The workplace and social democracy in the post-crisis age

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The financial crisis and ensuing recession have changed attitudes to employment relationships. The decline of trust in business and its societal value have illustrated that employment relationships are not merely of a transactional nature, but intrinsic to identity and well being. Reconnection with employee ownership is an important step for social democrats in winning back the mantle of economic competence. But the renewal of industrial policy for a post-crisis age will require bolder action on workplace democracy, accountability and governance in the wider economy

Thirty years ago it would have been unimaginable for the centre-left to speak of social democracy without industrial democracy. Throughout the history of the labour movement in Britain, greater democracy in the workplace has been seen as the best means through which to tackle the inequalities of power and resources generated by capitalism, ensure fairer distribution, and empower working people. Whether through cooperatives, mutuals and other forms of employee ownership, trade unions or co-determination, the centre-left held on to the belief that the economy was best governed through democratic cultures and structures. From a social perspective, there was a recognition that the power relations that prevailed in the workplace were intimately connected to power relations in society, and that to meet the needs and aspirations of the electorate, the centre-left must speak to both.

In 2011, the centre-left in Britain is hurriedly reassessing its economic model in light of the global financial crisis, ensuing recession, and uncertain prospects for growth. The considerable interest in cooperatives and mutuals among politicians and others reflects the crisis of trust in UK business and shareholder capitalism in general. It is a starting point for a wider discussion of how sustainable businesses are built, and as part of that, how workplaces are governed, what role the workforce has in decision making, and how the proceeds of growth are shared. In short, whether social democrats should be prepared to argue again for greater democracy in the economy as part of a new sustainable capitalism.

Industrial democracy has been described as 'incapable of definition', and as is the tendency of the left, it has often been reduced to the institutions and structures that best attempt to deliver it.[1] At the turn of the 20th century industrial democracy, as described by the Webbs, was synonymous with trade unions and collective bargaining.[2] By the 1970s and the infamous Bullock Report, industrial democracy began and ended with discussions of worker representation on company boards. But beyond this specific history, the term recognises that workplaces are places of competing interests, and that democracy is the best way of ensuring that justice is done and interests are reconciled. It reflects the belief that certain civic rights, particularly a right to voice, are inalienable and should apply whether one is on the street or in the workplace. It is this broader definition which is used in this article.

The last substantial discussion of industrial democracy in Britain took place within a specific social, as well as economic, context. Post-war social democrats saw industrial democracy as the means by which the class demarcations that shaped the social and cultural landscape of Britain could be redrawn along egalitarian lines. Crosland, casting his eye over unequal 1960s Britain, saw that the

1. O. Kahn-Freund, 'Industrial Democracy', Industrial Law Journal, Vol. 6, No. 1 (1977), p. 65

2. S. & B. Webb, Industrial Democracy, (London; Longmans, 1911)

disparities in power across society were reinforced by disparities in the workplace. He noted the 'still powerful influence of work relationships on social attitudes'.[3] Shop floor and management were separated by culture, class, status and power. But Crosland did not prescribe any change in ownership, or industrial democracy in the sense of the appointment of trade unionists to company boards. Instead he proposed a renewed attack on class privilege in industry, mechanisms to assure workers of fair pay and the spread of enlightened management practices.

Much of course has changed since Crosland's day. The large scale industry that dominated the British economy and led to concentrations of power is long gone. At the beginning of the 1950s just four per cent of young people went to university, now it is 40 %. The demand for unskilled labour has declined dramatically, and certainly those without skills are unlikely to find secure and decently paid employment as they once did.[4] Although research still shows the effects of class on entry to elite institutions and certain professions, it no longer determines social and cultural life in the way it once did. But does it mean that the centre-left should simply consign industrial democracy to history, and what does it lose by doing so? Are the workplaces of the early 21st century now a benign influence, or do they still play a role in shaping social and economic relations?

