The questions the three wise men forget

J. R. Campbell

THE decision of the Trades Union Congress to give evidence before the Committee on Prices, Production and Incomes ("the three wise men") will no doubt enhance the importance of that body and it is therefore important to examine what it is aiming to do.

The general idea is that it will be an impartial body explaining to the Government, the Employers and the Unions and to the population at large, what kind of wages and profits policy should be pursued "in the public interest". Yet when one looks at the composition of the committee it is difficult to see why it can be expected to have any different point of view from that of the Tory Government advisers in the Treasury or in the City. Sir Denis Robertson's place amongst British bourgeois economists is somewhat right of centre. His views on the necessity of the workers refraining from pressing for increased wages are well known. Sir Harold Howitt, a chartered accountant, was a member of the courts of inquiry into the engineering and shipbuilding strikes of last year. Lord Cohen was chairman of the Royal Commission on the Taxation of Profits and Income, whose recommendations were heavily biased in favour of the rich taxpayers. The respective ages of these gentlemen are sixty-seven, seventy and sixty-nine. If age means wisdom they are wise. Their opinions are the same as those of any men of similar age and background, selected from a London club, an employers' federation or the Tory Cabinet itself. The idea that they could make impartial recommendations strains credulity to breaking point.

Loaded Questions

These gentlemen have published the following questions which they want employers and unions to reply to:

1. The relation between general trends in prices, productivity, and incomes; and, in particular, the causes of the recent general rising trend of prices in the United Kingdom.
2. The importance of the general level of demand as a factor affecting the trends of prices, productivity and incomes.
3. The extent to which the authorities can and do control the general level of demand (*a*) by controlling the total supply of money and (*b*) by fiscal measures.
4. The importance of (*a*) wages and salaries; (*b*) profit margins; and (*c*) import prices as factors affecting the general trend of prices, productivity and incomes.
5. In so far as wages and salaries are an important factor the effect of the structure and working of the arrangements by which they are negotiated or otherwise decided.
6. The effect of restrictive practices on prices and productivity.
7. The part that could be played by "voluntary restraint" in the determination of wages, profits, and dividends, and the conditions necessary before such restraint could be expected from those who would have to exercise it.

These appear to be loaded questions, designed to prove that "the causes of the recent general rising trend of prices in the United Kingdom" are to be found in the demand for increased wages and salaries. Surely when one is enquiring about influences affecting the rise in prices, it is important to estimate the role of increased Government expenditure—including military expenditure—in doing so. Why is this not mentioned?

It is important to remember the type of society, namely monopoly capitalism, that these questions are related to. It would be useful of course to have a system of society, where there is full employment, a high rate of economic expansion, a rising standard of life, and a stable price level. But it might well be that you cannot have all these things within the framework of monopoly capitalism. If for example you insist on stable prices at all costs, you may not be able, capitalism being what it is, to get full employment. Because in monopoly capitalism there is a struggle between hostile classes, with diametrically opposed interests, it does not follow that you can always have a solution for a specific economic problem, that will be fair to everyone alike. The solution in the so-called "interest of the economy as a whole" may adversely affect one or other of the contending classes.

Take a situation in which the terms of trade move sharply against Britain so that it has to pay more for its food and its raw materials and the real national income falls temporarily. Who decides how the sacrifice is to be shared and can it be an "impartial decision"? Is it not more likely to be settled by a struggle between the various classes with the capitalist class as controllers of industry and finance, being placed at an advantage? This is particularly the case when there is a Tory Government, though it exists also when Labour is in office.

Neither does it follow that a solution which benefits one particular section of the capitalist class—for example the powerful City interests—is the one that is in the interests of the expansion of British capitalism. It is now generally admitted that the course taken by the City, in returning to the gold standard, at a certain parity in 1925, worked to the detriment of the British capitalist economy in its relations with the outside world. It could well be that some of the "City" policies adopted since the Tories returned in 1951 have had a similar effect.

It should further be noted that with the passing of the boom on an international scale, some of the basic problems presented by "the wise men" may disappear giving rise to others of an entirely different character. As however the wise men are obviously out to influence the wage struggle this year it is still necessary to deal with the questions they have raised, with the warning that some of them may recede in importance.

