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WORKER REPRESENTATION -- AN INFORMAL OVERVIEW*

In the postwar period, worker representation in industry has meant, if not quite all things to all men, at least different things to different people. As a generic term, it encompasses different functions and activities at different levels of industry: the worker may be represented in production management as well as in personnel management through an elected works council in the plant and possibly another companywide; he or she may also be represented in financial management or investment decision-making through worker-members on a board of directors; and/or he or she might "participate" in the profits or even the financial equity of the enterprise. These different spheres of activity have been subject to different interpretations concerning their proper content, relative importance, and wider significance by philosophical and practicing politicians, by employers and other business managers, by economists and economic policymakers, and by trade unionists. What follows are some informal observations under each heading. They are largely the product of casual observation and idle speculation rather than systematic research, and they by

*This paper is an extended version of a lecture delivered at the University of Seville on November 17, 1989.

no means do justice to the voluminous literature in this diverse area.

Some Political Ramifications

Within the political "New Left," especially in postwar Europe, worker representation has been seen as worker control and even ownership; indeed it can plausibly be regarded as a philosophical descendent of the nineteenth century movements of Guild Socialism or (mainly in the U.S.) Producer Cooperation, which advocated that ownership of each industry or comparable economic sector be vested in the workers employed therein (or perhaps to unions acting as their agents). For many young radicals in the latter half of the twentieth century, worker control appeared as a superior form of socialism -- superior to nationalization of industry because it proposes to substitute grass roots control for centralization under authoritarian and inefficient governmental bureaucracies which a new generation of radicals detested almost as much as they detested capitalist exploitation (and as much as conservatives detested government bureaucracy).

For a more traditional and influential strain of socialist philosophy, worker representation carried more disturbing implications. To the extent that worker control of industry and participation in profits meant that worker incomes could vary according to the

profitability of individual industries, the Social Democratic ideal of an egalitarian distribution of income would be compromised: other things being the same, workers in more profitable industries would receive higher incomes than workers in less profitable industries. One leading Swedish Social Democrat branded worker participation as "institutionalized selfishness." In the 1970's and 80's, however, it became increasingly apparent that there are limits to the extent that income equality can be pushed without generating economic stagnation and inefficiency (as manifested in increased absenteeism and shortages of skilled labor). And as such limits became more and more obvious, worker participation became more acceptable to these Social Democrats; indeed the first serious political drive for "wage-earner funds," whereby a portion of each firm's profits would be taxed and the proceeds used to acquire equity shares which would be diverted to union-controlled funds, was mounted by the Swedish Social Democrats in the mid-1970's (although with adverse electoral consequences). And it should be noted that the Social Democrats could find ideological merit in such financial participation, for they envisaged these wage-earner funds as providing an alternative to private profits as a source of investment funds for industry.

There has also been important nonsocialist political support for worker representation, but it proceeded from

the belief that worker representation could protect or improve capitalist society rather than supplant it. Shortly after the war, the British and American occupation forces were instrumental in the enactment of legislation requiring the establishment of works councils and the election of worker directors in West German enterprises (particularly in the coal and steel industries) as insurance against a repetition of the type of support for fascist political movements which had reportedly been extended by some of the leading German industrialists in the 1930's. And in the 1960's, de Gaulle advocated worker "participation" in good part as an alternative to socialism. It served the Gaullists in their political struggle with the then powerful Communist Party for the allegiance of the workers; the Communists, with their adherence to authoritarian centralism, had no use for participatory democracy in the workplace. On the other hand, participation was regarded by the Gaullists as a component of a more corporatist social and economic order than the competitive and individualistic model of capitalism allowed.

Employer Viewpoints

In Sweden and Germany, employers mounted intense political opposition to specific proposals in the area of worker representation -- in Sweden, to the original version of the wage-earner funds, which envisaged the

ultimate acquisition of ownership of firms (and industries) by unionized employees; in Germany, to legislation which would facilitate the acquisition of control over management by worker representatives on boards of directors. On the other hand, employers in Europe have learned to live comfortably with other forms of worker representation (as a result of which the ardor within the ranks of the New Left underwent a cooling process).

Indeed, worker participation at the shop floor level has been invited and stimulated by recourse to a variety of managerial innovations, including the following: (a) job "enrichment" and variety of tasks and fewer work classes (in principle the reverse of the historic process of specialization, division of labor, and "deskilling"); (b) work performed by teams, charged with responsibility for meeting output and quality standards and practicing job rotation among members; (c) "pay for knowledge" acquired by the worker rather than the conventional system of "job-rated" pay (since the worker might rotate among a number of jobs, some of which would exploit less of his or her training than others; (d) problem-solving by the production worker, involving a transfer of some decision-making from supervisory and even engineering staff.

