pay, prices and Labour in power

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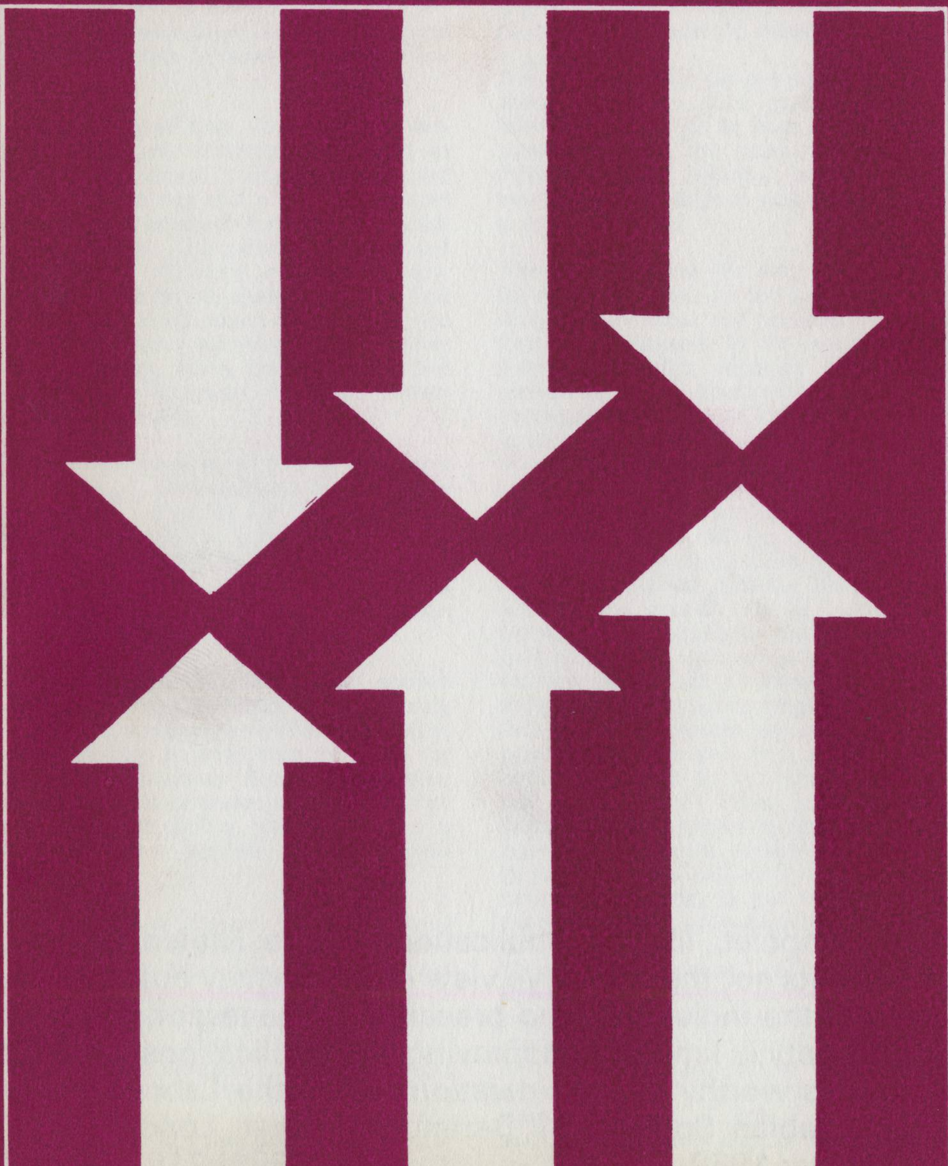

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contents

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1. introduction

The long term aims of an incomes policy for socialists must be to raise the level of real wages, to increase the share of wage and salary earners of national income, and to promote greater justice in relative pay. Few people in the Labour movement would quarrel with these aims, but many find it hard to see the connection between these longer term aims and the realities of incomes policy since 1966.

The short term aims of incomes policy have been very different: to assist in maintaining export competitiveness and to hold down pay and prices. In practice most of the emphasis has been on holding down pay. This policy, accompanied by stringent statutory controls, is now facing two different challenges. The first is from the trade union movement; the second is from those who doubt whether such a policy, given the way collective bargaining is organised, has been or ever could be effective.

The Government now clearly recognises that a policy accompanied by the range of controls set up in the 1968 Act, cannot be viable in the long run. Roy Jenkins in his 1969 budget speech said, "Our long term policy must involve a considerable amount of public acceptance and voluntary application."

As yet the Government has only spelled out one part of this future policy, namely that it will involve powers to delay settlements for up to four months while the Prices and Incomes Board investigates. But this is an ominous sign. It suggests that the new policy will simply be a watered down version of the present policy.

This pamphlet argues for an entirely new start with a policy which will make a priority of long term reform rather than short term restraint. The aim is to set out an agenda of policies and of work for the Labour Government and the Labour movement, not over the next 12 months before the election, but over the next five years. This change of emphasis would still recognise that no government can completely ignore such vital economic and social issues as the determinants and levels of pay and prices. Quite apart from whether such a policy of *laissez faire* should be contemplated by a radical government, there are certain pragmatic and political difficulties in the way of its adoption, given the degree of inter-national and national interest in the effects of inflation.

But these realities do not mean that we should carry on with past policies, if they can be shown to have failed. They point rather to the need for new and more relevant policies, perhaps with more limited ambitions and operating on a narrower front.

The starting point for such policies has to be an appraisal of the past. This can show first whether the problem of inflation has changed in its nature and, secondly whether incomes policy has proved to be an effective instrument of economic management in the short term. It will also show that certain features of current incomes policy are not entirely negative and that it has in certain ways made important contributions on which future strategies can be built. Incomes policy has in its application moved away from the original primary objective of aligning the overall rate of increase of earnings more nearly to that of productivity and developed secondary areas of concentration, such as those of productivity bargaining, equity in pay structures, the public accountability of firms for pricing decisions and pay in the public service. Incomes policy, largely through the work of the Prices and Incomes Board, has also helped to dramatise such issues as the extent of low pay, reform in pay structures and equity in the distribution of income. It has made a start towards greater accountability by firms.

These issues require policies from a Labout Government as do the older issues of inflation and of competitiveness in export markets. The need is, therefore, both to set in perspective what an incomes policy of the traditional type, as operated on and off since 1961, has done and to suggest new lines of approach for the 1970s.

