

Informational Barriers to Compensatory Bargains: Why Workers Defend Obsolete Jobs

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Abstract

This paper presents a novel explanation of why workers may seek to defend redundant jobs rather than accepting compensation for job loss. Existing scholarship explains the non-emergence of compensatory bargains with reference to commitment problems. I show that information problems can prevent the emergence of compensatory bargains even if the government can fully commit. Incomplete information prevents the government from screening between the intended beneficiaries of its compensation policy and opportunistic claimants. To limit opportunism, the maximum compensation that a government can offer is less than the expected costs of job loss. This, however, preserves the intended beneficiaries' incentive to defend their jobs. Empirically, I study the failure of a compensatory solution to technological job losses in postwar Britain. New evidence from government and union archives shows that information problems deterred the government from offering full compensation to displaced workers, leading to the persistence of inefficient conflict in British industry.

Key words: compensation, political economy, technological change, trade unions, credible commitment

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In a world of international economic competition, a country's welfare depends on its ability to introduce new technologies at the greatest possible speed.¹ Often, however, technological change creates losers who may insist on the preservation of an inefficient status quo despite its costs for the broader public.² In principle, it should always be possible for a government to use the tax and transfer system to redistribute the gains from new technologies in a way that fully compensates those who lose out, eliminating their incentive to resist change.³ The government has a clear incentive to compensate the losers of technological change if the losers are veto players, i.e., if they can interfere with the introduction of new technologies. Under such circumstances, purchasing the acquiescence of the losers through the provision of compensation is the way to ensure that new technologies are introduced at the socially optimal pace, thereby preserving a country's international competitiveness.

Why don't compensatory solutions always arise? Existing scholarship in political economy offers two main explanations for the non-emergence of such solutions. According to the first, *commitment problems* account for the persistence of inefficient social arrangements. Losers of a productivity-enhancing change may reject compensation and insist on the preservation of an inefficient status quo because they fear that the compensation offered by the winners will be withdrawn after they acquiesce. Commitment problems are ubiquitous explanatory devices in political economy research: indeed, many scholars treat commitment problems as *the* explanation for the persistence of inefficient social arrangements.⁴ A second explanation for the non-emergence of compensatory solutions is that there are certain goods

¹Mokyr (1992, 1994); Milner and Solstad (2021).

²See, canonically, Mokyr (1998); Acemoglu and Robinson (2000).

³This is true by definition: if the technology raises social welfare, this means the benefits it provides are greater than the costs it creates. The benefits can therefore be redistributed in a way that leaves everyone at least as well off as they had been before.

⁴Notably, North (1993); Acemoglu and Robinson (2000); Acemoglu (2003). Applications in political science include Baccini and Urpelainen (2014) on commitment problems as a cause of failure in economic reform and trade liberalization and Gazmararian and Tingley (2023) on commitment problems as cause of opposition to green transition policies. On commitment problems as cause of inefficient outcomes in international politics, see Powell (2004).

in life for which compensation is intrinsically inadequate. These can be characterized as *commensurability problems*: in some cases, the compensation offered might be incommensurable with the value that some actors assign to certain features of an inefficient status quo. This makes a bargained departure from the status quo impossible.⁵

Both of these problems surely play a role in the persistence of inefficient social arrangements.⁶ It may be, however, that their prevalence has been overstated due to the lack of theoretically satisfying alternative explanations. In this paper, I propose a third explanation for the non-emergence of efficient compensatory solutions. I do so by building on an implication of the Coase Theorem: namely, that efficient bargains fail to arise if actors can opportunistically adjust their behavior in response to the availability of compensation.⁷ In the context of technological change, a government may be inclined to use compensatory benefits to buy the acquiescence of workers who act as veto players by using the threat of strike action to prevent employers from dismissing workers who have been made redundant by new technologies. The problem is that the availability of full compensation for job loss may elicit an opportunistic response from both employers and workers. Employers may use the availability of full compensation for job loss to shed workers for reasons unrelated to technological change. They may, for instance, offload low-productivity older workers whom they would otherwise retain on payroll until retirement. Workers may respond to the availability of full compensation by reducing the effort they supply on the job, thereby running the risk of dismissal. Workers may also reduce the effort they supply in the search for new work once dismissed. From the government’s perspective, the costs of exploitation of the compensation scheme by employers and workers – through an increased fiscal burden and

⁵See discussion in Lindvall (2024). Pelc (2025) applies an argument of this sort to explain why workers may reject “buyouts” aimed at securing their acquiescence to job loss. Kuziemko et al. (2023) appeal to a similar logic to explain American workers’ opposition to compensation. A theory of bargaining failure along these lines is developed in Bénabou and Tirole (2009).

⁶Lindvall (2017) highlights additional causes of bargaining failure when the government is comprised of more than one actor. This paper focuses on the causes of bargaining failure in the simplest setting: when the government is a unitary actor.

⁷Coase (1960).

reduced labor supply – may outweigh the benefits of buying workers’ acquiescence to technological restructuring, deterring the government from offering full compensation in the first place. This, in turn, can lead to the persistence of an inefficient status quo as workers at risk of technological redundancy continue to use strike threats to preserve their jobs.

The opportunity to strategically exploit the availability of compensation is a function of an underlying *information problem*: the government cannot perfectly screen between non-strategic claimants (those who genuinely lose their jobs or fail to find new employment as a result of technological change) and strategic claimants (workers who lose their jobs as a result of opportunistic labor-shedding by their employer or who are dismissed or fail to find new employment as a result of inadequate effort). I argue that this information problem explains why the maximum compensation that governments are willing to offer workers who lose their jobs as a result of technological change may be less than the full cost of job loss. By offering *partial* compensation for the costs of technological displacement, a government can limit the extent to which its compensation policy is exploited by opportunistic employers and workers. The problem, of course, is that a policy of partial compensation also preserves workers’ incentives to resist workforce downsizing following the introduction of new technologies. This, in turn, may deter employers from attempting to introduce productivity-enhancing technologies, leading to a sub-optimally slow rate of technological progress.

To demonstrate the empirical relevance and explanatory power of this theory, I study the politics of compensating workers for technological redundancy in Britain during the era of its relative decline in the decades after the Second World War. As I argue below, the British case is one in which we would *most expect* a government to devise a compensation scheme that succeeded in buying workers’ acquiescence to job loss, making it a *least likely* case for the failure of an efficient solution. This is because of the widespread agreement at the time that unionized workers were exercising veto power over workforce downsizing, discouraging investments in new technology and undermining the competitiveness of British industry. This ubiquitous view of unionized workers as veto players in the process of in-

dustrial modernization led to the emergence of a political consensus about the need to buy unionized workers' acquiescence to job loss by providing compensation to those who lost their jobs as a result of technological change. The British government did, indeed, introduce a compensation scheme of this sort in the form of the Redundancy Payments Act of 1965. This policy failed, however, to achieve its goal of bringing an end to conflict over workforce restructuring in British industry.

Drawing on archival evidence from the Ministry of Labour, the Treasury, and Britain's largest manufacturing union, the Amalgamated Engineering Union (AEU), I show that the Redundancy Payments Act failed to achieve its desired objective as a result of policy design choices that reflected the information problem theorized in this paper. Given the government's inability to screen between the intended beneficiaries of the compensation policy and opportunistic claimants, the government was compelled to offer less than full compensation for job loss. Following the introduction of the policy, the AEU continued to support its members' efforts to fight for their jobs on the grounds that the level of compensation provided by the government was less than what was necessary to make up for the costs of job loss. I show that this union's resistance to job losses cannot be explained on the basis of fears about the non-credibility of the government's promises (a commitment problem) or on the basis of beliefs about the intrinsic inadequacy of compensation (a commensurability problem). Rather, the union's obstinacy was a result of the inadequate amount of compensation offered by the government, which reflected the information problem theorized here.

