The Development of Incomes Policy in Britain

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WE have now reached a stage in the struggle around incomes policy when it is useful to survey the field and to evaluate the Labour Government's contribution to this question.

Historically the clamour for a national wages policy, or a national incomes policy, only emerges when there is a high level of employment which is expected to last. Previously the capitalists were content to leave the fixing of wages to collective bargaining, which was of course influenced by the state of the labour market. Where the unions were weak they got poor and belated increases through wage boards or wages councils. In times of relatively good trade, the unions pressed forward for increases of wages, and prevented the employers from pushing them down to their former level when a slump came. So over the whole field of industry there was gradually built up, in each occupation, an accepted standard of life, that the workers were prepared stubbornly to defend and to improve wherever the opportunity offered. They had but few opportunities for improvements between the wars, when the existence of a large unemployed army hampered the wages movement. Improvements in wages and conditions were often the result not of national negotiation but of factory bargaining on incentive wages. The workers in relatively prosperous areas like London, could obtain by factory and local pressure what could never be obtained by national negotiations.

Where the workers in a given industry or craft stood on the league table of wages was not decided by any criteria based on social justice, but by the state of the market for different types of labour, and the strength of the unions and the factory organisations. There was no question of an annual or even biennial wages increase in such circumstances. Wage increases were few and far between and the capitalists on the whole were content with this system. It was only with the emergence of a high level of employment after the last war that the capitalists became favourable to policies which aimed at restraining the wages movement of the workers, while leaving the employers free to push up their profits to the maximum possible extent.

Birth of a Policy

Academic economists and Fabian theorists generally began in these circumstances to advocate a national wages policy whose main objects were (1) to prevent wages from rising faster than productivity, and (2) to secure justice between various sections of workers, by rationalising the wage structure between industries, and between the various groups of workers within an industry. A typical expression of this attitude was embodied in a resolution moved at the Labour Party conference in 1947 by the Rushcliffe Divisional Labour Party, which declared that action against inflation and to secure the proper distribution of manpower must include:

> "A comprehensive policy on wages, hours, and the distribution of national income and urges H.M. Government to formulate such a policy".

A declaration "that a national policy on wages is unjust and impracticable, unless at the same time purchasing power derived from excessive profits, unearned incomes and capital appreciation is greatly reduced, and therefore urges H.M. Government, as the first step in this policy, to steadily bring about such a reduction while at the same time preventing undue hardship to individuals".

Though this resolution sought to palliate state wage fixing, with the fixing of profits, it was opposed by most of the unions and right wing leaders like Arthur Deakin and Tom Williamson, spoke vehemently against it. Deakin asked:

> "Do we want a wages policy that attempts by declaration to determine what is the right wage in a particular industry? Are we seeking to set out the order in which wage policy shall be applied to industry? If you accept this policy then you will rue it. . . . You will have such strife within your ranks that no power can restrain the demand for wages and the production of those conditions which will result in inflation."

Tom Williamson asserted that

> "it is suggested in this resolution that all the trade unions should be displaced by the Government. Instead of the workers being in conflict with private

employers you are going to bring them into conflict with the Government."

Although there was an element of misrepresentation of the resolution in Mr. Williamson's remarks the Union leaders were correct in emphasising that the form of national wages policy that was being advocated (1) would interfere with collective bargaining, and (2) that any attempt to favour one union against another with regard to its place on the wages league table would set the unions at each other's throats. These arguments are still relevant to some of the suggestions for an incomes policy being put forward in the unions today.

Cripps's Freeze

In less than a year however, Mr. Deakin had changed his mind with regard to a wages policy. For in February 1948 the Government had issued a "Statement on Incomes, Costs and Prices" which said that "there was no justification for any *general* increase in individual money incomes". In return the Government gave a promise to do its utmost to stabilise the cost of living (it was spending a great deal on food subsidies at this time) and to prevent profits from rising unduly. The right wing leaders declared that as this policy left wages to be fixed by collective bargaining it was acceptable, and a conference of Trade Union Executives gave its support.

