

A SHORTER Working Week

John Hughes



A SHORTER Working Week: The CBI Shows its True Colours (and its Intellectual Bankruptcy)

In *The Observer* for the 18th June 1978, Sir John Methven director general of the Confederation of British Industries "explains why industry is strongly opposing union demands for a shorter working week". The article offers such an extraordinary mixture of empty rhetoric, false premises and arguments, misinterpreted facts, and complacency in face of the prospect of *even higher unemployment* in "the longer term" that it appears necessary — painful as the task is — to dissect its argument. It becomes evident that the CBI is now committed to resisting the major measures that might offer a substantial reduction in unemployment.

Can jobs be created?

Methven: "This time the aim (of a shorter working week) is to create additional employment without loss of earnings . . .

"There seems to be an assumption that some finite limit exists to the amount of employment this country can sustain; that since more jobs are unlikely to be created, we must share out those which exist."

"But jobs *can* be created, as historical parallels show. During the past 25 years, there have been four periods when employment in Britain has been increased by nearly a million: June 1952-June 1956; June 1959-June 1962; December 1962-March 1966; September 1971-September 1974."

This is, in fact, the kind of empty rhetoric that recoils on the writer. Consider the following:

- a. Broadly speaking, over the last decade there has been *no* net creation of jobs in the UK economy. To restore full employment there would need to be a net creation of around 3 million jobs over the coming decade. (Around 1½ mil. more for the estimated increase in the labour force; rather more than one and a half million currently unemployed or kept off the register only by temporary measures.) So to restore full employment, we would need ten years of continued, sustained, employment growth at the best of the rates exhibited in Methven's chosen periods.
- b. Of course, advocacy of "work sharing" does not need to assume that "more jobs are unlikely to be created". On the contrary, what is needed is a *combination* of job creation over the next decade in *both* the public and private sector *as well as* a substantial increase in jobs as a result of "work sharing". In round terms, it would be necessary to think of creating (say) approaching a million extra jobs in the private sector of the economy (at current levels of working hours), a further million jobs in the public sector of the economy (at

current levels of working hours), and a million extra jobs through "work sharing" in order to be reasonably near a fully employed economy in ten year's time. (In round terms, the Trade Union Research Unit (TURU) considers that the 35 hour week *if* associated with restraint on overtime working would create approaching a million extra jobs.) So, the 35 hour week has never been argued as a substitute for creating *further* jobs through the development of the whole economy. But it *is* realistic to argue that there could be a massive and persistent short-fall in the jobs required to restore high employment in Britain in the *absence* of a major impetus towards "work sharing". (We shall see later that Methven assumes precisely that!)

- c. Methven's periods of employment creation do *not* inspire confidence in the ability of the British economy to *sustain* a growth in employment. He has picked the periods during which cyclical expansion of the economy raised employment; but this was followed by periods of decline. The position is most grotesque in the case of the last two periods of "job creation" he identifies. For *between* those periods, that is from the first quarter of 1966 to the third quarter of 1971 the number of employees in employment in the UK *fell by 1.3 million*. And from the end of the last period of employment growth (the third quarter of 1974) there was a fall in employment of 500,000 within eighteen months. On that track record, we can understand that organised labour sees the need for fresh thinking on the job creation that the economy now needs.
- d. Ironically, in an article devoted to criticising trade union pressure for a shorter working week, two of the periods of *increasing employment* singled out by Methven are those in which *the normal working week was being reduced*. Broadly, the reduction from 44 to 42 hours was concentrated in 1959-61, and that from 42 to 40 hours in the period from 1964 to 1966.
- e. There is a further irony about the chosen periods of employment growth. Later in his article Methven sharply attacks those who think that "more public spending" is the way to create extra jobs:

"I do not agree . . . Given the present economic circumstances, there is no way in which artificially boosting employment by increased public spending can bring about stable jobs and rising standards."

But, Sir John, each of the periods of rising employment

has been characterised by public expenditure rising *faster* than the total "gross domestic product". This was particularly a feature of the last two periods of job creation:

1962 (4th Qtr.) to 1966 (1st Qtr.): Gross domestic product at current prices rose just under 20%. Public expenditure in total rose 36%; public spending on goods and services rose 35%.

1971 (3rd Qtr.) to 1974 (3rd Qtr.): Gross domestic product at current prices rose 54%. Total public expenditure rose 81%; spending on goods and services rose 64%.*

So, of the *last three* main periods of employment growth singled out to show that we should not despair of job creation in the British economy:

two were characterised by a reduction in the normal week, *which Sir John Methven opposes;*

two were characterised by disproportionately faster growth of public expenditure, *which Sir John Methven opposes.*

The "criticism" of the shorter week

(i) *Methven:* "A shorter working week may be desirable for a variety of reasons, but as a method of reducing unemployment it is unlikely to be effective. Past experience has shown that when the standard working week is reduced employees make up about half the 'lost hours' by extra overtime."

Comment: It is a merit of the argument here that it is recognised that the shorter week may be "desirable for a variety of reasons" *as well as* its likely employment effects. Shorter working time is a tangible gain in the living standard of the worker that enjoys it.

