

# John Stuart Mill, the Bargaining Theory of Wages and the Trades Unions: the 'Double Recantation' and the Role of Prudence and Social Duty

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## 1 Introduction

In an excellent paper by Biagini he argued that Fawcett and Mill made a decisive step - inclusion of trades unions within full economic orthodoxy as a necessary component of a free working labour market.

This new view – the role of bargaining - widely disseminated in the 1860s – ‘unions used these favourable conclusions of economic science’ to defend their actions.

I will argue:

1 This new view not new – origins in Smith – fully developed by McCulloch 1824 and later developed and influenced Mill by 1862.

2 The ‘new view’ was included by 1860s but these arguments concerning bargaining were intertwined with wages fund doctrine.

3 Clear limits were placed – action by unions effective and proper where wages below ‘natural and proper level’ (set by the wages fund doctrine) and ineffective and improper where they were at or above this level.

4 In 1869 Mill’s recantation not just an abandonment of the wages fund doctrine alone but a rejection of the bargaining theory as well: it was a **double recantation**.

5 At the same time Mill raised serious questions concerning the effectiveness of economic theory in the context of the labour market. Where wages are to be determined by bargaining, a scientific approach i.e. a **bargaining theory**; this must give way to considerations of **prudence and social duty**.

## 2 McCulloch - Edinburgh Review 1824

Set out roles for Trades Unions - 2 cases:

1 where wages below ‘natural and proper level’- unions actions desirable.

2 where wages at or above ‘natural and proper level’ - unions actions ‘improper, unreasonable and ineffective’.

In favour of the combination laws but against violence.

## 3 Mill and the Trades Unions – the *Principles* 1848 and 1852

*The Principles* 1848:

Distinction between unions aimed at raising general level of wages and those designed to raise wages in particular occupations.

If unions could raise the general wage rate – should be welcomed if they could work fewer hours for the same wages. But workers too numerous and scattered to combine effectively.

But an increase in the level of wages could only be achieved by making some workers unemployed – wages fund approach.

Turning to rise in wages particular occupations – as a result of union activity - 2 cases:

1 may be at expense of consumers. If other workers not affected this would be OK – cheapness of goods is only desirable when production costs little labour, and is not desirable when as a result of low wages.

2 Mill uses the wages fund doctrine to argue that if wages are high because of union activity – either fewer workers employed immediately or more capital must be employed in the next production period to maintain the higher wages and this will harm workers elsewhere.

But he also argues combinations in particular trades may raise wages and thereby hold back population growth. Only justifiable if unions membership is voluntary and there is no violence.

*The Principles* 1852

Slightly more negative view - ‘combinations to keep up wages are seldom effectual....and seldom desirable’.

The strike by Amalgamated Society of Engineers against piece work and overtime affronted Mill’s views on incentives and personal freedom.

At the same time – he was hopeful about possibilities of co-operation between workers and he had growing sympathies with socialism.

#### **4 Dunning and Fawcett and the Arguments of 1860**

In 1860 J T Dunning, the Secretary to the London Society (Union) of Bookbinders wrote a pamphlet entitled *Trades Unions and Strikes, their Philosophy and Intention*, 1860.

He argued wages were determined by bargaining and employers in a stronger position – Smithian view.

Later he refers to both Smith and McCulloch together – aware of the 1824 contribution. Dunning’s pamphlet an influence on Mill – next section.

Henry Fawcett – article in the *Westminster Review* 1860 – he provided a clear statement of the wages fund doctrine – the model for Thornton’s discussion in *On Labour*.

He considered strikes:

(a) Where wages differ in different industries – here strikes could force employers to pay more – exerting a tendency to equalize the wages of different employments.

(b) Where some temporary cause has raised profits of a particular business above a certain rate – here a strike will force employers to pay more.

#### **5 Union Developments in the 1850s and 1860s**

In the late 1850s the trades union movement began to mount a campaign against the Master and Servant Law which discriminated against workers by making breach of contract on their part a criminal offence, whereas it was deemed to be only a civil offence if carried out by an employer.

A political campaign followed which led to the Master and Servant Act 1867 which remedied some of the defects of the current legislation but still left the unions vulnerable to criminal action in 'aggravated cases'. Continued pressure by the unions led to the establishment of Courts of Conciliation and Arbitration also in 1867. In 1866 there were the Sheffield Outrages - violence against non-union workers.

This led to the appointment of a Royal Commission of Inquiry into Trades Unions in February 1867. In addition, in the January of that year, there was the famous decision in the case of *Hornby v Close* which deprived the unions of much of their assumed legal status under the Friendly Societies Act.