The theory developed in this paper explains why inefficient 'overmanning' and the associated problem of low investment and lagging productivity in British industry was not solved through a compensatory policy to 'buy out' workers in redundant jobs. More generally, this paper provides a new analytic tool for political economists by explaining how information problems lead to the breakdown of compensatory bargains, even when the government can fully commit and even when compensation can, in principle, meet the costs of job loss. This tool may be broadly applicable for explaining the non-emergence of compensatory solutions

to assist displaced workers in the context of trade liberalization, market-oriented reform, and the green transition. In all of these settings, we know that workers may insist on the preservation of inefficient jobs or regulations: the theory developed in this paper may help to explain why this is the case.

The first section of the paper explains how information problems can lead to the persistence of inefficient social arrangements. The second section applies this theory to the problem of workforce adjustment to technological change. The third section introduces the British case. The fourth section draws on archival evidence from the British Ministry of Labour and Treasury to show that information problems limited the generosity of the compensation policy that emerged in the Redundancy Payments Act of 1965. The fifth section draws on archival evidence from the AEU to show that the union continued to support militant resistance to job loss because of the inadequate compensation provided under the Redundancy Payments Act. In both of these sections, alternative explanations based on commitment problems and commensurability problems are entertained and rejected on the basis of the evidence. In the concluding section, I discuss the theory's scope conditions and consider the broader applicability of the theory to examples drawn from the political economy literature on trade liberalization and the green transition.

1. How information problems impede compensatory solutions

The theory developed in this paper takes as its starting point the Coase Theorem, which states that inefficient allocations of rights will always be consensually replaced by efficient allocations of rights so long as transaction costs are low.⁸ The actor who derives the greatest benefit from possessing a right will simply purchase the right from its current holder. A 'political' extension of the Coase Theorem might read as follows: a consensual shift to an efficient allocation of rights should always emerge through the use of the tax-and-transfer

⁸Coase (1960) and Medema (2020) on the interpretive literature.

system to provide offsetting compensation to those who benefit from and are able to enforce an inefficient status quo (i.e., veto players), so long as transaction costs are low.⁹

A common criticism of the Coase Theorem is that it rests on naive assumptions regarding human behavior and is not strategy-proof.¹⁰ To illustrate this, consider Coase's own example of the rancher whose cattle stray onto a farmer's land and destroy his crops. If the value of the crops destroyed is greater than the value of the grazing opportunity, the farmer should be able to pay the rancher to keep the cattle off his land, leading to the consensual emergence of efficient grazing rights whereby the rancher is fully compensated for the grazing restrictions he accepts. A clear problem not addressed by Coase is that other ranchers may catch word that the farmer is offering payments to keep his land cattle-free. Strategic ranchers will therefore drive their cattle onto the farmer's land to extort payments. In other words, the incidence of the harm is endogenous to the availability of compensation, since individuals who had not previously created the harm may begin to do so in order to receive compensation. This can eliminate the possibility of an efficient bargain. If the value that the farmer places on untrammelled crops is greater than the value that the non-strategic offender placed on the additional grazing opportunity offered by the farmer's land, but is less than the value of the compensation that the farmer would expect to pay to both the non-strategic offender and the strategic offenders who seek to extort payments, then the farmer will not offer compensation and the inefficient status quo will persist. If there were some way to screen between the authentic and strategic offenders, an efficient bargain would still be possible, since the strategic ranchers could be excluded from the bargain, eliminating their incentive to drive their cattle onto the farmer's land. The compensatory solution only fails when screening is impossible or so costly that it outweighs the value of a deal.

As this makes clear, the 'strategic behavior' objection to the Coase Theorem is in fact internal to the logic of the theorem itself, even though Coase does not engage with this

⁹North (1993); Acemoglu (2003).

¹⁰On the general point see Cooter (1982, 8-9), on how the availability of compensation may distort behavior. Also Medema (2020, 1063-1065).

problem directly. The opportunity to engage in strategic behavior is a function of incomplete information, which arises because information acquisition is costly. Coase's core point, that transaction costs stand in the way of efficient solutions, remains intact. The fact that information problems can lead to the failure of compensatory solutions is not appreciated in the literature on the persistence of inefficient institutions, which has focused on commitment problems and to a lesser extent on commensurability problems. The differences between these theories are captured in **Table 1** below. The claim that there are three separate causes of the failure of compensatory solutions can be understood as a domestic analog to Fearon's canonical delineation of three rationalist explanations for war, or in other words, for the non-emergence of efficient bargains in international politics.¹¹ Fearon proposes that commitment problems and issue indivisibility (which is equivalent to a commensurability problem: the intrinsic properties of some goods mean that they are not amenable to bargained solutions) are two possible causes of bargaining failure in international politics. But Fearon also highlights the role of incomplete information as a cause of conflict: states seek to extort more favorable deals than are warranted on the basis of their capabilities or resolve by misrepresenting their capabilities or resolve. If states could see through each others' posturing and deception, efficient bargains could be struck based on relative capabilities and resolve. Unfortunately, however, they often cannot. The argument in this paper is that information problems also prevent efficient bargains in domestic politics.

2. Information problems in the context of technological displacement

The information problem elaborated above helps to explain why governments may not fully compensate the losers of technological change even when the losers are veto players. The argument developed here is focused on the labor market losers of technological change – workers who lose their jobs as a result of technological restructuring and struggle to find new employment as a result of the obsolescence of their skills. A government has an incentive to

¹¹Fearon (1995).

Table 1: Three causes of the failure of compensatory solutions

Type of problem	Cause of failure
Commitment problem	Government offers full compensation; veto player insists on status quo because she fears that the government will renege after she has acquiesced.
Commensurability problem	Government offers what it thinks is full compensation; the veto player insists on status quo because <i>no</i> compensation can replace valued features of the status quo.
Information problem	Government does not offer full compensation because of concerns about opportunism; veto player insists on status quo because of the absence of full compensation.

compensate these workers inasmuch as they may exercise veto power over workforce restructuring within individual firms through the threat of strike action. Workers are more likely to be able to exercise veto power when they are organized in unions, since unions coordinate collective action and subsidize strikes by partially replacing the wages their members forgo while on strike. Though unions rarely oppose the introduction of new technologies, they do sometimes insist that employers abstain from dismissing workers whose existing roles within the firm are made redundant by the introduction of new technologies.¹² The goal is to compel employers to keep these workers on payroll and to redeploy them to new tasks, providing additional training as necessary. Unionized workers' efforts to restrict personnel reductions following the introduction of new technologies may discourage firms from introducing new technologies in the first place, even if this is not the unions' or workers' intent.¹³ This leads to a reduced pace of technological change, which may be undesirable to a government because slower innovation may impede economic growth, undermine international competitiveness, and reduce the likelihood that the government is able to remain in office.

Why might governments nonetheless abstain from fully compensating workers who are displaced by new technologies? The argument of this paper is that governments abstain from

¹²See Sections 3 and 5 below.

¹³Canonically, Grout (1984); see also the literature on the British case cited below.

offering full compensation because they recognize that they lack the information to prevent the exploitation of such a policy by both employers and workers. Employers can exploit a compensation scheme by using the opportunity to get shed labor for reasons unrelated to technological redundancy. Employers may be especially inclined to opportunistically get rid of older workers, whose wages often exceed their marginal productivity.¹⁴ Under normal circumstances, employers are dissuaded from dismissing older, low-productivity workers out of concern that this would undermine the power of seniority pay as an incentive device and lead to workplace conflict or demoralization. These constraints disappear if workers are fully compensated for job loss: employers can shed older workers with impunity because the worker, being fully compensated, suffers no hardship as a result. Accordingly, neither the affected worker nor any other workers at the firm have reason to complain.

