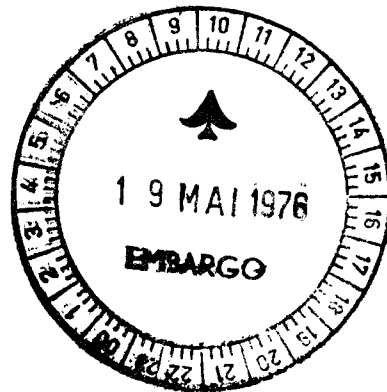


INDUSTRIAL DEMOCRACY WITHIN THE EEC

Speech by Mr. Gundelach, Member of the Commission, at
the Industrial Society Conference in London on
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Title of Conference: The great debate - industrial democracy.



Everywhere in the European Economic Community, the role of employees in relation to the enterprises which employ them is an important political issue. Without exception, every Member State has in recent years either actually carried out some important reform in this area, or at least begun seriously to consider ways of improving the system currently in operation.

In the Netherlands, a law of 1971 on the structure of public and closed companies introduced employee participation with regard to the appointment of the members of the supervisory councils of large Dutch companies. The Danish introduction of employee representation on the boards of larger companies in 1973, the Belgian reform of the enterprise council also in 1973 and the Luxembourg law of 1974 instituting mixed committees for private sector enterprises and providing for representation of employees on the boards of public companies underline the same trend. The Sudreau Commission studied the reform of French enterprises in 1974, and published a comprehensive report early in 1975.

In the United Kingdom, the Bullock Committee has been appointed to consider and report on employee representation on the boards of enterprises. In Germany, a bill has recently been adopted which will introduce a new system of employee representation for companies employing more than 2000 persons. Similar examples can be given for each Member State. Concise amounts may be found in the so-called "green paper" on employee participation and company structure which the Commission published in November of last year. So there is no need to give an exhaustive description here.

What should be stressed, however, is that all these developments, which taken together make an impressive list, constitute clear evidence of the increasing recognition in all Member States of the inadequacy of industrial relations systems which fail to recognize the legitimate interests of employees, in particular as regards the economic decision making of large industrial and commercial enterprises.

Whether it be the 1973 reform of the enterprise committee in Belgium, the introduction of employee representatives to the board in Denmark and Luxembourg, or the conclusion of collective agreements on the investment policies of large companies in Italy, the theme recurs. Employees, in one way or another, are seeking to influence the economic decision making of enterprises, and their legitimate interest in doing so is achieving ever-wider recognition.

Moreover, in recent years this issue has clearly become more pressing.

The late sixties and early seventies saw the start of a period of economic stress, initiated by a strong inflationary upswing, and characterized by an unprecedented parallelism in the economic development of all Western industrialized countries. This period of stress demonstrated that the economic limits of growth, given the existing relationship between investment and consumption - public and private - had been overstepped. The dramatic rise in oil prices a few years ago, brought home, in a rather brutal fashion, the nature of the world and the economic realities with which the Member States of the Community must live.

First, we were given a clear demonstration that we live in a world where there are frequent and radical changes in the general economic environment, together with strong and rapid swings in economic activity. To prosper, even perhaps to survive, we must be able to adapt to such changes and re-establish a more stable economic development within the boundaries imposed by economic realities. This means more limited growth, increased investments and the leveling of private consumption, accompanied for the time being by relative reductions in public consumption.

Second, it became dramatically obvious that the European Community, indeed Europe as a whole, is not lavishly endowed as regards natural resources. This basic truth is not changed by the North Sea oil finds however helpful they will be. We have suffered a setback in our terms of trade which must be made up by increasing our exports. Our biggest single resource is the ingenuity, skill and brain power of our citizens. To prosper our societies must invent, manufacture and trade, with each other and with the world.

Over two decades of relative stability and expansion had perhaps tended to obscure these realities.

Finally, the aftermath to the economic crisis has led most economists, including myself, to predict lower levels of economic growth than in the past. This must not be confused with advocacy of zero growth. Such an approach is unrealistic, unnecessary and dangerous. But reduced growth means that the re-structuring of our economies to meet the challenges presented by changing conditions through making the best possible use of our skills and inventiveness, has become increasingly important at the same time as our room for manoeuvre has been reduced.

