

COPARTNERSHIP IN INDUSTRY

CHAPTER I

THE HISTORY AND SPIRIT OF COPARTNERSHIP

“WHEN a business is thriving, a certain surplus is earned above the ordinary rate of profit and wages in that business. . . . It is this perpetually recurring struggle for a surplus which is itself only occasional and precarious, and not determinable beforehand by fixed laws, or even reasonable anticipation, which is the fundamental reason of the existence and powers of trades unions.”¹ So wrote Herman Merivale, sometime Professor of Political Economy at Oxford in an Appendix to the Report of the Royal Commission on Trades Unions in 1868. His colleagues in the Majority Report remarked that “the habitual code of sentiment which prevailed between employers and workmen in the times when the former were regarded by both law and usage as the governing class is now greatly relaxed, and cannot be revived. A

¹ 11th and Final Report, p. 122.

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substitute has now to be found for it, arising from the feelings of equity and enlightened self-interest and mutual forbearance, which should exist between contracting parties who can best promote their several chances of advantage by aiding and accommodating each other.”¹

The immediate object of the Commission was the provision of a more suitable legal status for the Trade Union, but they nevertheless devoted some attention to two methods for the avoidance of industrial strife, which seemed to deserve commendation.

One of these was the method of arbitration and conciliation. A. T. Mundella, a Nottingham manufacturer, explained to them the good work which he had accomplished with his Board of Conciliation in the glove and hosiery trade. Rupert Kettle, a County Court Judge of Worcestershire, testified to similar success in the building trades of the Midlands. The voluntary Boards of Arbitration and Conciliation, thus instituted in the 'sixties, have since been extended to other trades, notably to iron and steel and to coal-mining. Their voluntary character has been preserved throughout. But neither the voluntary system of England, nor the compulsory system of New Zealand, nor the intermediate system of Canada, has been able to eliminate industrial warfare. At the best, arbitration and

¹ 11th and Final Report, p. 17.

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conciliation do but assist to preserve an armed and precarious peace.

The second device of which the Commissioners of 1868 took some account was the scheme of profit-sharing which was at that time in successful operation at the Yorkshire collieries of Henry Briggs, Son and Co., Ltd. The scheme lasted from 1865 to 1874 and, to quote Mr Sedley Taylor,¹ “the strong language of approval held concerning the experiment while its success was still unimpaired, in the writings of Mill, Fawcett, and Thornton, gave to it a still wider notoriety and caused the most sanguine expectations to be founded on the continued prosperity augured for the system. When the abandonment of profit-sharing at the Whitwood Collieries became publicly known, the feeling of disappointment and discouragement was therefore proportionately widespread.” In 1865 Henry Briggs & Son, hitherto a private company, registered themselves under the Act of 1862 as a joint stock company with limited liability. Two thirds of the capital was retained by the partners and the other third was offered to the public, preference being given to applications for shares from officials and operatives employed in the business and from customers purchasing the produce of the collieries. The most novel feature was introduced by the

¹ “Profit-Sharing,” p. 133.

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following clause in the prospectus:—"In order, however, to associate capital and labour still more intimately, the founders of the company will recommend to the shareholders that whenever the divisible profits accruing from the business shall (after the usual reservation for redemption of capital and other legitimate allowances) exceed 10 per cent. on the capital embarked, all those employed by the company, whether as managers or agents at fixed salaries, or as workpeople, shall receive one half of such excess profit as a bonus, to be distributed amongst them in proportion to, and as a percentage upon, their respective earnings during the year in which such profit shall have accrued."

These proposals were in the direction of what is to-day called industrial copartnership. The originators looked for two advantages from their adoption, the cessation of labour troubles and an increase in the economies of working; and by 1868 they were of the opinion that both these objects had been attained. Whereas during the ten years from 1853 there had been acute tension and intermittent strikes, since 1865 there had been scarcely a single play day and the working of the collieries had been infinitely smoother. No opposition was offered to the men joining the Union, and, though the Methley district was declared to be a hotbed of Unionism, yet only 5 per

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cent. were in fact members. "I do not think," said Mr H. C. Briggs, "that our men would think of appealing to the Union now."¹ Furthermore, the economies in timber and stores had been great. "When the men pass through the yards, they pick up bolts or nails, saying, 'This is so much bonus saved.' Previously, I have known of men, where they had to put in a piece of rail, breaking a new rail in two in order to get the proper length, and then bury it in the dirt if they broke it the wrong length, and break another. Now you never hear of anything of that kind happening."² In 1872, however, the old labour trouble reappeared. In that year the Miners' Union decided to hold a demonstration on the day fixed for the general meeting of shareholders at which the bonus would be voted. The men were practically forced to choose between Unionism and Copartnership. About one-third attended the demonstration, and forfeited their bonus for the current year as well as all claim to future bonus. In 1874 a dispute arose about the use of riddles for sifting coal in the pits, and the men supported the Union against the Company. In 1875 they struck work in conjunction with the employees of other collieries as a protest against a reduction in the district rate of

¹ Royal Commission on Trades Unions, Q. 12,623.

² *Ibid.*, Q. 12,714.

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wages, and the next shareholders' meeting voted the abolition of profit-sharing.

