

workshop bargaining: a new approach

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1. introduction

The existing system of voluntary collective bargaining in Great Britain is based on the assumption of a free market economy in which the price of labour, as of other factors, commodities and services is arrived at by a process of higgling and bargaining between the representatives of employers and employed. In this system, each group's responsibility is clearly limited to the pursuit of its own vested interests. The consumer's interest is assumed to be protected by the free play of the forces of demand and supply and by his ability to substitute cheaper for dearer goods and services. Without doubt, the effectiveness of this mechanism is greatly reduced by the many imperfections of the market, but no widely acceptable alternative has yet been devised although ad hoc controls of various kinds have been applied in some sectors of the economy as a matter of political expediency. In spite of recent developments which appear, rather uncertainly, to envisage some kind of mixed system, the whole question of economic planning remains a matter of acute political controversy and nowhere has the confusion been greater or the disagreement more violent than in discussion of its application to the labour market.

To the extent that economic planning may be thought to demand centralised decision making, it may be held that the historical development of the labour market in the United Kingdom has paved the way for the introduction of planning. The emergence of trade unions and employers' associations in this compact industrial community inevitably led to centralisation of the bargaining process and the extension on an industry wide scale of the common rule thus arrived at. Given the British industrial situation, it is not difficult to see how the extension of standard terms and conditions of employment in each industry over the widest possible area was thought to be in the interests of both employers' associations and unions and both parties, in fact, contributed to this development. Unquestionably, the imperfection of the labour market was increased thereby. In addition to restricting competition it has produced two important consequences.

The resultant wages structure tends to be inflexible in relation to local conditions and decisions or agreements about wages tend to be based on criteria which are arbitrary, abstract and not always very relevant to the circumstances of individual firms.

wage principles

Under the existing system of industry wide collective bargaining, the arguments and counter arguments of negotiators appear to revolve around a limited number of conventional criteria such as movements in the index of retail prices; trends in industrial profits, defined in a number of controversial ways and usually based on the published results of selected large firms and arbitrary groupings of medium to large firms; or on movements of stock and share prices. Other criteria used are fluctuations in indices of industrial production; variations in average earnings of wage earners in certain industries as indicated by official statistics; changes in wage rates and earnings in other employments alleged to be comparable; statistics of external trade and, in a different category, factors of a socio-political character concerning, for example, traditional status and prestige, security and so on. It is sometimes difficult to see how any appropriate and objective settlements can emerge from this rag bag of arguments, some of which lack precision and relevance even in relation to an entire industry and most of which are completely irrelevant to the situation of any particular firm.

At the same time it must be admitted that negotiators can draw little assistance from the conventional principles of wage determination. The principle of the living wage is based on subjective considerations and is capable of an infinite variety of interpretations. Capacity of industry to pay eludes precise definition because it involves controversial elements such as the amounts to be put to reserve or paid in dividends and levels of efficiency and costs, all of which are impossible to determine on an industry wide basis. Furthermore, an important distinction exists

between immediate capacity and potential capacity to pay because wage and other pressures may exert a dynamic influence and stimulate improvements in equipment, methods, organisation and management.

However, another difficulty about this concept is that the implied relationship between wages and productivity is not clearly defined nor because of the many variable factors affecting productivity is it always possible to attach a precise quantitative value to it. The refinements of the marginal productivity theory of wages, it must be confessed, provide little by way of explanation of the facts or guidance on policy to be pursued in the labour market. The concept of relativity which relies on equitable comparison with similarly placed industries or occupations, although frequently drawn on by negotiators and arbitrators, involves no real principle but simply accepts relationships prevailing at any given time and based on historical, perhaps largely accidental, factors.

practical decisions

These so called principles of wage determination, therefore, give little real guidance to negotiators, arbitrators or would be planners. Their vagueness and looseness of definition mean that in practice they are largely of propaganda value only. Those who have to make practical decisions on wages issues are thus thrown back on expediency or custom. This has long been recognised as the supreme difficulty of arbitration. The Royal Commission on Trade Unions of 1867-69, for example, rejected compulsory arbitration on the grounds that "there are no admitted principles of decision on which an arbitrator may proceed". A further practical difficulty arises from the fact that, because of the many variable and some imponderable factors involved, prediction of even the most general consequences of any proposed change in wages in a given trade or industry is a matter of the greatest uncertainty. It is extremely difficult to estimate in advance the related quantitative changes in costs, prices

and employment. One party may adduce certain consequences of a proposed change which the other may quite legitimately brush aside as not proven or even as incapable of proof. Similarly, it is difficult in any particular case to call for a "responsible" wages policy in the sense of relating it to community or national interest, however this is defined, when the consequences of any wages policy are in fact always highly unpredictable.

The difficulty of finding an effective and realistic wages formula by national negotiation under existing arrangements also means that advice and exhortation from external sources such as government departments and other official bodies, are largely unavailing even when the parties to collective bargaining are willing to listen. Thus the formula advocated in 1948 by Sir Stafford Cripps, repeated in 1957 by Mr. Thorneycroft and recapitulated in 1962 in *Incomes policy: the next step* (Cmd 1626), of relating increases in wages to increases in national productivity is not very meaningful when applied to particular industries and even less so when applied to individual firms because of differences in productivity potential between different sectors of the economy and because of wide variations in productivity between firms in any one industry. The further attempt to establish a "guiding light" of 2½ and later 3½ per cent illustrates the absurdities, which are all the more dangerous because of their apparent precision, to which this line of thought leads.

However it is very difficult to avoid the impression that some high level policy-makers may have been hypnotised by the simple arithmetic of aggregates into believing that the most obvious truisms about the relationship between national income and national output can be made to serve as viable policies in what is possibly the most delicate and complex sector of the entire economy. National income and national output are statistical aggregates composed of many diverse constituent elements and any attempt to apply a uniform policy to each of these elements in order to achieve a desired

relationship between the two aggregates is both nonsensical and self defeating.

wages, costs and prices

Similar objections can be levelled against the rather more sophisticated formula advanced in its first report in 1958 by the Council on Prices, Productivity and Incomes that "in occupations where productivity is rising fastest wages should not be allowed to rise in full proportion to the increase in productivity". This is completely unrealistic when applied to national or industry wide wage bargaining because the whole question of the distribution of the proceeds of greater productivity revolves around a myriad of contributory factors and expectations which differ significantly in every firm and plant. Likewise, generalised arguments by employers' associations, in reply to specific wage claims, about the danger of inflation and of pricing the industry out of its markets and so on, may seem to trade unions and their members at best to be unreal and at their worst to be hypocritical. Faced with this kind of approach which appears to lay responsibility for past and future inflation at their doors, trade union negotiators may well argue, with a good deal of support from other quarters, that the primary cause of inflation is the high level of demand in the economy. They may go further and say that this has enabled employers to evade responsibility and to escape the pressure of higher wages, increased costs of raw materials and other factors by the simple process of raising prices instead of resorting to more difficult and arduous processes of readjustment. Factoring a price list by x per cent is a piece of simple arithmetic that can be given to the office boy; other adjustments make demands on managerial time, initiative and energy.

For example, in January, 1964, following a 5 per cent wage increase for engineering workers, the purchasing department of the National Coal Board was reported to have been deluged with letters from suppliers of engineering machinery and equipment asking it to agree to price in-

creases of between $2\frac{1}{2}$ per cent and 8 per cent. As about £100m. of purchases are made by the Board in an average year, this could have cost it as much as £10m. extra. Commenting on this the chairman, Lord Robens, accused the engineering industry of attempting to pass on to their customers the cost of the wage increase instead of trying to absorb it by improving their own productivity, adding, "I believe increased wages simply passed on by employers is a lazy way of dealing with wage problems. We all have obligations to increase efficiency" (*The Times*, 10 January 1964).

static assumptions

It may also be argued that, in considering the relationship between wages and prices, most of the predictions about the effects of wage increases proceed from the static assumption that only one factor, namely money wage rates, changes. But in practice the industrial situation is dynamic and constantly changing in all its aspects. Changes in one factor may induce changes in others. For example, changes in money wage rates may lead to the employment of more capital in the form of labour saving devices; the introduction of new methods; better organisation; more efficient management and supervision and so forth. In many discussions of inflation it seems to be too readily assumed that an increase in money wage rates inevitably means increased costs and therefore increased prices. Wage rates seem too frequently to be equated with labour cost although they are, in fact, separate and distinct quantities. It has been shown time after time by industrialists like F. W. Taylor and Henry Ford, and their successors, that high wage rates can be associated with low labour costs when operations are efficiently organised and managed.

That this phenomenon is not confined to large scale mass production industries is confirmed by Mr. J. E. Payne, chairman of a Midland multiple firm of shoe repairers, who states that "... we still find, as always, that high wages bring low labour costs ... In spite of an in-

crease of 15 per cent in earnings of employees of this company over the last two years, the wage ratio to turnover dropped by 0.3 per cent, over the same period, thus proving that the policy of higher wages does not of necessity bring higher labour costs" (*The Guardian*, 23 December 1961). This firm does not use systems of payment by results.

There is also a long, sad history of low wage rates and high labour cost in industries and firms where inefficient employers survived by callous exploitation of their workers.