From the point of view of holding down wages this policy was an initial success only to collapse catastrophically. In 1948 the wage rates of all workers increased by 4 per cent as compared with a cost of living increase of slightly under 5 per cent; in 1949 the wage rates of all workers increased by 2 per cent, against a cost of living increase of 4 per cent; in 1950 they increased by approximately 5 per cent as against a cost of living increase of 3 per cent. In September 1950 the Trades Union Congress however repudiated the wages freeze. In 1951 wage rates increased by 10 per cent while the cost of living increased by over 11 per cent. The Labour Government's essay in the control of incomes, costs and prices was dead. There were a variety of causes, the basic one being the Government's failure to control the rise in prices. The pound was devalued in September 1949, and the conditions for a gradual rise in prices were created. The stockpiling which followed the Korean war (1950) gave a further impetus to price rises and the workers pressed forward with higher than usual demands for increased wages. With that experience in mind, the unions should beware this line of agreeing to a wage freeze, on the basis of a vague promise by Government and employers to control price rises.

Contrary to Labour expectations the Tories, when they came back in 1951, did not attempt to revive the wages freeze nor to resist the attempts of the unions to push up wages. There were two reasons—economic and political. In 1952 the economic situation of Britain took a sharp turn for the better as world prices of food and raw materials declined sharply. The balance of payments began to improve. Further, the Tories began to release resources by cutting the grossly inflated arms programme of the Labour Party. The position of British exports in the world market had been improved by devaluation. So concessions could be made. The Government operating on a narrow majority had to conciliate the workers in the hope that some of them could be detached from the Labour Party. Sir Walter Moncktonat the Ministry of Labour, set out to charm the right wing trade union bureaucracy. So wage concessions were given, and dividends were permitted to rise. The "free for all" was on. In addition the Tories began to cut income tax, some of the better paid workers benefiting from this.

As far as the Tories at this period had any wages policy at all it was to operate credit squeezes, restrict hire purchase advances and frighten the trade unions with small increases in unemployment. There were the usual ponderous Treasury statements about the need to limit the increases in wages and profits. Mr. Macmillan, who was Chancellor in 1956, announced that prices were ceasing to rise. They were on a plateau and he hoped they would remain there. He tried to get declarations from the nationalised industries and from large firms, that they did not intend to increase their prices in the period immediately ahead. So Mr. George Brown today is not so very original.

Not So Wise Men

The Chancellor of the Exchequer who followed Macmillan, Peter Thorneycroft, tried a tougher line. He appointed a Council on Prices, Productivity and Incomes, known popularly as the three wise men, to find a policy. The Council reported that rising prices, wages and profits, were caused by excess demand; that the Government should cut public expenditure, thereby reducing demand, and that this policy would operate best in conditions where there was more unemployment than had been usual in Britain in the recent past. In short, create more unemployment and there will be little need for the Government to take any direct action against wages. Unfortunately for Mr. Thorneycroft, the Prime Minister Harold Macmillan shrank back from the full implications of this policy, refusing to cut social service or other Government expenditure to the necessary extent. So Mr. Thorneycroft resigned. But his other measures did have an effect on unemployment, which rose to the high level of 666,509 in January 1959. This policy had its effect on wage rates, which advanced at a much lower rate than previous years. Thus the net increase in basic weekly rates of wages was £5,340,000 per week in 1957, £3,461,000 per week in 1958, £1,251,000 in 1959, and a recovery to £4,116,000 per week in 1960.

There was however another result which was less welcome to the Government and the employers, namely that the stop-go policy was producing stagnation in British industrial production, while the output of Britain's European competitors was rapidly increasing. Bourgeois economists began to ask what useful purpose was really being served by a policy which, while holding back the growth of wages, also held back the growth of production and profits. Would it not be possible to restrict wage advances without restricting the growth of profits they asked.

Government Wages Fixing

An answer to this was provided by the notorious report on "The Problem of Rising Prices" published by the Organisation for European Economic Co-operation (now the Organisation for Economic Co-operation and Development) in 1961, which alleged that rising prices were mainly due to continual increases in wages and that Governments could not allow this to go on. The report emphasised that Governments must have an idea of how wages should be allowed to advance in a given situation, and should make their views known to employers and unions, bringing pressure to bear on them to conform to this in all wage negotiations. The report further emphasised that

> "an essential way in which the Government should contribute to effective wages policy was by having a wages policy for employees in the public sector".