Compounded of such elements, worker representation and participation in management could plausibly increase

productivity (and reduce unit labor costs) in one or both of two ways. In the first place, it could serve as a nonpecuniary incentive for workers by reducing the monotony of work and enhancing the individual worker's dignity and self-esteem. As a result, job satisfaction would be increased, and increased job satisfaction is allegedly conducive to higher productivity and lower unit costs. It might be noted that the higher productivity can come about as the result of reduced idle time (or "down time") on expensive equipment, resulting from greater "flexibility" or interchangeability in the deployment of the work force, and not necessarily from any increased expenditure of effort by workers. And unit costs can be reduced by savings on supervisory or engineering staff, as well as from increased productivity. It was as a substitute for increased pay during periods of labor scarcity, however, that worker participation first commended itself to firms in Europe. This has been the case in the Swedish automobile industry, where management turned to it as a nonmonetary incentive to overcome labor shortages on the assembly line or to reduce absenteeism, when a centralized wage system would have made it impossible to raise wages relatively or even absolutely and when recourse to either more immigrant labor or more investment overseas would have encountered union and political opposition.

In Europe employers have also viewed various forms of worker representation as a way to reinforce the loyalty of workers to the firm and to keep control of the shop floor. In much of Europe, collective bargaining traditionally was pretty much restricted to industrywide wage bargaining through employer associations, which left the firm in control over the utilization of labor in the workplace. After waves of wildcat strikes in the late sixties and early seventies posed a threat to management control at the plant level, however, managers often believed it advisable to adopt more active and purposeful policies of personnel management. And they claimed that where it was necessary to deal with works councils or worker directors, such institutions, far from instilling in the work force feelings of rebelliousness and ambition to supplant capitalist with worker control and ownership, could help their employees to identify with the firm's interest in maximizing efficiency and competitiveness. At the same time such firms could maintain amicable relationships with the "outside" national unions which represented their employees for the purpose of bargaining over pay and hours, etc. at the industry level.

Among American firms, on the other hand, a major reason for strengthening employee loyalty through the installation of participatory schemes has been to avoid (or dislodge) unions. Industrywide bargaining has been less widespread (especially in more highly concentrated

industries) in the U.S. than in Europe, and the same unions that bargain over wages at more centralized wages bargain (through local subsidiaries of national unions) over other conditions of work in the plants, where they impose a variety of restrictions on production and personnel policies of management. Under such circumstances, an employer seeking greater managerial discretion and employee cooperativeness might view worker participation as an antiunion device -- although it is certainly not the only antiunion device available and although worker representation has been experimented with by firms who have no intention of disrupting stable collective bargaining relationships of long standing (notably General Motors).

Moreover, interest in worker representation in some U.S. management circles has been stimulated by a desire to emulate Japanese firms whose competitive success has been attributed, to a significant degree, to their adoption of participatory policies. However, a vital ingredient in the personnel policies of many Japanese firms (especially those engaged in international trade) has been a credible offer of "lifetime" security of employment within the firm. In an implicit exchange for such security of employment -- which is usually added to a wage that is high relative to what the employee could draw elsewhere -- the worker is expected to change jobs quite frequently (when ordered to do so) and to accept

training and retraining throughout most of his working career with the company. (Retirement, however, has typically come early and is followed by acceptance of an inferior job at lower pay in a smaller firm.) This suggests that the Japanese system depends less on the worker's inherent desire for variety and for an opportunity to exercise responsibility and to share in managerial decision-making than on his acceptance of change and increased responsibility in exchange for security of employment -- as distinct from job security -- at relatively high wages within the firm. Most U.S. employers interested in worker representation schemes appear to rely on their potential as nonmonetary incentives to increased productivity; few indeed have been willing to include offers of Japanese-style security. An instructive counterexample has been provided by a joint venture involving General Motors and Toyota in which management has made a visible effort to provide continuity of employment as part of an attempt to operate a Japanese-style factory management with an American work force; thus far the experiment has paid off in the achievement of very high levels of productivity, by American standards -- although other factors have also been at work. But American employers have characteristically responded to reductions in demand with layoffs and dismissals; and low rates of economic growth in the U.S. would make it especially difficult for them

to adopt no-layoff policies (in contrast to Japan, where very high growth rates took much of the risk out of the adoption of such policies).

Reactions of Economists

Before turning to some reactions of trade unionists to worker representation, let us briefly consider a few verdicts that have been rendered by economists on positions adopted by either the political philosophers or the employers, as well as a couple of propositions concerning the wider economic ramifications of financial participation.