But what follows in Methven's article is a travesty of the facts. It is instructive to note by what stages the fiction of "half" the employment effect being lost in increased overtime emerges:

- a. *Methven: about half.* This is evidently a not very fair rendering of the notorious April 1978 Department of Employment Gazette article which, *à propos* 1964 to 1966, alleged an effect of *nearly half*.
- b. *nearly half.* In correspondence TURU has been told that what the author(s) of the Department article "had in mind" was 40%!
- c. *we had in mind 40%.* But why should they have that "in mind"? In the end the only major study unearthed, which attempted to adjust hours of work in the 1960s for cyclical effects, was one that estimated that *one-third* of the effect of shorter hours emerged as increased overtime in the case of *male manual workers*.

So a fabrication is put about: a serious study *limited to male manual workers* and calculating a *one-third* effect is step by step – and quite illegitimately – extended to appear to refer to all employees (which it cannot do as other categories of employees work very little overtime), and almost effortlessly one third becomes "about half".

(ii) *Methven:* "The shorter working week will also reduce output in many industries. Where there is a production line, often no extra employment would be created without shift work. More probably it would be just a matter of running machines less."

Comment: This suggests to a surprising extent an assumption of managerial passivity and inertia in face of the bargaining of shorter working time. Perhaps Sir John knows his

*In fact in 1971-74 *over half* the extra jobs created were in the educational and health services and in public administration.

management better than we do, but TURU would be charitably inclined to assume active managerial response directed at bargaining around improved labour utilisation, and maintenance or improvement in capital utilisation.

On this point why should not past experience be a guide (as allegedly it is on overtime)? The 1960s saw two bursts of reduction in normal hours. They also saw an acceleration of output per man hour, an increase in shift utilisation of plant, more extended and flexible deployment of part-time labour, production rising more rapidly than in the 1950s (until checked by the Jenkins deflation in 1969), and a widespread development of "productivity" and "efficiency" bargaining. Are management now supposed to have lost the arts of industrial management that they were apparently able to deploy in the 1960s in the face of falling normal hours of work?

(iii) *Methven:* "By adopting the 35 hour week, the skill shortages which already constrain output would only be made worse. Many of the unemployed simply would not fit into vacancies created."

Comment: Here, then, is a great opportunity for planned development of the economy and of the skills of its labour force. It has always been true that economic development requires to have or *develop* a variety of skills in the labour force, while the unemployment register is heavily weighted with the less skilled. (Still we should note that on the latest figures over 150,000 *skilled* male manual workers were registered as unemployed compared with less than 50,000 in 1974.)

But Methven's negative approach is unsustainable:

- a. In the 1960s the reduction of the working week went through against the background of unemployment only a small fraction of its present level (around 300,000 in 1960-61 and in 1965-66 compared with around 1,400,000 today).
- b. Sir John cannot have *all* his arguments. If he is sceptical as to whether the 35 hour week would create jobs ("as a method of reducing unemployment . . . unlikely to be effective") he can hardly argue that it would create serious manpower shortages.
- c. Unlike the 1960s, Britain now has in the shape of the Manpower Services Commission a powerful agency that is stepping up skill training throughout the economy. Its problem increasingly is that a high proportion of those it trains cannot find jobs that use their newly acquired skills. The CBI is actively represented on MSC and knows this. In fact the MSC would be most constructively involved in an economy where shorter working hours increased the demand for all types of workers.
- d. Sir John cannot have this argument and yet another of his propositions. For elsewhere in his article he argues that the CBI's proposed economic strategy "would lead to the creation of a million new jobs over four years". As this startling conclusion has nowhere been built up in detail, and as in the last *three* periods of job creation the commercial sector's growth in jobs has been aided and supplemented by reduced hours and/or increased public spending, we are entitled to be sceptical. But supposing development *were* heavily concentrated on the industrial and commercial sector as the CBI wants (and the public sector was cut back as the CBI wants), and supposing the jobs materialised on this scale, then there would be *significantly more acute skill shortages* than might result from the 35 hour week. Because the 35 hour week would be spread across the whole economy, e.g. in public services too, and not concentrated solely on the industrial sector. If skill shortages are such a barrier (which we doubt) then it is the

Andrew Wuard (Report)



CBI's chosen strategy that they would constrain, not the achievement of the 35 hour week.

(iv) *Methven*: "... the 35 hour week would increase labour costs by between 6 and 8½%... This would result in dearer goods both at home and in export markets. The inevitable increase in unit labour costs would harm price competitiveness of UK products in the long term reducing employment prospects."