2. the analysis of inflation

Traditional incomes policy grew out of a particular analysis of the causes of inflation and out of a particular specification of the damage caused by inflation. Inflation was thought to have harmful economic effects both in the short term and in the long term. In the short term its main damaging economic impact would be on export competitiveness. It would also have a damaging social impact on groups living on fixed incomes and on groups, such as pensioners, whose incomes were not adjusted quickly in response to changes in the cost of living. In the long term inflation would lead to a misallocation of resources. Individuals and firms would tend to over invest in physical assets and in assets the real value of which was less affected by inflation because of scarcity or other factors. They would also tend to over invest in projects with high returns in the short run and to be wary of putting money into projects, the benefits of which would only show up after a number of years. Uncertainty about future rates of inflation would add an element of risk to economic decisions of all different types. Differences in rates of inflation because of differences in the strength of cost push forces in different sectors of the economy would also lead to distortions in relative prices.

The analysis of the causes of inflation emphasised two possible contributory sets of causes, to which various researchers attached different weights. One school of thought, represented by the *First report of the Council on Prices, Productivity and Incomes* (HMSO, 1957), put the emphasis on excess demand as a force for driving up prices. The remedy, therefore, for inflation lay in managing demand so that it did not outrun supply and lead to a bidding up of prices. The second school of thought, while admitting that excess demand could play some part in driving up prices, emphasised that prices and wages would continue to rise even in the absence of excess demand. This was because strong institutional forces, among which generalised expectations of increased income, were more important than formal wage claims submitted by trade unions, acted to drive up wages and consequently costs and prices. This point of view was most lucidly expressed in the *Fourth report of the Council on Prices, Productivity and Incomes* (HMSO, 1961); the first set of wise men had by this time been replaced by a new set. The report said: "Inflation has sometimes been due to the pull of excess demand, but experience has shown that removing excess demand is not of itself enough. We have been brought to the conclusion that inflation has another cause, an upward push as rates of pay are raised and profit margins are maintained by raising prices. This cost push comes into play through myriad decisions on wages, salaries and prices (*op cit,* p3).

The report went on to suggest that policies for managing demand could only be one part of an overall policy against inflation. There was also a need to "find ways of adjusting the rise of money incomes at the points where the decisions were taken". This "cost push" interpretation of inflation is, thus, the intellectual underpinning of traditional incomes policy.

This analysis of the damage caused by inflation and of the causes of inflation were the two main parts of the traditional perspective on inflation which dominated thinking in the early 1960s. But there were other important assumptions. First it was implicitly assumed that influencing the domestic cost and price level, was tantamount to influencing cost and price levels for exports. The traditional approach threw little light on a situation in which domestic price levels and export price levels showed differing movement, both internationally and nationally. Secondly, the approach assumed that the mechanism of inflation was entirely internal to the British economy, a legitimate assumption in view of the downward movement in import prices in the late 1950s. Neither did this approach take account of the possibility that Government tax policies and Government pricing policies in the nationalised sector could act powerfully to push prices upwards. Finally the analysis, and the policies built on it, were developed in an atmosphere of great concern about moderate rates of inflation.

Developments in the last five years mean that much of this analysis has to be modified. Policies have to be worked out and past policies judged against a changed background of fact and of analysis. First, rates of inflation of consumer prices have increased very greatly both in the UK and in the western world generally. The table below shows comparative rates for the UK and for eight other industrial countries for 1958-63 and for 1963-68.

CONSUMER PRICES PER CENT RATES OF GROWTH PER ANNUM

country	1958-63	1963-68
UK	2.25	3.85
USA	1.15	2.60
Belgium	1.25	3.60
Netherlands	2.15	4.55
Canada	1.25	3.10
France	4.40	3.15
Sweden	2.85	4.25
W. Germany	2.15	2.40
Italy	3.20	3.45
Japan	4.85	5.00

source: NIESR *review*, May 1969.

Only in France is the rate significantly lower in the more recent period. In UK, the US and some of the smaller countries there has been a major acceleration and what would once have been considered intolerable rates of price increase have become commonplace.

The second important new development is that although export prices of manufacturers have on average been increasing at a faster rate since 1963, the rate of increase for all countries is well below that of consumer prices, as the table opposite shows.

Countries have been able to shield their export prices from changes in their domestic price levels. The impression gained from looking at this set of figures is however confirmed by attempts at correlation between changes in export prices and changes in domestic prices. The correlation is almost zero. Export prices have followed different courses from domestic prices.

EXPORT PRICES OF MANUFACTURES: PER CENT RATES OF GROWTH PER ANNUM

country	1958-63	1963-68
all countries	.60	1.15
USA	.85	2.50
UK	1.45	0.80
West Germany	1.90	0.60
France	— .40	1.75
Italy	—1.2	—0.8
Japan	—1.35	0

source: NIESR *review*, May 1969.

The third new development is the growth in the power and influence of the international corporation. The Board of Trade calculated in December 1968 that 21 per cent of Britain's exports were now intra-trade between international corporations. In many of these corporations target rates of return on investment, and hence pricing policy, is set outside the UK. There may also be co-ordination of the prices of similar products produced by one corporation (or its subsidiaries) in different countries.

These new developments point to three conclusions of importance for policy. First, it is no longer enough to see inflation as a process internal to each country. Both international trade and the activities of international corporations, as well as the effects of the international money market and rising interest rates help to generate inflation. No one country can insulate itself against these pressures.

Secondly, a policy which attempts to influence export prices and export competitiveness mainly at second remove through influencing the general price level, is not likely to be effective. Export prices show different rates of increase and different directions of movement from domestic prices. For the UK it is also more clearly understood now than was the case five years ago, that very small changes in relative export prices make little difference and that product characteristics, other than price, design, performance, reliability and delivery dates, are of vital importance in affecting competitiveness. This evidence points in the same direction as the evidence of prices: towards the need for policies to deal specifically with export competitiveness.

Finally, the evidence shows that in spite of many devout intentions to the contrary, nearly all the industrial countries have had remarkably little success in moderating rates of increase of domestic prices. Even as incomes policies have become more elaborate, so prices have risen faster. The evidence suggests that the goal of overall price stability, for so long the stock in trade of political rhetoric, has become unattainable except perhaps at a tremendous sacrifice of other economic objectives such as full employment and rising living standards.

causes

But developments in the last five years, not only suggest the need to look at inflation in a more international perspective: they also suggest a need to change our view of the internal mechanism of inflation. The first change is in the importance of government tax and other policies in generating inflation. The table below shows the contribution of various sources of price increases to overall movements in prices since 1964:

CHANGES IN UK GENERAL PRICE LEVEL, SEASONALLY ADJUSTED

	1964 1965	1965 1966	1966 1967	1967 1968
domestic costs*	+3.3	+2.1	+1.5	+1.4
imports	+0.2	—0.5	+2.0	+1.7
net expenditure taxes	+0.9	+2.5	—1.1	+1.8
general price level	+4.3	+4.1	+2.5	+4.9

* GDP components.
source: NEDO, *Productivity prices and incomes—a general review,* 1968, p9.

