www.equilibrium-economicum.net

Quarterly essays (in English and French) on the theme "Querying economic orthodoxy"

No. 67 – October 2016

Workers on the Board

ANGUS SIBLEY

Author of "Catholic Economics: Alternatives to the Jungle" (Liturgical Press, 2015)

We're going to have not just consumers represented on company boards, but workers as well.
Theresa May, 11th July 2016.

[Without the guild system] *the apprentice . . . would have more competitors, and his wages, when he came to be a complete workman, would be much less than at present . . . The trades, the crafts, the mysteries, would all be losers. But the public would be a gainer, the work of all artificers coming in this way much cheaper to market.*
Adam Smith, *The Wealth of Nations* (1776), book 1, chapter 10, part 2.

We sell at a cheap price because we believe that that is the issue - the main thing - for members of the public.
Keith Hellawell, chairman of Sports Direct, in evidence to a parliamentary committee (2015).

A novel Conservative proposal

Company directors who represent the employees? That would seem to be an ideal project for what the British call their Labour Party. But, over the past half-century, Labour governments have been in power for almost 24 years, and they have never got around to it. Now it has been proposed by Theresa May, just two days before she became Conservative Prime Minister!

This demonstrates in startling fashion how, for the past several decades, politicians who are supposed to promote workers' interests have neglected that duty of theirs. They have in effect accepted, willingly or with resignation, the all-conquering vision of the free-marketeers, a basic part of which is the view that companies should be run primarily, even solely, for the benefit of their shareholders. Directors should have no *social responsibility other than to make as much money for their stockholders as possible,*[1] as free-market godhead Milton Friedman put it. Too many companies today seem happy to take Friedman's words literally. However, according to Robert G. Eccles and Tim Youmans, of Harvard Business School, *this view of shareholder primacy is an ideology, not* *the law . . . shareholders are just one audience that the board may consider when making decisions on behalf of the corporation.*[2]

Corporate governance in Europe

There is really nothing very unorthodox about the practice of having worker representatives on company boards. In more than half the member states of the European Union, employees have at least some rights to board representation.[3] In Germany, where the practice is best established, companies with over 500 but not more than 2000 employees must provide for the employees to elect one-third of the directors on the *Aufsichtsrat* or supervisory board; this is a board that appoints the management board, and approves overall company strategy, to be implemented by the that board. For companies with more than 2000 employees, supervisory board seats must be divided equally between employee and shareholder representatives; but the chairman, who represents shareholders, has a casting vote in the event of a tie.

These arrangements have been in place since 1952 (for companies with 500 - 2000 employees) and since 1976 (for larger companies). German employers may grumble about them, but given Germany's robust record of industrial and commercial success, and low overall rate of unemployment, one can hardly believe that employees' rights to representation have dragged the economy down. It seems more likely that they have boosted Germany's economy by fostering harmonious labour relations and good worker motivation.

In France, board representation is now (since 2015) obligatory for companies with 1000 or more employees in France, or with 5000 or more worldwide. In Denmark, even in small companies employing as few as 35 people, employees are entitled to elect directors to the main board. In Sweden, there are similar rights even in companies with as few as 25 employees.

In countries such as Britain and the USA, where there is no legal requirement for workers to be represented at board level, such arrangements are rare, but not unknown. The British transport company FirstGroup has employee directors on its main board and on the boards of its main subsidiaries. The group's 2016 corporate governance report states that *the Board considers that it is extremely beneficial for its employees to be represented on the Board in this way as it enables employee-related issues to be raised directly at the Board and provides a two-way communication between the Board and employees.* However, there is only one employee director out of nine on the main board. Not enough to give the employees serious weight in corporate decision-making.

Objections from the left

Some trade unionists and others on the left argue do not like the idea of directors representing workers. They feel that this implies that workers are "collaborating with the enemy" rather than fighting their own corner. It is true that a director who is also a member of the company workers' union may face a conflict of interests. Directors have to act in the best interests of the company, and sometimes that may involve cutting back the payroll; clearly not what the union wants! Yet paying off a number of employees may sometimes be necessary to safeguard the future of the business, and thus the interests of the remaining workers. It may, all things considered, be better that worker directors not be members of the union with which the company negotiates.

But objection in principle to workers on the board, on the "collaboration" argument, reflects the Marxist class war mentality, which is something we would do better to relegate to history. Workers and capitalists may quarrel over how a company should be run, or how its revenues should be shared out; but the fact remains that the two groups are basically in partnership, because neither can function without the other. Even the modern highly automated business needs employees - and those employees need to be motivated to work as an effective team, committed to the success of the business. Capitalists who think it is in their best interests to treat their workers like dirt are mistaken, except on a narrow, short-term view.