In short we were back to the tactic of the Government imposing some kind of wages policy on the trade unions.

In dealing with the balance of payments crisis in 1961 the Chancellor of the Exchequer (Selwyn Lloyd) produced a mixture of the old "stop-go policy" and of the O.E.E.C. policy which recommended that the Government seek to impose wage restraint on the unions. In July 1961 there was the usual emergency budget and credit squeeze operating to slow down the economy, accompanied by fierce propaganda against wage increases. In particular the Government operated the recommendation to interfere in the fixing of wages as far as the public sector was concerned by decreeing a wages and salaries pause for workers in Government service.

It succeeded in provoking a storm. For the whole tendency since the war was for the workers in national and local services to lag behind those in industry. In any wages round they were invariably last in the queue. They were there in 1961 when the Chancellor proclaimed a wage pause, as far as the workers in Government service were concerned. The result was inevitable. The unions in the public services exploded in indignation and there were fierce denunciations of Government policy from workers, many of whom had been among the Government's supporters in the 1959 election. The Government was correctly accused of undermining the arbitration machinery for fixing the wages and salaries of its own workers. The indignation was such that when Mr. Selwyn Lloyd set up the National Incomes Commission the Trades Union Congress refused to participate in it. Yet in 1965 the T.U.C. is clearly preparing to participate in a similar institution now being set up under the auspices of the Labour Government.

The aims of Nicky were (1) to define the percentage—"the guiding light"—by which wages should be allowed to rise in any given year, (2) to examine and evaluate wage and price increases which had taken place, (3) to adjudicate with regard to unions who were claiming that theirs was a special problem and they ought to get a larger increase in wages than was allowed for by the guiding light. The Government let it be known that in its opinion "the guiding light" would allow for wages rising by around 2½ per cent per annum.

The Trades Union Congress refusal to co-operate destroyed the effectiveness of Nicky from the Government point of view, though this body was encouraged to comment on recent wage settlements and to advocate Government wage policy.

Events were soon to prove that the T.U.C.'s refusal to co-operate in Nicky was not due to any basic opposition to the Government's declared policy to restrain wage increases, for when the National Economic Development Council was formed to promote economic growth the General Council of the Trades Union Congress after some initial hesitation joined it. Yet Neddy no less than Nicky was to formulate a "guiding light" to which wage negotiations were expected to conform. The difference, T.U.C. spokesmen alleged, was that Nicky's guiding light was based on the *actual* level of production that was being achieved at the moment whereas Neddy's was based on the *potential* level of production, i.e. a level that could be attained if a policy of stimulating economic growth by planning was adopted. T.U.C. spokesmen disingenuously explained that the Nicky policy was one of "wages restraint", while the Neddy policy was one of "planned growth of wages". The difference was not great, Nicky's guiding light being 2½ per cent and Neddy's guiding light being 3½ per cent. It was admitted by Neddy that adherence to this "guiding light" as far as wages was concerned would lead to profits increasing faster than wages and salaries and that steps would have to be taken to correct this by taxation or by some other methods. What was being pursued, Neddy's supporters argued, was not a wages policy but an incomes policy—a policy which would keep prices and profits under control as well as wages. When, however, in the spring of 1964 an attempt was made to spell out how control of prices and profits could be operated it failed. The employers and the Tory Chancellor of the Exchequer (Reginald Maudling) had no doubt that a guiding light was feasible with regard to wages but strongly disagreed as to how it could be applied to prices and profits. The contention of the Left that an incomes policy would be mainly concerned with restraining wages and salaries appeared to be confirmed by events.

The Guiding Light

The Neddy guiding light, it should be remembered, was based on the assumption that industrial production would grow at the rate of 4 per cent per annum. In fact industrial production in 1964 grew at a rate of slightly less than 3 per cent. The projected increase of production on which the Neddy policy (under the Tories) was based has not materialised. In fact apart from exhortations nothing had yet been done to get the increased production on which the Neddy policy was based. It was not so much a programme (or plan) as an exercise in star-gazing.