The Government has rightly tried to repair the deterioration in the social services in the 1950s, by raising levels of public spending. This, together with the requirements of the short term economic situation, has meant increased taxation. The emphasis on indirect taxation has conflicted with the goal of price stability. Other Government policies have also raised prices. Devaluation had a big impact on import prices and hence on the general price level. Government policies for setting commercial rates of return for the nationalised industries have also helped to raise prices. The component of the retail price index covering goods and services mainly produced by nationalised industries increased by 5.25 per cent a year between 1964 and 1968, while the all items index increased by 3.9 per cent a year. Thus government policy and not cost push in collective bargaining and price setting has been in two out of the three last years the most important cause of inflation. This is not to say that the Government policies were necessarily wrong. My own view is that they were largely right. But the significant point is that the goal of price stability can conflict, and has conflicted, with other desirable social and economic objectives.

The second new development is that the last five years have destroyed any lingering illusion that excess demand, rather than cost push forces, is responsible for inflation. In the 1950s a great deal of research was done, led by Professor Phillips and Lipsey, into the relations between unemployment and prices. There was found to be a strong relationship for the pre-1914 period between levels of unemployment and rates of price increase. When unemployment was high, prices rose slowly and conversely. In the post-war period into the 1950s the relationship was weaker, but still there. On this evidence a vast edifice of policy proposals was built, particularly by Professor Paish. It was said that if the economy were run at a lower level of capacity, with unemployment at 2 per cent or more, there would then be no inflation. Now, studies for the 1960s, particularly by the NPBI in its *Third general report* (1968) have shown that this relationship has broken down. Wages and prices have gone on rising at a steady rate from year to year unaffected by the level of unemployment. The Paish option, even if it ever existed as a matter of positive economics, quite apart from its acceptability in a society with some pretensions to civilisation, clearly no longer exists.

The events of the last five years have shown the power of the wage price spiral as the most important force after Government policy in driving up costs and prices. Government policy may itself have intensified the spiral as people sought to maintain their real living standards through wage claims in face of tax increases and tax induced price increases. But research has also thrown new light on the nature of the spiral and of the cost push forces operating in the economy. It has shown how in manufacturing strong upward pressures can be exerted on earnings quite outside the formal structure of collective bargaining.

Strongly organised but informal work groups can press claims either for increases in rates or for increases in payment under payment by results schemes. Of course rising output and rising demand creates the conditions for these claims to be met. But they are also made when conditions are not so good. The feeling of inequity is perhaps the single greatest spur. Claims made on behalf of a particular group of workers lead to inequities in relative pay. Other groups, often groups of maintenance workers, then press counter claims in order to maintain differentials. The NPBI has documented in many of its reports how in manufacturing and particularly in engineering, fragmented bargaining conducted informally by competing work groups can lead to strong upward pressure on earnings.

Research by sociologists has also thrown light on how people's feelings about their pay and work help to generate inflation. Goldthorpe, Lockward *et al* in their study of workers in three plants in Luton show that there are important groups, particularly of assembly line workers, who are "earning maximizers". They accept hard and monotonous work in return for a high level of earnings. Such demands co-exist with very great imperfections in labour market. Even though the average rate of increase is fast, there may be great and anomalous differences between hourly and weekly pay for similar types of workers. Thus the picture at shop floor level is one of strong upward pressures on average earnings combined with great and often rather stable relative inequities in pay.

The feeling of inequity as a motive force for claims and settlements is not confined to manual workers. In some professional groups, such as the teaching profession, the feeling has been increased by changes in the age structure of the profession. An influx of young teachers on the lower points of the salary structure has increased the relative awareness of the profession about pay levels. The powerful force of pay comparison operates widely throughout the economy. It is institutionalised in the arrangements for setting civil service pay. It operates strongly for groups who are, or imagine themselves to be, part of an international labour market, for example, airline pilots and industrial managers. Efforts to introduce links between pay and productivity have further confused the picture. Some groups have accepted much greater changes in their methods and pace of work than have others.

conclusion

Thus the events of the last five years have shown that the main pressures for increased earnings, other than those arising from people's effort to maintain their real living standards in face of changes in the cost of living, are institutional and psychological. People doubt the justice of their pay level relative to others: increases in the pay of one group leads to claims from others. Annual or bi-annual wage settlements are institutional features of our economy. In so far as pay increases are not matched by increases in productivity, they feed through into costs and prices, generating further claims. The end result is a very high rate of increase in people's money pay, and a very low rate of increase in their real living standards. It is against this background of change that recent incomes policy must be assessed.

3. the record of 1964-68

Incomes policy since 1961 under successive Governments has been in essence traditional. Its core has been an attempt to affect the overall movement of wages and prices in the short term through laying down norms at the national level. Such policies were first developed in the UK and in the Netherlands after the war. The 1950s saw a general loss of interest. But they returned to prominence as rates of inflation quickened in the late 1950s and early 1960s and many Governments, including those of Britain and America have since experimented with them.

Trade unionists can be expected to judge such policies by whether they exert a favourable influence on real wages and on the wage share in national income. But the objectives of Governments in introducing such policies have had more to do with short term economic conditions than with justice in the distribution of income.

The British experience can be assessed from two perspectives: from that of Government, and from that of trade unionists. The need is to see both whether the policy has proved to be an effective instrument of economic management and whether trade unionists have derived any tangible advantages from it.

The Labour Government's incomes policy after 1964 has a strong family resemblance to the incomes policy under Selwyn Lloyd, which in turn has a resemblance both to the 1948 incomes policy and to the guideposts policy in the USA. In defining the overall objective of the policy, that of relating average incomes to the average growth rate of output, the Labour Government's white paper, *Prices and incomes policy* (Cmnd 2639, HMSO) of April 1965 might, and probably was, written by the same hand as the Conservative Government's white paper *Incomes policy, the next step* (Cmnd 1626, HMSO) of February 1962. There were of course some important changes in the Labour policy. The main ones were a more elaborate policy for prices, an independent board for vetting claims, fuller trade union co-operation and reviews of all forms of income. But in their central objective and in their manner of defining a norm and criteria for exceptions from the norm, the policies were similar.

As incomes policy moved into its compulsory phase, and the balance of payments crisis deepened, so the policy moved away from the vague objective of aligning the rate of increase of wages much more nearly to that of output. In July 1966 the freeze was a key part of the deflation package. After devaluation, the aim was that the policy should operate both to reduce home consumption and to maintain export competitiveness.

Peter Shore, speaking in the Commons on 21 March 1968, said of this phase of the policy: "The budget is tough and provides the necessary framework. It cannot succeed by itself, however, unless we develop alongside it a means of securing a just but firm restraint on prices and incomes. Neither fiscal policy or prices and incomes policy can work alone . . . a successful way of ensuring that the competitive advantage afforded by devalution is not eroded by too rapidly rising costs" (*Hansard,* p619).