Britain—Metropolis of World Empire

In examining the questions it is necessary always to remember that Britain is the metropolis of a world empire, which whilst shrinking is by no means dead and indeed has still a very powerful will to live. That Empire emerged from the Second World War beset by heavy problems. Its exports were only 30 per cent of what they were before the war and had to be built up to approximately 80 per cent above pre-war, if Britain had to pay its way in the world. During the war the deficits in Britain's balance of payments amounted to over £4,000 million. These debts were met by sales of foreign investments, by payments from the gold and dollar reserves and by running up a formidable amount of sterling debts. The United Kingdom gold and dollar reserves in 1938 were £864 million. Its overseas sterling debts were £760 million. In December 1945 (after prices had risen to a formidable extent) its gold and dollar reserves were £610 million while its overseas sterling debts were £3,694 million. Thus while before the war the gold and dollar reserves were larger than the sterling debts, after the war the position was sharply reversed.

Against its will British imperialism had been forced to grant political independence to countries like India and Burma. It was determined, come what may, to exercise a large measure of economic control over those regions and to hang on as far as possible to the rest of the Empire. It was ready to make considerable sacrifices to achieve this end—or rather to make the British people accept considerable sacrifices. At the end of the war, British imperialism, dependent on the United States for a significant part of its food and raw materials was faced with formidable tasks. It had to build up its exports and thereby to reduce British dependence on the U.S.A., it had to achieve an export surplus to enable it to resume investment in its Dominions and Colonies, it had to build up its gold and dollar reserves, and it had to begin the modernisation of its coal and power and transport industries. These would have been formidable tasks in any circumstances but in its desire to maintain the empire, British imperialism had to retain a formidable military establishment. Even before the great re-armament drive of 1950 British imperialism was maintaining forces greatly in excess of pre-war. "Defence" expenditure was £774 million in 1950 (1938—£254 million), and manpower was 660,000 (1938—381,000). More serious was the overseas military expenditure which before the war was so negligible that it was never mentioned in the public accounts of 1938 but which between 1941 and 1951 absorbed at least £1,108 million.

A last feature of the situation must be emphasised. The mass of the British people emerged from World War Two with a number of very clearly defined objectives. They wanted to end the plague of mass unemployment, they wanted decent homes for all, they wanted an improvement of the social services, and they wanted higher wages and salaries. The monopoly capitalists, deeply discredited by their pre-war appeasement of the Nazis were in no position flatly to oppose those demands, especially as a Labour Government had been returned against their will. But they were determined to do all in their power to ensure that improved social services were not financed at their expense. They temporised while preparing a come-back.

Post-War Inflation—First Wave

The conventional picture of the post-war situation now depicted by the Tories and unfortunately accepted by some workers is roughly as follows. Because there were jobs for all during the post-war period the workers have been pressing regularly for increased wages. The employers have however passed those increases on to the consumer and prices have risen. Then the workers go in for higher wages and then there are higher prices, world without end. That is inflation and the only way to bring it to an end is to stop going in for increased wages, the Government experts tell us.

The starting-point is entirely false. For there was a state of suppressed inflation when the workers emerged from the war. Profits, salaries and wages had been paid out for war work while the production of goods had been curtailed and such goods as were produced were, with the inevitable dodging and black-marketing, subject to rationing. "Too much money chasing too few goods" while untrue for certain sections of the people—low-paid workers, old-age pensioners and the like—was true for society as a whole. While necessities were tightly rationed, the flow of pent-up purchasing power was concentrated on non-rationed goods which shot up enormously in price. The cheap money policy of the Government was meant to facilitate housing development and the reconstruction of industry. In fact cheap credit was also available for financing the black market in rationed goods and in rationed raw materials. Long before some of the raw material controls were lifted, they were being shot to pieces. At a crucial moment in the immediate post-war period, the American food and material controls were abolished. This meant higher prices for U.S. foods and raw materials on which the European countries were heavily dependent. In Britain this meant in some cases higher prices and in others higher subsidies.

For in the immediate post-war period, despite price controls and subsidies, the workers had to battle against the consequences of the "suppressed inflation" of the war years and against the consequences of higher prices emanating from countries like the U.S.A., which had made a bonfire of controls almost as soon as the war was over. It was these developments which, in the period between the end of the war and the devaluation of the pound in 1949, were the most influential in determining the level of prices in Britain. Wages followed prices with a fairly considerable lag. In December 1950, for example, the index of weekly wage rates was 13 per cent above the level of June 1947. The index of retail prices was 16 per cent above.