The situation may be summarized as follows. The growth of our economies has to be limited to a certain extent in order to avoid inflation at rates which are fundamentally unacceptable. To make up for the losses caused by the adverse shift in our terms of trade, the growth which we can achieve must be increasingly used for investment in export industries. And we must not forget our responsibilities in this regard to the developing countries, who, by the way, are important customers, actual and potential,

and thereby sources of employment. Other investments must be made in addition : to improve the environment, to protect the consumer, to develop alternative sources of energy, and other technological advances. The evident conclusion is that less income will be available for consumption of a classical kind.

We should also bear in mind the role which service industries can play in a highly technological society which may have to deal with structural unemployment. They may provide additional employment in both the public and private sector. We must be prepared and equipped to assist desirable transformations of this kind.

In the view of the Commission, democratic societies can meet these challenges only by involving those concerned in the process of finding solutions, which most can understand and accept, even if that acceptance is, understandably enough in certain cases, reluctant. In societies like those of the Community, with their high standards of education and expectation, the managers of enterprises cannot expect to implement strategic economic decisions without adequately involving those who will often be most substantially affected, namely the employees of the enterprise.

The alternative is clear : social confrontation to an unacceptable degree which may even threaten the democratic foundations of our societies. Such confrontations will arise in one of two ways : either as an immediate response to changes which those concerned do not understand; or as a consequence of the collapse of enterprises which could not be changed to meet the challenges of the time, since no adequate machinery existed for implementing changes which those concerned could understand and accept.

In some ways, the second possibility is the more serious, because the process may be insidious. There may be few external signs of weakness, but the enterprise may be dead at the core, like those trees which rot from within and suddenly collapse in a high wind. Our industrial and commercial enterprises must be capable of continuously renewing themselves if they are to withstand, as they must, the high wind of international competition.

The Member States have a clear common interest in trying to tackle these problems together rather than alone, for a number of reasons. In actual fact, it is a necessity.

Naturally, they have to be tackled first on the macro-economic level. For example, action can be taken through a tri-partite conference of the type which the Commission of the European Communities is at present organizing. The macro-economic approach alone is, however, not sufficient. No forest with tall trees can survive without a thriving underbrush. As the brushwood supports and protects the tall trees, so sound company structures are necessary for a healthy economy. This is an essential part of the role company structures have to play.

Our proposals concern public companies, that is, companies which have the capacity to raise capital from a large number of sources. Incidentally, this does not mean that we will not deal with employee participation in other kinds of enterprises at the appropriate time. But the present reality is that, as far as industry and commerce are concerned, the public company is our most important economic instrument. And whatever political goals some may have, this will remain the reality for some years to come. We must deal with this reality.

The large industrial and commercial companies of the Community are in competition with each other, and with enterprises from outside the Community. A degree of convergence in the industrial relations systems applicable to all large firms operating in the Community and taking advantage of the Community-wide market is necessary if they are to be able to compete on broadly equal terms. As President Giscard d'Estaing has recently said in another connection, Europe can work as an organization only if its various countries have roughly similar social and economic structures.

In addition, alone, a single Member State cannot put itself on level terms with some of the problems which exist in this area. Multinational enterprises have to a certain extent broken through the confines of particular national laws and practices. They use the laws of particular States to their best advantage and by a judicious combination of legal forms achieve a freedom of action which is not without its dangers. The Member States will find it easier to get on level terms again, if they act together. And they will find it much easier to act together, if their basic systems applying to enterprises are not too divergent in the first place.

Recently, on 28 April 1976, the Commission formally agreed on a proposal for a directive concerning consolidated accounts for groups of companies operating in the Community, whether their headquarters is within the Community or outside. This proposal, when adopted, will have a direct and beneficial impact on multinational enterprises trading in the Member States. I have no doubt that the development and adoption of this proposal will be much facilitated by the fact that the Member States are already close to agreement on the basic minimal standards to be applied to the accounts of individual public companies throughout the Community. The fourth directive, which will probably be adopted in the foreseeable future, constitutes the necessary firm foundation for the new proposal.

The same applies in the field of industrial relations. The adoption of Community legislation having application to multinationals, for which proposals will soon be made, will be greatly facilitated if the Member States have been able to achieve a degree of convergence as regards the systems applying to individual national enterprises. Such convergent development is of particular importance to Community proposals in the course of preparation concerning groups of companies generally, and employee consultation at enterprise and group level in particular. These proposals relate to complex problems which can only be solved satisfactorily if the Member States have established basic structures which share certain common principles.