Thus the objectives set for incomes policy have moved since 1964 from the general to the highly specific. The Government have assumed, at least on paper, that incomes policy could stand alongside fiscal and monetary policy as a means of regulating the economy in the short term. This is a good point at which to see whether the policy has in fact achieved its objectives.

The main objective of incomes policy in the past two years has been to protect the competitive advantage arising from devaluation from erosion. In the course of 1968 this objective was largely achieved. Wages and salaries per unit of output rose by 1.2 per cent between the last quarter of 1967 and the last quarter of 1968. This compares with an average rate of increase of 3.4 per cent for 1961-66. Labour costs raised the general price level by 0.2 per cent. Forecasts by NIESR at the time of devaluation suggested that rising labour costs would raise prices by 2.5 per cent in the course of 1968.

Clearly the outcome for 1968 was favourable. But it would be wrong, though tempting, to jump straight from this evidence to the conclusion that the incomes policy was necessarily responsible for this favourable outcome. The basic reason for this turn of events was that the effects of a high rate of increase in earnings were counteracted by a high rate of increase in productivity and a lower than expected increase in prices, each of which was determined by separate factors. We cannot therefore make a judgment about the effects of incomes policy by looking at the final outcome as measured by "competitive advantage". We have to look at the possible effects of the policy on earnings, productivity and prices separately.

Most of the drive has been put into the effort to influence movements in earnings. It is this which has mainly preoccupied the DEP and the NBPI. Two main studies, both using econometric methods, have been made of incomes policy's effects on earnings and wage rates, by the NBPI itself in its *Third general report* (1968) and by the Brookings Team. The NBPI reached the tentative conclusion that the policy may have reduced the rate of increase of incomes by about 1 per cent, both during the compulsory and the voluntary periods of the policy. The Brookings report reached much the same conclusion, but adding a cautionary note that the policy would appear to have had much more effect on weekly wage rates than on earnings. But econometric methods, although useful, have limitations as means of assessing the exact impact of incomes policy. They are not a very good method of detecting nuances in its impact over short periods. Incomes policy may have, for example, led simply to the postponement of claims and settlements from one period to others. Neither of these effects would show up in econometric tests. Here a look at the earnings figures can tell a great deal. They show that earnings, as measured by the DEP monthly enquiry, did not rise at all between July 1966 and January 1967 and since then they have increased as follows:

EARNINGS INCREASES: JANUARY-JANUARY FIGURES

	%
1967-68	7.5
1968-69	8.1
1969*	2.4

* January-April

These rates of increase are high for all three periods in relation to the level of unemployment, which varied from 2.3 to 2.5 per cent. Thus it would seem that the freeze period led to postponement of wage increases which was reflected in a high rate of increases in 1967, and that the rate of increase since has been well up to the level that would have been expected in the economic circumstances. But by taking the econometric and the more direct evidence together, they point to the conclusion that most of incomes policy's direct impact on earnings is to be found in the period of freeze and severe restraint and that the impact since has been minimal. Steady cost push has continued.

MANUFACTURING PRODUCTIVITY: 1967-68

	change %
output	+5.6
employment	—1.0
output per person employed	+6.6

Productivity growth since devaluation has been exceptionally high: there are three sets of causes which may have contributed to this gain, which appears to have been sustained into 1969. The first is the association, which appeared for instance in 1963-64 between rapid increases in output and rapid increases in productivity. This is partly due to lags in the adjustment of employment to output. It takes time for firms to recruit new workers. Thus the gain is partly a cyclical phenomenon. But the increase in *output per man* has been higher on this occasion in relation to the increase in output, than was the case in 1963-64.

This suggests the second possible contributory cause, that the average rate of productivity increase may have accelerated due to acceleration in technical progress. This would appear to have been the case since 1963. Finally as a contributory cause there is Government policy, both for incomes and in other directions. SET has certainly had an effect on productivity in the service industries.

But SET can hardly be having much impact on productivity in manufacturing. Here general expectations that the economy would be operated at lower levels of capacity than in the past, and so profit margins, which reflect capacity use, would be lower, may have made firms less willing to expand their labour forces. Thus quite apart from incomes policy, other Government policies and general expectations about Government policy in the economy may have affected the productivity record.

Within the incomes policy field great emphasis has been put on the need to link pay to productivity. Since July 1966 over 1000 productivity bargains have been approved by the DEP. The effects of producitvity bargaining on industrial relations and the future of productivity bargaining will be discussed later in this pamphlet. Here we are concerned with the effects of productivity agreements on the overall rate of productivity increase over the past two years. It is impossible to quantify this impact precisely. But from the evidence of the many sincere attempts which have been made to improve efficiency through such agreements, it is fair to surmise that they would have had some effect. It is impossible to say exactly what the contribution of such bargaining has been relative to the cyclical and trend factors already described. These would certainly have made for a fast rate of productivity increase in the course of 1968, in any case, but perhaps productivity bargaining added 1 per cent to the gain.

Finally, we come to the effect of the policy on prices. It has frequently been pointed out that prices rose less in 1968 than was expected at the time of devaluation. The general price level rose by 4.9 per cent during 1968, about 2 per cent less than expected.

One possible explanation for this is that because of productivity gains, labour costs rose less than expected. We know from econometric studies that prices in manufacturing are largely determined by the rate of productivity increase. So the events of 1968 have one explanation of a traditional kind, for which there is good evidence. But the activities of the DEP in applying the prices policy have also been mooted as a possible explanation. But the difficulty with this explanation is that that of nailing down exactly how the pressure has been successfully applied.

Certainly there has been no systematic pattern of major private sector price references to the NBPI. The NBPI has dealt since 1967 with all major proposals for price increases in the public sector and with some minor price questions in the private sector; for example, cement prices, distributor's margins and the prices of secondary batteries. But it has not had a single reference of a major price issue in the private sector. Nor have there been any major episodes of ministerial pressure on firms to rescind price increases, on the lines of the late President Kennedy's dealings with US steel in 1962.

We are left with the possibility that the existence of a prices policy in itself, combined with generalised ministerial exhortations may have made manufacturers "think twice" before raising prices. This may be so, but it is a difficult proposition for which to find hard evidence. Nor does this explanation throw much light on why manufacturers should have chosen as they did to hold down home prices more than export prices in 1968 and thus to subsidise home sales from export sales. Until hard evidence on the effects of ministerial pressure is forthcoming, it is wiser to accept the alternative explanation that productivity growth is the key to price behaviour in 1968.