Two matching criticisms of the concept of the worker-controlled firm have emerged as implications of the standard assumption that the firm will be run solely in the interest of its existing work force. This assumption may not strike one as unreasonable, but it has been held to imply that, when demand for the firm's output is growing, the firm will be prevented from expanding, out of reluctance by members of the initial work force to admit additional worker-owners and thus, as it were, dilute their per capita equity in the enterprise. Conversely, when reduction in demand would lead to reductions in staff by a profit-maximizing, capitalistically owned and operated firm, a worker-run firm might refuse to vote for such a policy of retrenchment.

This underlying bias in favor of "insiders" has also been a property of so-called utility-maximizing models of trade unions. According to such models, a union, confronted with favorable economic conditions, would (and could) raise wages sufficiently high to make any expansion of the work force unprofitable to the employer. However, if the union, instead of pursuing such a maximizing strategy, were able simply to satisfy the members' current aspirations (say for the going rate of wage increase in other firms and industries) at some lesser increase in wages, their employers would not be prevented from increasing the firm's labor force and productive capacity. Nor (as is generally acknowledged) would a worker-run firm be prevented from doing so, especially when the extra revenues generated by an increased scale of operations would be sufficient to exceed the costs of both the extra labor and extra capital equipment and increase the per capita value of the firm to the members of the original work force. (Nevertheless we shall return briefly to this argument in the next section.)

The other objection to worker control -- that it would prevent the firm from shedding labor when sales and output decline, thereby causing labor costs per unit of output to raise -- is a more serious one, I believe, although it has received less attention from neoclassical economists. Here again an analogy arises between the

worker-directed firm and the conventional trade union, with its tendency to attempt to block dismissals by forcing the adoption of restrictive practices. Yet unions have accommodated themselves to reductions in staff, in many instances through the adoption of employment-rationing devices such as seniority or "rotary" hiring halls and also through "attrition" arrangements whereby incumbent employees remain on the job until they quit or retire, etc., but would not be replaced by new employees. (Attrition, to be sure, implies the retention of excess labor, but only temporarily; and it is a humane method of adjustment.)

The same types of adjustment should also be available to worker-run firms. The latter, however, might have at their disposal a blocking device considerably more potent than restrictive practices adopted under regimes of conventional collective bargaining, namely the political power to induce the subsidization or equivalent support of troubled enterprises. Unions in the government sector or in nationalized industries have indeed wielded such power, but not invariably: whether or not either unions or worker-run enterprises are in fact powerful enough to prevent reductions in force depends on the responsiveness of public authorities to their initiatives -- and ultimately on public opinion. Hence neither the retention of excess labor in the face of adverse economic

change nor, as noted above, the employment of too few workers in response to favorable economic developments can be regarded as an inherent property of the "ideal" worker-run enterprise.

These, however, are negative virtues, at least as far as economists are concerned: the worker-managed or owned firm is no more inefficient -- but it is just as inefficient -- as the capitalistic firm that is subject to collective bargaining. Moreover, standard economic analysis rejects the contention that employee-directed teamwork (a hallmark of worker representation at the level of the shop floor) and profit-sharing can generate more efficiency than individual employees working under managerial supervision in response to individualized rewards and punishments. Employee participation may increase job satisfaction, but increased job satisfaction need not translate into greater employee productivity. (Employees may be satisfied precisely because they are not working hard or attentively! In any event, results of numerous regression experiments are inconclusive.) And, according to conventional economic analysis, reward for group effort which is shared by all members of the group does not offer any given individual an incentive to work harder or more efficiently; in fact, he or she has an incentive to slack off lest others similarly take it easy or in order to profit from the increased exertions of others.

But such criticisms emanate from a set of highly individualistic, utility-maximizing behavioral assumptions which are arguably over-restrictive. It leads one to ignore the psychological interdependencies that are present in group behavior, including reluctance to incur social disapproval for slacking as well as a more positive desire to contribute to a joint effort and to identify one's own welfare with the success of the enterprise. And in the latter connection, financial participation by the employee -- including some form of profit-sharing -- can contribute to increased productivity.

Thus far we have reviewed only economic criticisms of various forms of worker representation. But some economists have come up with a macroeconomic defense of profit-sharing. They argue that it can be a source of cyclical "flexibility" of employee compensation, allowing firms greater freedom to reduce their outlays on labor as profits decline during downswings in business activity and hence to reduce prices and thereby minimize loss of sales and hence employment. I believe that this argument has been overstated a bit by its more passionate proponents: it does seem to assume that workers, who have been generally regarded as averse to the risk of loss of income, would be willing to put enough of their eggs in the profit-sharing basket to allow this effect to be a substantial one. Nevertheless, profit-sharing

should tend to reduce "downward wage rigidity" and could thereby be beneficial in reducing cyclical increases in unemployment.