Comment: This is – so far as it goes – a respectable looking argument. It is not pursued in detail here only because a similar argument has been dealt with at length in the article on pp.14-18 which deals with the arguments of the Department of Employment on the 35 hour week. But let us note what has been "forgotten" in *Methven's* argument, and what it assumes:

- a. It forgets to put the potential increase in labour costs in any kind of context. Suppose the introduction of the 35 hour week is phased over three or four years, then we are talking about 1½% to 2½ a year. In the last four years unit labour costs rose over 90% in Britain; the system adapted with difficulty to that kind of rate of pay increase. It was uncomfortable swallowing the camel, but in the aftermath of that, the *Methven* worries about the labour costs involved in the 35 hour week look rather like straining at the gnat.
- b. *Methven* – although he and his aides must have read the Department of Employment article – ignores the substantial *cost savings* from the 35 hour week. These are surprising as they fit in with the CBI's interest in reducing public expenditure. Taking people from the unemployment register and putting them into work (which generates revenue for the Exchequer) is one way of easing the burden of the finance of the public sector. The Department's estimates show this – on almost any

assumptions – generating a public financial surplus after providing for the introduction of the 35 hour week across the public sector.

- c. *Methven* writes as if only in Great Britain is trade union bargaining pressure being redirected towards work sharing and associated job creation. But the pressure is evident in many other countries, and takes many forms (earlier retirement, increased rest days, as well as shorter hours), in face of the same evidence of the persistence of large scale unemployment. This wider process means that we would not be exposed to an increase in *comparative* costs in Britain.

Unemployment for ever?

Methven: "Short term unemployment may remain high because our labour force will continue to increase. One reason is the bulge in the number of school leavers. This will peak around 1982 and then start to fall... In the longer term the number of unemployed is likely to stabilise at a higher level..."

Comment: So the perspective of the CBI as it repudiates the 35 hour week ("the shorter working week is an ingredient that we must do without") is that unemployment in the longer run will "stabilise at a higher level". Understandably, we are not told how much higher. But it surely removes the alleged difficulty that *Methven* argued earlier against the 35 hour week, that it might not cope with skill shortages. It is astonishing that with this perspective – which presumably incorporates the prospect of a CBI led "dash for growth" – *Methven* can say "the solution is not to share out the misery but to take action to cure it". For he has *denied* any major role to public spending and job creation "to cure it". And what is meant by "sharing the misery" if workers in jobs would in effect take part of their real pay improvement in increased leisure (as he said earlier,

a shorter working week is "desirable for a variety of reasons"), while we might avoid for hundreds of thousands the 25% or so loss of real income that accompanies longer term unemployment. Is Sir John advocating concentrating such misery on a "higher level" of unemployed workers for the long term?

There are two elements in his argument that might mislead, even here:

- a. It is made to seem as if the rise in the labour force will go into reverse after 1982. Not so. The Department's estimates (April 1978 Gazette) of the labour force show it rising by over 700,000 from 1978 to 1982, but then by over 800,000 more in the four years from 1982 to 1986 (and continuing to rise after).
- b. Methven's article continues with a strange paragraph that suggests that although unemployment will be higher it will be because "people tend to take longer to change jobs". Apparently getting people into the right jobs requires slower turnover of the unemployed "and the pool being bigger". This appears to be an attempt to argue as if a substantial part of the unemployment we see is a voluntary act, caused by people being "more concerned to find the right employment". It is, in fact, a well known phenomenon that as economies move into recession and unemployment increases, the length of time on the register increases. Methven's gloss on this is simply extraordinary, and he cannot have thought it through. For instance, if this *were* the reason for higher unemployment and slower "turnover", a change in preference by the people concerned would apparently reduce or remove our mass unemployment.

This strange world in which Sir John lives bears no relation to the reality of the unemployed, or the statistical analysis