A policy of full compensation for job loss can also be exploited by workers. By definition, a system of full compensation makes workers indifferent between keeping and losing their jobs. This will lead at least some workers to supply less effort on the job than they had previously, thereby running the risk of dismissal.¹⁵ For the same reason, workers who become unemployed may choose to stay home rather than seek out new work. This includes workers who are dismissed because of technological redundancy but who could, in principle, find new work. The provision of full compensation for job loss can thus lead to a decline in workers' propensity to supply effort on the job and in the search for new work.¹⁶

The vulnerability of a full compensation policy to exploitation by employers and workers is a reflection of the government's inability to screen between intended and unintended recipients of compensation. Under perfect screening, compensation would be restricted to

¹⁴Lazear (1979).

¹⁵The argument that worker effort is increasing in the costs of job loss is canonically developed in Shapiro and Stiglitz (1984).

¹⁶This is an elementary point in labor economics (e.g., Boeri and van Ours 2013). the point of the argument here is to explain how the well-known disincentive effects of compensation for job loss can undermine the possibility of an efficient bargain to overcome resistance to technological restructuring.

workers who are dismissed as a result of technological redundancy and who are unable to find new work because of the obsolescence of their skills. Such screening is, however, made difficult because dismissal and hiring decisions are made in a decentralized way by a large number of private employers. For the government to determine whether a given dismissal was really driven by technological redundancy, it would be necessary to possess information about the firm's production methods and labor requirements that could be acquired only through a costly and intrusive process. Likewise, to determine whether a worker's continued unemployment was the result of inadequate effort or rather a result of the obsolescence of his skills, the government would need much information about the worker's day-to-day behavior and detailed information about the basis of potential employers' decisions not to hire him.

To be sure, these informational problems are not categorically insurmountable. Many governments do, as a matter of fact, attempt to screen between workers who are dismissed for disciplinary reasons and those who are dismissed on 'economic' grounds. Likewise, many governments attempt to verify whether unemployed workers are engaged in a sufficiently vigorous search for new work and try to sanction those who are not. The problem is that measures aimed at preventing the exploitation of compensation also increase the likelihood that the intended beneficiaries of the policy will be denied benefits, reducing the expected value of compensation to workers contemplating the prospect of job loss (i.e., the amount of compensation times the likelihood that the worker will actually receive it). This, in turn, reduces the efficacy of the policy as a means of encouraging veto players to acquiesce to dismissal. To outweigh this reduction in the expected value of compensation, a government would have to correspondingly increase the monetary value of the compensation provided to workers who *are* deemed eligible. But this would raise the overall cost of the program and intensify the disincentive effects among workers who are deemed eligible for compensation.

The argument developed here does not change if we incorporate the possibility that employment carries certain non-material benefits such as social status, a sense of purpose, and so forth. "Full compensation" for job loss can be understood to entail compensation for

these losses along with lost wages and benefits. Likewise, the argument does not meaningfully change if we focus our attention on active labor market policies – retraining and mobility assistance – as an alternative form of public compensation for workers who lose their jobs. Active labor market policies can only be understood to *fully* compensate workers for the costs of job loss if the government guarantees that workers who are dismissed on grounds of redundancy will be re-employed in another job at an equivalent wage (along with compensation for the inconveniences of relocation and retraining). Eliminating the costs associated with unemployment through a re-employment guarantee would induce similar behavioral distortions as would transfer payments.

In short, the availability of full compensation can distort behavior to such an extent that the costs of the compensation program may outweigh the intended benefits of buying workers’ acquiescence to job loss. The only available path for a government faced with this predicament is to reduce the value of the compensation offered to a level that makes it sufficiently unattractive for exploitation. The problem is that if the compensation offered is only partial, workers facing dismissal continue to have an incentive to restrict employers’ ability to engage in downsizing following the introduction of new technologies.

3. Britain as a least likely case for the failure of a compensatory solution

To illustrate the empirical relevance and explanatory power of the theory developed above, I turn to Britain during the era of its relative decline in the decades following the Second World War. Between the 1950s and the 1970s, Britain experienced lower GDP growth than all of its peer countries while the productivity of its manufacturing sector fell behind that of foreign competitors and its share of international markets shrank drastically.¹⁷ Although scholars have canvassed many explanations for Britain’s under-performance, many prominent observers have granted an important role to worker-imposed restrictions on employers’ control over dismissal. These employment rigidities are thought to have created a

¹⁷See, e.g., Broadberry and Crafts (2003).

crisis of ‘overmanning’ in British industry, saddling firms with excess labor and discouraging employers from investing in labor-saving technologies. The ostensible result was wasteful industrial conflict, declining productivity, and reduced international competitiveness.¹⁸

These scholarly conclusions largely mirror the dominant view in British public debate in the postwar period. Britain’s relative decline was a topic of intense public consternation from the late 1950s onward.¹⁹ This was accompanied by growing public focus on labor-saving technological change as a key to unlocking productivity growth and restoring the competitive position of British industry.²⁰ By the early 1960s, a new conventional wisdom had formed that the informal restrictions on dismissal imposed by unionized workers were holding back productivity and discouraging investment in new technologies, thereby undermining the competitiveness of British exports.²¹ In other words, it came to be widely believed that unionized workers were acting as “veto players” on industrial modernization by using the threat of strike action to deter dismissals. This was captured in the OECD’s March 1962 report on the United Kingdom, which showed that the overall growth rate and the rate of increase in industrial productivity in Britain in the 1950s was less than half that of the member states of the European Economic Community. The report asserted that Britain’s performance had been “hampered by a certain lack of labor mobility” which was, in turn, a consequence of “labour attitudes” and specifically “a tendency for labour to resist dismissals

¹⁸See e.g., Hall (1986: 44-45), who observes that unionized workers’ control over “manning levels” and their efforts to “protect their jobs” in the postwar period made it “difficult and costly for British manufacturers to introduce labor-saving forms of technology.” Zysman (1983, 178) criticizes British unions for “resisting industrial change” and “defend[ing] the industrial status quo.” Similar views can be found in Eichengreen (2007, 124), Foreman-Peck et al. (1995, 179-184), Broadberry (1997: 316-317), and Crafts (2018, 87-96). Skeptical views about the role of unions in Britain’s economic decline are summarized in Edgerton (2018).

¹⁹See e.g., Tomlinson’s (2002, 1965) discussion of “panic” about Britain’s relative decline in the first years of the 1960s. See also Jefferys (1997, 110-112).

²⁰See for example the Department of Scientific and Industrial Research’s 1956 report *Automation: A report on the technical trends and their impact on management and labour* (DSIR 1956). On the technological changes of the period, see Booth (2006).

²¹See e.g., Middlemas (1990, 32, 49).

– evidenced by the number of strikes related to this cause.”²² Similar views were expressed by the National Economic Development Council (NEDC), a tripartite economic planning body created by the Macmillan government in 1962, in its 1963 report *Conditions Favourable for Faster Growth*.²³ Prominent pundits such as Michael Shanks of the *Financial Times* and Andrew Shonfield of the *Observer* stressed worker resistance to job loss as a key source of underperformance in British manufacturing.²⁴

Alongside this widespread agreement about the problem of worker resistance to job loss, there emerged a consensus across the political spectrum that it was the British government’s responsibility to solve this problem. The emergence of this consensus was a consequence of the perceived failure of the “voluntaristic” strategy to address worker resistance to job loss pursued by the Conservative Macmillan government from the late 1950s.²⁵ The idea had been to promote ‘redundancy agreements’ between employers and workers’ representatives at the firm or industry level that would establish procedures for economically motivated dismissals, including advance notice provisions and lump-sum ‘redundancy payments’ to workers who were dismissed. In principle, such agreements could eliminate opposition to workforce downsizing, facilitating technological adaptation in British industry.²⁶ The Labour opposition was similarly hesitant to endorse statutory intervention and instead urged the spread of voluntary redundancy agreements, much like their Conservative adversaries.²⁷

Policymakers soon, however, grew impatient with this “voluntaristic” approach to the problem of conflict over workforce restructuring. Most workers remained uncovered by re-

²²OECD (1962, 15).