One might also mention another gain from shifting employee compensation from wages to income from profits: to the extent that operating costs are thus reduced, the firm's competitiveness is enhanced. One consequence is that the ability of firms with profit-sharing to compete with firms abroad paying relatively low wages would in principle be greatly increased.

In summary: if the potential of worker participation for increasing the productivity in the firm is regarded as questionable (at best) by some economists, others are more optimistic regarding the potential of worker participation in profits for reducing unemployment or increasing international competitiveness.

Union Views

For trade unions, as for the other groups which we have considered, worker representation has threatened disadvantage while promising benefit, although some of those attributes which have been welcomed in other circles have been regarded as troublesome by unions. Problems could be created in the related areas of union structure and collective bargaining. Structural problems can arise if national unions (or, in some small countries central federations), which are charged with bargaining

over wages and hours at industrywide (or wider) levels in order to cope with interfirm competition (or cooperation) fear that enterprise -- or workplace -- oriented institutions of worker representation threaten their centralized authority or weaken the allegiance of their members. In West Germany, some trade unions found that, in their drive for a shorter standard work week in the 80's, they were opposed not only by the employers but by quite a few works councils as well. The objective of the unions was to increase the number of jobs and reduce unemployment, but employed workers were often opposed to giving up overtime. They could exert greater influence on their works councils than on the industrywide "outside" unions; hence the works councils acted more like the "insider" model of the union to which we referred in the previous section -- more intent on maximizing the incomes of their present members than on permitting expansion of employment -- than did the national unions, who took the wider viewpoint. Wage bargaining also gave rise to friction between works councils and national unions in the Federal Republic. Although the former are supposedly excluded from collective bargaining and striking by law, in fact their functioning has affected costs and wages; and unionists on works councils allegedly used their influence within the "outside unions" in attempts to moderate union demands for industrywide gains in order to leave more

employer resources available for disposition within the firm by the works councils.

The essentially cooperative nature of industrial relations under a regime of worker representation has raised problems for unions which, as part of a system of collective bargaining, have functioned primarily as adversarial institutions. The severity of such problems would presumably depend on (a) how adversarial their particular relations with employers have typically been and (b) how much emphasis they have placed on the method of collective bargaining relative to political activity or other methods of pursuing their historic objectives of increased income and security for their members. American unions, which have historically (and not just recently) encountered great hostility by employers and which at the same time have largely subordinated political activity to collective bargaining, have been generally less receptive to worker representation in its various forms than have unions in other countries. In some cases they have equated it with the notorious "company unions" that were set up by various large corporations after the first World War in order to exclude independent unions. Since the passage of the National Labor Relations Act in 1935, employers have been forbidden by law to engage in such activity, but the suspicions of contemporary unionists are easily aroused in the prevailing climate of intensified employer

opposition -- especially since such suspicions appear to be well founded! It is true that the lack of union success in organizing and in wage bargaining has convinced some prominent unionists that the time has come to try a new tack and to press for a more cooperative approach, but this is currently subject to intense controversy within the ranks of unionists (especially in the United Automobile Workers).

On the other hand, in European countries where unions have been less involved in bargaining at the plant level and where they have relied more on what the Webbs termed the "method of legal enactment," they have been more disposed to accept worker representation, notwithstanding its tendencies toward decentralization and harmonization of interests between employer and worker. And I believe that the tendency of European unions to welcome worker representation has been strengthened as the usefulness of collective bargaining to them has been diminished by slower growth in productivity, the rise in unemployment, and the increased severity of international competition. Whereas collective bargaining had once won support as a social institution on the grounds that it could increase "purchasing power" and benefit the entire economy, it has been viewed in the postwar period as adding to society's problems of inflation and unemployment. The best that could be said for unions has been not that they raise

wages but that they exercise self-restraint in bargaining in response to official pleading. But how attractive does bargaining restraint make unions to workers; does one need to pay dues in order to receive reductions in the growth -- or even in the level -- of one's real income? Thus when (in the 1970's) public authorities offered unions some quid pro quo in exchange for wage restraint, union leaders were not unwilling to engage in some political bargaining. At first the bait was financial -- e.g., tax cuts or more social welfare benefits in exchange for restraint on wage bargaining, but the budgetary costs of such measures became unacceptable. Now, however, it may be that the neocorporatist game will be played on an international scale and will feature a "social charter" for the Economic Community that includes the establishment of institutions of worker representation in all of the member countries. Worker representation may play on a larger stage an economically beneficent role comparable to that which some European employers had originally assigned to it -- as an alternative to higher labor costs but not to trade unionism.