New Labour and industrial democracy

Following 18 years of conservative government, New Labour's political economy centred on attempting to reconcile economic efficiency and social justice. But other social market objectives such as social harmony, stability and democracy barely featured for a party whose focus was firmly on encouraging the development of an economy capable of generating the returns necessary to support European levels of public spending and rising living standards. Indeed, within the economic discourse of the late 20th century it was hard to make sense of arguments that were not couched in the language of greater efficiency or improved performance. When measures were put in place to democratise the workplace – for example the Information & Consultation of Employees regulations (legislation deriving from a European directive) – the change was justified in terms of the evidence of improved performance arising from employee involvement, and received little support from government once in place.

Perhaps reflecting this narrow economic thinking, New Labour's record of promoting a more democratic economy was inconsistent. The idea of the stakeholder economy, advanced particularly by Will Hutton's 1995 book, The State We're In, had some influence on New Labour thinking before they entered government, but could not match the strength of the City when it came to influencing policy. The Companies Act 2006 nodded to the idea of a group of stakeholders, separate to shareholders, whose views directors must take into account, but the much vaunted Operating and Financial Reviews which would have compelled companies to report on aspects of their workforce management – encouraging investors to take a longer term view of company performance – were quickly withdrawn by the then chancellor to prevent any further 'burden on business'. The concerns about short-termism and its effects on the wider UK economy which had been prominent in the early 1990s did not gain much attention until the global financial crisis.

Against the hopes of many social democrats and trade unionists, New Labour maintained relative neutrality on the role of trade unions. This meant that one of the key levers for greater democracy in the workplace struggled to develop and legitimate this aspect of their function in the minds of employees. Therefore, despite growing employment and more favourable employment law, trade union membership continued its decline, and the breadth and scope of collective bargaining did not substantially expand.

3. C.A.R Crosland, The Future of Socialism, (London: : Jonathan Cape, 1966)

4. See "Unleashing Aspiration "- The Final Report of the Panel on Fair Access to the Professions. Presented by Alan Milburn to UK prime minister, July 2009.

Only in the dying days of government did New Labour make concerted efforts to address the power employees had over their working lives; their desire for security; a stake at work; opportunity; and voice. The answer provided was employee ownership. Ideas for widening employee share ownership, public service cooperatives and mutuals abounded, and formed a key election battle ground. Part of what made this type of approach so attractive was that it provided something that policymakers and government could do to actually deliver change in the workplace, which up until that point had been so difficult. The downside was that it was never going to be an agenda that affected the majority of employees in the UK.

The new politics of the economy

Some social democrats will always support the aim of using dispersed democracy to temper the excesses of the market, devolving power to employees, communities and other stakeholders. But there are also reasons to suggest that the new politics of the economy which have emerged since the global financial crisis and recession make it not just desirable, but necessary for the centre-left to ground its economic approach in a new social market framework, with economic democracy running throughout.

Trust in business, and its ability to benefit society, is at an all time low. Although damaged by the global financial crisis, according to some (including former CBI director general Richard Lambert) the depletion of trust is not recent, but part a reaction to the 'unsettling' development of capitalism in the UK over the last 20 years. [5] The weakening of the national political and social bonds with business, linked to the globalisation of capital; the pursuit of maximum rather than adequate profits; and the marriage of executive remuneration to shareholder returns and its implications for short-termism, have all altered business culture in the UK. While public reactions to such changes may have been muted in periods of sustained economic growth, their concerns about the value of business in the UK are now being expressed through popular protests such as the UK UNCUT group as well as through support for other models of ownership.

In addition bonuses and pay have become a significant political issue for voters across the political spectrum, and intense media attention has concentrated awareness of the 'us and them' economy. Pay at the top in both the public and private sector is largely seen as unjust and unmerited. The government's apparent inability to respond to the public's dissatisfaction with private sector pay and bring about change has only added more fuel to the fire. It would be wrong to suggest that concerns with pay at the top of the private sector are new, but taxpayer support for failed financial institutions and difficult labour market conditions have heightened frustrations.

