike action with complete abhorrence while other countries appear quite nonchalant. For example, France was brought to a standstill for weeks in 1968 and redundant steel

workers blocked motorways and railways in 1979 but the French are not obsessed by strikes, whereas the German political system would quake at such action.

Indeed, the German oft-frustrated need to maintain an ostensible political consensus can be seen in the system of co-determination. The works council system obviates the conflict inherent in British plant bargaining. On the other hand plant bargaining in Japan arose from a preference for consensus rather than conflict. Plant bargaining is weak in France and Australia, but not in the USA. Industry-wide pay bargaining remains supreme on the continent of Europe, while in Britain there is a longer tradition workplace bargaining (Brown in Blackaby, pp.130-31). In Britain, the problem of accommodating rank and file pressure is made more acute by the existence of lay officials and plant bargaining in many industries. These lay officials (shop stewards) have more power than their counterparts in the USA. Such pressure does not exist in the FRG because the trade union organisation at plant or company level plays second fiddle to the works council. The latter is necessarily a more company-orientated organisation. Hence trade unions in the FRG and Sweden tend to be centralised organisations which negotiate national or regional agreements, while local implementation and supplementation is left in the FRG to the works council. Centralisation in Britain has also taken place away from the formal bargaining structure in so far as the central trade union and employer organisations have become the consultative organs to which government frequently turns. There has therefore been a process of polarisation both upwards and downwards, but the formal bargaining structure has not adjusted to this change (Kahn-Freund, p.84).

Lockouts are often thought of as the equivalent weapon to strikes on the side of the employer, and these are still used, or threatened, in the FRG. Their use in Germany has sparked off considerable controversy, where the legal validity of lockouts has been challenged and they are not always seen as analogous to strike action in bargaining power terms. The employer's power, according to this latter hypothesis, lies in his ability to withdraw or reduce employment opportunities by means of his investment decisions. His pricing decisions affect real wages. All this undermines trade union bargaining power. To allow lockouts, the argument concludes, exacerbates an already unequal balance of power. Employers in France also wield relatively more power, while in the USA there is evidence of even more overt anti-union practices.

However, strike action and other collective sanctions such as

overtime bans are only one way in which trade unions achieve and maintain bargaining power. In the USA and Britain the closed shop (i.e. compulsory union membership) is used as a method of controlling labour supply. The closed shop is also legal in Australia. But this practice is illegal in Italy, France and Germany (*ibid.*, pp.54 and 61n). The right to union membership and to participate in union decisions are therefore important legal issues in English-speaking countries, but not among Italian, French and German lawyers (*ibid.*, p.53). Continental unions find other ways to discriminate in favour of union members (*ibid.*, p.55). In any case, legislative protection against unfair dismissal came much earlier in the FRG than Britain. Such protection also now exists in France, Italy and other European countries though not in the USA (*ibid.*, p.72). In Japan it is regarded as a social norm. However, protection against unfair dismissal creates potential legal difficulties for employers in countries where the closed shop exists because they must proceed carefully if they dismiss a non-union member.

So far the trade unions have been analysed as if they were homogeneous entities. However, the gains made by trade unions do not go to these organisations as such but to their rank and file members (Rees, 1979, p.117). Agreements must often be ratified by the membership and officials sometimes face elections. An official coming up for re-election will therefore be anxious to conclude agreements which are perceived by the membership as generous. On the other hand, an official will normally wish to retain his negotiating reputation with employers in terms of realism and even reliability. His dilemma is therefore one of perceiving and satisfying his membership's aspirations, but reaching agreement and compromising with employers.

A universal problem for trade union officials involves selecting negotiating goals. Optimum levels of wages, employment, fringe-benefits and trade union membership are all obvious, but competing, variables which will feature in a negotiating strategy (Rees, 1977, pp.49-51). A dynamic factor will be comparisons with other work groups. Constraints will be the demand for the product and the substitutability of non-union labour or capital (*ibid.*, pp.66-9 and Rees, 1979, p.66).