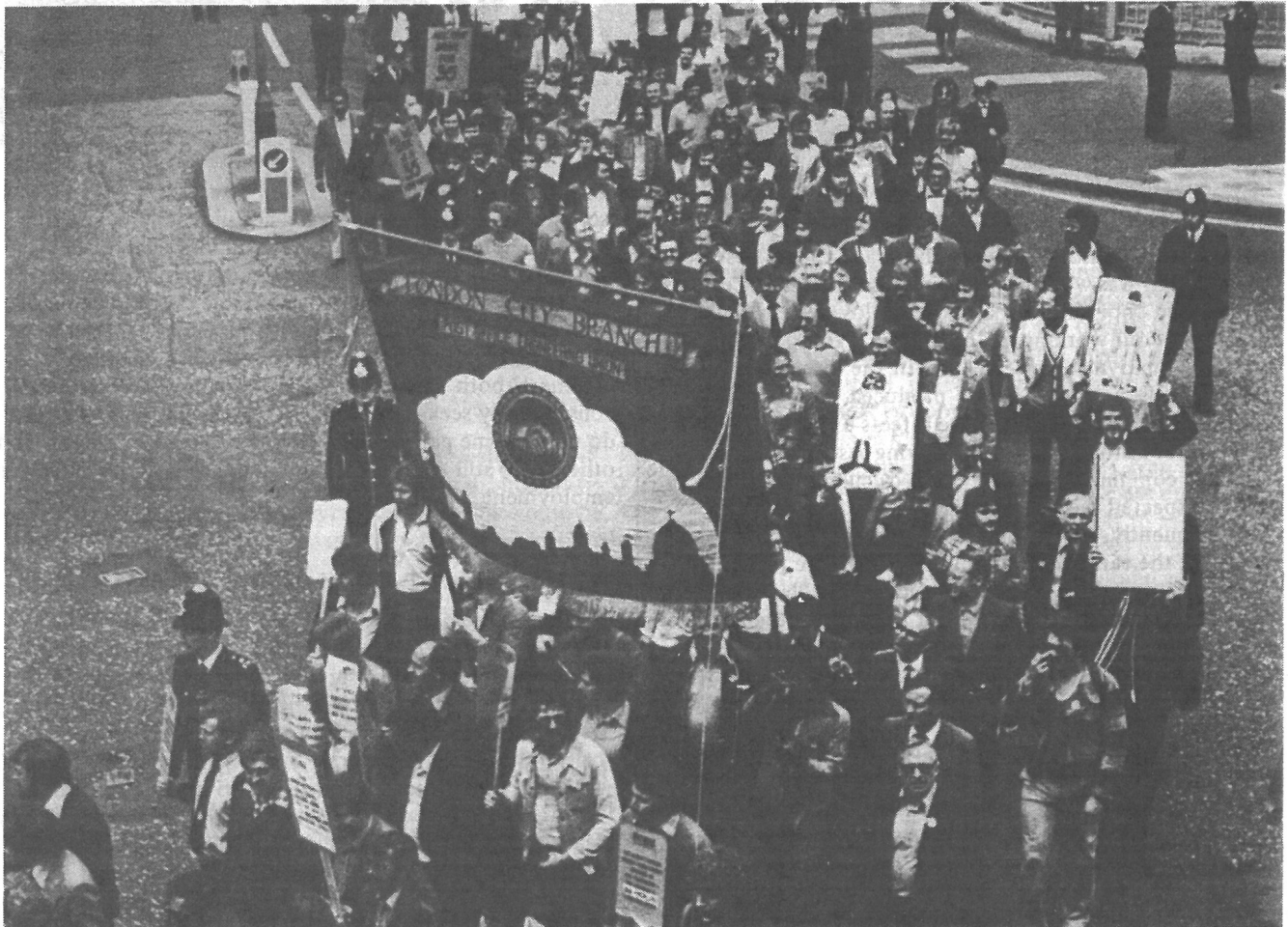
that has been conducted on them. TURU has no need to re-explore this subject because it has been excellently and definitively done already. The reader (and Sir John Methven) can be referred to the March 1978 *Economic Policy Review* of the University of Cambridge's Department of Applied Economics. At page 30 of that document is a special article "Evidence and Estimates of the Voluntary Increase in Unemployment". This emphasises (if it needed emphasising) that the main feature of larger scale unemployment is the increased numbers of long-term unemployed, and says:

"What evidence there is suggests that very few people have become voluntarily unemployed because of a change in attitude towards work and that the number who have extended their spell of unemployment in response to higher benefits is most unlikely to have exceeded 150,000 by 1976. Certainly, an increase in voluntary unemployment cannot be a major part of the explanation of the large rise in total unemployment."

Concluding comments

So the CBI cannot so easily avoid their responsibilities. They resist the shortening of working hours that could help to cut the number of unemployed. They resist a positive role in job creation for the public sector of the economy. They expect as a result a higher level of unemployment. They have not even offered any reason why unemployment having risen further (in the "short run", i.e. to the early 1980s) should then "stabilise" instead of continuing to rise. It is no use pretending that this higher level of unemployment is a voluntary act on the part of the unemployed, who are waiting for "the right job" to come along.

The dismal level of "argument" throughout Sir John Methven's article suggests that the CBI is intellectually bankrupt. The complacent acceptance of higher unemployment for the longer term suggests also that they are morally bankrupt.



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HOW the Department of Employment got it WRONG

Introduction

Some eighteen months ago, when the Trade Union Research Unit (TURU) was working on estimates of the likely effects of a reduced "normal" working on employment, we invited criticisms of our working methods from a group of Department of Employment researchers. In the discussion that ensued the Department's staff produced an extremely interesting set of estimates of the effects of both a 38 hour and 35 hour normal week — on varying assumptions. These estimates contained important new calculations; however, TURU respected the confidentiality of the data.

Subsequently, TURU published (in June 1977) a revised version of the earlier calculations — using more recent New Earnings Survey data — as a discussion paper "Now Is The Time For The 35 Hour Week". For its part, the Department of Employment has published in the most recent Gazette (that for April 1978) the main gist of its tabulation of the effects of reducing normal weekly hours; the estimates for the 35 hour week are unchanged, but a footnote amends the estimates for a 38 hour week. The table is attached to an article entitled: "Measures to alleviate unemployment in the medium term: work-sharing."

TURU warmly welcomes the publication of the Department of Employment table as it contains material that can further assist a reasoned debate on the issue of reducing working hours. However, it regrets the fact that the detailed

explanation of the estimates given is incomplete, and this article therefore sets out to explain in more detail the full import of the Department of Employment's table. Furthermore, it is even more regrettable that the comment in its article insofar as it deals with the 35 hour week is in part directly false (so far as past history is concerned) and in general both inadequate and misleading. This article consequently seeks to ensure that the Department's errors do not become part of the folk-lore of those employers and others who still resist the potential of the 35 hour week for employment creation.