Since the General Election some of the so-called planning functions of Neddy have been taken over by the new Department of Economic Affairs. It is the Minister in charge of this Department, Mr. George Brown, who succeeded in extracting a "Joint Statement of Intent" from the employers and the unions, mainly because he has put aside for further consideration many of the questions on which the unions and the employers failed to agree during the period of the previous Government. The "Joint Statement of Intent on Productivity, Prices and Incomes" (to give the full title) is full of window dressing statements that the Government will sometime in the future introduce "earnings-related benefits" and proposals for severance pay and industrial training. These have no necessary relation with an incomes policy. They are operated in countries which do not operate an incomes policy.

The essential part of the Statement is the acceptance of "major objectives of national policy" by the Trades Union Congress and the employers' organisations. Those major objectives are:

> "to ensure that British industry is dynamic and its prices competitive",
>
> "to raise productivity and efficiency so that real national output can increase and to keep increasing wages, salaries and other forms of income in line with this increase",
>
> "to keep the general level of prices stable."
>
> "We therefore undertake on behalf of our members to encourage and lead a sustained attack on the obstacles to efficiency, whether on the part of management or of workers, and to strive for the adoption of more rigorous standards of performance at all levels; to co-operate with the Government in endeavouring in the face of practical problems to give effect to the machinery that the Government intend to establish for the following purposes:
>
> "(i) to keep under review the general movement of prices or of wages, salaries and other money incomes of all kinds;
>
> "(ii) to examine particular cases in order to advise whether or not the behaviour of prices, or of wages and salaries and other money incomes is in the national interest, as defined by the Government after consultation with management and unions.
>
> "We will stress that close attention must be paid to easing the difficulties of those affected by changed circumstances on their employment. We therefore support, in principle, the Government's proposals for earnings-related benefits and will examine sympathetically proposals for severance payments."

The entire Statement, with the exception of one paragraph which we will call attention to later, contains nothing but the generalities which were agreed to when the National Economic Development Council was formed two years ago. There is no sign of any advance to the solution of any of the problems connected with the control of prices and profits as part of an incomes policy. The only departure from Neddy principles is contained in the sub-paragraph of paragraph 10 which refers to co-operation with the Government in setting up machinery to review "the general movement of prices and money incomes of all kinds".

What is suggested here, and it is virtually the only concrete suggestion in the whole Statement, is that a body similar to the National Incomes Commission of 1961 is being set up with exactly the same objects. The Trades Union Congress has swallowed this, hook, line and sinker.

This is a totally retrogressive step and the unions will regret that the T.U.C. gave its assent to it.

The "Tribune" Article

In the *Tribune* Messrs. Michael Barratt-Brown and Royden Harrison say that the "Declaration" is an advance compared with previous statements. We reject this and will make our position clear by discussing the points raised by these gentlemen.

> "It presents the incomes policy as an element in a plan for the economy as a whole."

That is exactly what Neddy (with Maudling in the Chair) alleged that it was doing. But no concrete plan ever emerged and none has as yet been put forward (we agree that it is a bit early) by the Labour Government.

> "It is a policy for all incomes and not merely for wages and salaries."

That is exactly what was claimed for the old Neddy policy. The trouble was that Neddy had a very concrete policy with regard to wages—"the guiding light"—but had no concrete policy for prices and profits. Neither has the Department for Economic Affairs up to date.

> "It acknowledges that an incomes policy must not be seen merely as an instrument for combating inflation but also as a way of 'serving social need and justice'."

Not exactly. That is what the Government says is the object of an incomes policy, but in the part of the document in which the employers and the T.U.C. say what they have accepted, which we have quoted above, there is no mention of social justice. The employers have accepted no such concept.

> "By making it a joint responsibility of management and the unions to attack the obstacles to efficiency whether on the part of the management or the workers, it opens the way especially at the enterprise level to a major challenge to management prerogatives."

This is reading into the document something that is not there. There is no "joint responsibility of management and unions". Both agree to further certain objectives but there is no agreement that the ways and means of achieving them must be a joint responsibility, i.e. must depend on prior agreement between management and unions. There is not the slightest ground for assuming that what have hitherto been regarded as managerial prerogatives have been superseded.

> "It commits the Government for the first time to comprehensive severance provisions to facilitate labour mobility."

Nonsense. Neddy made a similar declaration and the Tory Government accepted it.