Before conclusions can be drawn about the relationship between money wage rates and costs and prices, account must be taken of the all important factor, productivity. Management, investment and labour obviously affect productivity but the primary responsibility for the level of productivity in industry rests with management not, as many critics seem to imply, with labour in general and the trade unions in particular. Unions and workpeople can reasonably be expected to co-operate with efficient managements in the re-adjustments necessary to meet changing industrial conditions, but it is not their task to manage industry. This latter duty, which must include responsibility for productivity, rests fairly and squarely with employers and managers. Therefore, with at least as much justification as their critics, trade unions could pin responsibility for inflation on employers and managers. Appeals for wage restraint, whether made by employers or Ministers of the Crown, may well be rejected by unions as a demand that workpeople should subsidise inefficient and lethargic management or as an attempt to saddle them with a burden of responsibility which is not mainly or properly theirs.

wages policy

Does all this mean that wages cannot be rationally determined or that socially inspired policies cannot be implemented? Not necessarily, but it does indicate the great complexity of the problem and em-

phasises the fact that simple solutions are not likely to be available. Not only is planning more than usually difficult in this field, it also raises fundamental questions of social and political values, especially those concerning individual and corporate freedom. In this field, as in others, such values must be balanced against the economic values that are the stock in trade of the planner. In particular we must recognise that if we wish to retain the voluntary institutions developed in the free market—trade unions, employers' associations and voluntary collective bargaining—we must be prepared to accept their imperfections and be content with planning mechanisms and policies which may be far from ideal. In practice, of course, in any community which claims to be a free society, the planners will have to live with these imperfections and trim their policies accordingly.

In such a society, the main problem confronting the planners is to secure the widest possible measure of acceptance of their policies. As far as wages are concerned, this not only means acceptance at national level by ministers and the central authorities of trade unions and employers' associations, but also, and perhaps more importantly, acceptance at local level by individual firms, managers, union officials and workpeople. Local acceptance of national wages policies is unlikely to be automatic. This much is indicated by the existence of wage drift and other phenomena in countries which have experimented with centralised wages policies. Moreover, the importance of local discussion and acceptance is emphasised by the absence of viable principles and the difficulty of deriving meaningful policies in this field from economy wide statistical aggregates. The local level is, of course, especially important in those sectors of the economy in which the level of output and productivity is dependent upon factors which vary considerably from firm to firm and even from plant to plant in the same firm. This sector comprises mainly the manufacturing industries and, since these industries provide the principal source of potential expansion of output and im-

provement in productivity, they clearly call for special treatment in any attempt to devise a wages policy. These considerations suggest that two important requirements are fundamental to the success of any wages policy, namely that there should be a sufficient degree of decentralisation to enable account to be taken of local factors and that special provision should be made for manufacturing industries and any others that may be similarly placed. It is in the light of these requirements that we now proceed to examine the development of collective bargaining and to suggest certain changes.

The development of collective bargaining in the United Kingdom has been the result of a long and complex process. It has been shaped by a variety of factors, including the growth of the manufacturing sector, the rise of the trade union movement, and the influence of government policy. The process has been characterized by a series of stages, from the early days of individual bargaining to the emergence of centralized bargaining structures. The development of collective bargaining has been a response to the need for a more equitable and stable labor market, and it has played a crucial role in the economic and social development of the United Kingdom.

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2. centralised bargaining

In considering certain possible modifications of the existing arrangements for collective bargaining, it is necessary to take account of the forces at work in the evolution of centralised wage negotiation. The most important factor was the desire, first on the part of the trade unions and later of the employers, to eliminate competitive wage bargaining. To eliminate competition between individual workmen and thus strengthen their bargaining position in relation to their employer was the basic advantage which trade unionism had to offer the wage earner. Its practical significance could readily be demonstrated to the most simple minded workman and, even today, it remains the basic theme of trade union propaganda in spite of the sophistication and complexities produced by the developments of more than a century. The establishment and maintenance of a standard rate within the individual firm was, however, thought to be threatened by the existence of non-unionised firms and unco-ordinated wage movements by trade unionists in different firms. Employers expressed concern at the danger of being undercut in competitive markets by non-unionised firms or by those which had succeeded in making less onerous bargains with their organised workers. Given the assumption that wage rates constitute the most significant element in the determination of final selling price, it seemed both logical and desirable to fix uniform rates within a given trade or industry for each class of labour. This had the appeal of apparent "fairness" although, in fact, when applied to workmen and employers differing in circumstances and abilities, it produced inequality rather than equality of treatment. It involved sacrifices by favourably placed groups of workmen for the benefit of their less fortunate colleagues and increased the competitive gap between firms of unequal strength.

trade unions and employers

Trade union adherence to the doctrine of the common rule or the standard rate may seem to have been contrary to the interests of the unionists from a purely

economic point of view. Having, by organisation, gained the means of eliminating competition between workmen, the unions could have maximised their advantages by extending their control over the whole of the labour force with which they were concerned and encouraging competitive bargaining amongst employers. Some unions did embark upon this course. Between 1911 and 1918 the Amalgamated Union of Co-operative Employees, which was one of the predecessors of the Union of Shop, Distributive and Allied Workers, adopted this policy. In the United States it was exemplified by the activities of the Amalgamated Clothing Workers and the United Automobile Workers. The fact that in Britain it did not develop into a universal policy can be attributed partly to the unionists' dislike of competition generally, but mainly to the emergence of effective counter organisation amongst employers. It would seem that the rationale of employers' associations was that bargaining between organised labour and individual employers would result in extortionate wage rates which could be avoided only by presenting a common front to the unions and insisting upon standardising the main terms and conditions of employment. The assumptions behind this view were, on the one hand, that the unions were driven solely by the maximisation principle, and on the other, that there was a high degree of mobility of labour and that firms operated in a perfectly competitive market. That these assumptions were not strictly accurate did not prevent their being acted upon and combination developed, not for the first time, on the pretext of preserving competition.

It would seem also that the forces making for centralised collective bargaining were not purely economic. The movement received impetus from the belief of both sides that certain strategic advantages were to be obtained thereby. Trade unions could expect the enhanced status and prestige, flowing from the establishment of collective bargaining arrangements covering a number of firms, to facilitate the extension in the industry concerned of recognition by other em-

employers of their right to organise and represent the workpeople. Centralised collective bargaining also enabled the usually inadequate forces of newly established and struggling trade unions to be deployed over the greatest possible area and, by increasing the members' dependence on the unions and their leaders, tended to make for greater stability of membership and organisation. From the point of view of the employers, centralised bargaining had the advantage of keeping the unions out of the firm or plant and, by shifting the argument from the particular to the general, of shielding individual firms from investigation and comment. For both unions and employers, the system had the advantage of facilitating any appeal to public opinion by establishing standards of employment which could be shown to be acceptable to some employers and workmen. At the same time, it made possible easier and more obvious comparisons of terms and conditions of employment both between organised and unorganised firms in the same industry and between industries. It enabled both sides to put up more effective resistance to special claims and provided a foundation upon which acceptable arrangements for arbitration could readily be developed. Not least important, the system made it possible for both unions and employers to enjoy the services of expert professional negotiators.

administrative convenience

The third major factor in the evolution of centralised collective bargaining was the administrative convenience of the method. By negotiating with the representatives of a group of employers, the unions gained advantages in convenience and economy of time and effort similar to those obtained by the individual employer when collective negotiation with his employees replaced individual bargaining. At first sight, the system also promised to make much simpler and easier the task of supervising and regulating the implementation of agreements but, unquestionably, its greatest administrative attraction was that it made the minimum demand upon the resources of

the unions. For the employer, too, there were considerable advantages. Unless he played an active part in the work of his association, he was relieved of the tedious and worrying business of negotiation and was free to devote his energies to the technical and commercial problems of his undertaking. The agreements made by his association provided him with a ready made labour policy, which was automatically adjusted to the changing circumstances of the industry or trade.

All these forces making for centralised bargaining originated in the industrial conditions prevailing during the nineteenth century and in the first four decades of the twentieth century. Persistence of chronic unemployment for many classes of labour, and the existence of severe cyclical fluctuations in the demand for the services even of those highly skilled workers who enjoyed a position of near monopoly, encouraged the belief that the weakness of labour's bargaining position was such that it would be at a considerable disadvantage in a competitive labour market. In these circumstances, restriction and regulation of the labour market seemed a more attractive policy and, in a geographically compact industrial community, centralised control and direction of bargaining operations appeared to offer the most certain way of achieving and maintaining this position. This tendency was reinforced by the struggle for recognition, often against the bitterest opposition by individual employers. Acceptance of the unions by collective bodies of employers speeded the process and helped to soften local opposition. Moreover, the current cult of rugged individualism amongst employers, allied to strong authoritarian attitudes towards their employees, combined to suggest that if trade unions had to be recognised it was desirable to arrange this so as to make the least possible impact upon employer employee relations within the firm and to allow individual employers to retain a sense, even if rather illusory, of independence in the control of their own affairs and to preserve the traditional relationship of master and servant. Paradoxically, centralisation of

collective bargaining seemed to offer such advantages. This coincided with the young trade union movement's lack of resources and experience, which demanded extensive rather than intensive application of its efforts.

changing conditions

The industrial conditions in which the policy of centralisation was developed have, however, undergone radical change in recent decades. Unemployment, although it continues to dominate much trade union thinking, has become, in practical terms, a minor problem for most trade unions. A new generation of members and leaders is emerging to whom large scale and prolonged unemployment is a matter of history almost as remote as the Tolpuddle martyrs. Fear of unemployment may, therefore, gradually lose its power to inhibit new ideas and policies or to prevent the adoption of arrangements and procedures of negotiation in harmony with current industrial conditions and with the interests of the members. A high level of employment has significantly strengthened labour's bargaining position and rendered obsolete the basis of earlier trade union policy. The unions themselves have achieved full recognition in practically every field and now occupy a position of great influence in the realms of industry and government. Recognition is, therefore, no longer a determinant of policy. With the tremendous expansion in membership, the unions' resources have increased enormously and they are now in a position to provide a full range of professional services. They have accumulated a vast fund of experience which is drawn upon by a very much larger number of full time officers and negotiators. The trade union service is still seriously undermanned, but this reflects traditional thinking and unimaginative policies rather than lack of actual or potential resources.