We can now sum up how far the incomes policy has achieved the short term economic objectives set for it by ministers. These were to maintain competitiveness through influencing labour costs and to complement fiscal policy as a means of regulating money incomes and demand. The honest conclusion from the evidence on competitiveness is that any success has been largely from causes other than incomes policy. The policy had some effect on earnings during the period of freeze and severe restraint, but very little since. Its most persistent effect, the greatest success for the policy, has been in affecting productivity. But even here, its effect in the short term has been small. As a means of regulating demand and overall money incomes the policy has been a non-starter.

The breakdown of the policy in an administrative sense has been mainly the result of the two tier structure of collective bargaining. Some elements in pay are negotiated at the centre and others on the shop floor, and the balance between central and local negotiations differs as between industries and occupations. As the experience of the 1966 freeze shows, the structure of collective bargaining is not an insuperable obstacle to winning support for a policy so long as the will to support it is there. But once that will has gone or has been dissipated by doubts about the Government's overall economic policy, this structure can make it very difficult to maintain an incomes policy because it creates many opportunities for evasion.

This difficulty was reflected in the changed wording of the 1968, as against the 1965, white paper. The 1968 white paper spent several paragraphs in grappling with the relations between central and local settlements, a problem which was not mentioned in the earlier document.

From the point of view of trade unionists incomes policy has not been a success. Real wages of manual workers rose fastest in the 1955-60 period, and from 1965-68 increased at a slower rate both than in 1955-60 and 1960-65 periods. The trend increase in the wage and salary share of national income has continued, but incomes policy has not led to any acceleration.

NEW DEPARTURES

The objectives of incomes policy in Britain have not been limited to the more conventionally understood and internationally accepted purposes of such policies. From the start some of its objectives have been unusual if not unique, and through the work of the NBPI others have been added as the policy developed. The record of the policy in these fields must also be reviewed. They include its provisions for the low paid, the aim of reforming collective bargaining through the extension of productivity bargaining, the aim of efficiency audits for large public corporations, and finally the guidelines for dividends, profit and rent.

low pay and equity in pay

Successive white papers have provided for special treatment for both the absolutely and the relatively low paid. They have had a criterion providing for special treatment where "there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living". Another criterion covering cases of relatively low pay allows exceptional increases "where there is widespread recognition that the pay of a certain group of workers had fallen seriously out of line with the remuneration for similar work elsewhere and needs in the national interest to be improved."

There can be no argument about the extent of low pay. The 1968 distribution of earnings survey confirmed that about 10 per cent of full time adult male manual workers had gross earnings of less than £15 a week and 25 per cent of full time women workers had earnings of less than £9 a week. Thus a large number of workers earn less than the minimum income level set for supplementary benefit. The position is one that should be deeply disturbing to the Labour movement. There have also been cases in which the criterion that pay was "seriously out of line" could have been used to justify an exceptional increase.

The incomes policy white paper was thus right to be concerned both with absolute low pay and with justice in relative pay. But no real attempt has been made either by the NBPI or by the DEP *to* apply these criteria to particular cases apart from the NBPI reports on pay in agriculture and in the clothing industry. In practice these criteria have hardly been used at all and all the weight has been thrown on the "productivity" criterion in assessing claims. This reluctance to use the criteria may in part have reflected a feeling that use of them would have been taken as a sign of the general "softening" of the incomes policy. But such an attitude was unfortunate in view of the attacks on the "free for all" collective bargaining and its inequitable results which were frequently made by ministers as part of their justification for incomes policy. A more frequent use of the criteria would have added to the public credibility of the policy and to its political acceptability. The DEP's use of the low pay criterion has been even less extensive than that of the NBPI.

In view of the paucity of effort put into helping the low paid it is not surprising that the figures should show that they have not made relative gains since 1964. Neither the overall extent of low pay on the fortunes of low paid workers in particular industries have changed. The TUC in its *Economic review* for 1969 made a painstaking attempt to measure the impact of incomes policy on low pay. Among its conclusions were that "relative improvements were very slight. To take the extremes of the range, in October 1964 weekly earnings in vehicle manufacture were 51 per cent higher than in public administration . . . and by April 1968 the gap had widened to 50 per cent . . . in money terms the gap had widened" (*op cit,* p34). Such conclusions have not been disputed by the Government. From such evidence it is fair to make the more general conclusion that, however benevolent its intentions, incomes policy has not amounted to a serious attempt to deal with the problem of low pay.

So far from reducing inequities in relative pay, incomes policy has in its operation in the public sector increased them. There have been glaring differences in the treatment of different claims by different Government departments. The policy was applied in its full rigour, as it was the NBPI's statutory obligation to do, to the university teachers' claim. Proposed settlements for higher civil servants and for doctors were treated much more lightly by, respectively, the Treasury and the Kindersley Review Committee. Thus, on this issue as on the issue of low pay, good intentions have not led to equivalently good results.

productivity bargaining

The second unusual feature of British incomes policy has been its concern to encourage productivity bargaining. Such bargaining had begun in progressive firms long before incomes policy started; the earliest bargain at Esso Fawley was negotiated in 1960. But the policy has certainly given a powerful impetus to the spread of such bargaining.

Productivity bargaining holds certain obvious dangers in the longer term. In practice it is very difficult to sort out the labour contribution to increased productivity from the effect of new investment and of technical change. It may lead to inequitably large increases in earnings in firms and industries, which for reasons unconnected with worker performance, have the records for fast productivity growth. It is not a substitute for a good general quality of management and of industrial relations. But in an economy in which, apart from the often exaggerated but nonetheless real incidence of direct restrictive practices, many vital issues, such as the nature of the payments system, manning levels and the level of overtime working have not generally been subject to rational joint regulation and joint decision making, such bargaining has an important role to play. The scope even for the more primitive type of bargains representing preliminary attempts to organise the pattern of work and of working hours more efficiently and thus to benefit workers, firms and consumers is still great, as the NBPI's recent report has confirmed. In firms where such bargaining has already been undertaken successfully there is a need to develop forms of collective bargaining which can allow regular reviews of working methods, particularly in the light of technical change, but which are not directly linked to specific changes in working practices. Such bargaining cannot be a once for all affair, in an economy faced by rapid technical change.

Productivity bargaining has certainly led to changes in attitudes in industrial relations. At this point Government policy has given an impetus to practice, in the same direction that the most progressive management and unions were already moving. The proof of its impact can be found in changed attitudes all over British industry and beyond manufacturing in the services and in government employment. It has meant not only large increases in pay for workers whose pay levels were already high in capital intensive industries, but new hope of increased pay for such lower paid groups of workers as manual staff in the employment of local authorities. It has spread into the non-manual field under the impetus, for example, of the NBPI's report on *Gas staff's pay*. It is in this area that incomes policy has had both its most enduring and its most beneficial impact.

firms, dividends and rents

Through the operation of incomes policy the first steps have been made towards establishing the social accountability of public and private corporations for major pricing decisions. The efficiency audits carried out by the NBPI have had fruitful results both in terms of the opening up of key issues to public debate and in terms of specific changes in pricing policies. For example, the NBPI report on British Rail fares led to major changes in the railways pricing policies. The report on steel prices brought to light the conflict between the aim of stability in the general price level and the aim of changes in relative prices which might be considered to increase efficiency. The issue now is how to extend the concept of the efficiency audit into the private sector.