There is a well-known observation of Marx which fits most of the wage struggle of the post-war period. "In all cases I have considered, and they form ninety-nine out of a hundred, you have seen that the struggle for a rise in wages follows only in the track of previous changes, and is the necessary offspring of previous changes in the amount of production, the productive powers of labour, the value of labour, the value of money, the extent or intensity of labour extracted, the fluctuations of demand and supply and coexistent with the different phases of the industrial cycle; in one word *as reactions of labour against the previous action of capital.*

"By treating the struggle for a rise of wages, independently of all these circumstances, by looking only on the change of wages, and overlooking all the other changes from which they emanate, you proceed from a false premise in order to arrive at false conclusions." (*Value, Price and Profit.*)

The questions of the wise men, leaving out as they do the post-war economic environment, into which the working-class emerged, are almost framed to produce the conclusion that the major factor in the post-war economic situation has been the working class drive for increased wages, when in fact that drive is a defence against constantly rising prices.

Should Workers Make Sacrifices?

The working class in 1946 had gained certain improvements in their living standards as compared with pre-war. They saw those living standards threatened by rising prices, and defended them accordingly. If the wise men want to know the main driving force of the post-war wages movement, it is the traditional one of the working class having achieved a certain standard of life, resisting all attempts to undermine it. The trade union movement aims to achieve certain living standards and to protect them from the downward pressures of capitalist society. It has always, though sometimes unsuccessfully resisted the assumption that if the capitalist economy is encountering certain difficulties, the workers ought to help it by accepting lower living standards. It will go on resisting this whatever foolish things wise men say.

The first outstanding occasion of this assumption that the workers ought to accept some sacrifice of living standards was on the occasion of the devaluation of the pound in 1949, when it was expected that the cost of food and raw materials imported into Britain was likely to rise. (They did in fact rise after a certain interval, but it is very difficult to disentangle the rise due to devaluation from the rise due to the arms boom which followed less than a year after devaluation.)

The spokesman of the proposition that the workers ought to make some sacrifice was the late Ernest Bevin, who suggested that the unions should refrain from asking for increased wages until the cost of living had gone up by at least 5 per cent. Despite Bevin's authority, this suggestion was totally ignored. The 1950 Trades Union Congress formally rejected the wage freeze.

Post-War Inflation—Second Wave

The "suppressed inflation" of wartime was not however allowed to work itself out, for in 1950 it was reinforced by a powerful new dose of inflation, due (1) to the scramble for raw materials and (2) to the great armaments drive which followed the outbreak of the Korean war. There was a fierce scramble for food and raw materials on the part of governments and on the part of private speculators anticipating a long war. The cost of living, despite food controls and subsidies, took a sharp upward leap. The index of retail prices which in December 1950 was 16 per cent above the level of 1947, reached 30 per cent above in 1951. This was the biggest jump in British retail prices in the post-war period and even the most outrageously biased individuals will hardly pretend that it was due to the British workers selfishly pushing up their wages. Again there was the usual appeal for the workers to tolerate some price increases as part of their contribution to national defence. This was usually put in the form of asserting that it was necessary to devote productive capacity to exports and to rearmament first and that this necessitated some reduction in consumption.

In a Treasury *Broadsheet on Britain* issued in 1951 (i.e. in the concluding months of the Labour Government) there is the following statement:

"What about the cost of living—doesn't that justify wage claims? Prices have certainly been going up recently but that has been chiefly because of rising import costs. The whole nation is paying more for what it buys from other nations. That is the price we must all pay and like the taxes we pay, *it is partly because of rearmament. Any one asking for a bigger pay packet just because import prices are higher is trying to contract out of the nation's difficulties. He is also helping to put up prices further whereas wage restraint limits price increases.*" (Italics ours.)

In the same issue there is a quotation from Mr. Hugh Gaitskell, then Chancellor of the Exchequer. "I do not think that we should advocate the return to a complete wage freeze. For one thing most of us would not wish to see the wages of the low paid workers held down rigidly, while prices were going up." The implication was that the wages of all workers outside the low paid should be held down in these circumstances.