One of the most significant features of modern trade unionism has been the development of systems of workshop representation, especially in the engineering

and allied trades, and the emergence of a large body of local representatives able and willing to participate on an ever increasing scale in the detailed regulation of conditions of employment in individual firms. This has already made possible a considerable degree of decentralisation of union activity and, although real problems of organisation and control of such representatives remain to be solved, the potential contribution of voluntary local officers constitutes a tremendous reserve of trade union resources. By contrast with earlier generations of trade unionists, these local leaders enjoy improved educational opportunities, both in respect of their early education and of their continued education through the medium of the entire range of statutory and voluntary provision for further education as well as the constantly increasing provision for education and training made by the unions themselves.

decentralisation

Since the beginning of the present century, many developments have contributed to the growing importance of trade union organisation at the workplace. Arrangements for dilution of skilled labour in two world wars, the incidence of technological advance and the increasing use of incentive payment systems, especially those based on work study, are but a few of the matters that required discussion and decision at plant level. Unions and individual employers were thus faced with an enormous volume of detailed, but vitally important local decisions which was beyond the capacity of traditional methods and organisational forms. In the case of the unions, adaptation to the new circumstances mainly took the form of allowing, rather reluctantly in many cases, voluntary local officers to assume responsibility for negotiating with their own employers on matters of this kind. Employers reacted by introducing rate fixers, work study engineers and personnel officers in steadily increasing numbers.

The development of local expertise in labour matters has tended to reduce the

dependence of both sides in the individual firm on the regional and national machinery of negotiation. Many firms now possess a labour relations staff which is no less highly qualified and experienced than that of the employers' association and which, indeed, from some points of view, may even be superior. Many shop stewards and workshop representatives are better versed in the intricacies of local conditions than are the full time officers. This has led to the quite widespread feeling that employment issues should be settled within the firm in all but the most extreme cases, and both management and workshop representatives frequently regard the need to refer an issue to the external machinery of the union and the employers' association as an indication of disastrous failure which should be avoided at almost any cost.

appear to add substantially to the managerial burden.

These changes suggest that in certain industries the need for centralised collective bargaining has significantly weakened and with it the main obstacle to modification of the system in order to obtain the advantages of greater flexibility and closer adjustment to local conditions. In those industries in which changes in productivity or operating results are both readily measurable and subject mainly to local variation and control, a considerable measure of decentralisation of the process of wage determination is possible. There are, of course, objections to such a measure which reinforce natural conservatism. From the union side, it may be thought to weaken the bonds of solidarity between workers and to lead to possible fragmentation of the unions' organisation. Even if this extreme did not occur, some loosening of central control and diminution of authority may be feared. Moreover, problems of organisation and administration may well be increased significantly. Under difficult trading conditions, decentralisation may lead to competitive wage cutting and perhaps enable employers to exploit unorganised workers. For their part employers may fear that such a development will lead to competitive bidding for labour and may allow unions to isolate the firm and exert undue pressure. Furthermore, it may ap-

pearance of the firm and exert undue pressure. Furthermore, it may ap-

3. two tier bargaining

Centralisation also poses local organisation problems which may undermine the sense of solidarity and the response to central control: its effects on organisation and membership of trade unions will be dealt with later. The fear of competitive wage cutting in certain circumstances, which may still worry many trade unionists, suggests the need for a minimum wage policy as the basis of any system of plant bargaining. British circumstances and tradition indicate centralised determination of minimum wages in each industry or group of industries. Centralised collective bargaining, as at present practised, largely results, in fact, in the establishment of minimum terms and conditions of employment. Most unions seem to regard the agreed terms as minima and, although employers' associations tend to resist this view, individual employers find it more and more necessary to accept the position. Thus a two-tier system of centrally determined minima with locally negotiated supplements based on the circumstances of each plant or firm would have the result of maintaining intact the traditional machinery of national negotiation whilst stimulating vigorous development of local action and local arrangements. It would simply require overt recognition that national collective agreements fix minimum rates and conditions. This is, as already observed, increasingly the de facto position.

Such a system would guarantee the unions against unchecked deterioration of condition in adverse circumstances. It might be argued, of course, that, once the practice of local bargaining is firmly established, there would be some danger of local acceptance of rates below the national minimum in order to preserve employment in a declining market, and this would effectively destroy the national agreements. The experience of the weaving section of the cotton industry between 1930 and 1934 would seem to bear this out. This, however, is a contingency which can be guarded against by legislation giving legal effect to the terms of national agreements. The Terms and Conditions of Employment Act, 1959, would seem, in fact, to afford adequate

protection in this respect. Employers' fears of undue pressure on individual firms would be irrelevant under a system whereby any supplement or improvement factor applied to the national minimum wage was based solely on the position and circumstances of each firm and not on inter-firm comparisons of wage rates.

Methods of determining the national minimum in any industry and the factors to be considered in the process would remain substantially in line with the established conventions which were discussed earlier. Although these lack precision and are defective in other ways, it is doubtful whether the nature of the problem lends itself readily to more objective treatment. It can reasonably be assumed, however, that as a result of experience of plant-bargaining under a two tier system, the unions certainly, and the employers' associations possibly, would bring to national negotiations a much more detailed knowledge of the circumstances and potentialities existing within the industry, and to that extent the discussions might be more factual and objective than has commonly been the case hitherto. Where the concept of relativity of wages is considered important, inter-industry comparisons could be made on the basis of the national minima. Those industries and services in which a productivity formula for wage changes is clearly not applicable may have to rely heavily on comparative factors and the national minima for comparable employments would remain significant in such cases.

minimum rates and plant supplements

Under a two-tier system, national minimum rates would not be static but would be subject to review and re-negotiation from time to time in the light of changing conditions in the economy as a whole. In particular, the national minimum would require regular adjustment to the general level of technical, organisational and managerial progress in the industry concerned. Assessment of this level may well prove a contentious business, especially where wide variations exist between firms. In the long run,

however, it might prove advantageous to both parties to accept a higher rather than a lower assessment in order to maintain pressure on marginal firms, and on firms which are unorganised from the point of view of employers' associations and trade unions, and to establish minimum standards which will be both relevant and acceptable to the industry as a whole. Other factors which might enter into the discussion of national minima would be the competitive conditions for the industry at home and overseas and similar influences of common concern. Questions relating to differentials for skilled workers, hours of work, premium payments for overtime and shift working, holidays and holiday payments, and other common terms and conditions of employment would, of course, remain, in most cases, primarily the concern of the national machinery of negotiation.

The relationship envisaged between the national minimum and the plant rates in an industry means that where a wage supplement or an improvement factor operates in a given plant, two possibilities exist when the national minimum for the industry changes. The existing supplements may either be applied to the new minimum or adjusted to it so that the total of minimum plus supplement remains unchanged. In practice, the method actually adopted in adjusting any local or plant rates to changes in nationally agreed rates has varied between these two. The first method may seem initially to be advantageous to employees under two tier bargaining but it is logically unjustifiable under this system unless other factors in the firm's situation have changed simultaneously. If supplements are to be determined solely by reference to the firm's situation, then the total of the combined minimum and supplementary rates should reflect only changes in that situation.

To insist upon adding the existing supplements to any new minimum would mean, in the first place, accepting a reduction in the combined rate in the event of a reduction in the minimum rate. Secondly, it would inevitably tend to increase resistance by firms to making

the maximum possible concessions when negotiating supplementary rates on the ground that it is necessary to keep something to reserve to cover the contingency of an increase in minimum rates. Finally, it would mean departing from the principle of adjustment of wages according to the circumstances of the individual firm. Thus, the method of adjusting existing supplements to any new national minimum is essential to the proper functioning of a two tier system of collective bargaining. It should also be noted that, under this method, a recent change in the national minimum and the consequential adjustment of existing supplements would not be relevant arguments in any subsequent negotiations about supplementary rates in particular plants.