²³NEDC (1963, 10).

²⁴Shanks (1961: 141-145); Shonfield (1965: 113).

²⁵On voluntarism, see Crouch (1982, 30).

²⁶Ministry of Labour: National Joint Advisory Council: Provision for Redundancy NJC 346 (c. 1962), in LAB 13/1653.

²⁷Even in its 1961 policy statement *Signposts for the Sixties*, the Labour Party said on the subject of redundancy agreements that “it is high time that what is now the exception became the rule” (Craig 1990, 26). This leaves unclear whether the party is calling for the spread of voluntary agreements or statutory intervention.

dundancy agreements.²⁸ Even at firms where redundancy agreements had been established, it was not clear that the modest compensatory payments offered by employers were sufficient to buy workers' acquiescence to job loss. In major industries like engineering, unions refused to conclude a national redundancy agreement with the employers' federation on the grounds that this would mean consenting to the meagerly compensated dismissal of their members. Strikes against redundancy remained a prominent cause of disruption and British firms were widely believed to carry unnecessary workers on payroll in order to avoid costly conflicts over dismissal.²⁹ It was increasingly seen as necessary for the government to step in and buy workers' acquiescence to job losses that arose from technological change and associated processes of industrial restructuring. The rationale was stated clearly by John Hare, the Conservative Minister of Labour:

we must adjust ourselves to more rapid industrial and technical advance and the consequent changes this must have on employment. We should not and cannot allow this to take place at the expense of the individual. The fear of change and what it can mean is a powerful incentive to resist change and to slow it down by all possible means. We have to ensure that the need for change is accepted and that there is co-operation in creating an efficient and more flexible economy. The problem of security—of helping the worker to face change with confidence—is basic to our industrial efficiency.³⁰

Similar conclusions were reached in the aforementioned report of the National Economic Development Council (NEDC). The NEDC concluded that unless measures are taken to “avoid the hardship of redundancy...the fear of redundancy will make workers oppose change.”³¹ Acknowledging the inadequacy of the existing social insurance provisions, NEDC endorsed statutory intervention to address “the financial loss which often accompanies job

²⁸The Conservative report *Industrial Change: the Human Aspect* reports that only 15% of manufacturing workers were covered by voluntary agreements (Conservative Political Centre 1963, 23).

²⁹See section 5 below and Appendix F.

³⁰Hansard, 4 Feb 1963.

³¹NEDC (1963, 10).

displacement.”³² Meanwhile, opinion within the governing Conservative Party shifted decisively in favor of statutory intervention to buy workers’ acquiescence to technological redundancy. Prime Minister Macmillan gave the green light to a statutory compensation scheme in the spring of 1963, expressing the belief that the scheme would play a central role in the government’s broader economic strategy.³³ The Conservative Party Advisory Committee on Policy’s sub-committee on industrial relations (created in 1962) produced a report in 1963 entitled *Industrial change: the human aspect* stating on the topic of redundancy that “we are convinced that no satisfactory solution will be found if the problem continues to be left entirely to voluntary negotiation between employers and trade unions.”³⁴ This remarkable rejection of ‘voluntarism’ in favor of statutory intervention was echoed by the Conservative Party Conference of October 1963, which “urge[d] the Government to lay down basic standards of compensation for employees in the event of redundancy causing loss of wages.”³⁵ A similar pivot took place within the Labour Party and the party endorsed a statutory redundancy scheme at its 1963 conference. This partially reflected entrepreneurship by Labour MPs like Julius Silverman and John Diamond, who repeatedly introduced private members’ bills supporting a statutory compensation scheme from 1962 onward. Liberals like Jeremy Thorpe also spoke out in the House of Commons in favor of statutory intervention to provide compensation to displaced workers.³⁶

As this evidence shows, by 1963 a consensus had emerged that workers’ resistance to technologically necessary dismissals was a key source of inefficiency in the British economy, that the magnitude of the problem was large, and that government intervention to provide compensation for technological job loss was the efficient solution. This makes Britain of the 1960s a *most likely* case for the emergence of a solution to end resistance to job loss by

³²NEDC (1963, 12).

³³Note from Macmillan to the Minister of Labour, 25 February 1963, in PREM 11/4918.

³⁴Conservative Political Centre (1963, 23).

³⁵In Craig (1990, 82).

³⁶Hansard, 4 February 1963.

providing compensation to displaced workers. The same considerations make Britain a *least likely* case for the failure of a compensatory solution. In other settings, one might expect a compensatory solution to fail because of pervasive disagreement about the nature of the problem, the gravity of the problem, or the need for government intervention to solve the problem. But given the political consensus in Britain, why wasn't the government able to bring an end to worker-imposed restrictions on dismissal? Existing scholarship observes the problem of workers' resistance to dismissal but does not explain why an efficient solution to this problem did not emerge.³⁷ It is to this question that we now turn.

4. How information problems limited the generosity of compensation

Under such circumstances, it should have been possible for the British government to offer a level of compensation to workers at risk of technological redundancy that would have made them indifferent between keeping their jobs and being dismissed, bringing an end to inefficient conflict over technological job loss in British industry. The British government did, indeed, introduce a compensation policy that aimed to resolve the problem of worker resistance to job loss. This was the Redundancy Payments Act (RPA) of 1965, which mandated that employers make lump-sum payments to any workers dismissed because their roles had become redundant. Around two thirds of the cost would be reimbursed by a central fund that was financed by a special tax on all employers.

This section draws on new evidence from the files of the Ministry of Labour and Treasury at the National Archives that dealt with the development of the Redundancy Payments Act from its origin in 1962 to the passage of the bill in 1965. The evidence is drawn from intra- and inter-ministerial correspondence between key officials as well as from the memoranda of inter-ministerial committees on the development of the redundancy payments scheme. To fix ideas before turning to the evidence, **Table 2** summarizes the observable implications of the three different theories of the failure of compensatory solutions canvassed in Section 2.

³⁷See references at the start of this section.

In this section and the one that follows, we will see that the evidence is most consistent with the observable implications of compensation failure driven by an information problem.

Table 2: Observable implications of three theories of the failure of compensatory solutions

Type of problem	Observable implication: government	Observable implication: trade union
Commitment problem	Offers compensation at or exceeding the monetary costs of job loss, knowing it can renege later.	Expresses satisfaction with the level of compensation; voices concern that the government may renege.
Commensurability problem	Offers compensation sufficiently generous to meet the monetary costs of job loss.	States that no compensation can replace non-monetary features of the status quo.
Information problem	Expresses concern that compensation will be exploited; offers compensation that is less than the monetary costs of job loss.	Expresses dissatisfaction with the level of compensation; demands more generous compensation.