It should be noted that the share of the consumers in the increases in production which were taking place in this period fell from 59 per cent in 1948 to 57 per cent in 1949, 56 per cent in 1950 and 55 per cent in 1951.

Public authority spending (reflecting the increased military expenditure) took 64 per cent of the annual increase of production in 1951 and 129 per cent in 1952. The increase in this latter year was at the expense of exports.

Up till the advent of the Tory Government one can say that it was not one of the *declared aims* of the Government to increase the cost of living. Increases took place as a by-product of Government measures aimed at other things—such as devaluation or the arms drive.

But the Tory Government came into office determined to take certain measures to increase the cost of living. It proposed to cut consumers' food subsidies and to lift price controls, to relax the Rent Act, and to raise the rents of council houses. It proceeded to carry out this policy gradually but persistently. It was helped by the collapse in 1952 of the food and raw materials boom which followed the outbreak of the Korean war. This prevented prices from rising to the extent that would otherwise have been the case but there was some rise nevertheless. It has been argued that the reduction of food subsidies by themselves would not have had a great effect because the amount of subsidies was small in relation to the total food expenditure and to the total cost of living.

Post-War Inflation—Third Wave

It is not a question of food subsidies alone however but of food subsidies and price controls being swept away, in other words of the freeing of the food speculators. The Tories did not deny that the lifting of price controls and rationing would mean high prices but merely that in the long run the higher prices would lead to an increase in supply, and would end shortages—an argument that was of course much more convincing to the well-to-do than to the average worker.

Between 1950 and 1956 the British cost of living index went up much more than any of the major European countries. This was not due to the fact that wages in Britain rose faster than those of the main European countries. In West Germany, Britain's main competitor, money wages rose by 53 per cent between 1950 and 1956. In Britain they rose by 54 per cent. Yet because the German cost of living rose to a lesser extent than the British, German real earnings per hour rose by 35 per cent and British real earnings by 12 per cent. This different can *not* be explained by the wage demands of the British workers but by certain features which exist in Britain and not in Germany. Britain's "defence" expenditure per head in this period has been twice that of any other European country. It has mortgaged the resources of the engineering industry and has meant that this industry, if it was to carry out its export tasks, would have less resources to devote to re-equipping British industry in general, than any country in Western Europe. The following figures (from the *Economist* Intelligence Unit's Survey "Britain and Europe") illustrate the position. Investment in machinery and equipment as a percentage of the gross national income between 1951 and 1954 was as follows:

West Germany 10.9 per cent, Belgium 7.6 per cent, France 8 per cent, Italy 12.8 per cent, Netherlands 11.8 per cent, United Kingdom 6.5 per cent, Austria 10 per cent, Denmark 10.5 per cent, Norway 13.9 per cent, Sweden 7.5 per cent.

As a consequence of this, annual percentage increase of the gross national income was as follows between 1950 and 1955: West Germany 9.8 per cent, Belgium 3.1 per cent, France 4.2 per cent, Italy 5.9 per cent, Netherlands 4.9 per cent, United Kingdom 2.9 per cent, Austria 6.9 per cent, Denmark 1.5 per cent, Norway 3.5 per cent, Sweden 3 per cent.

The same publication makes an estimate of the growth of productivity (i.e. production per worker employed) in manufacturing machinery between 1950 and 1956 in a number of European countries. In West Germany it was 41 per cent, in France 49 per cent, in Italy 55 per cent, in the Netherlands 27 per cent, in the United Kingdom 12 per cent, in Norway 25 per cent and in Sweden 25 per cent.

So we can say that between 1951 and 1954 the Tory Government was doing two things (1) it was pushing up prices by the reduction of the food subsidies and the ending of price controls; (2) its defence policy was restricting the re-equipping of British industry and therefore the growth of productivity. There is no reason to look for an explanation as to why British prices were behaving differently in these years from those of any other European country.

The Boom of 1954-1955

At last in 1954, the Government was forced to recognise that British capitalism was falling behind in the re-equipment of industry.

The Treasury Bulletin for Industry for May 1954 indicates the reasons. "Investment in the United Kingdom has been limited at various times in the last five years by steel shortages, *by the Defence programme,* and by the need to increase engineering exports. *In* 1951 *and* 1952 *the Government discouraged investment because the claims of exports and the Defence programme had to have priority.*" (Italics ours.)