Employers, therefore, could not resist improvement of supplementary rates on the grounds of a recent increase in the national minimum for industry, nor could they press for cuts in supplements because of cuts in the national minimum. In this latter case, employees would, in fact, be automatically protected by positive adjustment of their supplementary rates. On the other hand, employees would not be able to argue for further changes in plant supplements merely on the grounds of consequential changes in supplementary rates under this method. It is recognised that elimination or reduction of supplementary rates as a result of an increase in the national minimum will inevitably tend to produce pressure for some revision, but the case for such action would have to be based on improvement or potential improvement of the firm's position. When the obverse of this situation exists, employers may argue for reduction of supplementary rates, but only on the ground that the firms' position has deteriorated.

information needed

It is of the essence of the proposed two tier system of bargaining that any supplement or improvement factor should be based exclusively on the circumstances of each plant or firm. This condition obviously requires that all necessary and

relevant information should be available to the parties engaged in bargaining within the firm or plant. Provision of this information must be mainly a managerial responsibility although employees' representatives would also be under an obligation to produce such information as they possessed which might be relevant to the issue. Employers may well be reluctant to supply the detailed and hitherto mainly confidential information necessary to make a reasoned assessment of the firm's position and prospects. To refuse, however, would imply rejection by employers of the notion that wage rates should be determined by reference to factual and objective considerations and would certainly render impossible any real attempt to relate changes in wage rates to changes in productivity. It may be argued that there would be some danger of the firm's position being prejudiced by disclosure of such information to competitors and other outside interests. The possibility of leakage of information certainly exists, but its consequences are probably exaggerated. Secrecy, as an element in competition, appears to be very much over rated and there are probably few firms whose interests would really be damaged by this full disclosure of their positions to representatives of their employees.

Sir Peter Runge, when president of the Federation of British Industries, declared: "I believe therefore that for the coming debate on income policy industry should not be backward in giving information about its profits. After all they are something we are proud of; they are the measure of our success. And what for pity's sake, have we to gain by keeping them secret?" (*The Times*, 11 November 1963). The view of the National Board for Prices and Incomes, in reporting on the printing industry, was that "it should be a primary condition of all future wage negotiations that they take place against a background of full and objective information . . . Full information implies full information about profits. At present information about profits is defective in that a large number of firms in the industry are private companies whose profits are not published.

For a knowledge of profits the unions rely on the published results of public companies. We regard this as an impediment to the development of a frank and co-operative relationship between the two sides of industry, and since this is a matter that goes much wider than printing, we suggest it merits consideration by the Government" (*Report on Wages, Costs and Prices in the Printing Industry*, August 1965).

Quite apart from the wages issue, full disclosure of all relevant facts is essential to the success of any attempt by employers to secure the fullest possible co-operation of their employees. The withholding of information casts doubt on the sincerity of appeals for co-operation or restraint in the common interest or on the grounds of furthering a social purpose or the national interest. Realising this, some firms have already begun to supply employees with financial and other information about productive and commercial operations.

inter-firm comparisons banned

Given that the circumstances of the firm or plant are the determining factors in settling supplementary rates, it follows that comparisons with supplementary rates being paid elsewhere are excluded from the negotiations. Comparisons would be acceptable only if based on the total situation of each firm involved. But detailed information about other firms is not easily obtained. Even when the practice of giving full information within individual firms became widespread, there would still be difficulties of pooling it and organising it in a form which would meet the requirements of strict comparability. Employees' representatives in each firm would, in any case, be faced with the very difficult task of absorbing, analysing and checking the information provided by their own employers and since the comparability of data about other firms would nearly always be strongly challenged, they might well find the increased work and added complications of inter-firm comparison not worthwhile. The exclusion of com-

parison of supplementary rates would not prevent the submission of general arguments to the effect, for example, that the adoption of certain equipment, methods of production, forms of organisation and techniques of management as used by specified firms, might improve the position and enable the payment of a better supplementary rate. Arguments of this kind would lead to greater awareness of developments taking place outside the firm and might provide a powerful stimulus to progress.

As previously mentioned, a two tier bargaining structure already exists in some industries and it may be useful at this point to examine some current practices to see what light they throw on the problem and, in particular, to establish how the system proposed in this pamphlet differs from current forms of collective bargaining.

plant bargaining in practice

It would be impossible to examine here, in detail, the enormously varied and complex structure of collective bargaining in British industry. Although it can be said that in general the pattern tends to be one of centralised industry wide bargaining, the existence on a large scale of local bargaining to supplement or extend the provisions of industry wide agreements is indicated by the existence of a substantial gap between nationally negotiated rates of wages and actual earnings. This is the phenomenon known as wage drift which has been the subject of extensive comment in recent years (D. J. Robertson, *Factory wage structures and national agreements*, 1960; E. H. Phelps Brown, "Wage Drift", *Economica*, November 1962; H. A. Turner, *Wages: Industry rates, workplace rates and the wage drift*, Manchester School, May 1956). It is very clearly established that local initiative can, in many ways, increase earnings above the level indicated by the scheduled rates laid down by national agreements. Plus payments, lieu rates for timeworkers, merit rates and a variety of fringe benefits play a part in the process but most observers

attach prime importance to plant bargaining about piecework prices or about times and rates under other forms of incentive payment schemes.

With few exceptions, notably in the cotton industry, uniform piecework price lists applicable to an entire industry or sections of it have not proved feasible because of wide variations in machinery, methods, materials and product from plant to plant. Such variety of technical and other conditions can only be handled by on the spot negotiations of piecework prices or times and an extensive and complex structure of plant bargaining therefore emerges where industries of this type adopt systems of payment by results. Many key industries fall within this category. Steel, for example, has a mainly decentralised bargaining structure based on regional factors and incorporating significant elements of plant bargaining about payments based on output. In the coal industry, where in recent years great emphasis has been placed on the rationalisation of the day wage structure which is centrally determined, piecework prices remain the subject of local negotiation at each pit. Even in the building industry, with its long tradition of time rates embodied in the National Working Rules, incentive bonus systems negotiated locally in respect of particular sites or jobs were permitted under a national agreement, arrived at in 1947, provided that such systems give, an operative of average ability, a reasonable opportunity to achieve earnings 20 per cent higher than those yielded by the normal prescribed hourly rate. It is estimated by the Ministry of Labour that something like 14 per cent of the industry's labour force participate in such schemes.

engineering

It is, however, in the engineering industry that one finds the classic example of the emergence of plant bargaining as a consequence of the proliferation of systems of payment by results. The industry wide collective agreement defines the wages and conditions of manual workers

primarily in terms of rates for fitters and unskilled workers. It fixes consolidated minimum time rates for time workers in these groups and establishes the basic conditions upon which payment by results workers are remunerated, namely a basic rate plus a pieceworkers' supplementary rate together with a minimum piecework standard, which requires that piecework prices or times must be such as to allow a worker of average ability to earn at least 45 per cent on the existing pieceworkers' basic rate with a guaranteed minimum payment of the consolidated time rate for all hours worked. The industry wide collective agreement, in effect, establishes only the very broadest general conditions upon which systems of payment by results may be operated, the many and often very complicated details of individual schemes being the subject of intensive and continuous bargaining in thousands of engineering workshops.

Many different systems of incentive payments exist within the industry, ranging from straight piecework through various premium bonus schemes to highly sophisticated systems based on detailed analysis and assessment of standards of performance undertaken by highly professionalised work study departments. The particular scheme to be adopted, and any subsequent modifications, are the subject of on the spot negotiations with representatives of the workers concerned and, once applied, most schemes give rise to a constant stream of issues arising, for example, from changes of methods and products; variation in quality of materials and condition of equipment; breakdown of machinery; shortage of material; production bottlenecks elsewhere in the factory; variations in quality control and arrangements for rectification of unsatisfactory work; and innumerable other factors inseparable from the operation of such systems of payment. Associated with these issues are the many problems arising from differential earnings of time workers and payment by results workers and the consequent anomalies and distortions of the wages structure which lead to further bargaining to secure some rectification.

Some idea of the vast extent of the plant bargaining involved may be gained from the fact that more than two thirds of the labour force operate under some form of payment by results and that the complex of engineering industries employs well over 3,000,000 workpeople. An indication of the effect of this bargaining can be seen in the fact that according to a sample survey made by the Ministry of Labour in January 1965, the average weekly earnings excluding overtime premium of skilled fitters on payment by results were 40s 8d as compared with the national consolidated minimum time rate of 22s 4d. For labourers on payment by results average weekly earnings were 28s 4d as compared with the national consolidated minimum time rate of 18s 4d (*Ministry of Labour Gazette*, May 1965). Nor is plant bargaining confined to payment by results workers in the industry. Evidence presented at the Court of Enquiry which followed the national engineering dispute of 1956 suggested that only 10 per cent of time working fitters were on the nationally agreed time rates (*Report of Court of Enquiry*, Cmnd 159, May 1957). This seems to be confirmed by the Ministry of Labour survey of January 1965, which found that the average weekly earnings excluding overtime premium of time working skilled fitters were 37s 5d as compared with their national consolidated minimum time rate of 22s 4d. Earnings of time working labourers, on the same basis, were 27s 8d compared with their national consolidated minimum time rate of 18s 4d.

incentives and piecework

Plant bargaining in engineering establishments is typically the function of union shop stewards with occasional assistance from the full time officers. The scope of such bargaining is, however, much narrower than that envisaged in this pamphlet for bargaining about supplementary rates. In the case of payment by results, negotiations tend to centre around adjustments to prices or times consequent upon changes in methods, processes, products, equipment and

materials, or around questions of allowances of various types and of discrepancies or anomalies in times or prices for different jobs. Questions of the ability of the firm to pay higher rates or of its financial, investment and pricing policies are rarely, if ever, raised.