At the same time, it is clear that even during the sustained economic growth of the last 15 years, the benefits of growth were not shared equitably across society. Although government redistribution and interventions such as the minimum wage helped to reduce levels of poverty, wage stagnation – particularly for those living on average income levels – meant that many failed to see much improvement in standards of living. The number of households experiencing in-work poverty increased over the last decade, and may well increase further as benefits are cut for those in work. Pay awards remain low and inflation high.[6] At the same time, public support for redistribution has dropped dramatically in recent years, and it is questionable whether any centre-left government elected in the next few years would be able to simply increase tax-credits and other benefits.

Finally, the attitudes and expectations of workers have changed, with consequences for the centre-left. The turmoil of the financial crisis and recession has placed security at the top of employees'

5. Speech by Richard Lambert, director-general of the CBI, March 30, 2011, RSA/Sky Sustainable Business Lecture Series

6. A. Parkehk, T MacInnes and P. Kenway, Monitoring Poverty and Social Exclusion 2010, (York: JRF, 2010)

list of priorities. This spike may be short-term, but it highlights a truth about modern employment relationships; that many are more than transactional economic relationships, they are also a source of identity, wellbeing and community. This means that a dynamic economy in which changes in ownership are easy and high levels of competition drive continuous change can be unsettling for employees. The pace of change is perhaps an inevitable part of the global economy, but its negative effects on employee wellbeing are exacerbated by workplace practices that give employees little autonomy, control and influence. The consequences of this disempowerment are well documented in the epidemiological literature: higher levels of stress and poorer health.[7]

These changed attitudes to business, pay and employment relationships provide both opportunities and challenges for the centre-left. In light of changing public attitudes and priorities, the maxims of the mid 1990s on what was politically achievable must be critically re-examined.

Industrial democracy today

The 1990s discussion of the stakeholder economy and social markets was scuppered by the influence of shareholder value on New Labour's thinking, market pressures and the reliance on returns from booming financial services to fund public service investment. But the global financial crisis and the recession have changed the landscape. The social markets in countries such as Germany, dismissed in the past for poor performance, seem now to have lessons to offer. Can an agenda which argues for a more democratic economy offer Labour a route through the new politics of the economy?

The centre-left's reconnection with employee ownership is important. Greater variety in ownership can help challenge business cultures and provide choice within the market. But its limitations must also be acknowledged. Employee ownership itself has little impact on the performance of the organisation if it is not accompanied by high levels of employee involvement and participation; and employee ownership is not an automatic guarantee of such democratic cultures. In a sense, the need for effective democratic structures is therefore as important here as in the wider economy. The centre-left's interest in mutuals and co-ops may have been a reflection of the immediate post-crisis political climate, but if it is to be a serious part of its vision of the future economy, then it must be accompanied by a clear understanding of the conditions of success. The centre-left's enthusiasm for employee ownership should also not be a distraction from the reforms necessary in the wider economy.

However much mutuals and co-ops thrive in the coming years, the majority of employees will continue to work in privately owned enterprises. What will Labour's offer to these workers be? How can it meet their desire for a fair share in the success of the company, security, influence, and opportunity? Independent of government, the recent recession has shown that employer attitudes to the workforce are changing. Despite a six per cent drop in output, the fall in employment to date has been just under two per cent. In part this can be accounted for by a higher skilled workforce that is valued by the employer and hard to replace. This subtle power shift, where an individual's skills are an important bargaining chip, provides a new context in which to implement reform.

Businesses may increasingly recognise their workforces as stakeholders with an important role in their success, but changes that might flow from this grind up against the demands of generating immediate returns for shareholders. If the UK is to move closer to a stakeholder economy, then the strength of the shareholder value model must be challenged. As the UK attempts to rebalance its economy, long-term investment in sectors with export potential will be important. But as Unilever CEO Paul Polman has pointed out, the pressure for businesses to deliver quick returns to short-

7. M. Marmot et al., various publications, the Whitehall II study

term shareholders undermines the ability of leaders to focus on long-term development, success and sustainability, and cultivate the relationships with employees, communities and supply chains that might support this. The last government set out sensible proposals to slow the pace of hostile takeovers and give greater voice to the shareholders of the target and bidding company to ease some of the pressure, but more will need to be done. The ways in which the tax system and regulatory framework might be adjusted to encourage institutional investors to take a longer-term view should also be re-examined. Executive pay needs to be aligned to the long-term success of the organisation, not shareholder returns.