The cheap and nasty economy

In Britain today, so many people are employed on wretched terms that the company *Poundland*, which sells a vast range of products each costing just one pound sterling ($1.22 or €1.11) is a roaring success, with a chain of more than 700 shops in the UK. The products, of course, are mostly cheap, low-quality imports. The free-marketeers' culture of low pay, precarious jobs and zero-hours contracts has brought us to a situation where, in many places, decent quality is hard to sell. Too many people cannot afford it, or are unwilling to spend on it, since they feel obliged to save against the next "rainy day" (redundancy notice, or phase of short-time working).

Can this be good for our economy as a whole? Of course not. The more people save against rainy days, the harder it rains; for low spending forces firms to cut their costs, typically by trimming employment. It is a vicious circle, the infamous *race to the bottom* instigated by penny-pinching entrepreneurs, who think it in their own best interests to employ as few people as possible, as cheaply as possible, thus creating a cheap and nasty economy of widespread misery.

Where does this leave Adam Smith's theory, that if every individual and firm does what seems best for oneself, the outcome is the best for society? Well, Smith himself modestly claimed that this theory works "frequently".[4] Today, it seems to work a good deal too infrequently. Indeed, it worked too infrequently in the nineteenth century, which is why trade unions and regulatory laws had to develop, to counteract the pernicious consequences of untrammeled free markets. Now we are having to learn the same old lessons all over again.

Present-day Britain is home to too many firms like Mike Ashley's *Sports Direct*, the biggest UK retailer of sports goods, whose vicious employment practices have recently been exposed in gruesome detail in a the report of a parliamentary enquiry.[5] Workers in this company's warehouse at Shirebrook, a former colliery town in Derbyshire (in the north of England) are mostly employed not by Sports Direct itself but by temporary employment agencies. These agencies, the report tells us, provide very few guaranteed hours of work (generally 336 hours a year, about nine weeks). But they require that workers *in effect, always be available for work which may never materialise*; and *always* means 24 hours a day, seven days a week, since the warehouse never closes. They are paid nominally at (or a touch above) the legal minimum hourly rate, currently £7.20 if you are aged over 25, but less for younger people. Yet deductions, such as 15 minutes' pay if you arrived one minute late, were common until Ashley, under heavy criticism, agreed to limit such a deduction to five minutes. Other abuses have included imposing penalties for taking time off when sick, denouncing over loudspeakers anyone deemed not to be working fast enough, and obliging people to work unpaid overtime.

The report states that the Sports Direct business model *involves treating workers as commodities rather than as human beings . . . The low cost products for the customers, and the profits generated for the shareholders, come at the cost of maintaining contractual terms and working conditions which fall way below acceptable standards in a modern, civilized economy.* And the grimmest element in this gloomy report is a warning: *there is a risk that this model may become the norm.*

Workers as commodities

This tendency to *treat workers as commodities* is a besetting sin of free-market economics. Thus Ludwig von Mises, considered by too many Americans as one of the greatest economists, wrote that, in a free market, *labour is dealt with like any material factor of production and sold and bought on the market.*[6] Harvard law professor Paul C. Weiler has written, with disapproval, that *from the neoclassical economic point of view, labour is a commodity.*[7] Yet, a century ago, more civilized attitudes were appearing; in America, the Clayton Anti-Trust Act of 1914 (section 17) explicitly states that *the labour of a human being is not a commodity.* More recently, we have backslided.

The quote from Keith Hellawell at the head of this article seems, does it not, to echo the words of Adam Smith 140 years ago, quoted immediately above Hellawell's. Pay paltry wages and sell at bargain prices; squeeze the workers to indulge the consumers. That is a basic tenet of free-market economics, and has been since its birth. It has never made much sense, and it makes even less sense today, when one of humanity's big problems is overconsumption of the earth's resources. Cutting prices, and thus encouraging more consumption, doesn't exactly help with that problem.

Workers have had an increasingly rough time since the great resurgence of free-market ideology began in the 1970s. The concerns of the workers, and of those who want to work but lack opportunities, have been sacrificed to the greed of consumers and capitalists. It is more than time that we made a start on redressing the balance. Mrs May's proposal is a welcome sign that the British political world, for far too long infatuated with Thatcherite dogmas, is beginning to see the need for a radical change of direction.

---

[1] Milton Friedman, *Capitalism and Freedom* (University of Chicago Press, 1962), chapter 8.

[2] Robert G. Eccles and Tim Youmans, *Why Boards Must Look Beyond Shareholders* in *MITSloan Management Review* (sloanreview.mit.edu/article/why-boards-must-look-beyond-shareholders).

[3] See worker-participation.eu/Systemes-nationaux/En-Europe/Representation-des-salaries-aux-conseils-des-entreprises.

[4] Adam Smith, *The Wealth of Nations*, book 4, chapter 2.

[5] Report *Employment Practices at Sports Direct* (22 mai 2016), see publications.parliament.uk/pa/cm201617/cmselect/cmbis/219/21905.htm.

[6] Ludwig von Mises, *Human Action* (Yale University Press, 1949), page 270.

[7] Paul C. Weiler, *Governing the Workplace* (Harvard University Press, 1990), page 121.