Incentive schemes involve sharing the proceeds of increased productivity between employers and employees, but in many cases workers and their unions seem to attach little importance to the question of the relative shares of each party possibly, in part, because the problem is overlaid by technicalities, but also, no doubt, because earnings are viewed in terms of traditional norms or standards. Recent research revealed, for example, in eleven cases examined, that although changes in output ranged from an increase of 7.5 per cent to an increase of 291.0 per cent, earnings only increased from 5.3 per cent to 48.8 per cent. At the extremes, one firm obtained an increase in the rate of output of 291 per cent for a 48.8 per cent increase in the rate of earnings whilst the other achieved an increase in output of 7.5 per cent for an increase of 12.5 per cent in earnings (J. P. Davison, P. Sargent Florence, Barbara Gray and N. S. Ross, *Productivity and economic incentives*, Allen and Unwin, 1958). This seems to suggest that although payment by results represents a form of productivity bargaining the process is imprecise and that, in some cases, the participants may not be fully aware of the terms of the bargain. Plant negotiations about time rates are equally narrowly based and tend to revolve around the conventional criteria mentioned earlier. In particular, stress is frequently placed on comparisons aimed at preserving certain relativities, especially those between earnings of time workers and payment by results workers.

productivity bargaining

There is little in the current industrial relations scene to suggest that productivity bargaining is an accepted policy which is well understood and consciously practised. The idea, however, is

not entirely novel because, as we have seen, an element of productivity bargaining exists in all schemes of payment by results and some post war agreements on higher wages, for example on the railways, have included undertakings by the unions to co-operate in re-organisation and re-development or similar measures to increase efficiency.

Perhaps the most notable example in recent years is the much publicised "Fawley Agreement" of 1960, which substantially re-cast pay and working arrangements at the Esso Petroleum Company's refinery (Allan Flanders, *The Fawley Productivity Agreements*, Faber & Faber, 1964). Greatly increased productivity, reduced working hours and increased pay resulted from these agreements, which involved relaxation of demarcation rules; increased job versatility; abolition of time allowances and craftsmen's mates; reduction of overtime from 18 per cent to 2 per cent of total hours worked; and the introduction of limited shift systems. Loss of earnings from reduced overtime was compensated by an increase in wage rates of some 40 per cent and the abolition of time allowances was offset by a reduction of working hours from 42½ or 42 to 40 per week. On maintenance work, to which the agreements were primarily directed, productivity is reckoned to have risen by about 50 per cent between 1960 and 1962.

Without in any way detracting from the real achievements of this agreement, it must be pointed out that it was based on consideration of a limited range of factors which excluded such significant matters as the financial position of the undertaking and its investment, trading and pricing policies, to mention just some of the items which would need to be discussed in bargaining for supplementary rates based on the total situation of the plant or firm as suggested in this pamphlet.

A more detailed analysis of the factors which are considered relevant in bargaining for supplementary rates is given later, and this shows just how sharply

the present proposals for plant bargaining differ from the traditional methods of negotiating both time rates and payment by results and from recently publicised forms of productivity bargaining.

application of supplementary rates

The method of calculating or applying supplementary rates is important. If a flat rate were chosen, a number of problems would arise. To reduce the impact of a flat rate on the main differentials between juveniles, women and adult males it might be necessary to adopt separate supplementary rates for each group. The complications would be still greater if it were desired to maintain existing differentials between workers of different grades of skill or with varying degrees of responsibility. Thus, there might well be protracted arguments about differentials on each occasion when the adjustment of supplementary rates was under discussion and this might produce friction not only between management and workers' representatives, but also within the employee group. Moreover, in most cases, questions of differentials would be matters for national determination and there would be a danger of local negotiations for flat rate supplements conflicting with national policy in the trade or industry concerned. All this could be avoided by adopting a percentage basis for changes in supplementary rates. In addition to the virtue of simplicity, this method would allow attention to be concentrated on the main issue without the risk of being side tracked into discussion of what are really extraneous matters.

The application of supplementary rates to piecework and other incentive payment systems would present no special difficulty. Most systems of this kind are based either on existing time rates of wages or on some notional time rate agreed upon by the parties, and it would be a simple matter to adjust such rates as the supplementary rate for the plant varied. Under most methods of payment by results this would, of course, have the effect of increasing the gap between the

earnings of time workers and those paid on an incentive basis, but this problem is inherent in the nature of such methods and has to be faced whenever a change in wage rates occurs. If there was an overwhelming desire to avoid widening the gap between actual earnings of time workers and those paid by results, this could be done by negotiating appropriate adjustments. One of the most simple methods would be, for instance, to add to piecework or incentive earnings the supplementary rate multiplied by the number of hours actually worked during the pay period. Thus both time workers and pieceworkers in the same wages grade would receive the same supplementary payment for an equal number of hours worked.

Plant supplements could, of course, take the form, at least in part, of non-wage benefits such as pensions and sickness payment schemes. Such arrangements, however, would tend to reduce the flexibility of the system. Furthermore, the removal of all or part of the supplements from the wages structure might give rise to misunderstandings and possible dissatisfaction at some future date. It may also be thought to be unnecessary or less significant in a society possessing a highly developed system of social insurance.

local arbitration

Arrangements for negotiating supplementary rates would need to be adapted to the circumstances of each industry and to the peculiarities of each plant or firm. The system would, obviously, require some form of standing joint machinery in each bargaining unit for the regular review of supplementary rates, and the possible implications of this for trade unions and managements will be considered later. Whether agreements about supplementary rates should run for a specified period, say, a year or longer or should be subject to review at any time on the request of either party, would be a matter of joint decision. In most cases, the financial information and other data which will form the basis of

negotiations will be organised on an annual basis and in normal circumstances, this would tend to determine the frequency of review. Nevertheless, it would be quite feasible, in appropriate cases, to enter into agreements which would run for several years. For example, if long term plans provided for a regular increase in the productivity of the firm's operations, this might be expressed in the form of an agreed annual improvement factor applied to supplementary rates over a specified period of years and subject to review only in abnormal or unforeseen circumstances.

Procedures for negotiating supplementary rates should include provision for arbitration in the event of failure to agree. It is recognised that although negotiations would be based on factual information about the activities of the firm, differences of opinion and of interpretation of the facts are likely to arise from time to time. Such differences are, however, entirely amenable to arbitration and, under the conditions envisaged for a two tier bargaining system, this would be a natural and relatively simple process. It would be advantageous to have in each bargaining unit a specific agreement to refer to arbitration all disputes about supplementary rates and not to resort to measures.

The form arbitration would take would be a matter for the parties to decide. It could be especially designed to meet the wishes or requirements of the parties or could simply consist of an agreement to refer disputes to existing machinery in the industry or to the Industrial Court or other forms of public provision for arbitration. The existence of a specific undertaking in each plant or firm to settle disputes solely by arbitration might well have a significant effect in restraining unofficial or unconstitutional stoppages of work by reinforcing national agreements to this effect. Unofficial action is almost always taken in furtherance of local disputes and in such cases agreements, made indirectly, at a rather remote national level, to adhere to procedure are more likely to be ignored than agreements entered into directly between

the representatives of the workpeople and the management of the firm concerned.

criteria for bargaining

It might be thought that the firm's financial statements would constitute the key documents. Financial information would certainly be essential to any reasoned discussion of a claim for supplementary rates, but it is doubtful whether conventional accounts would throw much light on the questions to be resolved. They are designed not as a tool for collective bargaining but to meet certain legal, fiscal and managerial requirements. The typical published accounts of a company provide a highly condensed statement of financial facts which have little direct meaning for the purposes of wage-bargaining. They would need to be supplemented by all the relevant facts drawn from the detailed records of the firm.

Quite apart from their inadequacy on other counts, conventional financial statements are defective from the point of view of collective bargaining because they simply summarise past events and present a snapshot of the firm's position at a given point in time. The past financial status of a firm may offer a very broad guide to some aspects of its future but knowledge of this kind will contribute little or nothing to solving the question whether, and to what extent, minimum rates of wages can be supplemented in the future. It is not possible to assess the effect of a proposed wage increase simply by applying it to last year's accounts and calculating the consequential decrease in profits that would have occurred. Such a procedure assumes that conditions would have remained unchanged but, in fact, the wage increase itself constitutes a variation in conditions which normally would stimulate adjustments in other directions and produce different results. The adjustments or improvements a firm can make, not past experience reflected in accounting records, will determine the future profitability of the enterprise and its ability to supplement minimum rates of pay.