The Department's Table and Its Significance

The Department's table is set out in its revised form in the Appendix to this paper. A number of comments are needed to bring out the significance of its findings.

i. The TURU approach was to identify from the data available in the New Earnings Survey what would be the scale of the change involved in bringing all existing "normal" weekly hours currently in excess of 35 hours (or for the variant 37 or 38 hours) down to the "target" figure. This is clearly meant to be a simplifying assumption (since the real world may not operate so tidily). In practice, it should be noted that as many "normal" weeks for non-manual workers are already in the range 37/38 hours a general

reduction in "normal" hours to 37/38 would mainly affect manual workers — particularly male manual workers — and this is of particular interest as unemployment is disproportionately concentrated among male manual workers. The effects of a further reduction to 35 hours would be felt by both manual and non-manual workers (though some non-manual workers, e.g., bank staff, already enjoy a 35 hour week). The full significance of this will emerge in the next section of this paper.

ii. The TURU approach went on to explore the effect of a reduced normal week on *employment*, on a series of assumptions as to how far the employment effects potentially generated by a shorter "normal" week might "leak" into other results. *Example A* in the Department of Employment's table contains the assumptions that TURU were then using. It should be noted that we were then assuming that *over half* the total impact of reduced hours would "leak" into results *other than employment creation*, so that it is somewhat misleading to label this (as the Department does) a "large employment effect" example. The "leaks" that may occur are of three kinds: increased productivity; increased overtime; and lower output. (Varying these assumptions produces not only different estimates of employment effects but also different estimates of cost effects).

iii. It is at this point that the Department's table fails to carry the full results of this approach. The method adopted produces estimates of *employment* effects, whereas the Department only publishes estimates of the effect of *registered unemployment*. The registered unemployment figures are based on a *further* assumption — no where clarified in the text of the Department's article — as to the relation between increased employment and reduced "registered" unemployment. As we understand it, the Department's assumption in the case of the 35 hour estimates was that the figure for the reduction in registered unemployment was only 65% of the figure for the rise in employment or to put it another way, the employment effect was *more than half as much again* as the published unemployment figure. So the Department's table should be extended to incorporate the following:-

Reduction to 35 Hours		
<i>(In thousands)</i>		
<i>Example: Increased Employment Reduced Unemployment</i>		
A	+ 738	- 480
B	+ 538	- 350
C	+ 385	- 250
D	+ 154	- 100

Thus, in broad terms the approach suggested that if around *half* the effects of reducing "normal" hours to 35 came through as an employment effect, this would be equivalent to around three-quarters of a million additional jobs.

iv. In subsequent TURU work we varied the assumptions to the "leakage" to reduce the assumed employment effect to only 40% of the total. But recalculation of the detailed working indicated that we had earlier *under-estimated* the employment effects. Consequently, our June 1977 article assessed the employment effect at around 750,000 even assuming that only 40% of the total effect came through as higher employment. It does not appear as if the Department rechecked its figures, which still incorporate earlier TURU estimates. Moreover, in an important sense TURU's later estimates are still *under-statements*. This is because they have been built up on the basis of full-time jobs, whereas some part of the total employment effect would involve

recruitment of part-timers. However, the material point is that the *later* TURU estimates indicate that the employment affect that would be attributable to the Department's "Examples" is larger than earlier assumed; thus, we would now estimate that if (Example A) 48% of the total effect of the shift to a 35 hour week took the form of increased employment, this would represent around an extra 890,000 jobs, and (on the same assumption as before of the reduction in registered unemployment being 65% of that) a fall in registered unemployment of about 580,000. The full revisions* for the Department's four examples are:-

Reduction to 35 Hours: Revised Estimates		
<i>(In thousands: rounded)</i>		
<i>Example: Increased Employment Reduced Unemployment</i>		
A	+ 890	- 580
B	+ 650	- 420
C	+ 470	- 300
D	+ 190	- 120

v. A further important aspect of the Department's estimates is that they incorporate calculations as to *the reduction in government expenditure*, that might be associated with any given example of the route to the 35 hour week. The figure given is for the "net" effect of savings on unemployment and associated benefits and increases in tax revenue (from higher total incomes), compared with "the increase in public sector labour costs". It is worth noting that the net saving in public revenue runs to several hundred millions p.a. To put this another way, if the government were to support a particular set of policies aimed at reducing working hours and raising employment, it would be rational to support such policies by very large scale public support (such as, the waiving or reduction of national insurance payments by employers on additional employees recruited).