In the midst of this turmoil the union leaders attempted to retain a united front and put a case to the Royal Commission. A group of five men - the 'Junta' - formed the 'Conference of Amalgamated Trades'. This group - William Allan, Robert Applegarth, Edwin Coulson, George Odger and Daniel Guile - began meeting frequently and secretly in London. They managed to persuade the Royal Commission that they should nominate a member and they chose Frederic Harrison, while Robert Applegarth was to act as expert trades union witness in attendance.

John Stuart Mill was offered a seat on the Commission but declined and suggested Fawcett instead.

In the end, due to a great extent to the efforts and skills of Harrison and Applegarth, the Royal Commission's Report was relatively favourable to the unions and recommended legal status, with some qualifications.

### **6 J S Mill: Dunning and Fawcett's Influence on the 1862 Edition of *The Principles***

Two new paragraphs of the *Principles* :

- 1 The market rate is not fixed by some self-acting instrument but is the result of bargaining. Here he refers to Adam Smith and Dunning.
- 2 He refers also to Fawcett – workers know when profits are high and they tend to strike when profits rise.
- 3 Progress towards the Recantation position.

### **7 J S Mill's Recantation and the Bargaining Theory of Wages**

Mill's Recantation was contained in a review of W T Thornton's book *On Labour* 1869. The review was in two parts:

#### Part 1 May 1869

Mill accepted that labour was one of Thornton's 'excepted' cases – the case which the law of equality between supply and demand does not provide for, because several prices all agree in satisfying that law.

The price of labour will be determined by bargaining.

Mill goes on to reject the orthodox analysis in the famous Recantation statement:

The doctrine hitherto taught by all or most economists [including myself], which denied it to be possible that trade combinations can raise wages, **or which limited their operation in that respect to the somewhat earlier attainment of a rise which the competition of the market would have produced without them**, - this doctrine is deprived of its scientific foundation, and must be thrown aside (1869, pp.517-518). (my italics and bold)

### Part 2 June 1869

Although Mill was not on the Commission he was very well aware of the proceedings. In correspondence with Henry Reeve, editor of the *Edinburgh Review*, he indicated that he would write on Thornton's book and also on the Report of the Commission. Reeve wanted both be covered in one article. Mill refused and the recantation articles were published in the *Fortnightly Review* edited by John Morley. Part two of the review of Thornton must be seen in terms of Mill's awareness of the success of the union side on the Commission and the likely improvement in legal status and power of unions.

Mill begins by laying out the upper and lower limits to bargaining:

The Upper limit – too little profit to compensate for 'anxieties and risks of trade'.

The Lower limit – wages so low as to 'diminish the numbers or impair the working powers of the labourers'.

Between these limits – wage rate to be determined by what Adam Smith called higgling. Mill building on 1862 edition.

But he goes further than 1862 and recants **both** the wages fund doctrine **and** the long established Classical approach which specified limits to union bargaining within the framework of an analysis of market imperfections.

See above – the part of the recantation statement in bold refers to the bargaining theory. The statement was a '**double recantation**'.

Now, he argues, with regard to the individual capitalist:

There is no law of nature making it inherently impossible for wages to rise to the point of absorbing not only the funds which he had intended to devote to carrying on his business, but the whole of what he allows for his private expenses beyond the necessities of life.

Returning to the upper limit Mill argues that if the workers pushed wages that high – they would be 'killing the goose to get at the eggs'.

He then redefines the higher limit as the highest wages keeping the capital of the country intact – presumably referring here to 'normal profits'.

Only a general union could reach this level.

In part 1 of the Recantation Mill had argued that:

The right and wrong of the proceedings of trades unions become a question of **prudence and social duty**, not one **which is peremptorily decided by the unbending necessities of political economy**.

In part 2 he expands on this by analysing the implications of a wage rise in a particular trade being achieved through an increase in price.

He examined two cases:

If demand falls and workers keep the wage increases then profits may fall and capitalists may withdraw their capital – unemployment. Unionists are under no obligations but those of **prudence**.

If demand remains the same then consumers spend less elsewhere and this may lead to unemployment elsewhere – unionists are under obligation and owe moral duties to others – **social duty**.

Mill is giving advice to trades unions on how they should behave in future under their improved circumstances.

## **8 Concluding Remarks**

The first part of Mill's recantation – the 'purely economical part' as he described it in a letter to Cairnes - has been critically examined by many scholars. The second part which is also about economics has been paid less attention and was not purely 'economical' but focused on the rights and wrongs of trades unions and was linked to the events of the day. While it was not the review of the Commission which he discussed with Reeve it entered boldly into the consideration moral behaviour of unions in the context of rapidly changing events.

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