The recent government led debate on public sector pay has shown how quickly norms on pay can change. The benchmark of £140,000 – the prime minister's pay – has quickly been established as the reference point for executive pay across the public sector. In the private sector, the government clearly has less direct power and fewer levers to pull, but the public sector example does suggest that government can lead and channel public opinion and help to establish new norms. Whilst acknowledging the competitive pressures some business face, the centre-left should lead the debate on what pay is for, and the processes through which pay is decided. Remuneration committees currently face too little scrutiny and companies are under little pressure to increase transparency on pay. This is not just a question of executive remuneration. Reforms to benefits will mean that wages will play a more important role in income, and so there must be new norms on what constitutes a living wage.

The annual bank bonus season has shown again the political difficulty governments of any colour have in regulating private sector pay. Beyond the question of legitimacy, central government regulation can be clumsy and difficult to enforce. Although there may be a case for targeted regulation on pay, it may be more desirable and practical to look at ways to empower stakeholders at the company level to influence pay awards. For example, the push for an export-led recovery will place demands for increasing productivity in many industries, which the workforce will be crucial in delivering. Particularly in non-unionised workforces, it will be important to look at what structures would be necessary within the company to ensure that employees gain a fair share of productivity gains, and have confidence that pay is fair.

The UK already has legislation that allows employees in workplaces with over 50 employees to trigger a process through which a representative employee forum must be established to inform and consult with them on change within the business. It has been a significant departure from the tradition of UK industrial relations and as might be expected, has struggled to take off. Awareness among employees remains low, and union apathy has meant that there are no actors supporting employees to organise. However, there are pockets of success and it is an important step in introducing more democratic structures into non-unionised workplaces. If the financial crisis revealed anything, it is that boards alone will struggle to govern our complex companies effectively. Other stakeholders, particularly those with an intimate understanding of the organisation, need to be given a stronger voice to hold executives to account.

There is little the UK can do to slow the pace of change associated with participation in the global economy, but there is convincing evidence that where employees feel they have a voice and can influence the consequences of change, stress and insecurity are reduced, with positive benefits for health and wellbeing. There is great potential to enhance and strengthen these arrangements by raising awareness, providing funding for the training of representatives, and enhancing links with unions. It would be worth examining whether employee forums could have a role in increasing confidence in fair pay. But again, these structures are only likely to thrive where employees are seen as real stakeholders. Too often employee forums are concerned with issues of work organisation and have little influence on strategic issues, unable to penetrate the board room agenda.

The question for the centre-left is whether to challenge the dichotomy between the domain of politics and the domain of markets in order to take a more developmental approach to the economy and the role of the workplace within it. A centre-left party entering government in the next few years will face considerable pressure to deliver growth, employment and public sector investment, but a return to the economic model of the 1990s is unlikely to deliver the sustainable capitalism on which confidence in Labour's long-term economic competency will rest. A low-growth economy and changing public attitudes provide grounds on which to formulate a new response, tackling the inequality of power and resources at the source, not solely through a redistributive state. Different models of ownership will be part of the solution, but the centre-left must be prepared to put in the hard work of developing democratic structures and cultures within workplaces capable of challenging and holding leaders to account. However, the success of democratic structures in influencing decision-making will rest on the extent to which they are seen as true stakeholders; for this, further reform of corporate governance will be necessary.

Work is not only a means of securing wages and adequate living standards; it is an intrinsic source of satisfaction and a core part of the growing interest in issues of quality of life and human satisfaction. Making such a reconnection between the domain of politics and markets might enable the centre-left in Britain to attain a new radicalism and a new vibrancy, forging a new economic settlement for the post-crisis age.

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This essay is a contribution to Policy Network's Social Democracy Observatory. Policy Network will hold an event in London on "Social Progress in the 21st Century", with sessions on the workplace and social investment