"While there has been little change in productive investment in this country, *over the past few years* investment in the United States, West Germany and in some other European countries has gone on rising." (Italics ours.) These developments were noted in the Budget speeches of Mr. Butler in 1953 and 1954 who stressed the necessity of the Government giving some stimulus to investment in private industry. In the 1953 Budget he restored the initial allowances to firms engaging in investment and in 1954 he replaced this with a new and more favourable investment allowance.

"I expect [the cost of the investment allowances] to reach a considerable figure in the future. But insofar as this new allowance succeeds in its object of creating additional assets, these assets will of course be yielding additional revenue for the country, for their owners, and for me." (Budget Speech, April 6th, 1954.)

Although it was clearly recognised by Government spokesmen that the very existence of a huge arms programme had obstructed capital development in the past, Mr. Butler actually increased arms expenditure in the same Budget. "The net cost of Defence to the Budget this year will therefore be £1,555 million as compared with £1,497 million the year before—the increase of £58 million which I have already mentioned. Moreover, our Defence commitments impose a considerable burden on our balance of payments. The overseas element in Defence expenditure is probably at least £350 million a year."

From Boom to Squeeze

If however arms expenditure was not cut to make room for the capital development programme then that programme could only develop as a result of cuts in exports or in expenditure on consumer goods. Its initial impact was on exports. Less than a year after Mr. Butler announced his policy of capital development the balance of payments began to run into difficulties and the Bank Rate was increased.

Just eighteen months after—and four months after a General Election in which the most grandiose promises were made by the Tories—an Autumn Budget became necessary to rectify the position. Butler declared that the crisis was due to "our growing pains". He hinted at the heavy military commitments—"we have taken on many and varied overseas burdens far greater than many of our competitors, such as Western Germany"—but did nothing about it. His main "remedies" were to cut capital expenditure on the nationalised industries and on social service building and to raise the working class cost of living by an all-round increase of purchase tax and by cutting the subsidies on council houses building—in other words to find the major solution by a reduction of the workers' standards of life. Once again the Tory policy of asking the workers to exercise wage restraint while the Government actually raised the cost of living against them, was enunciated. The Economic Commission for Europe and other international bodies warned the British and other governments that their so-called "remedies" might not work because the workers would resist cuts in their living standards. "A specific defect of these measures is that, while curtailing real consumer demand, they are likely to affect the cost of living and thus to increase wage pressures" (Economic Survey of Europe, 1956).

The long term objectives of Government policy were to reduce home demand, particularly in light engineering, and cause the employers to switch from the home market to the foreign market. It was expected that as the industries producing consumer goods (including durables) slackened, labour would leave them for the export industries and that after a short period of adjustment, British capitalist economy would go forward again. There was certainly a switch to exports which began to rise in 1956. But the labour thrown out of the consumer industries did not in the main go to the export industries. "Employment declined in many consumer goods industries; these declines were only partially offset by increases in the capital goods and export industries. The release of skilled personnel may have helped these latter sectors appreciably. *Some manpower released from the temporarily depressed sectors was however absorbed in the service industries.*" (The report of the Organisation for European Economic Co-operation on Economic Conditions in the United Kingdom issued on December 23rd, 1957.) A heavy price was paid for these so-called adjustments. "*The measures to redress the balance of the economy retarded the growth of production for two years*" (O.E.E.C. report. Italics ours). No other European country suffered such stagnation. In France the general index of industrial production in June 1957 was 50 per cent above the level of 1953, in West Germany it was 48 per cent, in Italy it was 35 per cent, in Holland 25 per cent, in Norway 31 per cent, in Britain 17 per cent and in the United States 8 per cent. What effrontery it is for a government to announce that there should be no wage increases except on the grounds of increased production and productivity and then takes steps to strangle economic development. Even the gain in exports in 1956 did not yield the results which it could, owing to the Suez war. "There has been an important, if limited, improvement in the balance of trade since 1955. But an improvement in the trade balance has been partly offset by the deterioration of some invisible earnings due to the Suez disturbances and an increased partly speculative outflow of private capital." (O.E.E.C. report.)