Messrs. Barratt-Brown and Royden Harrison then offer one or two criticisms of the Joint Statement of Intent. It does not for example commit the Government to "entering the field of general manufacturing activity". Surely it is naive to expect the employers to agree that it should.

> "The reference to social need and justice is too vague. . . . Socialists require that the phrase be restated in a clearly equalitarian fashion—to require the levelling up of lower paid workers' incomes."

But the employers would not have committed themselves to any equalitarian position.

> "It is unsatisfactory that the Statement refers to 'keeping under review the general movement of prices' with examination of particular prices after the event. The Government must establish a price tribunal to which all employers in key sectors will be obliged to submit in advance proposals for price advances beyond a certain amount of frequency."

We agree that no key price increases should be agreed to without complete investigation. The Government could be forced to accept this but the employers will not voluntarily do so. Barratt-Brown and Royden Harrison do not seem to understand that the Statement of Intent as far as employers' organisations and trade unions are concerned is a Statement on what they are prepared to accept. The employers would never voluntarily accept such a form of price control as they advocate.

The *Tribune* writers do not seem to grasp the complete class co-operation standpoint of the Statement. They say that they are neither "millenial Mondists or infantile Leftists". But take millenial Mondism (or illusions about what class co-operation can accomplish) out of the document and there is nothing left. The whole basis of the document is that all policy related to profits, prices and redundancy has got to be agreed to voluntarily by the employers.

Take paragraph II as quoted above which says that "whether the behaviour of prices or of wages, salaries and other money incomes *is in the national interest as defined by the Government after consultation with management and unions*". Take a sharp rise in prices or profits. The Government cannot say whether this is in the national interest or not until it has consulted managements as well as unions and it knows that if it is to preserve its precious class co-operation machinery it must be continually making concessions to managements.

There is no sense in telling the Government to be more socialist in its activities, when it is committed, through this machinery, to consult the employers beforehand on all the economic measures it is taking. Considering that this is a Labour Government, returned in the teeth of the opposition of many employers, the Statement of Intent puts the latter in a remarkably privileged position.

Source of Confusion

The term "incomes policy" is a major source of confusion. As we have shown, the original suggestions envisaged a wages policy restraining the increase of wages and salaries. Only after resistance by the unions was the necessity of restraining other incomes added and the name changed to "incomes policy". It is misnamed! What is being discussed is not a policy for increasing incomes, or for redistributing incomes, but a policy for directly restraining advances in wages and salaries, and indirectly—very indirectly and inadequately—dealing with prices and profits as an afterthought.

Along come a number of people who interpret "incomes policy" as meaning the redistribution of incomes between the social classes, regard Mr. Brown's policy as being inadequate and put forward an alternative incomes policy, thereby adding to the confusion. Of course the unions and the workers generally should not oppose a policy of redistributing the national income in the interests of the workers' wages and salaries, but that has nothing to do with an incomes policy which restrains the growth of wages and salaries, in a situation in which this must involve the increase of profits and capital gains. The straight issue is—Do we want an incomes policy of the type that George Brown is evolving, or do we not? That is what union conferences and the T.U.C. will be called on to decide. It is not wrong and not sectarian to oppose an incomes policy which will put the working class at a disadvantage. It is wrong and it is grossly misleading for the *Tribune* writers to suggest that a new Utopian petty bourgeois incomes policy can be imposed on Mr. Brown at this stage.

Messrs. Barratt-Brown and Royden Harrison seem to think that the fact that the Government and the employers are favouring a George Brown type of "incomes policy" enables the unions to say that they want a different type of incomes policy, one which will redistribute incomes and wealth, and if the unions want this type of policy they can get it. Surely not on the basis of "Government, management and unions co-operating in a spirit of mutual confidence". The employers want an incomes policy which will objectively redistribute the national income to their benefit. There is no sense in the unions approaching them with the proposition that "we will agree to an incomes policy provided it redistributes the national income to our advantage". On that basis the employers will not play.

What is Intended

The Statement of Intent is in some ways a more reactionary document than any of the Neddy documents. Let us look at some of its propositions.

> "To keep increases in wages, salaries and other forms of income in line with this increase in productivity."