vi. The approach adopted does not explicitly deal with a potential damage to employment prospects *if* the route to the 35 hour week were to weaken the competitive position of the national economy. This issue arises only insofar as any increase in labour costs generated by reducing "normal" hours moves significantly out of line with changes in labour costs in other major economies. In reality, Britain may so far be lagging behind effective "Work-sharing" pressures of other trade union movements (e.g. shorter week in Belgium; longer holidays in West Germany; planned rest days in the USA). But it remains important to discuss methods of moving to shorter hours that limit the overall increase in labour costs per unit of output that is involved. So far as the measurement of potential employment effects is concerned, the risk of job loss through generating competitive weakness can be handled as another "leak" into results other than employment creation. Given the very widespread persistence (or worsening) of mass unemployment in the major economies, it seems best to assume that several national trade union movements will be pushing in the same direction of "work-sharing" (without loss of pay), and that "net" competitive effects are likely to be small,

* The TURU paper, "Now Is The Time For The 35 Hour Week" (June 1977) sets out in some detail (cf. page 5) the basis from which estimates of the scale of the effects of reduced hours were derived. The TURU calculation of an intermediate reduction in working hours and its effects examined a 37 hour week (whereas the Department looked at a 38 hour intermediate step). On Example A assumptions we would expect the full achievement of a 37 hour "normal" week to raise employment by around 430,000 and reduce unemployment by over 300,000. (For the 38 hour week exercise, the Department assumed the fall in registered unemployment would be 77% of total employment created; on that assumption the fall in unemployment for the 37 hour week would be 330,000 on Example A assumptions).



John Sturrock (Report)

spread over a period of years, and difficult to disentangle from other influences on exchange rate adjustment.

The Overtime Problem: Why The Department Is Wrong

The Gazette article, both through the assumptions in the table and in its textual comments systematically exaggerates and misrepresents the role of overtime. In Examples B, C and D it assumes respectively that 35%, 25% and 40% of the total effects of reduced "normal" hours leak into increased overtime. How "realistic" is that? At the same time the Gazette article — discussing reduction of overtime working in another section of the article — concludes that reducing overtime "to open up more jobs for the unemployed" is "a more promising possibility" than a reduced working week. How realistic is that?

i. Historical Experience

The Gazette article becomes completely false at this point, and needs to retract publicly the following statement:-

"overtime working might increase — in the period 1964 to 1966 when the normal week for most manual workers fell from 44 hours to 40, almost half the potential for increasing jobs was taken up this way."

Some facts (all derived from the official indices):-

- The "normal" week for *manual men* was approximately 42 hours at the beginning of 1964 and fell towards the 40 hour week; the extent of the fall by the end of 1966 was approximately 1.7 hours.
- This was *fully matched* by the fall in actual working hours over the same period (these were surveyed through the six monthly surveys of earnings and hours); actual hours of work also fell by 1.7 hours.
- The changes for *manual women* were virtually identical. As measured by the official index "normal" hours for full-time women fell by 1.7 hours (from nearly 43 early in 1964 to just over 41 by the end of 1966). Actual hours, which were in fact *below* the level of "normal" weekly hours also fell by 1.7.

There is consequently absolutely no truth of any kind in the statement in the Gazette article.

The detailed tabulation is as follows:-

Weekly Hours: Men, All Industries*

Date	Actual Hours	Change from April 1964	Normal Hours	Change from April 1964
April '64	47.8		42.1**	
April '66	46.4	- 1.4	40.45	- 1.65
Oct. '66	46.0	- 1.8	40.4	- 1.7
April '67	46.1	- 1.7	40.36	- 1.74

Weekly Hours: Women, All Industries*

Date	Actual Hours	Change from April 1964	Normal Hours	Change from April 1964
April '64	39.9		42.9**	
April '66	38.5	- 1.4	41.2	- 1.7
Oct. '66	38.1	- 1.8	41.2	- 1.7
April '67	38.2	- 1.7	41.2	- 1.7

* The figures relate to manual workers. "All Industries" is somewhat misleading. It represents all the industries then surveyed.

**The official indices of "normal" weekly hours are presented as index numbers related to the base date. This was January 1966. The official tabulation did however give the exact number of normal hours at the base date (e.g. for men, 44.4; for women, 45.2). Hence, it is possible to derive and present accurate figures for the official estimated average "normal" week, as hours rather than as index numbers. Source: Ministry of Labour Gazettes: 1964 to 1967.

Had the Department of Employment wanted to treat the subject of historical experience seriously, they could have used their own data series, particularly for manual workers in manufacturing. What this shows is that over the last twenty years the "normal" week has broadly speaking fallen from 44 to 40. Actual working hours of operatives in manufacturing have in fact — from the data in Table 121 of contemporary Gazettes — fallen slightly more.*

It should be recognised that there is an element of cyclicity in actual weekly hours, particularly in manufacturing, around the long run declining trend. This does not, generally, lead to a division of more than about 1½% from trend. But it can lead to misleading comparisons if the dates compared are at different points in the trade

* A note for the unwary. New Earnings Survey data on actual hours worked relates to those who worked a full week in the survey period. The earlier data, using the six monthly surveys of manual workers, was based on these who worked all or part of the survey week. A careless comparison of earlier and later data will understate the decline in actual hours worked.

cycle. Comparing actual hours either at successive peaks or at successive troughs suggest that (until the most recent and severe recession) the fall in actual hours for manual workers in manufacturing was one of around 3½ hours as compared with the mid 1950s (compared with a fall of 4 hours in the "normal" week).