"In the early months of the present year a new expansionary phase seemed to be setting in. But in September the Government found it necessary to impose new restraints on the economy." (O.E.E.C. report.) So after two years stagnation of production, the Government stranglehold was further tightened.

We have seen that since the end of the war the United Kingdom has been running on a meagre supply of gold and dollar reserves. The monopoly capitalists have preferred (1) to maintain a huge arms programme, (2) to indulge in considerable overseas military expenditure and (3) to expand capital exports at the expense of gold and dollar reserves. Part of the function of reserves is to enable an economy to meet any unexpected difficulties in international trade without having to restrict its economic activities. In fact British Governments have never been able to do this. Faced with foreign trade difficulties they have invariably panicked and shouted for wage restraint, cuts in the social services and slowing down of capital investment.

The 1957 Squeeze

This time the Government is at the old game of blaming wage increases though as we have shown increases in money wages in Britain have been about the same as in Western Germany and increases in real wages have been much less. The following factors however stuck out a mile: (1) the two years stagnation in production, in striking contrast to most other European countries, (2) the fall in raw material prices in the British Colonies and Dominions (partly the effect of the stagnation in production in Britain and the U.S.A.) always a harbinger of growing economic difficulties in Britain, (3) the loss of gold and dollar reserves due to the Suez adventure and (4) the wide loopholes in the sterling area exchange controls through which unscrupulous British speculators were operating to the detriment of the currency. These visible facts about Tory policy were more likely to influence international speculation against the pound than anything else. Of course, the Government was only too anxious to find an excuse for a centrally imposed policy of wage restraint. "The new restraints on domestic activity were equally intended to make a direct attack on the problem of rising prices" (O.E.E.C. report). This when the Government had just raised rents and was proposing to do the same in April is indeed rich.

The Government's Responsibility

Really to throw light on the post-war situation we have had to examine some factors which the wise men have left out. The basic question which they ignore is the effect of the war and its aftermath, and of Government policy since the war on the level of prices.

There are roughly three great waves of price rises since the end of the war: 1946-48, which reflected the suppressed inflation which was a heritage of the war. Special factors like the lifting of price controls in the United States helped to give prices a further upward push. It was price increases which gave rise to wage increases during this period, when the unions were certainly paying heed to the Labour Party's appeals for wage restraint.

The second great rise, in the aftermath of the outbreak of the Korean war, was due to the stock-piling of raw materials and to the doubling of the arms programme. This was one of the most significant events of the post-war period. Clearly it was Government action again which touched off the price rise. To leave this out of account in consideration of the post-war wage and price situation in Britain, is nothing short of fraud. Yet the wise men's questions leave no scope for this point being considered.

The third big price rise took place after 1954, during the period when a genuine industrial boom was taking place (though terribly hampered and obstructed by the huge arms programme that the Government was still maintaining). Again Government policy comes into this because food prices and the cost of living advanced as a result of the cutting of food subsidies and the lifting of price controls. Throughout the whole period from 1954 onwards the workers lived in a situation where some Government measures had been introduced which had pushed up prices and other measures having the same end in view were on their way. They had to maintain more or less continuous pressure for increased wages otherwise their living standards would have been drastically cut. Never at any time dared they relax because the Government kept on launching attack after attack. The present Rent Act which has already led to the cost of living increases in the last two months (and which involves further rent increases in April) must have been drafted in those very months at the end of 1955 and the beginning of 1956 when Macmillan was pleading for a "price plateau". It is these factors, particularly the high military expenditure throughout the period, which explain why British internal prices in recent years have risen to a greater extent than those of other European countries.

It is in the light of this situation that we look at the loaded questions on productivity which the wise men have put. They are obviously meant to lead up to the conclusion that there should be no increases in wages unless there has been a prior increase in productivity. The British trade union movement will never accept this proposition. It exists to defend and advance the standard of life of its members. If prices go up due to world causes, or if they are pushed up by Government policy, then the unions must claim increased wages to meet the increased cost of living. It would be particularly outrageous for the unions to tie wages to increases in production under a Government which periodically clamps down on production in an alleged effort to solve balance of payment crises and whose record with regard to promoting the re-equipment of British industry has been much less than that of any country in Western Europe.