The British government’s goal in designing a compensatory scheme was to provide compensation that was sufficiently generous to buy redundant workers’ acquiescence to job loss while minimizing the opportunities for exploitation by workers and employers. First and foremost, this required that compensation be restricted to genuinely “redundant” workers. A redundant worker, as envisioned by the Ministry of Labour, was a worker who was dismissed because his employer no longer needed *anyone* to perform the tasks that the worker had previously performed. This definition excluded workers who were dismissed because they were slow or ineffective at performing a given task (and would therefore be replaced by another worker) as well as workers who were dismissed because of a temporary decline in the employer’s labor requirements. The desire to target compensation to redundant personnel ruled out the possibility of compensating redundant workers by expanding the unemployment insurance system.³⁸ The expansion of unemployment insurance would primarily benefit

³⁸At the time, Britain had a flat-rate unemployment insurance system, meaning that all unemployed workers received the same benefit irrespective of their prior wage. The amount of unemployment benefit for a typical worker is discussed in Appendix C.

workers who were dismissed for reasons unrelated to redundancy.³⁹ The Ministry of Labour estimated that perhaps 150,000-300,000 workers were made redundant per year in the early 1960s, whereas approximately 2 million workers received unemployment benefits each year. The problem was clear: on the one hand, providing all unemployed workers with benefits sufficiently generous to buy redundant workers' acquiescence to job loss would "discourage mobility" and "reduce [workers'] incentive to seek and accept alternative employment." On the other hand, an expansion of unemployment benefits that was modest enough to avoid these incentive problems would not achieve the policy's intended goal of buying workers' acquiescence to redundancy, since "it is unlikely that [such] benefits could be provided on a scale sufficient to remove the financial worries of the higher paid worker [facing job loss]."⁴⁰ In the words of Treasury officials, expanding unemployment insurance to deal with the problem of resistance to redundancy was "badly aimed," "wasteful," "ineffective," and "self-contradictory, because [expanded benefits] would reduce the incentive to find fresh employment."⁴¹

Policymakers therefore sought to design a separate scheme that would allow for compensation to be provided only to workers who were really "redundant" in the sense elaborated above. But distinguishing redundant workers from workers who were dismissed for other reasons required information that the government did not possess. Only the employer himself really knew why he had dismissed a given worker. As stated in the National Joint Advisory Council's memorandum on redundancy (c. 1963), "it seems unavoidable that in practice distinguishing redundancies from other dismissals must rest very largely in the first place on the employer who knows the full circumstances at first hand."⁴² This is because "[i]t would probably be quite impracticable for employment exchanges or any similar statutory agency

³⁹See the report of the Interdepartmental Committee on Redundancy, p. 6, in T 311/107.

⁴⁰Report of the Interdepartmental Committee on Redundancy, p. 15. In T 311/107.

⁴¹See the Treasury's memorandum on redundancy (C.P. (64) 91) on 29 April 1964, in PREM 11/4918.

⁴²in LAB 10/1861.

to separate those discharged because of redundancy from those discharged for other reasons (e.g., inefficiency).” The government would therefore have to rely on the employer’s own view about whether the dismissal was undertaken because of redundancy or not.

The problem was that employers’ incentives were not aligned with those of the government. Relying on the employer to determine whether a given dismissal was on grounds of redundancy raised the possibility that employers would use the availability of publicly financed compensation to offload workers for reasons unrelated to genuine redundancy.⁴³ Officials at the Ministry of Labour and Treasury believed that a publicly financed compensation scheme would enable “collusion” between employers and workers whereby employers would classify dismissed workers as ‘redundant’ irrespective of the true cause of their dismissal so that the worker would be eligible for compensation.⁴⁴ Such collusion would be attractive to employers because it would make it easier for them to undertake conflict-free dismissals. Concerns about collusion around “bogus” redundancy claims weighed heavily on policymakers in both the Ministry of Labour and Treasury.⁴⁵ This collusion was, of course, only possible because the government lacked information about the true cause of dismissal.

Given these information asymmetries, officials at the Ministry of Labour recognized that they could only control the abuse of the compensation scheme by employers if the employer responsible for the dismissal internalized a substantial part of the payment.⁴⁶ The problem was that requiring employers to make large compensatory payments to redundant workers would, it was thought, encourage labor-hoarding and disincentivize the very workforce re-

⁴³See e.g., comments by Under-Secretary of the Ministry of Labour Alan Marre in his memo “Redundancy Proposals – case for a central fund,” 16 Oct. 1963, in LAB 10/1982; also Hare’s comments at the National Joint Advisory Council’s sub-committee on redundancy meeting in July 1963 in LAB 10/1861.

⁴⁴See the notes for the Minister of Labour’s meeting the British Employers’ Confederation, Nov. 1963, in LAB 10/2024. William Armstrong, permanent secretary to the Treasury, raises a similar concern in his letter to James Dunnett, permanent secretary of the Ministry of Labour, on 4 Feb 1965, in LAB 10/1982.

⁴⁵See letter from Ministry of Labour official Kenneth Barnes to Treasury official Leo Pliatzky on 23 Nov 1964, in T 227/2225.

⁴⁶See Dunnett to Armstrong, 8 Feb. 1965, in LAB 10/1982.

ductions that a statutory redundancy payments scheme was meant to facilitate.⁴⁷ On the other hand, compensation payments that were low enough to be affordable to most employers would also be grossly inadequate in many cases to make up for the costs of job loss, meaning that they would fail to achieve the policy's central purpose of encouraging redundant workers' acquiescence to dismissal. The solution was for the government to mandate that employers pay out the full cost of compensation to workers dismissed on grounds of redundancy and then to reimburse a share of the cost of the payment after the fact.

Even with this safeguard in place, officials recognized that a large share of dismissed workers would receive compensatory payments, including many who were not the intended beneficiaries of the policy. This raised the concern that a generous compensation scheme would cause serious labor supply problems by undermining unemployed workers' incentives to undertake a vigorous job search. Treasury officials emphasized that a displaced worker receiving both unemployment benefits and a redundancy payment might "get virtually the same income as when in employment" and stressed that the introduction of statutory redundancy payments scheme would create a "real danger" of "raising payments to the unemployed to a level which will discourage them from seeking work."⁴⁸ One Treasury official even expressed concern that "[o]ne could drift into a position where there was chronic over-compensation for loss or change of job."⁴⁹ This was echoed by John Boyd-Carpenter, Chief Secretary to the Treasury, who wrote in relation to the question of redundancy payments that "in the long-term view there is a real risk that over-compensation for unemployment could favour stagnation rather than growth."⁵⁰

Various policy designs that attempted to overcome these problems were rejected as self-defeating. Insisting on a narrow definition of redundancy and laboriously investigating the

⁴⁷See letter from Dunnett to Armstrong on 14 Dec 1964, in LAB 10/1982.

⁴⁸J.E. Hansford to Carswell and Harding, 6 March 1963, in T 227/1498; H.A. Harding to Maude and Petsch, 8 March 1963, in T 227/1498.

⁴⁹J.P. Carswell to Harding, 7 March 1963, in T 227/1498.

⁵⁰John Boyd-Carpenter to Minister of Pensions and National Insurance Niall MacPherson, 18 March 1963, in T 227/1498.

causes of dismissal in individual cases would undermine the efficacy of the scheme for encouraging acquiescence to redundancy. As deputy secretary of the cabinet Michael Cary pointed out in a 1963 memorandum for the prime minister, a narrow definition of redundancy “might well cause as much trouble with unions as the [redundancy payments] scheme would be supposed to obviate.”⁵¹ A similar point was made by Under-Secretary of the Ministry of Labour Alan Marre: a narrow definition of redundancy would defeat the very purpose of the legislation, since the imperfect screening procedures established to enforce such a definition would end up excluding a considerable share of genuinely redundant workers and would therefore fail to provide an adequate inducement to acquiesce to job loss.⁵² Similarly, the idea of making part or all of the compensatory payment conditional on a sufficiently vigorous job search was rejected on the grounds that this would undermine the efficacy of the payment as a tool for buying acquiescence to dismissal: a conditional offer would create uncertainty in workers’ minds about whether they would actually receive the compensation and thereby lower the expected value of the policy.⁵³ The only available solution was to limit the generosity of the payments provided to redundant workers: if payments were less than what was necessary to meet the full costs of job loss, employers and workers would have fewer incentives to opportunistically claim compensation and workers who did receive the compensatory benefit would remain incentivized to seek out new work.