The 1968 white paper introduced controls for dividends as well as for wages. These took the form of compulsory notification of proposals for dividend increases, and power for the Treasury to block increases in dividends where these were considered to be excessive. In practice the powers have been little used. Ordinary dividend payments rose by 5.6 per cent in 1968, but were still below the 1966 level. It is difficult to know, however, whether this restraint was the result of the policy or of the general uncertainty in the economic climate.

Profits showed a sharp rise in 1968 as a result of stock appreciation and rising output following devaluation. But there is no reason to think that the slow trend decline of the profit share in national income has ceased. Profits declined from 16.3 per cent of total domestic income in 1954-55 to 14.8 per cent in 1964-65, taking years in similar positions in the cycle. Incomes policy has had little effect either on the short term or the long term developments.

The white paper also contained a ceiling for rents. But there is little sign that incomes policy has helped to abate the rapid increase of rents, which rose by 8 per cent in 1968 and by 8.1 per cent a year between 1961 and 1966. This increase (because rent includes imputed rent of owner occupied dwellings) reflects increases in the costs of new housing as well as the policies of private landlords and of local authorities. This rapid rate of increase is highly disturbing and reflects an area of failure for incomes policy, apart from the restriction on rent increases by local authorities.

4. the future

The experience of the last four years has shown the limitations of traditional incomes policy both as a means of dealing with the short term problems of inflation and export competitiveness and with specific problems of equity and efficiency in the setting of pay and prices. The question now is whether out of the ashes of the old policies, new and more relevant policies can arise. Even if incomes policy in its traditional form is abandoned, a Labour Government will need policies to cope with inflation. It will also need policies to deal with the problems of equity and efficiency, which have come to the forefront as a result of present policies. For example, a Labour Government will need policies to deal with low pay: it will also need to devise equitable principles for negotiating pay in the public services and methods of increasing the accountability of firms for pricing decisions.

The starting point for devising new policies must be the analysis of the nature of inflation. Both the pace of inflation and the causes of inflation have much changed since the present incomes policy was devised in the early 1960s. From this analysis the next step is to suggest relevant policies. Even if in the light of the analysis it proves to be an impossible task to moderate the overall rate of inflation in the short term, it is possible to suggest first, policies which can limit those effects of domestic inflation which are most economically damaging in the short term; its effects on export competitiveness. Secondly, it is possible to suggest policies, particularly for the reform of collective bargaining, which can in the long term help to moderate the pace of inflation. These policies for inflation and collective bargaining will be more effective and make more sense to trade unionists when they are worked out in a setting of complementary policies in this field. These must include:

1. A policy for low pay.

2. Policies for the reform of collective bargaining in the public services.

3. Labour market policies.

The essence of this approach is that incomes policy must aim at reform in the longer term and an honest attempt must be made to apply it in the realisation that it may not show returns for some years. In the future incomes policy should be less concerned with effecting dockings in economic space between abstrict economic aggregates: average earnings, prices and productivity. It should rather be concerned with bringing about the fundamental reforms in collective bargaining which are needed if Britain is ever to have an effective and just voluntary incomes policy.

The analysis of the causes and course of inflation in the 1960s suggests that it will be an extremely difficult task to moderate the general rate of domestic inflation in the short term. There are three reasons for this. First certain international pressures, outside the control of a British Government, contribute to inflation. Secondly the Government has adopted in the past, and may adopt in the future, tax and other policies which may lead to inflation. Finally, the cost push forces making for inflation are powerful psychological and social forces resistant to control or advice from central Government. The analysis suggests therefore that a Labour Government should learn to live with inflation. Rather than attempting to influence the general rate of wage and price increase in the short term, it should first concentrate on alleviating the most damaging short term effects of inflation. These are, and here the traditional analysis still stands, its effects on export competitiveness and its effects on groups living on fixed incomes. Secondly the Government should aim at the reform of collective bargaining, to create a framework of free collective bargaining within which particular groups can see the general consequences of their actions more clearly.

policies for export competitiveness

At present some of the policies designed to help export competitiveness are highly specific. Such policies cover for example the work of the Board of Trade and the

British National Export Council in export promotion and in giving assistance on sales and marketing, and the work of the Export Credits Guarantee Department. The other main policy designed to help competitiveness, incomes policy, is much more general and aims to help competitiveness at second remove. The evidence on relative movements in export prices and in the general level of domestic prices suggests that we need more specific policies aimed at influencing prices and costs in the export sector.

It might be argued that this policy would leave the economy open to a flood of imports, but it is reasonable to assume that our domestic price level would not rise much faster than that of our competitors.

Visible exports are generated by the manufacturing sector and within the manufacturing sector the supply is concentrated within a small number of firms. 120 firms produce about 50 per cent of Britain's manufactured exports. The first step towards devising policy, therefore, has to be an analysis of how prices, particularly export prices, are set in the manufacturing sector. The main piece of research is that by Robert Neild, *Pricing, employment and the trade cycle* (1960). This is now unfortunately rather out of date, but in the lamentable absence of more recent work, still has to be taken as a guide. This showed that prices in British manufacturing were largely cost determined. They reflected adjustment to trend rates of increase both in materials and in labour costs, moderated by the trend rate of increase in productivity. Compared with American industry, prices in British manufacturing showed much less variation in relation to changes in the level of demand. These results imply that firms have a concept of normal trend profit margins and will adjust the trend of prices to maintain the trend of profits, but that the main weight of cyclical changes will fall on profit margins. It has become more and more difficult in recent years to say exactly how long are the lags between changes in costs and consequential changes in prices. But the basic pattern still holds. Prices are cost determined and not demand determined.

Already by 1968, there was evidence to show that for Britain, prices of manufactured exports behaved very differently from prices generally. But the experience of 1968 added a new twist. This experience was that home prices rose by less than would have been expected on the basis of cost increases during the year. It appears that home sales may have been subsidised out of the increased margins on export sales resulting from devaluation. The NIESR *Economic review* for February 1969 summed up the position as follows, "prices (during 1968) might well have been expected to rise by something like $7\frac{1}{2}$ per cent. That they did not do so may probably be taken to imply that company profit margins on sales to domestic consumers were not constant, but actually fell. The increase (due to devaluation) in income from abroad and the enhanced profit margins to be had from export sales suggest the possibility that home prices might have been subsidised by these activities" (*op cit,* p21). 1968 confirmed the possibility that firms might have different pricing policies in home and export markets.