Finally, the Member States have an interest in acting together because a degree of convergence as regards the role of employees in the decision making of enterprises is essential to the Community's development, and even to its survival. Some Member States are already some way along the road. They cannot be expected to come back. It is even hard for them to slow down to allow others time to catch up. But unless the others can catch up, or at least close the gap, the prospects for the Community are gloomy. Too great a degree of divergence between the Member States, having as it will a direct effect among other things on their abilities to attract investment, will perpetuate existing economic and social imbalances in the Community. A more even distribution of industrial and commercial activity can only be achieved if the industrial relations systems of the Member States are sufficiently convergent and effective.

Indeed, there is a danger that the divergences are so great that they may create strains which it will be beyond the strength of the Community to bear. The consequences of such a collapse, for the citizens of every Member States, would, as I have already underlined, be extremely serious, especially since every Member State depends for its prosperity on free trade with each other and the world, and a strong common voice to ensure we can continue to trade on fair, advantageous conditions.

So far in this contribution to your "great debate", I have attempted in a general fashion to give a Community perspective on the issue as a whole. In particular, I have sought to explain just why it is that the European Commission and others in the Community attach such importance to our proposals in this field.

Now, I would like to be more specific and address a number of issues which I know are of particular interest and importance in the United Kingdom. Among the purposes for which the Commission decided to publish the "green paper", to which I have already referred, was to stimulate a serious debate not only as to generalities, but also as to some of the more concrete problems of method and approach.

First, it is sometimes suggested that the most important element in programmes of employee participation is not participation in company boards, but at the levels where the employees are actually employed : in the plant and in the office, "at the operational level", or if you like, on the shop floor.

No-one indeed can deny the importance of adequate systems and procedures at these levels. Throughout the Community, such systems have been constructed, though they vary greatly in their characteristics. In some countries, the systems are formal and legal in character while in others they are essentially informal and an important aspect of trade unions' local organization. But whatever their form, these institutions are essential both for the employees and for management, if decisions which affect employees immediately are to be properly considered and implemented. Even in relation to an enterprise's economic decision making, such machinery has a vital part to play in communicating local concerns and ideas to management, and vice versa. Where such machinery does not exist, it is indeed advisable to attempt to create it, not least because the effectiveness of employee participation at board level appears to depend in part on the existence of effective representative institutions which accurately focus employee concerns and help prevent those on the board from becoming isolated.

But mechanisms at plant level are not the whole answer. As far as the economic life of the enterprise is concerned, decisions taken at board level are of strategic importance. If employees are excluded from this level of decision making, not only is there a gap in the system, but there is a danger that there will be no confidence in whatever machinery exists lower down. It will be said that the real decisions are taken at levels where there is no opportunity for employees to influence the process. The procedures at plant level will be said to be a sham. And, to be frank, experience of the operation of such systems, unaccompanied by board level participation suggests that such allegations may on occasion be well-founded.

If employee participation in decision-making is to achieve anything, it must be real and not a meaningless ritual. This requires that it must occur at the appropriate levels. The operational level is one such level, but so is the board, even if, for the time being, actual membership of the board cannot be implemented. I shall return to this point later.

Second, it is often stated that in the industrial relations field, care must be taken to build on the institutions which already exist. They should be developed taking full account of their traditional character, and not turned up-side-down or undermined. With this general approach, one can fully agree. But it should also be observed that in the field of social and industrial relations, it is dangerous to create legal fictions. They will not solve the problems. In fact, they will probably create them.

For this reason, and also because of a basic belief in the need for democratic legitimacy, the Commission has suggested in the green paper that all systems of participation should embody principles which will ensure that employee representatives are truly representative of the employees. To this end, it is suggested that all employees of an enterprise should be able to participate in the process whereby the representatives are appointed, according to procedures guaranteeing a free expression of opinion, and in a way which will afford reasonable protection for minorities.

These suggestions were made, as I have said, not simply out of a belief in the value of democratic guarantees for the general health of our societies, though that was an important consideration. They were also motivated by more obvious pragmatic considerations. If a representative system is not in fact genuinely representative of the social group which it purports to represent, there is a serious danger that the real problems felt to exist within the group will not be properly handled by the system. If this happens, these problems will not disappear. On the contrary, they are likely to become more serious and to find expression outside the system, quite possibly in an explosive and destructive fashion.