The implementation of the Conservative government’s plan for redundancy payments was delayed because of resistance by British employers. Archival evidence on employer lobbying is presented in detail in Appendix A; the position of the Trades Union Congress is discussed in Appendix D. The Labour government that came to power in October 1964 pushed the compensation policy forward by acquiescing to employers’ demands; evidence on this bargaining process is presented in Appendix B. The policy outcome, embodied in

⁵¹1963 memo on “Severance Payments” by Michael Cary in Prem 11/4918.

⁵²See Marre’s comments in a meeting of 29 November 1963, in LAB 10/2024.

⁵³This is discussed in the Department of Employment Review of the Redundancy Payments Scheme circa 1972, in T 224/2758.

the Redundancy Payments Act of August 1965, granted workers redundancy payments at a scale of half a week's pay for every year of service up to the age of 21, one week's pay for every year of service over the age of 21 and up to 40, and one and a half weeks' pay for every year of service after the age of 40, with a maximum of twenty reckonable years of service. Around 70% of the value of every redundancy payment would be reimbursed by a newly created redundancy fund, financed by a special tax on all employers. Payments of this scale provided only partial compensation to workers who were dismissed on grounds of redundancy unless they managed to rapidly find new work at their previous pay rate. This is shown by way of example in Appendix C. This conclusion does not change if we incorporate the earnings-related unemployment benefits introduced by the Labour government in 1966. A British worker facing the prospect of redundancy in the late 1960s would have been unlikely to see the compensation provided under the RPA (plus unemployment benefits) as sufficient to make him willing to acquiesce to job loss.

The RPA is typically classified as an 'employment protection' law because, at first glance, it raised the cost of dismissal by obligating employers to make a cash transfer to workers they dismissed. But understood in the context of widespread *de facto* restrictions on dismissal, the purpose of the law was to *lower* the cost of dismissal by bringing an end to costly conflict over the shedding of redundant workers. As should by now be clear, the goal of the law was to facilitate labor shedding – precisely the opposite of 'employment protection.' As we saw above, the reason why the employer responsible for a given dismissal bore even part of the cost of the redundancy payment was primarily to control the cost of the program. This was meant to discourage employers from opportunistically engaging in 'unnecessary' dismissals for reasons unrelated to genuine redundancy.

The archival evidence from the Ministry of Labour and Treasury provide no evidence that the government believed it would be able to renege on the policy after it was introduced, which is what we would expect on the basis of a commitment-based theory. On the contrary, policymakers were preoccupied with the details of policy design precisely because they

recognized that the compensation scheme brought into being by the Redundancy Payments Act was likely to become a durable feature of the British welfare state. Likewise, we do not observe the government offering full monetary compensation for job loss, which is what we might expect if the ultimate failure of the compensatory solution (see below) were caused by commensurability problems. Rather, we see policymakers limiting the generosity of the policy because of concerns about exploitation, which reflected the government's underlying information problem.

5. Why compensation failed to buy acquiescence to job losses

To show that the effects of the Redundancy Payments Act were consistent with the predictions of this paper's theory, this section focuses on the British engineering industry, which comprises the manufacture of vehicles, machinery, and electrical equipment. Engineering was the largest part of British manufacturing and was Britain's key export industry.⁵⁴ It was also the industry in which strikes against redundancy were especially prominent: the primary union in British engineering, the Amalgamated Engineering Union (AEU), was the union most notorious in Britain for its willingness to fight all efforts by employers to dismiss workers on grounds of redundancy. Prominent pundits like Michael Shanks of the *Financial Times* singled out the AEU in 1961 for its "ostrich-like policy" on redundancy in his book *The Stagnant Society*.⁵⁵ Similarly, *Economist* contributor Richard Denman declared in 1960 that the AEU's policy on redundancy was the "most important" cause of what he considered to be a "fantastically uneconomic distortion of manpower" brought about by firms' avoidance of dismissals. Denman urged the AEU to "grow up" and drop its policy of opposing redundancy so that "the employers would lose some of their terror at declaring anybody redundant."⁵⁶ Although these authors' opprobrium may have been unjustified, they were certainly right in recognizing the significance of the AEU's position on the issue: organizing

⁵⁴See e.g., Broadberry (1997).

⁵⁵Shanks (1961, 144). See also Wigham (1961, 51).

⁵⁶"The real problem in the Midlands," *Coventry Evening Telegraph*, 8 December 1960.

almost a million members and around 26% of the engineering workforce in the mid-1960s, the AEU was rightly regarded as the “brigade of guards” of the British labor movement and as a union whose strategic choices had major implications for the British economy as a whole.⁵⁷ Further information on the union is presented in Appendix E.

In this section, I draw on previously untapped evidence from the archives of the AEU, which are housed at the Modern Records Centre at the University of Warwick. The core of the evidence is drawn from the proceedings of the annual meetings of the AEU’s National Committee, the union’s policy-making body. The National Committee was a 52-person deliberative council consisting of two delegates from each of the union’s 26 geographic divisions. These delegates were selected by the heads of the union hierarchy in the large engineering firms within each division.⁵⁸ Further evidence is drawn from the annual meetings of the Confederation of Shipbuilding and Engineering Unions (CSEU), a group of thirty-four unions that formulated common bargaining demands to bring to the Engineering Employers’ Federation. As the largest union in the CSEU by far, the AEU played a dominant role.

The AEU’s National Committee first staked out its position on the issue of technological job loss in 1956, insisting that there was to be “[n]o redundancy arising from introduction of automation” and that “labour so displaced [was] to be retained on pay-roll pending alternative work without loss of earnings.”⁵⁹ The National Committee reaffirmed its position repeatedly over the years that followed: while the 1956 resolution dealt specifically with redundancy created by automation, the following years’ resolutions adopted a more general opposition to redundancy. The AEU National Committee’s 1957 resolution stated that “where redundancy is threatened we instruct our Executive Council to warn the employers that this Union will move into action to safeguard the livelihood of our members” and that

⁵⁷This line is Herbert Tracey’s, quoted in Edgerton (2018, 205).

⁵⁸See Boraston et al. (1975, 10-40).

⁵⁹Amalgamated Engineering Union, “Report of the Proceedings of the Thirty-Eighth National Committee...1956,” 236-237, in MSS.259/AEU/4/2/8.

“the necessary action will be taken to enforce our demands.”⁶⁰ This position was reaffirmed in the subsequent years.⁶¹ The AEU was not opposed to the introduction of new technologies: rather, its goal was to compel employers to find a new role within the firm for workers whose existing roles within had been rendered unnecessary, providing further in-house training as needed. Its strategy was to use the threat of strike action to compel employers to retain workers who would otherwise be dismissed. Though the union recognized that it would not succeed in every strike against job loss, the point of the AEU’s strategy was, in the words of a member of its executive council, to “make dismissal so costly to the employer that he would not indulge in it with such frequency and ease as he did at the moment.”⁶² In short, by supporting strike action in opposition to redundancies, the union aimed to achieve a *de facto* employment guarantee for its members. Examples of the union’s implementation of this strategy are presented in Appendix F.