Thus the 1964 to 1966/67 data may be slightly misleading, in that in the same period the economy moved to a slightly lower level of cyclical activity. In the short run, and seeking to allow for cyclical factors, our expectation would be that there would be some – but proportionately fairly small – leakage from reduced "normal" works into increased overtime. In the long run the week worked appears to adjust largely to the fall in "normal" hours. There is no historical justification – even if the historical data is largely concentrated on male manual workers, whose overtime working is most pronounced for the high rates of "leakage" into overtime assumed in the Examples B, C and D in the Gazette article.

ii. Overtime: its characteristics

However, the irrationality of the Department's assumptions is all the more evident when it is recognised that only very low levels of overtime working are encountered *apart from* manual men. A reduction in the "normal" working week to 35 hours would affect very large numbers of women workers and non-manual men, and it would be very surprising indeed if these groups were to increase their very low levels of overtime working.

To put the issue in a slightly different way; to produce the high "leakage" of reduced "normal" hours into increased overtime assumed by the Department (Examples B, C and D) would require an *exceptionally high* "leakage" into overtime for reduced "normal" hours of manual men. There is absolutely no evidence to indicate that (say) 60% or 70%, or even more, of the reduction of hours of manual men would "leak" into overtime; yet this would have to be the case for the Department's assumptions to stand up.

From the most recent New Earnings Survey we can identify the average amount of overtime worked in the survey week by the four main categories of the labour force:-

Manual men	5.7 hours overtime
Non-manual men	1.2 hours overtime
Manual women	0.9 hours overtime
Non-manual women	0.3 hours overtime

(Data for workers whose pay was not affected by absence).

b. Within these categories, the following percentages of the total number involved worked *no overtime* in the survey period:

Manual men	43%
Non-manual men	82%
Manual women	84%
Non-manual women	91%

(In round figures, of the total number of full time employees at work the NES suggests that in any week less than 5 million are working overtime and around 13 million work no overtime at all).

Unless the Department is assuming that large numbers of workers at present working no overtime would begin to do so, its assumptions of a high "leakage" of reduced "normal" hours into overtime would require quite implausible increases in actual overtime hours worked. Thus our estimate is that the 40% "leakage" assumption would imply that those currently working overtime *increased* their overtime worked

by 5½ hours a week. If all this "leakage" were concentrated on manual men, it would require the average number of hours of overtime (currently around 10 per week for those who do work overtime at all) to rise by about 8 hours to 18 hours a week.

None of this is sensible. The Department has not thought its assumptions through. For instance supposing the "leakage" into overtime *were* 40% for manual men, then so far as we can judge this would apply a "leak" of around 23% to 24% overall. But there is no evidence for such high assumptions anyway. TURU's own initial assumption was that the overall "leakage" of the employment effect of reducing hours to 35 into overtime might be 12% of the total. We now think that may be slightly too pessimistic. But certainly any figure above 15% must be highly suspect, and none of the levels assumed in examples B, C and D can be treated as rational.

iii. Is Overtime Reduction a Preferable Alternative?

The Department:

"A reduction in overtime working to open up more jobs for the unemployed provided it does not increase industrial costs, is a more promising possibility."

More promising, the Department means, than a reduction in normal working hours.

The previous discussion has already suggested a number of reasons why the Department's view must be dismissed. Those can be set down briefly. There are further reasons why the Department view is grossly misleading.

- As negligible overtime is worked by non-manual workers and by all categories of women workers, the Department's approach (reducing overtime) would not generate more jobs in non-manual occupations or do much to create additional job opportunities for women manual workers. By contrast the shift to a 35 hour "normal" week would operate to create a very substantial increase in jobs for women workers and for non-manual men. (If only half the total effect of shortening the working week came through as increased employment in these sectors, it would generate some 400,000 jobs. If all overtime working by non-manual workers and women manual workers were halved it would generate only a little over 100,000 jobs).
- It has long been a familiar part of the analysis of overtime working to recognise that high levels of overtime working relate particularly to inadequate basic pay rates. It would be possible and reasonable, to recognise this within a collective bargaining policy and to give priority to linking planned reductions in overtime with improvements in basic pay rates. But it cannot be assumed that such an approach would be costless, or could operate swiftly and on a large scale. It would be at least as possible for collective bargaining on reduced normal hours to connect phased reductions in the "normal" week with controls to prevent "leakage" into additional overtime, or to seek some reductions in overtime working. In other words, it is wrong to pose the question of overtime reduction as an *alternative*; the objective of collective bargaining is likely to embrace the reduction of *both* actual *and* "normal" hours to secure a shorter *real* working week without loss of pay.
- In many industries there are important underlying operational reasons why levels of overtime persist. These are obviously important in terms of cyclical and seasonal variations in levels of demand in many manufacturing industries, transport, etc.
- In a number of cases the rigidities of recent incomes

policies have created serious local or regional problems of maintaining or increasing the manning of particular services which are seriously below their proper "establishment". The difficulties in recruitment (or retention) in such cases may well spill over into increased pressure on workers to work overtime. (A recent example of such recruitment difficulties is that of London bus services). Here too, it is difficult to avoid the conclusion that reducing overtime is not the simple issue it may seem to some, and that it cannot be disconnected from a wider need to review terms and conditions of work.

