

Pigou's Early Theory of Employer-Employee Relations : An Inquiry into *The Principles and Methods of Industrial Peace*

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In this paper I examine how Arthur C. Pigou (1877-1959) approached the problem of industrial relations in his *Principles and Methods of Industrial Peace* (1905) and other early writings. Pigou's discussion of the issue centered on the historical, theoretical, and normative dimensions. First, examining history, he argued that the labour movement in Britain first passed through three stages – violent, political, and economic – before it was possible to establish a peaceful system of negotiation between trade unions and employers' associations. Pigou attributed this achievement to strong and well-organized labour unions ; realizing how costly it would be to continue fighting the trade unions, employers finally agreed to meet and talk with them. Second, Pigou's theoretical approach employed the theory of bilateral monopoly to identify a “settlement locus” and an “arbitration locus,” which describe acceptable areas of bargaining between trade unions and employers' associations. Strong, well-organized unions, he concluded, were favorable to industrial peace. Third, Pigou's

normative argument centered on the effects of trade unions on social welfare, as well as on industrial peace. He contended that strong unions pushed wages higher than the market rate, and so even though trade unions might function to promote industrial peace, they could also diminish social welfare. It was Pigou's belief that the negative effects of trade unions could be prevented by government policies ; by artificially increasing the cost of conflict between trade unions and employers, government could create conditions to insure that industrial peace was compatible with maximization of social welfare. Too-forceful government intervention, however, would hinder employer-employee relations. Pigou therefore recommended moderate policies that could be used with flexibility. In conclusion, I discuss the basis for Pigou's belief that strong trade unions were necessary – rather than harmful – for industrial peace.

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