Another aspect of the use of financial statements for collective bargaining would be the necessity for some agreement about the basis on which profits are ascertained. Profits as declared in the annual accounts may not always be acceptable and may be questioned from a number of points of view. They may be understated because the financial policies adopted or the accounting methods used can alter significantly the total profits reported. Again, temporary or non-recurring expenses can affect the figures for a particular year. Finally, some companies are not run primarily to make a profit but to serve some other purpose and, as a result, declared profits might be nominal.

profits

In saying that profits may be understated because of financial policies and accounting methods, no dishonest or improper motives are implied. Policies and methods may be completely justified in terms of acceptable accounting practices or in the light of special purposes, but may not present the position in the way most relevant to the issues involved in bargaining. For example, profit figures in a given period may be significantly reduced by the policy followed in the matter of depreciation. A decision to write down very quickly new plant or equipment will increase current "expenses" and correspondingly reduce the profits shown in the accounts. Furthermore, some income may be diverted from the profits column by unnecessarily large allocations to reserves or to contingency funds for various purposes. Some expenditure may be treated as current operating costs when, in fact, it could justifiably be spread over a number of years. Thus, abnormally large costs incurred for repairs and maintenance or for the development of a new product may be set against one year's profits instead of being amortised over a longer period. The policy adopted in the valuation of stocks can also result in the understatement of profits during periods of rising prices if replacement cost rather than actual cost is used. Non-recurring costs of various kinds may reduce de-

clared profits in certain years even though the firm's operations remain as efficient and as lucrative as ever. In such years, the reported profits would not be entirely relevant to the discussion of wages issues.

Declared profits may not show a firm's true position for other reasons. For example, family concerns may show small profits because the owners prefer to take their benefits in the form of generous salaries and liberal expense allowances and the inclusion of many members of the family on the pay roll. In the case of subsidiary companies, too, profits may be nominal because they work for the parent company on a near cost basis so that the profit, in fact, accrues to the parent firm. The reverse may, of course, be true where profits are channelled to subsidiaries leaving the parent firm with a relatively small profit.

net worth

There still remains the question of the criteria for the measurement of profit. Broadly, there are two main measures—profits in relation to net worth and profits related to the volume of sales. It is important to observe in this connection that profit before rather than after tax is the appropriate factor to be considered in collective bargaining. The rate of profit on net worth is the most significant measure. Net worth represents the amount invested in the firm and includes not only the total capital but the accumulated surplus and surplus reserves. Profit on net worth has the advantage of permitting comparison of the profitability of any firm from one year to another as well as enabling comparisons to be made between firms and industries. The rate of profit per pound of sales is a much more doubtful measure from the point of view of collective bargaining. It does not reflect the volume of sales and thus by itself is no indication of the prosperity of the firm. A small return per pound of sales on a large volume may represent substantial total profits and a high return on net worth. This measure does not permit of comparisons, but, more seriously,

it tends to be misleading as an index of profitability. If profit is to be related to output, a more valid measure would be in terms of the value added by the operations of the firm. A small percentage of profit per pound of sales may represent a very substantial rate of profit per pound of value added by the firm's productive activities.

The cost structure of the firm's output and its trading policy and prospects would be important factors entering into the bargaining for supplementary rates. Where labour costs represent only a small proportion of total cost, the impact of any adjustment of wage rates would be quite marginal and the interest of managers would tend to be concentrated on controlling costs of capital and materials. In these circumstances, the bargaining situation might be relatively easy and, if the co-operation of labour were an important factor in controlling capital and material costs, there would be some incentive to management to provide attractive rates of pay. If, however, labour had little influence on these costs, productivity factors would not be significant arguments and the outcome of negotiations would depend largely on the assessment of both parties of the strength of each other's bargaining position and the determination with which their respective interests would be pursued. The reverse would be true where labour costs constitute a large proportion of the total cost. In this situation, productivity would be at the heart of the negotiations and the outcome would turn on the ability and willingness of the parties to make the necessary adjustments.

prices and prospects

Trading prospects and policies, especially with reference to the selling price of the firm's products, would be important considerations particularly where management wished to pursue the idea of transferring some of the benefit of increased productivity to the customers. Such a policy would be quite specific to the firm and could readily be presented to and checked by the representatives of the

employees. A reduction in price would provide the most obvious evidence, but it would clearly be necessary to present in detail all the facts which have a bearing on price policy. In some situations increases in costs outside the firm's control, such as raw material prices, might to a greater or lesser extent offset the effect of any allocation to the customer of part of the benefit accruing from improvements in productivity. Nevertheless, the policy would have given some real benefit to the customer and it would be important to demonstrate this clearly to employees and their representatives. Since important social and economic arguments exist for the need to pass on to the consumer some of the fruits of progress, the possibility of acceptance of such policies by employees should not be underestimated, provided there is adequate information and consultation.

Just how far trading prospects should influence decisions about wages is a matter for some speculation. In a general recession of trade, there might be a strong argument for maintaining purchasing power by at least pegging existing rates although it might be thought that the main measures to deal with such a situation lie outside the field of managerial decisions. Even under conditions of general prosperity, however, the fortunes of individual firms may fluctuate. The question would arise whether a period of temporary difficulty for the firm would warrant a moratorium on increases in supplementary rates or even, in extreme cases, a reduction. Obviously, if the continued existence of the firm was in doubt, there might be a strong case for a self-denying ordinance on the part of employees. However, since, by definition, the difficulties are temporary, a threat to the existence of the firm would imply defective management of the business, past and present, and any restraint by employees might be conditional upon remedial action being taken. In some businesses an occasional poor year is a normal expectation and allowance is made accordingly. There would be no justification in such cases for cutting or stabilising wages during these periods. Moreover, a threat to the customary rate

of profit because of changes in the trading position would not automatically require or justify adjustment of supplementary wage rates. If abnormally high profits had been earned in the past, a fall in the rate as a result of the emergence of increased competition would not necessarily be a valid or acceptable argument in wage negotiations. Even if it was accepted as relevant, there might be a strong case for insisting on adjustments being made in other directions before allowing the changed situation to make any impact on supplementary rates.

capital investment

From all points of view, investment is the most significant determinant of productivity in the long run and must, therefore, be an important consideration in any discussion of a firm's ability to pay supplementary wage rates. Historically, the great advances in national output and in real incomes have sprung from the vast flow of investment along the channels of technical and scientific development in industry. They have certainly not come about as a result of harder work or greater effort on the part of labour. On the contrary, shortening of hours of work and reduction in the physical effort involved in productive labour have been symptomatic of industrial progress. With the existing capital equipment, at any given time, productivity may be increased within limits by increased labour effort, but in the long run this effect is marginal by comparison with the dynamic effects of investment in new and improved capital equipment. A high and expanding rate of investment is, therefore, in the long term interests of labour, and trade union policy should be directed towards encouraging its development.

This indicates that, in bargaining for supplementary wage rates, workpeople's representatives should examine the firm's investment policy and consider carefully the possible impact upon it of their wage demands. If insufficient investment has been taking place and the firm has been making do with obsolete or obsolescent equipment, processes and methods then,

other things being equal, pressure for higher wages may induce management to undertake a programme of re-equipment. In such a case, the workers' negotiators might well refuse to accept the apparent weakness of the firm's current position as a reason for withholding or moderating their claims. Even where a progressive policy of capital investment has been in operation, it would be necessary to consider to what extent wage pressure should be maintained in order to ensure continued progress. Wage pressure is, of course, only one of many pressures to which the firm's policy has to be adapted. Factors such as competition, increased costs of raw materials and fiscal and tariff policies of governments may press upon the firm with equal or even greater severity and would have to be taken into account in deciding how much pressure should be exerted in wage bargaining.

In weighing the possible consequences of wage pressure on the flow of capital for investment in the firm's productive equipment, two main situations have to be considered. Where it is primarily dependent on the investing public to supply the funds necessary to finance improvements and developments in its business, the earnings of capital must be maintained at a level sufficiently high to attract support in competition with other opportunities for investment currently available. Extreme wage pressure could conceivably reduce the earnings of capital to the point at which investment is checked. It is, however, an over simplification to represent the position as a direct conflict between labour and capital. Management stands as an intermediary through which these pressures are transmitted and by which they are adjusted. Inefficient and incompetent managements may be unable to perform this function adequately and, in such cases, to ask people to abate their claims in order to maintain the required level of incomes for investors is in fact a demand that they should subsidise inefficiency. This would be equally true where such managements sought to limit or reduce the incomes of investors in order to meet the demands of labour and they

might be thought to deserve the fate which such action would ultimately bring. It seems clear that workpeople will only be persuaded that, in certain circumstances, their wage demands may be inimical to the interests of investors and to the future of the firm, if they have confidence in the ability and integrity of those who manage the firm. The establishment of such confidence would be a necessary condition for the success of plant bargaining under the suggested two tier system.

internal financing

Many firms, however, rely to a greater or lesser extent on internal sources of finance for capital development by building up reserve funds of various kinds. This situation raises important issues in bargaining for supplementary wage rates. It may be argued that by this process new capital is being created at the expense of employees and customers and even at the expense of the current incomes of shareholders, although the latter will stand to gain by capital appreciation. The representatives of the employees may challenge the validity of this policy where the firm claims inability to improve supplementary wage rates without damaging the potential for capital development. Whilst conceding the need to make such provision for depreciation and contingencies as experience indicates to be prudent, they may hold that any surplus of income over necessary expenditure should be available for distribution to employees, shareholders and customers, the finance needed for development being obtained from the capital market in the usual way. Where employees believe that large undistributed surpluses are being deliberately created to finance capital development, they are less likely to be swayed by appeals for restraint in order to allow some of the benefits of increased productivity to be given to customers or to enable a given rate of dividend to shareholders to be maintained. Furthermore, if the motive for such internal financing is to preserve control over the business by an individual or family or other controlling group, it may

well appear to the employees that they are being exploited to this end.