Wages and Productivity

Nor can the trade union movement accept the general proposition that increases in productivity (which are of course also increases in exploitation) will of themselves rebound to the benefit of the workers. There have been cases of remarkable increases in productivity (Japan before the late war and the U.S. during most periods of its history) whose benefits were not passed on to the workers. Only when there is a strong trade union movement insistent on higher wages and shorter hours and able to protect its members against speed-up, can productivity be made, in spite of the capitalists, to yield certain benefits to the workers. But, so far from productivity leading directly to higher wages, it would be more to the point to say that it is the existence of higher wages, based originally on labour shortage, that rendered the capitalists in the U.S.A. and the British Dominions more susceptible to the introduction of labour saving devices. The more the situation in the labour market favours the workers the more the capitalists are forced to try to recover some of the ground that has been lost by introducing new equipment which will increase productivity and of course intensify labour. Maybe some of Britain's comparative lack of urgency about the re-equipment of industry has been due to the fact that since the war the capitalists have not been subjected to sufficiently heavy pressure for increased wages and shorter hours. If the workers had been more concerned to increase basic wage rates, if they had pressed for the 40-hour week, if there had been less willingness to supplement relatively low wage rates by overtime, Britain's capitalists might have been forced to show a greater interest in re-equipment than they did in the post-war period. In a period of rising productivity and strong trade union pressure, wage increases need not be reflected in rising prices. It is surely the Government which must grasp this lesson. For it is the Government (1) which has diverted resources to rearmament which might have gone to capital re-equipment, (2) which has pushed up the working class cost of living by a series of reactionary devices and (3) which has sought to "control" the economy by methods that have led to prolonged periods of industrial stagnation.

Workers and Restrictive Practices

So the wise men's questions about "the effect of restrictive practices on prices and productivity" might first be addressed to the Government whose measures the O.E.E.C. says "retarded the growth of production for two years". The 1957 blue book on National Income and Expenditure shows the growth of the gross domestic product (in terms of 1948 prices) which enables us by eliminating price changes to measure the increase of real income from year to year. Between 1952 and 1953 it grew by £469 million, between 1953 and 1954 it grew by £502 million, between 1954 and 1955 it grew by £458 million. The credit squeeze and other devices were applied in the autumn of 1955. The result was that between 1955 and 1956 the gross national product only grew by £176 million—that is the cost in constant prices of the Government's restrictive practices.

Those Tory Government restrictive practices, which were originally introduced to combat the danger of a deficit in the balance of payments and later to deal with inflation are now being continued, when the situation in the capitalist world has changed and when there is the danger of the slump spreading from the U.S.A. to Europe. The retention of credit restrictions in these circumstances can only accelerate the coming of a slump in Britain.

No one will deny that there are some restrictive practices amongst some workers but not all the practices that the employers and their supporters denounce are such. Many practices introduced by the workers are not aimed at restricting production but at restricting exploitation. When an employer introduces a new process he aims to have it operated or supervised by the minimum number of men. He may set the number of men so low that the new process may involve a heavy strain on the individual worker. In these circumstances the trade unions may insist on a higher standard of manning, in the interest of protecting their members from overstrain. Or take another example which is often mentioned in the capitalist press where a group of workers limit the amount which an individual may earn by piecework. In doing so they are concerned to protect themselves against speed-up. They are concerned not merely with average earnings for the job but with the average pace for the job. No body of workers on payment by results are going to forgo earnings by working below a fair average pace. Neither however are they going to allow themselves to be speeded up by the employers or the short-sighted and greedy amongst their own mates.

There are of course restrictive practices, though very much less than is believed, based on the fear of unemployment. The Government is doing its best, by its present policy of trying to create unemployment, to perpetuate such practices.

Methods of Negotiation

The question about the effects of "the structure and working of the arrangements by which they (wages and salaries) are negotiated or otherwise decided" has some interesting implications. In contrast to the U.S.A. where agreements are usually concluded between the unions and particular firms, agreements in Britain are usually nation-wide agreements concluded between unions and employers' federations. Naturally such federations are composed of firms with very different degrees of profitability. In general an employers' federation in arriving at an agreement on basic wage rates and related questions, will try to base itself not on the most modern firms, but on firms of average or less than average profitability (which may in some cases be quite big and influential firms). In times of full employment, good organisation in the workshop may enable the workers to win concessions from firms where the degree of exploitation and of profitability is high. These may be frequently expressed in more favourable conditions with regard to bonus and piece-work earnings. Thus while all the members of the unions in a given industry may be on the same basic rate and general conditions, their actual weekly earnings (depending on payment by results plus overtime) may vary considerably. A worker of the same *grade* may earn a lot more in an up-to-date motor firm than in a general engineering works. But those workers whose earnings are based on factory negotiations may find their good conditions more vulnerable in the event of slump.