But wages and salaries are treated in a vastly different way from other incomes. They are restricted at source according to the "guiding light". The "other incomes" (profits and rent) are not restricted at source. They are appropriated by the companies and the shareholders. If their growth is deemed to be excessive some of them may be taken back in the future by taxation. Says the Statement:

> "They [i.e. the Government] will use their fiscal powers or other appropriate means to correct any excessive growth in aggregate profits as compared with the growth of total wages and salaries *after allowing for short term fluctuations*."

So in estimating the rise in profits there has to be a long argy-bargy about the base-line from which to start the measurement of their growth. That could take a long, long time. Then it is the increase in aggregate profits that is to be corrected. This means that industries of higher than average productivity such as mining, steel, chemicals, motors, will have quite a jump in their profits, for their workers will be restrained by the "guiding light" from getting an increase in earnings commensurate with their *own* increase in productivity. It will be the "guiding light"—3 to 3½ per cent—and not the increase of the workers' productivity in the industries concerned that decides what wage increases they will get. Note that it is the growth in the aggregate profits of the capitalist class as a whole that will be taxed. The firms whose profits shoot up abnormally owing to wages and salaries restraint will find quite a lot of their excess profits sticking to their fingers.

While wages and salaries are restrained at source, prices are not. Capitalist firms are allowed to push up prices as high as they can. It is only afterwards that this action is reviewed. They should be prevented from raising their prices in the first instance.

Nothing is more absurd than to suggest that a policy which fixes wage and salary increases according to a "guiding light" favours the lower paid workers. If the "guiding light" is to operate in general, the less exceptions to it the easier it will be to operate it. Exceptions there can be, but they will be few and far between. When Mr. Leslie Cannon of the Electrical Trades Union argues that adherence to the guiding light will actually increase the gap between the higher paid workers and the lower paid he is absolutely correct. Unfortunately his alternative, namely the fixing of all wage differentials by some central body according to some process of job evaluation is likely to destroy collective bargaining altogether. Certainly something must be done about the lower paid workers by the unions covering the various industries. There must be an agreement that in all wage settlements the increase for the lower paid will be greater than those for the higher paid. A large part of such increases must be at the expense of the employers. To attempt totally to halt all increases for the higher paid (and the recent agreements of the Confederation of Shipbuilding and

Engineering Unions moves too much in this direction) is to destroy the whole policy altogether. The same principle applies to women's wages. The guiding light will effectively stop the movement in the direction of equal pay.

Inefficient low paid industries are a special problem in which we should expect a Labour Government to co-operate with the unions, the latter pressing for a much higher rate of wages while the Government pressurises those industries to modernise.

We have shown that an "incomes policy" will lead to a redistribution of income to the rich (basically the big firms and their large shareholders) at the expense of the wage and salary earners. It will also increase the inequalities of personal fortunes, in favour of the rich. In a debate on wages policy at the 1949 Labour Party Conference Mr. Roy Jenkins, M.P., said that the main source of investment for industrial expansion was undistributed profits, but added:

> "Undistributed profits therefore help the investment. But there is another difficulty; they lead to a greater inequality not of income today but of property in the future. I think we ought to know what are the Chancellor's thoughts about a large-scale levy to correct this tendency."

The Neddy report on "Conditions Favourable to Faster Growth" (May 1963) admitted that this tendency for the rich to become richer was inevitable under an incomes policy and suggested a "wealth tax". This was advocated for a time by Mr. Callaghan, but since he became Chancellor he has now dropped it with a resounding bang. So the long term result of an "incomes policy" is that it will make the distribution of incomes and the distribution of personal fortunes more unequal than they are even today. People who set themselves this aim have no claim to the title of socialists, democratic or otherwise.

Last but not least an "incomes policy" panders to the most deep-seated prejudices of the British capitalist class. Throughout the twentieth century, they have undertaken much less capital investment than their rivals and have made much less effective use of what investment they have undertaken. All capitalist classes, as a matter of principle, declaim against the high wages of the workers, but the British capitalist class is unique in persisting in operating a lower rate of capital investment than its rivals and then putting all the blame for the slower rate of British economic growth on the workers. By giving the restraint of wages and salaries first place in its programme the Labour Government is slandering the workers and perpetuating a dangerous reactionary myth.