The union’s policy meant, first of all, that it was opposed to a voluntary industry-wide agreement between the CSEU and the Engineering Employers’ Federation that would establish standardized scales of employer-financed payments to workers declared redundant, since this would entail an admission that employers were free to dismiss as they saw fit.⁶³ The union was hostile to the ‘voluntaristic’ approach to the redundancy problem advocated

⁶⁰AEU, “Report of Proceedings of the Thirty-Ninth National Committee...1957,” 239, in MSS.259/AEU/4/2/9.

⁶¹AEU, “Report of Proceedings of the Forty-Second National Committee...1960, 241, in MSS.249/AEU/4/2/10; AEU, “Report of Proceedings of the Forty-Third National Committee...1961,” 285, in same MSS; AEU, “Report of Proceedings of the Forty-Fourth National Committee...1962,” 222, in same MSS; AEU, “Report of Proceedings of the Forty-Fifth National Committee...1963,” 294-295, in MSS.259/AEU/4/2/11.

⁶²Confederation of Shipbuilding and Engineering Unions, *Report of Proceedings of the Twenty-fifth Annual Meeting, 21-24 June, 1960* (Newcastle: Co-operative Printing Society, 1960), 197, in MSS.787/323.

⁶³Resolutions or amendments to this effect were voted down in 1959 and 1963; see AEU, “Report...1959,” 229, in MSS.249/AEU/4/2/9; AEU, “Report...1963,” 295-296, in MSS.259/AEU/4/2/11. The AEU continually used its clout as by far the largest union within the Confederation of Shipbuilding and Engineering Unions (CSEU) to prevent the CSEU from pursuing an agreement of this sort with the Engineering Employers’ Federation.

by the Ministry of Labour in the late 1950s. The AEU was, however, equally hostile to statutory intervention on the issue of redundancy. The AEU's National Committee made this unambiguously clear when an overwhelming majority voted down a resolution in 1964 calling for a statutory redundancy payments scheme.⁶⁴

The AEU's position was based on the belief that a national compensation scheme – whether established through a centralized agreement between unions or employers or by statute – would fail to actually compensate workers for the full costs of job loss. In the words of Claude Berridge, a member of the AEU's seven-man executive council, a national compensation scheme was to be rejected because “the payment of a few pounds in compensation could in no way be considered as a dispensation of the employers' responsibility to their workpeople.” Accordingly, Berridge thought that “we could not stoop to negotiate at national level for a few crumbs swept from the rich man's table for compensation.”⁶⁵ As he put it in 1960, “we [are] not collecting odd coppers [i.e., a negligible sum] for workers declared redundant.”⁶⁶ Berridge stressed the small monetary value of the compensation that workers could expect from a national compensation scheme, whether established by voluntary agreement with employers or through statutory intervention. This is not what we would expect if the union's rejection was motivated by the inadequacy of compensation irrespective of the sum involved (i.e., a commensurability problem).

Stronger evidence for this view can be gleaned from the union's response to the passage of the Redundancy Payments Act in 1965. After a national redundancy payments scheme had been enacted, the AEU's National Committee unanimously passed a resolution demanding that the RPA be amended to require employers to pay a redundant worker's full wage “until

⁶⁴AEU, “Report...1964,” 272, in MSS.259/AEU/4/2/11.

⁶⁵Confederation of Shipbuilding and Engineering Unions, *Report of the Proceedings of the Twenty-fourth Annual Meeting...1959* (Newcastle: Co-operative Printing Society), 145, MSS/787/322.

⁶⁶CSEU, *Report...1960*, 198, MSS.787/323.

acceptable alternative work is provided.”⁶⁷ This demand was re-iterated in 1968.⁶⁸ This indicates clearly that the AEU was willing to acquiesce to redundancy if workers were fully compensated for the cost of job loss through the indefinite payment of their previous wage. As we saw in the previous section, a compensation scheme of such generosity was a non-starter for British policymakers. In the absence of full compensation, the AEU re-affirmed its categorical opposition to redundancy and continued to insist that “no dismissals shall take place until suitable alternative work is found.”⁶⁹

Some might propose that the AEU rejected compensation because of a commitment problem, i.e., because it feared that the government would renege on its offer of compensation after the union acquiesced. But the debates within the AEU and between the AEU and other unions in the engineering industry provide no evidence that any actor within the AEU was concerned that the government would reverse the compensation scheme after it had been introduced. Rather, they emphasized the inadequacy of the compensation they were offered or expected to be offered. This weighs strongly against a commitment-based explanation. The fact that the AEU was not concerned about a commitment problem reflects the reality that there was widespread agreement across the Conservative and Labour parties about the need for statutory redundancy payments, as discussed in Section 3 of this paper. As we saw above, there is similarly little evidence for an explanation based on a commensurability problem: rather than stressing the intrinsic inadequacy of compensation, as this theory would predict, the AEU emphasized the inadequate generosity of the compensation offered and demanded more generous payments. It is also worth considering whether the AEU’s position reflected the union leadership’s proprietary interest in membership retention or

⁶⁷AEU, “Report of the Proceedings of the Forty-Eighth National Committee...1966,” 303, in MSS.259/AEU/4/2/13.

⁶⁸AEU, “Report of the Proceedings of the Fifteenth National Committee...1968,” 302, in MSS/259/AEU/4/2/13.

⁶⁹AEU, “Report of the Proceedings of the Forty-Eighth National Committee...1966,” 304, in MSS.259/AEU/4/2/13; AEU, “Report...1967,” 349.

the union's putatively 'non-encompassing' character. These alternative explanations are entertained and rejected in Appendix G.

As a result of the fact that the level of compensation provided under the Redundancy Payments Act failed to meet the AEU's standard of what would constitute satisfactory compensation for job loss, the union continued to endorse opposition to job loss through strike action, as we saw above.⁷⁰ Continued fear of strikes encouraged employers in the engineering industry to abstain from personnel reductions that they may have otherwise undertaken. This was true, for instance, in the car plants of British Leyland, the national champion comprising Austin, Morris, Rover, Jaguar, and other marques. Concerned that mass dismissals would lead to strikes and wishing "to avoid a fight," British Leyland's chairman Donald Stokes abstained from undertaking perhaps 30,000 redundancies in 1968-1969 and instead sought "to expand [the company's] production sufficiently to justify its surplus man-power."⁷¹ Stokes's decision reflects the deterrent power of threats to resist redundancies by engineering unions like the AEU. Management's concerns about conflict over workforce reduction are believed to have led to persistent 'overmanning' and to have contributed to the crisis of productivity at British Leyland in the 1970s.⁷²

Many academic observers see the problems at British Leyland as in some ways characteristic of those of British engineering as a whole. For scholars like Broadberry, the declining performance of British engineering in the 1970s was in large part a result of the presence of an excessive number of workers on payroll at British firms, which reflected employers' desire to avoid conflict with unions over dismissal. In Broadberry's view, "massive labor shedding" and a "shake-out of employment" would have been necessary to restore the competitive position of British engineering.⁷³ The British government could have overcome the

⁷⁰See also AEU, "Report...1970," 211, in MSS/259/4/AEU/4/2/14; AUEW [Amalgamated Union of Engineering Workers, the AEU's new name after merging with several smaller unions] "Report...1973," 213, in MSS.259/AEU/4/2/15.

⁷¹Turner (1971, 179-181). The quotations are Turner's words.

⁷²E.g., Foreman-Peck et al. (1995, 179-184).