Indeed, the employers can move to revise the favourable conditions under which they are working much more easily than they can move to revise nationally negotiated basic rates. I believe that it is a major defect of union policy in the post-war period that the unions did not push up the basic rates more than they have done. They have allowed too large a gap to develop between basic rates and actual earnings. This should be remedied. Basic rates must be pushed closer to actual earnings (for a normal working-week). This does not mean that workers in the profitable firms should not wherever possible exert a squeeze in order to get a little extra. But the unions have clearly got to get away from accepting basic rates based on what the marginal firms ("rat firms" in workshop parlance) can pay.

Maybe the wise men want to discuss whether their wage applications should be spread out over a longer period—every two years, instead of every year, or every eighteen months. The answer is simple. There has scarcely been a year since the end of the war when trade unions were not faced with rising prices due to factors other than wages. To extend the period between negotiations would, in these circumstances, only have caused wage rates to lag still more behind the rising cost of living.

The employers would also like to end the practice whereby wage rates negotiated between the unions and the employers become virtually compulsory through the industry. They would like to return to a situation where such rates were confined to federated shops and to such of the firms as the unions forced to accept them, leaving quite a number of small and medium firms which consistently paid below the rate.

Credit Squeeze and Bank Rates

The question about the extent to which the authorities can and do control the general level of demand by controlling the total supply of money and by fiscal changes, has already been partially answered. The outstanding fiscal change made in this period was the reduction of food subsidies and after 1955 the raising of purchase tax and the reduction of the housing subsidy.

The aim was to cut the real purchasing power of the workers and lower middle-class and therefore their demand for goods. It was partially successful in cutting demand, but justifiably provoked demands for further wage increases. The control of the total supply of money (credit squeeze and high interest rate) succeeded in reducing some home demand for durable consumers' goods (motors) and has forced capitalists to pay some more attention to the export markets. As it only succeeded in doing this by methods which produced stagnation in British production for two years (causing a loss of approximately £900 million in production) it is a very dubious and clumsy device indeed.

The main impulse in the wages movement has been the desire to maintain the standard of life achieved in the first post-war periods. Whether price rises were due to world causes, to leaps in military expenditure, to Government cuts in subsidies, they were countered by the workers demanding wage increases. This is a principle that the unions will never abandon. Inasmuch as the workers were also aware that their increased productivity was leading to increased profits they made claims on this account.

Wages and Prices

The question as to how far increased wages merely lead to increased prices is not too easy to answer statistically. If the average wage rates are taken however, it is clear that they have increased a little faster than the increase in the cost of living and if average earnings (which are inflated by overtime) they have when allowance has been made for the increased cost of living, been increased by 20 per cent in real purchasing power, so the wages movement has been worthwhile. In its absence there would have been a sharp fall in the living standards of wage and salary earners.

The last question on "voluntary restraint" deserves a theoretical and a practical answer. The Tory policy has been to free the capitalists from all restraints, except those of the market, and to allow them to get the highest price they were able to get, for the goods which they produce. In these circumstances the workers' position would soon deteriorate, relative to that of the capitalists, if the unions were to cease to try to get the highest possible price for their labour. In a Socialist society, where there is no class living on surplus value extorted from the workers, it is possible to decide how much of current production will go to raising wages or lowering prices, how much to improved social services and how much to capital development. These things are settled in capitalist society however by the struggle of contending classes and there is no way, given the capitalist basis, of settling them otherwise except by seeking to deprive the workers of the right to push up wages, while leaving the capitalists free to push up prices—a solution that the workers will resist with all their might.

The search for a national wages policy is fundamentally a search for ways and means of restricting the activity of the workers in the interests of capitalism and as such should be resisted. There are of course, real problems for Britain which are raised in the current discussion, but the solution can only be found outside the capitalist framework.