The final piece of evidence which we need as a basis for policy is evidence on the nature of export competitiveness. As mentioned earlier, it is clearly not just a matter of price but of quality, reliability, and many other product characteristics.

The main conclusions for policy that can be drawn from this analysis are as follows. First, policies designed to increase productivity and reduce increases in unit costs in key exporting sectors could make a considerable contribution to competitiveness, in a world in which prices are cost determined. Secondly, a great deal of thinking needs to be done by firms about their pricing policies for export sales relative to home sales. Thirdly, policy needs to deal with competitiveness in all its aspects, and not with the price aspect alone.

The focus for policy should therefore be the movement of unit costs and of prices in key exporting sectors and in sectors in which imports have been making heavy inroads. The NIESR's study in its August 1969 *Economic review* of the office machinery industry has provided a classic example of such a sector. The instrument for policy already exists in the NBPI. A new white paper should lay down general guidelines on unit costs and prices in these sectors. It should then be the NBPI's job to investigate, to report and to persuade, but the focus would be directly on exporting sectors and not on the general movement in earnings and prices in the economy.

The NBPI in its *Third general report* has already suggested some issues which would repay investigation. The NBPI suggested, for example, that it should be asked to look at prices in industries such as the chemical, engineering and electrical goods which showed a fast rate of productivity growth. No such reference have been made. It also suggested that it should be asked to look at industries in which there might be scope for import substitution, at key exporting industries and at the pricing policies of international corporations.

It could be argued that it was unfair to subject pay, costs, prices and profits in export industries to scrutiny, while reducing surveillance elsewhere in the economy. But the focus in this new phase of policy would not be on the earnings of individuals but on the efficiency of firms. There would be no objection to a rapid rate of increase in pay so long as it was linked to a rapid rate of increase in productivity. There would be no set average norm for the economy as a whole, the emphasis would be on effecting specific improvements in specific situations. It could also be argued that there is too much reporting and paper chasing in industry already. But this argument would ignore the strong evidence of the powerful impact which the NBPI as an independent and highly competent fact finding body has had on the issues with which it has been concerned until now. There is no reason to think that it could not do an equally good job on the new brief suggested. Of course some of the information collected would be of a type for which disclosure might help overseas competitors. It would be necessary for the Board to maintain a certain amount of discretion in publication. This change in the role of the NBPI should be linked to greater co-ordination of industrial policies generally. In some situations immediate action may be possible to improve unit costs; in other industries such action may require prior action to change industrial structure. The NPBI in its new role should, for example, be able to consult with the IRC or the Ministry of Technology as appropriate.

Of course techniques of enquiry, prodding and persuasion have limitations as instruments of economic policy. Readiness to consider changes in the exchange rates and to run the economy at a high level of activity are the most important prerequisites of an effective policy for competitiveness. But a stronger focus on specific problems of production and pricing for export markets would help, and would make a more effective contribution to stemming the most damaging short term consequences of inflation than do present policies.

The proposals above would make up a main part of a new phase of policy for prices. Suggestions have been made in the Labour Party's *Economic strategy* document for a different focus, for a policy directed at pegging key prices which affect the cost of living, such as electricity, gas, fares and some food prices. Such a policy would involve public subsidies to public and private producers. The main arguments against such a policy are first, that it is an inefficient way of protecting lower income groups against the consequences of inflation. Why subsidise all electricity prices so as to give cheaper electricity to old age pensioners? A simple increase in the old age pension would both give more income and more freedom in choosing how to spend it. Secondly, such a policy would tend to bring into disrepute the principle of public spending. The Government would have to enter into an open ended commitment in terms of costs, for a policy of which the benefits would be unmeasurable and uncertain. The policy would also bring grave administrative difficulties. When prices were set at levels below cost, this would create excess demand and would either lead to shortages or to over investment. A better policy for domestic prices, a complement to the main drive of the prices policy in the exporting field, would be to develop the efficiency audit concept used by the NBPI in the public sector, and to extend it into the private sector.

There is one area, however, in which the case for direct controls is strong. This is in housing and rents. Obviously rent controls cannot be the long term answer. This can only come about through measures to increase the supply of housing and to encourage landlords to improve properties. This, of course, implies that rent controls can be administered in such a way that they will not be deterred from doing this.

Apart from its effects on export competitiveness, inflation has damaging consequences in the short term on groups living on fixed incomes and those whose incomes are adjusted infrequently, such as pensioners. The Government has already moved some way towards dealing with these problems. Pensions have been increased faster than the cost of living. The white paper proposes that pensions both under the new scheme and under the old scheme should be reviewed every two years in the light of changes in the cost of living. This reform is long overdue.

reform of collective bargaining

Policies for dealing with the most immediately damaging short term effects of inflation need to be carried out side by side with plans for the voluntary reform of collective bargaining. The old structure of collective bargaining did not provide either the framework at the national level for linking decisions on pay to wider social and economic objectives or the framework for effective joint regulation of pay, working practices and conditions at the local level. The old style "ritual bargaining" is beginning to pass away. Changes are already taking place at the national level in the content and purpose of national agreements, and at the local level in the range of issues which enter into bargaining, through the spread of productivity bargaining and of fuller company agreements. These changes have come about more as a voluntary response to changed conditions than as a forced response under pressure from Government policy.

The case for reforming the old system of collective bargaining is not just a matter of its effects on economic efficiency. It has helped to produce results such as a high rate of increase in money earnings and a low rate of increase of real earnings—long hours of work and of institutionalised overtime, insecurity in the face of technical change and changes in company ownership, unjust and high handed behaviour by management, and a high rate of industrial accidents, which have pernicious effects on people's lives. The case for reform is not just a matter of technocratic efficiency: it is also a matter of social justice.

The objective of reform must be at all levels to bring into being more effective agreements as an essential step towards industrial democracy. An effective agreement has two main characteristics. First, all major issues in pay and conditions should be regulated jointly. Secondly these joint decisions on pay and work should be taken in full awareness of their wider social and economic consequences, for example, their consequences for costs, prices and productivity.

The first area for reform must be the national agreement. The work of reform is, here, mainly a matter of deciding industry by industry what is to be the purpose of national negotiations. In some sectors the role of the national agreement will be set minima in pay, which should, however, be high enough to act as realistic standard rates in smaller firms, and to lay down guidelines for the negotiation of plant and company agreements. The agreement in the engineering industry is already moving toward this role. But in some parts of private industry, and more generally in the public sector, the national agreement is at present the only level for agreement. This is so, for example, in electrical contracting and in local authority service. There is no reason why, where this is so, this should not continue as long as the national agreement is also an effective agreement.