⁷³Broadberry (1997, 316-317); see also Crafts (2018, 87-96).

problem of resistance to redundancy by increasing the generosity of the payments it offered to redundant workers. As we have seen, however, concerns surrounding the disincentive effects of full compensation for job loss under imperfect screening limited the generosity of the compensation that the government was willing to offer. The tradeoff was aptly summarized by Treasury economist David Norgrove in 1973 in the context of a review of the Redundancy Payments Act: a redundancy payments scheme will either “provide adequate compensation for redundancy” or maintain “incentives to seek a new job. It is unlikely to do both.”⁷⁴

6. Scope conditions and implications

Why can't governments simply use compensation to buy the acquiescence of actors who might otherwise resist adaptation to new technologies? This paper introduces a new answer to this question based on the government's inability to ensure that its offer of compensation will not be opportunistically exploited. This vulnerability is a function of the government's lack of information. The empirical relevance of this approach has been demonstrated with reference to the problem of conflict over labor force adjustment in postwar Britain. While many scholars have stressed the importance of this conflict for explaining Britain's relative decline between the 1950s and 1970s, no scholar has explained why this conflict was not overcome through the provision of full compensation to workers made redundant by new technologies. This paper has shown that incomplete information constrained the generosity of the compensation that the government was willing to offer, leading to the persistence of inefficient conflict in British industry.

Why did Britain struggle with the problem of worker resistance to job loss more than other advanced democracies in the 1960s and 1970s? In West Germany, Britain's chief industrial competitor, workers had a much more limited ability to contest job losses: workplace institutions made plant-level strikes illegal in almost all circumstances and facilitated the co-optation of plant-level worker leaders by management.⁷⁵ Thus, workers were not veto

⁷⁴Letter to Mountfield, 8 March 1973, in T 244/2758.

⁷⁵Hohn (1988); Borgmann (1987); Kotthoff (1981); Schultz-Wild (1978).

players in the process of industrial adjustment and the German government did not need to buy workers' acquiescence to job loss: it could simply provide whatever level of compensation it thought morally appropriate or electorally expedient. Although many scholars point to Sweden as a case in which the government designed a successful retraining program and thereby achieved union buy-in for flexible adjustment to technological change, this as a myth promoted by the architects of what was in fact a highly dubious policy.⁷⁶ The economic literature widely dismisses the view that Sweden's postwar retraining programs were effective.⁷⁷ Swedish unions, having concluded on their own that government-sponsored retraining as practiced in the 1960s did not satisfactorily address the costs of job loss, attempted to foist severe dismissal restrictions on employers in the early 1970s and pushed the government to preserve obsolete jobs by subsidizing uncompetitive firms.⁷⁸ Thus, while it can be said that West Germany achieved successful industrial adjustment in the 1970s as a result of institutions that prevented workers from exercising veto power, the very idea of Sweden as a 'success story' is misleading: the Swedish economy experienced close to zero per capita growth in the 1970s, a result even worse than Britain and dismal in comparison to West Germany.⁷⁹

As these comments suggest, it is important to highlight several scope conditions for the theory developed in this paper. First of all, the theory is relevant only in settings where the actors who would lose out from a departure from a status quo are also veto players. If the would-be losers cannot block a departure from the status quo, the government has little incentive to provide compensation (though it may still provide some compensation for moral reasons). Second, the theory only applies when the repression of veto players is not a viable

⁷⁶Rehn (1985: 79).

⁷⁷Flanagan (1987: 157-158); Calmfors (1993: 33); Edin and Topel (1997: 167); Forslund and Krueger (1997: 294).

⁷⁸For the unions' assessment, Anderman (1967: 135). Lundberg (1985); Henning (1984).

⁷⁹In 1980, Swedish real GDP per capita stood at 103% of its 1970 level. In Britain, the equivalent figure was 110%, while in west Germany it was 136% (Penn World Tables; Feenstra et al. 2015).

alternative strategy (i.e., when repression is more costly than the persistence of an inefficient status quo). This is a corollary of the prior point: if veto players can be repressed, they are not really veto players.⁸⁰ Third, the theory only applies in situations in which the boundaries of the group that the government is trying to compensate are indeterminate (e.g., ‘workers declared redundant by their employers’). This indeterminacy is what allows opportunistic claimants to present themselves as intended beneficiaries of a compensatory measure. When veto players are clearly defined individuals (e.g., the legal owners of a particular asset), it is easy for the government to offer targeted compensation without fearing that its offer will be exploited by opportunistic claimants.

Even with these scope conditions in mind, this paper provides political economists with an analytic tool that is potentially of broad applicability for explaining the failure of policies aimed at winning over the support of unionized workers whose livelihoods are threatened by technological change, free trade, or the green transition. I briefly discuss two examples upon which the informational theory developed in this paper may shed new light. Firstly, one may ask why Trade Adjustment Assistance, introduced by the Kennedy administration in 1962, failed to avert protectionist backlash against free trade among American unions. Given the analytic tools provided in existing scholarship, it would be tempting to explain this with reference to a commitment problem. But the issue was not that unions feared that the government would renege on the compensation it offered through TAA. Rather, the problem was that the level of compensation in TAA was not enough to meet the costs of job loss. This reflected policy choices that limited the generosity of compensation offered through TAA and established stringent eligibility rules to ensure that it would not disincentivize job search or be exploited by opportunistic claimants. This reduced the expected value of the compensation to workers who faced trade-induced job loss. Given this upper bound on the compensation the federal government was willing to offer, the AFL-CIO became a

⁸⁰On repression as an alternative to compensation, Adserà and Boix (2002); Dean (2022).

protectionist force in American politics, throwing its weight behind the Burke-Hartke bill of 1971 and opposing the Trade Act of 1974.⁸¹

A second example is the United Mine Workers' opposition to the United States's Clean Air Act (CAA) in 1990. Gazmararian and Tingley argue that the UMW's opposition reflected the non-credibility of government commitments to compensation. But the evidence they provide is more consistent with the informational theory developed in this paper: the majority in the U.S. Senate rejected the generous compensation scheme proposed by Senator Robert Byrd because of the program's expected cost, which was high in part because the government had no way of effectively screening out coal miners who lost their jobs for reasons other than the impact of the CAA.⁸² A much less generous compensation scheme was included in the final version of the bill.⁸³ The UMW maintained an antagonistic posture toward the CAA thereafter, citing Congress's failure to pass Byrd's compensation proposal.⁸⁴ It seems that the union's position was *not* based on the fear that the government would renege on the compensation it offered in the CAA: the problem was that the compensation offered in the CAA was manifestly less than the costs of job loss for affected coal miners. This is not to deny that credibility concerns play a role in the political economy of the energy transition, which is Gazmararian and Tingley's broader point: indeed, they present much compelling evidence that commitment problems play an important role in this arena. But the example of the UMW's opposition to the CAA suggests that the research agenda on the green transition can benefit from the widened theoretical toolkit proposed in this paper.

These examples suggest that the theory developed in this paper may indeed be of broad applicability for problems in political economy. While some types of social conflict are surely explained by commitment problems or by the intrinsic inadequacy of compensation, not every conflict fits into one of these two molds. Information problems also have an important

⁸¹The account here is consistent with Alden (2016, ch. 6) and Benton (2022, chs. 5-7).

⁸²Gazmararian and Tingley (2023: 158).

⁸³Ibid., 161-163.

⁸⁴Ibid., 116.

role to play in explaining inefficient social outcomes, including outcomes of considerable historical significance such as the decline of British manufacturing in the decades following the Second World War. The argument developed in this paper also suggests that enhancing the government's ability to 'credibly commit' may not resolve all of the problems that scholars are concerned about when it comes to winning over the support of groups threatened by technological change, free trade, or the green transition. The concerns of members of these groups may reflect the inadequate level of compensation offered by the government rather than the credibility of the government's commitment to the compensation it offers. The inadequacy of the compensation that the government offers may, in turn, reflect information problems that are difficult if not impossible for a government to overcome.

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