Thus, although the maintenance and expansion of investment is of paramount importance to continuous improvement of productivity and incomes, methods of achieving this are unlikely to be accepted uncritically in particular cases. In bargaining about this aspect of the wages question, workpeople's representatives will be as much concerned about the equity and justice of the financial methods employed as they will be about the improvements which will flow from investment. It will, therefore, be necessary for the firm to consider carefully the implications of its policy in this matter and to discuss fully and frankly with representatives of the employees its financial methods and objectives. This emphasises once more the importance of full information being made available to workers' representatives and underlines the responsibility of management to provide it.

organisation and management

After capital investment, organisation and management are perhaps the most potent factors in productivity and it is in this field that wage pressure may be a particularly significant factor in securing improvement. Over the whole field of industry, efficiently organised and managed firms undoubtedly exist. In the present state of knowledge, little improvement may be possible in such firms. It is, however, more than probable that, in almost every industry, managerial and organisational practices in many firms fall short of the best and considerable scope for improvement exists. For example in a report on a production survey, the Institution of Works Managers concluded that inefficient top management is the main factor limiting productivity in British industry (*Spanners in the works*, January 1963). One must not be deluded by talk of the maximisation principle into believing that all businessmen and industrialists automatically strive to maximise profits and therefore organise and manage efficiently. They

may indeed be bent on maximising something but, in some cases, it is just as likely to be personal comfort and freedom from pressure or a sense of power and control. Importance may be attached to the preservation of traditional ways and relationships rather than to efficiency of operation. Economic efficiency may well be subordinated to such considerations for long periods without any apparently adverse effects owing to the insulation of the firm by imperfect competition or by the pressure of a high level of demand under conditions of full employment.

Hence, in assessing the capacity of a firm to pay supplementary wage rates, the attention of negotiators on both sides will tend to be drawn to questions of efficiency of organisation and management. Although managerial representatives may be disinclined to recognise shortcomings in their special sphere, it can surely be nothing but salutary for them to have their performance questioned from time to time either directly or by implication. It may be thought that workpeople and their representatives are not competent to criticise the functioning of management and organisation but, in fact, from certain points of view, they are admirably placed to observe and assess it. They may not see the whole range of managerial activities but those that do come under observation certainly provide reliable pointers to the general situation. Moreover, under two tier bargaining, interest in organisation and management will be stimulated by realisation of its importance as a factor determining the level of supplementary rates and there will be some incentive for representatives to study the problem and to seek expert advice and guidance where necessary.

labour's role

Finally, among the factors to be considered in bargaining for supplementary wage rates, there is the question of the contribution made by labour itself. This will vary greatly in different technical situations but, in every case, plant bar-

gaining will provide management with the opportunity to emphasise the importance of an efficient and co-operative labour force. In the context of discussion about supplementary rates, a skilful negotiator should be able effectively to show the need for adaptation by workers to technical and other innovations which management may wish to introduce to improve the firm's position. This could lead to willing consideration and eventual acceptance by workpeople's representatives of proposals for the introduction of new methods and equipment; for the re-deployment of labour; for the adoption of shift working and the re-adjustment of overtime and many other changes which so often give rise to difficulty and opposition. Under two tier bargaining, the part to be played by labour in fulfilling production plans would come spontaneously and quite naturally under review along with all the other factors affecting the firm's ability to pay supplementary wage rates. Nor is it inconceivable that decision making in this frequently difficult field of employer employee relations would be considerably smoothed by the financial incentives and full consultation involved in this form of bargaining.

advantages of two-tier bargaining

To sum up the main advantages of a two tier bargaining system, it can be said, first of all, to preserve the traditional machinery for centralised collective bargaining whilst permitting the individual firm and local trade union groups to be associated directly and actively with the process of wage determination. The sense of being in control, to some degree, of one's own terms and conditions of employment will tend not only to develop greater satisfaction all round but also to encourage a more responsible approach to wages issues by the parties concerned within the firm. At the same time, by requiring central pursuit of an effective minimum wage policy, it will safeguard national or industry wide standards of employment and ensure that national machinery of negotiation will not atrophy.

In particular, the system will give greater flexibility and allow wages to be more closely adjusted to the position of the firm. It will also tend to shift the emphasis in bargaining from inter-firm comparisons to the capacity of the firm concerned to pay supplementary rates. Both trends would constitute favourable influences from the point of view of avoiding or reducing inflationary tendencies. The fact that the method requires an assessment by negotiators of all factors affecting productivity, including labour, and provides a form of direct pressure on both management and workers for higher productivity, will tend to re-act positively and favourably on labour and other costs and to stimulate investment in improved techniques and labour saving devices. In this direction, a further advantage of this form of bargaining is that it will tend to secure more ready acceptance by labour of the need for change and adaptation in order to allow successful adjustment of the firm's operations to wage and other pressures to which it may be subjected.

Its advantages from the point of view of employer employee relations, however, spring mainly from the fact that it requires the provision of full information to employees and, thus, not only increases the sense of partnership in a joint enterprise, but strengthens the forces making for more efficient management. By associating employees with discussion of business policy, it heightens their feeling of involvement in the affairs of the firm and strengthens co-operative attitudes on their part. Furthermore, the system will tend to produce a more responsible managerial policy because a wider range of interests must be directly and consciously considered and approval for actions sought from a wider group of participants than is commonly attempted in traditional managerial practice. Two tier bargaining may, therefore, constitute a significant addition to the forces which, in recent years, have been reducing authoritarian management and encouraging the development of industrial democracy.

4. policy implications

It is clear that the development of a system of two tier bargaining on the lines suggested in this pamphlet is a long term undertaking and most of the difficulties involved have already been noted. The proposals are not without relevance to current problems of incomes and prices and to their attempted solutions although they are not suggested as short term measures. A number of doubts or difficulties, however, remain to be examined. In the first place, plant bargaining for supplementary rates has been discussed primarily in terms of an industry comprised of single-plant firms. This is the simplest example of the proposed system but it also happens to be the situation most commonly found in practice.

Individual plants in multi-plant and multi-industry firms may be working under quite different conditions and for quite different markets. These circumstances suggest that the plant rather than the firm should be the bargaining unit for the purpose of determining supplementary rates. Unfortunately, in such firms, investment, financial and pricing policies are frequently centrally determined, a fact which, together with inter-plant transactions and possible cross subsidisation, may make it difficult to determine accurately the criteria on which plant bargaining can be based. There are real difficulties here, but in most cases it would not be technically impossible to produce some workable approximation. Indeed, for their own managerial purposes some firms of this kind already produce estimated or notional figures of costs and profits attributable to their individual plants and such data, no doubt with some necessary refinement and adaptation, could form some kind of basis for bargaining plant by plant for appropriate supplementary rates.

In multi-plant and multi-industry firms, it might be necessary to treat each firm as though it constituted an industry and to bargain centrally for minimum terms and conditions of employment to be applied throughout the firm with supplementary rates to be determined at each plant. Some firms of this type, for ex-

ample Imperial Chemical Industries, Courtaulds, the Ford Motor Company and the Co-operative Wholesale Society, in fact already conduct central negotiations with the national officers of the trade unions involved. These negotiations are quite separate and distinct from those which take place between the employers' associations, representing the rest of the industry, and the trade unions for the purpose of arriving at the general industry wide agreement which regulates employment outside these firms. It is clear, therefore, that although firms of this type must be treated as special cases they do not constitute an insurmountable barrier to the adoption of the form of plant bargaining which has been proposed.

local exploitation

Another difficulty concerns the possible disadvantages that might arise from ruthless exploitation of local bargaining power either by labour or by employers. It may be argued, for instance, that two tier bargaining will enable labour to exploit local bargaining power to raise earnings faster than productivity and that any significant success in this direction will have cumulative secondary effects with serious inflationary consequences. This possible effect, however, is ruled out by two key requirements which have been stated in the proposals, namely that bargaining must be based on objective consideration of a wide range of critical facts about the position of the firm, of which productivity is one of the most important, and that inter-firm comparisons must not be used in bargaining for supplementary rates. The same conditions also dispose of fears that employers in certain circumstances may use the difficulties of inefficient or badly placed firms, or the existence of a high rate of unemployment locally, to avoid paying supplementary rates or to keep them below the level which the firm's position warranted. In this connection, it should also be remembered that it is proposed that national minimum rates should be regularly reviewed and renegotiated in the light of changing condi-

tions in the whole economy and should also be adjusted to the general level of technical, organisational and managerial progress in the industry concerned. Minimum rates, it is suggested, should be kept at a level high enough to exert significant pressure on marginal and inefficient firms and if this policy is rigorously pursued areas of underpayment or exploitation should be effectively removed.

comprehensive bargaining

It is important to emphasise that the form of plant bargaining for supplements to industry wide minimum rates advocated in this pamphlet differs significantly from the conventional plant bargaining at present practised in a number of industries because it postulates a formal recognition of national or industry wide rates as minima; the extension of the bargaining process at plant level beyond the very limited range of factors customarily brought into negotiations so that bargaining is based on all relevant criteria necessary for a comprehensive assessment of capacity to pay supplementary rates, and the elimination of inter-firm comparisons from the bargaining process at plant level. The net effect of these proposals, which may be described as comprehensive plant bargaining to distinguish it from plant bargaining as conventionally practised, would be the establishment in each firm or plant of an incomes and prices review body with access to the widest range of information. This would supplement and greatly strengthen the Government's machinery of prices and incomes policy.