The Cost of Reduced "Normal" Hours

In conclusion, we should also challenge the suggestion of the Department's article that a reduction of "normal" hours to say, 35 a week is necessarily and in some burdensome sense "costly". There are four reasons why this is not so.

Firstly, the persistence of large scale unemployment in all the major European economies, and in North America is leading to a redirection of trade union policies towards "work-sharing" in many countries. This is already leading to a rapid extension of the 38 hour week in Belgium. In West Germany trade union pressure for the 35 hour week and for longer holidays has already led Chancellor Schmidt to recognise that cuts in working hours could help reduce unemployment (*Financial Times*: May 17, 1978).

United States trade unions are making progress in increasing "rest days". Given that the full achievement of a 35 hour week is likely to stretch to the early 1980s, there seems to be no serious problem of a single country finding that its costs are moving seriously out of line with comparative costs in other countries solely because of progress in work sharing. We have heard of the "convoy" approach to economic recovery of the European economies; "work-sharing" can be helped to move in convoy as a major contribution to the return to full employment.

Secondly, insofar as reduced normal hours generate a substantial increase in employment and fall in unemployment they generate important *reductions* in social costs and in public (net) financial costs. The Department's own analysis has indicated that the full realisation of the 35 hour week *without* loss of pay could (over the whole range of its assumptions) be expected to generate a net gain in public sector financing terms of several hundreds of millions of pounds — *after* taking into account the higher labour costs of the public services.

Thirdly, there is every reason to assume that the style of company level bargaining that would be involved would include elements of "productivity" or "efficiency" bargaining. This would be likely to contribute to gains in efficiency,

both in capital and labour utilisation (e.g. improved attendance; revised shift patterns; more planned manning of jobs) which would substantially scale down the total increase in *unit* costs involved. (Three of the four "Examples" used by the Department assumed that improved output per man hour would absorb 40% of the total effects of the transition to the 35 hour week; this obviously lowers the expected employment effect, but it also lowers the costs involved). Were such a process of increasing efficiency to be associated with the transition to a shorter week it would mean that an important increment of real output and incomes helped work-sharing to share prosperity. To advance this argument is to argue that in the *present* context the benefits of efficiency bargaining are far more likely to be attainable as part of the move to reduced hours *than in any other way*. For otherwise the possibility that efficiency bargaining may lead to job loss must be, in a context of large scale unemployment, a most severe constraint on trade unions and shop stewards.

Fourthly, bargaining for tangible reductions in working hours (whether reduced weekly hours, or increased rest days) will be seen by most workers as bringing a real benefit, a real improvement, in the package of pay and conditions. Access to increased leisure, especially if it is available in units that are sizeable enough to be meaningful, is a clear gain in the "standard of living". If the outcome of such bargaining over work and leisure is *both* seen as a material gain in personal welfare (increased leisure) *and* as supportive of job creation and therefore a wider welfare benefit it may be expected to moderate the pressure for other real improvements in the effort-reward bargain. From this point of view it is highly mechanical and misleading to argue as if *nothing else would change* if a move to the 35 hour week featured prominently in collective bargaining. We can no longer assume that the "cost" of the 35 hour week could be a clear addition to whatever other costs were involved in all other collective bargaining pressures. This time as on previous occasions (the shift to the 40 hour week) the trade unions will rightly demand the shorter week without loss of pay. But that cannot be assumed to generate a clear and directly measurable additional inflationary push on costs. Neither in the period when "normal" hours fell from 44 to 42 nor in the period when they fell from 42 to 40 was there any evidence of acceleration in the inflation of labour costs (as compared with earlier or later cycles that had no such component of reduced "normal" hours).

The trade union movement should neither accept the argument that the 35 hour week would be too costly nor should it accept the argument that it would not help substantially in creating jobs.

APPENDIX Department of Employment Figures Effects of reducing normal weekly hours without corresponding loss of pay

Example	Reduction to 35 hours			Reduction to 38 hours		
	Registered unemployment	Labour costs	Government expenditure	Registered unemployment	Labour costs	Government expenditure
	'000's	per cent	million	'000's	per cent	million
A Large employment effect	- 480	+ 7.0	- £650	- 200	+ 2.5	- £250
B Intermediate employment/ low productivity	- 350	+ 8.5	- £950	- 150	+ 3.0	- £350
C Intermediate employment/ high productivity	- 250	+ 6.1	- £700	- 100	+ 2.2	- £250
D Small employment effect	- 100	+ 6.4	- £800	- 40	+ 2.2	- £300

Source: Department of Employment Gazette, April 1978, Vol.86, No.4, page 402.

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