I would like to add that experience in the Member States which have already developed formal participation systems shows that trade unions do exercise a vital role in systems embodying formal democratic principles, perhaps with the greater force since there can be no dispute about the credentials of the employee representatives who are chosen to the board. To my knowledge, in no Member State having employee participation in company boards has it ever been seriously claimed by the unions themselves that they have been harmed by the existence of formal democratic guarantees as regards the operation of the system. Again it should be emphasized that formal, democratic principles can be combined with provisions which ensure that where trade unions are organized, they will play their proper role in the system.

The third matter I would like to discuss is the question of the relationship between participation and collective bargaining. It is sometimes suggested that an expansion of collective bargaining constitutes a complete alternative to employee participation whether at board level, or in the plant. In the view of the Commission, this goes too far. Collective bargaining undoubtedly has a vital role to play. It will continue to develop throughout the Community, though more in some countries and industrial sectors than others. Where conditions are appropriate, it is likely to take place increasingly in relation to the economic policy of enterprises, and to their methods of organizing their affairs. This development may well be stimulated in some countries by increasing State intervention in the planning of economic and industrial development. The Industry Act 1975 in the United Kingdom is undoubtedly an example of this trend.

But, although collective bargaining will from time to time cover topics which come within the normal competence of a company's board, it has limitations which it would be foolish to ignore.

First, since the outcome of the collective bargaining process depends to a great extent on bargaining power, there is inherent variability in the results. Circumstances can arise which can have drastic effects on the bargaining power upon which an employees' organization can rely, for example, technological change rendering uncompetitive a whole range of traditional skills. A good example is the electronic revolution affecting the watch and clock industry at the moment. In circumstances such as these, more formal systems and guarantees are essential to ensure that difficult decisions are made as sensibly and as humanely as possible.

Second, many of the economic issues on which employees should be informed, consulted and have their say are not the sort of issue which can always be reduced to a demand in a bargaining session, let alone included as a term in a collective agreement. The medium and long-term planning of an enterprise contains vaguer, less predictable elements than those that can be expressed as matters of obligation, legally enforceable or not. But in the Commission's view it is of paramount importance that the employees, through their representatives, are informed about these matters and have a full opportunity to influence the way in which the enterprise decides to handle them.

In sum, employee participation at board level, representative machinery at the operational level, and collective bargaining are not alternatives. They are necessary and complementary parts of a complex whole. When properly used together, they have a mutually reinforcing effect which one form alone would find it difficult to achieve.

Finally I would like to conclude by saying that the really important task is to make a beginning at all the right levels, which must include the board level. In addition, whatever is done, at whatever level, must ensure that the real concerns of the employees of an enterprise are properly considered. Fictional solutions are likely to produce fictional results in the short run, and real damage in the end.

If it is thought to be impossible to secure employee membership of the board immediately on a general basis, one possibility is the transitional solution suggested by the Commission in the green paper: a company-level representative body with substantial rights to information and consultation in the economic areas. Such a system seems to offer the best possibility for working towards participation in the board itself.

As for the systems ultimately to be constructed, the Commission has no intention of adopting a rigid or formalist approach. If there are other broadly equivalent ways of implementing what has been suggested in the green paper, then there is no doubt that the Community framework can be made sufficiently flexible to admit them.

Let me repeat : we face a future in which there must be basic changes in our social order, often occasioned by radical developments in our economic environment. To meet these challenges, we must adapt our social structures in a fundamental way. We must undertake a deep-going democratization of our society. This does not mean that we should abandon the principle of a market economy. A market economy, or in any event a mixed economy, is and will remain necessary, because we have to produce and sell our goods in the most efficient way. I say this, incidentally, without prejudice to other political goals which do not fall within the subject-matter of this speech.

But, though market and mixed economies should remain the basis of our continued prosperity, the social institutions which are of strategic importance to the operation of these economies, such as public companies, must be organized in a manner which ensures that proper account is taken at all levels, of the human aspects of the problems that we face. For the skills and abilities of our citizens are our primary resource in a world which is under no obligation to provide us with a living.