The Trade Unions opposed the Briggs' scheme because they considered it likely to weaken if not to destroy their power. The evidence just quoted from Mr H. C. Briggs shows that this fear was well-founded. But there were also certain features in the scheme itself which contributed to its breakdown. In the first place, the agreement between the Company and the men was loosely framed. The shareholders might, without previous notice, decline to vote the bonus for the past year, and they might if they so pleased, grant it to some workers while refusing it to others. In the second place, the management declared it to be in keeping with the intention of the agreement that the initial interest paid on the shareholders' capital should vary with the fluctuations of current wages. These two things gave to the scheme an air of uncertainty and inconsistency, and the course of events brought the latter failing into vivid relief. For whereas in 1873, after a year of exceptional prosperity the initial interest on capital was raised from 10 to 15 per cent., in the following year, 1874, when the conditions of the trade necessitated a reduction in wages,¹ no proposal was made to reduce pro-

¹ For the violent fall in coal-miners' wages after 1873, see Bowley, "Wages in the Nineteenth Century," pp. 105 and 131.

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portionately the shareholders' dividend. In the third place, the plan of inducing employees to take shares in the Company by giving employee shareholders a higher rate of bonus was badly conceived. From the evidence given to the Commission in 1868¹ it is clear that there was disagreement between the managers and certain of the workers on this point. The managers inclined to an equal rate for all on the ground that, one worker having as good a claim as another, discrimination would lead to complications. The most ardent advocates from among the workers, however, argued for a higher rate to employee shareholders and pleaded that such share-holding, in addition to improving permanently the social status of the men, gave breadth and stability to the scheme of profit-sharing. Indeed, they blamed the management for the fact that by 1868, when over £7000 had been distributed in bonus, only 150 shares of £10 each were held by workers. But though the policy adopted by the managers may have incidentally contributed to this result, yet they certainly did not intend it.² For they were prepared to associate the employees, not only in shareholding, but also in direction. In 1869, at the instance of Mr Archibald Briggs, a working shareholder was elected by his fellow-workers as one of the five directors of the Company.

¹ *Cf.* Qs. 12,637 ; 13,022.

² *Cf.* Q. 12,754.

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It is perhaps misleading to begin a record of Copartnership with a great failure ; for since then there have been some great and enduring successes. But the Briggs' scheme was the first great experiment in industrial copartnership by British employers : and the date of its occurrence, 1865 to 1874, is highly significant. It came between the Limited Liability Act of 1862 and the last of the Acts enfranchising Trade Unions in 1875. Limited liability has made possible a vast extension of that most remarkable form of modern industrial structure, the public joint stock company. All through the nineteenth century the growth in the size of businesses has been making the relation between employer and employee less personal. The public company accentuates this impersonality. The managers and foremen alone come into constant contact with the company's employees, and the general policy of the company is determined by a board of directors acting on behalf of distant and scattered shareholders. This division of responsibility is sometimes a source of financial weakness, and is certainly a moral danger. The shareholders surrender their conscience to the directors, and the directors excuse their actions on the plea of protecting their shareholders' interests. " We felt also that we were responsible to a large body of outside shareholders, many of whom had placed in our

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hands the hardly-earned savings of years, confiding in our capacity and discretion ; and the great majority of whom cared little for our experiment except in so far as it might increase or diminish their own dividends.”¹ In this familiar strain Mr Archibald Briggs subsequently justified the action of his company in raising the shareholders’ initial dividend.

The public company communicates with the shareholders, the owners of its property, by balance sheets : and the publication of profits is a great advantage when some of these are to be shared with the workers. But this advantage is largely offset by the complexities of capitalisation. The usual way of stating the financial case for Copartnership is that capital ought to get a moderate initial remuneration, say 5 per cent., which corresponds to the wages of labour, and that further profit beyond this should be shared between the two. But 5 per cent. on watered capital may be a highly immoderate return, and 5 per cent. on original improved capital a very low return. Moreover, it frequently happens that the issue of new capital is associated with a preference to existing shareholders who receive in effect a present of profit. If the business is one which practises profit-sharing, the shareholders then get a present out of profits in which the workers do not share, unless

¹ Sedley Taylor, “Profit-Sharing,” p. 152.

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the contingency has been provided for in advance. The obscurity of profits which is one of the obstacles to Copartnership when the firm is in private hands is not really removed when the firm is a public company. One criticism made against Briggs & Co., was that in 1873 when a sum of £30,000 was taken out of the previous year's profits and invested in a mine the shareholders got new shares in respect of it, but the employees lost the £15,000 of bonus which would otherwise have come to them as their share in the divisible profit. The organisation, therefore, of the public company, while it increases the impersonality of the employer complicates the financial working of schemes designed to counteract this evil.

The Briggs' experiment closed on the eve of the legislation which consolidated the status of the Trade Unions. Their development between that day and this makes it certain that they have come to stay, and that their function of collective bargaining is destined to be at least as important as that of their friendly benefits. It is to be suspected that in the 'sixties not a few employers and theorists welcomed profit-sharing as a means of knocking the bottom out of collective bargaining. James Nasmyth,¹ the master-engineer of steam-hammer

¹ *Cf.* his evidence before Royal Commission on Trades Unions, Qs. 19,095–19,340.