For reasons which were discussed earlier it is unlikely that economy wide generalisations about price and income behaviour will prove either very meaningful or acceptable in particular cases and it seems clear that the National Board for Prices and Incomes will neither have the time nor the resources to examine more than a handful of particular cases each year. Nor is it certain that the findings of the Board will succeed in establishing a pattern to which individual firms, unions or local bodies of workpeople will

be prepared to conform. It is much more likely that each group will consider itself to be an exceptional case to which no pattern or norm applies. In these circumstances, it seems clear that whilst the Board may be able to influence national or industry wide negotiations which mainly result in the establishment of minimum wage rates, the vital and increasingly important local sector will largely remain outside its reach. Such a development would accentuate the already significant gap between industry wide scheduled rates and the realities of local practice and actual earnings without establishing any significant measure of control or influence over events and decisions at the really critical stage, namely at the point of production in every workshop and factory.

acceptance of policy

The main question is whether the conditions laid down for comprehensive plant bargaining would be accepted by employers and unions and, in particular, whether the proscription of inter-firm comparisons would be accepted by local negotiators under this system. It is suggested that the chances of acceptance are likely to be high because this condition is not merely negative but directs attention to a wide range of positive factors within each firm or plant. Heavy reliance hitherto by negotiators on inter-industry and inter-firm comparisons partly reflects the inadequacy of the criteria for wage determination and the paucity of relevant data. Two tier comprehensive plant bargaining opens up such enormous possibilities for improvement at local level that prohibition of inter-firm comparisons may well appear to be much more acceptable than policies which demand surrender of bargaining powers to some remote national authority. It may, of course, be further objected that the existence of different supplementary rates may upset local labour markets and cause difficulties of labour supply for less favourably placed firms. This may lead them to bid up for scarce labour and thus re-introduce inter-firm comparison from this angle. This argu-

ment assumes the existence of a high degree of competition, but, in practice, local labour markets may exhibit considerable imperfection.

Much work has still to be done on the economics of local labour markets but it is probable that considerable variation in earnings can exist without inducing significant movements of labour. The view has been expressed that the imperfection of the labour market is "one of the main reasons why the wage mechanism appears to play a more limited role than one might expect" (*Wages and labour mobility*, OECD, July 1965). Furthermore, if those firms which are subjected to pressure have little opportunity to relieve it by increasing their prices, either because of government price control or because of policies pursued by more efficient firms under the stimulus of two tier bargaining, then they must clearly seek other methods or eventually go out of business.

inequality of incomes

Another doubt is concerned with the possible effect of comprehensive plant bargaining in maintaining and extending inequalities in the distribution of income within the community. It must be said straight away that any wage system is bound to produce inequalities especially in complex and highly specialised industrial communities where efficiency depends to a considerable extent on appropriate economic incentives. Substantial inequalities already exist and it is questionable whether any desirable reform of the wages system should be held up simply because of unproven fears that the existing degree of inequality might thereby be increased. It is suggested that the appropriate method of dealing with inequalities is through social and fiscal policies aimed at creating equality of opportunity and redistribution of benefits rather than by using the wages structure in a way which may frustrate the attainment of economic efficiency in the production of goods and services upon which in the last resort the welfare of the whole community depends. Attention must also be drawn to the fact that the proposals

in this pamphlet do not exclude equitable comparisons from the process of determining industry wide minimum rates and that the question of sharing the benefits of increased productivity with the rest of the community is one of the factors to be considered by the negotiators in reaching agreement about supplementary rates to be paid in any particular firm or plant.

trends to plant bargaining

There is much in recent industrial experience in this country to suggest that there is growing recognition of the significance of local bargaining in spite of the apparent emphasis on greater centralisation implied in recent official policy and the apparent strictures on workshop bargaining contained in the so-called long term package deal between the engineering employers and the unions, signed in December 1964. The clause in this agreement prohibiting local claims unless they are based on alleged anomalies or inequalities was strongly criticised by the National Committee of the Amalgamated Engineering Union at its meeting in May 1965, when the Executive Council was instructed not to be a party to any future deal that would hinder wage applications at workshop or district level (*The Times*, 6 May 1965). Workshop bargaining in the engineering industry is unlikely to be seriously or permanently hindered by the terms of the package deal and elsewhere the movement towards greater use of plant bargaining continues.

Productivity bargaining, especially in process industries, such as oil refining and heavy chemicals, which has recently been receiving more and more attention, is essentially plant oriented and the firms involved tend to be large concerns without allegiance to an employers' association and thus outside the pattern of industry wide wage regulation. The Esso Petroleum Company's scheme at Fawley was, for example, followed by a similar scheme at the Mobil Oil Company's refinery at Coryton where paid overtime was abolished in favour of a high stable

salary for maintenance craftsmen with the relaxation of many trade demarcations (*The Times*, 3 March 1965). The real gains which some firms of this type have been able to make as a result of agreements for the relaxation or modification of previous working rules and practices are certain to inspire similar moves by firms in other industries, thus accentuating the trend towards plant bargaining because only by on the spot evaluation can the implications of such proposals be made both clear and acceptable. For example, Professor E. H. Phelps Brown's view is that in works bargaining "pious hopes can give way to definite deals; a particular change in working practices can be set against the particular rise in pay that it will make possible. ("The importance of works agreements", *Personnel Management*, March 1960).

academic and industrial support

There is also growing support amongst academic commentators for the view that plant bargaining has a special contribution to make towards the solution of current industrial problems. Professor Phelps Brown believes there is a public interest in works bargaining and that there is a long-felt need to link pay with efficiency both as an incentive and as an approach to a more effective partnership. He argues that "the periodic re-negotiation of a works agreement provides a flexible means of achieving (this) end. The latest accounts of the firm are bound to be on the table then and the negotiations help to meet a need of communication, in making them better known. As the parties look ahead, the possibility of paying higher wages if efficiency can be raised has an immediate and practical meaning. The negotiations bring into the open the question of what is the right way to share the benefits of improvements between the employee, the shareholder and the customer. In these ways they appear to offer leadership an opportunity to raise both productivity and the quality of human relations" (op cit).

Again, Professor D. J. Robertson, in a

penetrating study of engineering wages concludes that any attempt to control wage movements must imply control of wage rates and earnings and must be able to construct an acceptable wage structure based on the whole complex of wage payments and suggests that "this result can only be achieved if national negotiations are reduced in importance and if negotiations are generally transferred to the local or factory level" (*Factory wage structures and national agreements*, CUP, 1960).

Some indication that the current trend may also be stimulating some re-thinking in the higher echelons of employers' associations was contained in a report by the labour correspondent of *The Times*, of an interview with Sir George Pollock, director of the British Employers' Confederation on 22 February 1965, when he stated that as he saw it, plant bargaining may become more and more important. If wages policy is effective in national negotiations, there will be increasing pressure for rises at plant level. Instead of concerning themselves with increases in standard rates and working hours, national negotiations would set a figure for overall increases in earnings and presumably lay down certain principles by which the increase would be governed, leaving part of it to be worked out at plant level. The overall figure would cover any changes in minimum rates, incentive payments, fringe benefits and the length of the working week. Although the proposals are by no means clear and would seem to be aimed in the opposite direction to those suggested in this pamphlet, recognition of the significance of plant bargaining, and of the need to adapt the system of collective bargaining to it, is to be welcomed as a development of great importance in the thinking of the employers' leaders.

trade union re-organisation

The last major difficulty to be considered is that trade union resources and structure would be inadequate to deal with local bargaining of the type and on the scale envisaged. On the question of struc-

ture it is clear that comprehensive two tier bargaining would require the evolution of a new relationship between central and local officers in which the local bargainers would play the predominantly active role while the central bodies contributed the necessary support. There are signs that in some trade unions the balance of functions is already moving in this direction. It is impossible here to make a detailed analysis of the organisational problems involved, but in general terms it is suggested that the developments needed for the realisation of this form of bargaining must emphasise the dependance of the local bargainers on centrally provided services rather than their subservience to the formal authority of the centre. This implies that the central authorities of trade unions should concentrate on providing a full range of professional and technical advisory and information services to be drawn on by local negotiators. The quality and quantity of these services will do more to establish the effective authority of trade union centres, and to command the loyalty of local officers and members, than any amount of legalistic assertion of formal constitutional powers.

Finally, the training and servicing of local negotiators on the scale contemplated would make tremendous demands on organising ability and financial resources. Ability can be hired if trade unions are prepared to pay the market price for it and, once the advantages of comprehensive two tier bargaining with powerful professional support are demonstrated, there would be increased willingness on the part of rank and file members to pay the higher contributions needed to finance the new services. In an age of rapid technological and social change, trade unions need to acquire an image of progressive efficiency and professionalism and, under comprehensive two tier bargaining, with its emphasis on the role of local representatives, this can be achieved without sacrificing the democratic character and traditions of British trade unions.

fabian society the author

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