Taking these factors into account, both the trade union and the employer will enter negotiations having prepared a claim and offer respectively (Hunter, p.229). In accordance with the celebrated model of collective bargaining postulated by Hicks, both sides will indulge in threats, bluff, charges and counter-charges in order to elicit more

precise information on the likely position of the opposing party (Hicks, pp.140-47; Shackle, *passim*). Negotiations are nearly always the only way of achieving a settlement. Note that Hicks suggests that disputes are the result of faulty negotiation and inadequate knowledge. More recent writers regard strikes as an inevitable feature of the institutionalised market economy (Fisher, p.79). Nevertheless, the extraction of information is a necessary feature of the negotiating process, if only because expectations about the behaviour of the other party and estimations of the time likely to be required to reach a settlement will be modified. In the event of a threatened or actual breakdown in negotiations, an industrial dispute is still not inevitable for the negotiators may agree to involve a third party – that is a conciliator, mediator or arbitrator. This takes different forms in the various countries covered by this book, but it will improve the flow of information and allow new solution positions to be explored (Hicks, pp.147-52; Hunter, p.231).

Hence, neither party knows what the other side's sticking point will be, nor is the length of strike each side is able and willing to tolerate known. This in turn will be a function of the probable cost to each side, or the speed with which foregone income can be recovered. Relative bargaining power, as already indicated, will vary according to product and factor market conditions. The costs of agreeing and disagreeing therefore enter into the general bargaining stance and power of each party (Burkitt, pp.66-9).

Rising real income will generally have a soporific effect on the bargainers, as was the case in post-Second World War France, Japan and Germany. On the other hand, during the 1970s Britain, Sweden and the USA recorded smaller gains (or even losses) in real pay (Saunders in Blackaby, pp.192-3). Significantly, the rate of change in prices is an important determinant of union growth in these countries (Bain and Elsheikh, p.106).

In short, trade unions are very important. It is essential that policy prescriptions involving these institutions be based on accurate information. The contributors all hope that this volume will be of assistance in this respect.

Bibliography

Bain, G.S. and Elsheikh, F., *Union Growth and the Business Cycle* (Basil Blackwell, Oxford, 1976)

- Blackaby, F. (ed.), *The Future of Pay Bargaining* (Heinemann, London, 1980)
- Burkitt, B., *Trade Unions and Wages* (Bradford University Press, 1975)
- Fisher, M., *Measurement of Labour Disputes and Their Economic Effects* (OECD, 1973)
- Flanders, A. in W. Galenson (ed.), *Comparative Labor Movements* (Prentice-Hall Inc., 1952)
- Hicks, J.R., *The Theory of Wages* (Macmillan, 2nd ed. 1963)
- Hunter, L., 'Economic Issues in Conciliation and Arbitration', *British Journal of Industrial Relations*, XV (2) (1977), pp.226-45
- Kahn-Freund, O., *Labour Relations* (Oxford University Press, 1979)
- Meissner, W. and Unterseher, L. (eds.), *Verteilungskampf und Stabilitaetspolitik* (Kohlammer, Stuttgart, 1972)
- Metcalf, D., 'Unions, Incomes Policy and Relative Wages in Britain', *British Journal of Industrial Relations*, XV (2) (1977), pp.157-75
- Pen, J., *Income Distribution* (Penguin, 1974)
- Phelps Brown, E.H., *The Economics of Labor* (Yale University Press, 1962)
- Rees, A., *The Economics of Trade Unions* (Chicago University Press, 2nd ed. 1977)
- *The Economics of Work and Pay* (Harper and Row, 2nd ed. 1979)
- Shackle, G.L.S. in J.T. Dunlop (ed.), *The Theory of Wage Determination* (Macmillan, 1966)
- Trevithick, J.A. and Mulvey, C., *The Economics of Inflation* (Martin Robertson, 1975)