Clearer definition of the purposes of national agreement should be linked to greater co-ordination in central bargaining. Both the TUC and the Transport and General Workers Union have in the past proposed such co-ordination. In its *Economic review* for 1968, the TUC promised to bring about the synchronisation of key wage bargains for 1970. The T & GWU launched a much more complete plan for co-ordinating central bargaining in 1966 as part of the union's campaign for a minimum wage. The plan was for centralised national negotiations between the CBI and the TUC, which should "jointly determine a minimum wage rate for adult workers, and then determine periodically a national general adjustment" (T & GWU *Record,* December 1966. p2-8). Increases would be related to the cost of living. The idea was that "by centralising certain factors such as the cost of living and aspects of comparability, it would be possible to give a new and more positive role to company and plant negotiations".

Greater co-ordination in central bargaining would create opportunities for relating decisions on pay to wider social and economic objectives. Such co-ordination should be left to the TUC to accomplish. The TUC has made a brave attempt at running a voluntary incomes policy. The scheme certainly has certain intrinsic weaknesses in that it vetted claims rather than settlements and did not have clear criteria for judging when a claim was excessive. But it never had a chance to show its paces, as it was soon overtaken by the Government's statutory policy. Now, rather than running an incomes policy, the TUC should attempt the job of co-ordinating the purposes and timing of national agreements.

If such negotiations are to remain voluntary, the two sides in each major industry negotiation must be willing to take a realistic view of how their actions affect wider economic interests. This has been so in the negotiations between the central trade union and employers federations (LO and SAF) in Sweden. As the UN survey *Incomes in post-war Europe* sums up: "It has long been agreed by the LO and the SAF that the conditions for free bargaining include a clear recognition of certain wider social aims, the preservation of international competitive ability, the avoidance of price inflation and the preservation of industrial peace." The agreements will have to be concerned not only with these very broad aims, but with more specific aims such as the reform of pay structures. Given time, the trade union movement can work these reforms out voluntarily and freely.

In current conditions the national level is the least important level for reform. The major part of any reform must be to carry on with the negotiation of more effective company agreements, as suggested in the Donovan report. Such agreements should build on and extend the links that have been made between pay and productivity in firms through productivity bargaining. The aim must be to reduce the underlying pressures making for cost inflation through introducing more equitable pay structures and stronger links between pay and productivity. But in the light of this objective, the approach suggested by the Donovan report will need modification in some important respects. The main line of the Donovan report was to suggest that the reform of industrial relations could be carried on in isolation from the economic content of collective bargaining.

A clear division was made: the CIR was to deal with the eternal and the procedural: the NBPI was left with the economic and the transient. But the Donovan report in talking about the kind of agreements it wanted to see blurred the position considerably. First it defined the "central defect" of industrial relations as "the disorder in factory and workshop relations and pay structures promoted by the conflict between the formal and informal systems". The report then says that "What is required is effective and orderly collective bargaining over such issues as the control of incentive schemes, the regulation of hours actually worked, the use of job evaluation, work practices and the linking of changes in pay to changes in performance, facilities for shop stewards and disciplinary rules and appeals". The Donovan report clearly envisaged that reform of procedures would go hand in hand with reform of the content of agreements, and implicitly that reform would have to be concerned not only with relative pay between groups of workers but with payment systems and the determinants of pay levels. This broad emphasis on reform of content going along side by side with reform of procedures was carried on in the Government's ill-fated white paper, *In place of strife*. This defined the desirable properties of the new types of agreement that are needed as among others that "they should assist the negotiation of pay structures that are comprehensive, fair and conducive to efficiency, and that . . . they should also provide a link between pay and the improvement of performance or results within the individual plant or company". But in the course of setting up the Commission on Industrial Relations and in the signs that have so far appeared about the CIR's approach, a new twist had been added to the argument. The idea has been accepted that the CIR can concern itself only with procedures and the content of agreements other than pay.

This is of course a line of approach which would perhaps add to the CIR's political popularity in the short run. But sooner or later it will become clear that a reform of industrial relations which aims merely to reform the framework of agreements and to raise the level of good intentions, vaguely defined, without touching on the core questions of how workers are paid and how much they are paid, is an exercise in futility. The CIR will suffer the stigma of being an ineffective organisation which is not grappling with the issues as they present themselves on the shop floor.

This is not to deny that there is a job for the Commission to do in working both for the extension of collective bargaining and improving collective bargaining where it touches issues other than pay. There is a need to make sure that such matters as redundancy and safety provisions, grievance procedures and disciplinary procedures are subject to proper joint regulations and covered in negotiated agreements. There is a great need to ensure proper representation of workers, both blue collar and white collar, at their place of work. But the core questions in industrial relations remain those of payments systems and of the size of the pay packet. Quite apart from the question of realism, of recognising the dynamic forces in industrial relations, there is the question of whether reform of procedures ought to be separated from reform of content. The purpose of an industrial relations system is to provide justice in working arrangements, and to make possible improvements in pay and in productivity. The prize of successful reform should be more than industrial peace and a good set of constitutional procedures for making agreements and for dealing with grievances. It should also be higher real wages. This will only be the case if efforts at reform are comprehensive.

These proposals mean that the CIR's brief should change. A new white paper should state desirable properties for agreements both in procedural matters and in their economic content. It should link the development of company agreements to the development of productivity bargaining, where such bargaining is possible, either in its more primitive or in its more advanced forms. It should also lay down general guidelines for equitable pay structures and payment systems. The CIR can then get on with the job of effecting specific improvements in specific situations.

The desperate need for reform in private sector collective bargaining is recognised both by many trade unionists and by some managers. But an enduring and valuable reform can only come about voluntarily. The main initiatives must come from management and from trade unions. Government can help in two ways. It can set up an institution to lead to persuade and to inform. This is the job of the CIR. Secondly it must lay down the general policy guidelines to which that institution should work, in order to strengthen collective bargaining. The new white paper could obviously draw heavily on the NBPI's reports on productivity bargaining and on payment by results schemes, as well as on the proposals of the Donovan report and of the Labour Party's industrial democracy report. One important change would be compulsory disclosures of information by companies involved in collective bargaining. In practice the CIR would take over most of the reformist work in the wages field hitherto done by the NBPI, but the CIR would continue to operate as a voluntary body. Not all settlements would be vetted, as in theory they are at present. But after discussion with the TUC and CBI, the CIR would examine industrial relations structures in key firms and industries. The focus in these enquiries would not be on any one particular settlement, but on the pattern of industrial relations and of wage, profit and unit cost movements over a number of years. The CIR would certainly want to establish whether trade unionists had been given adequate information about the company's structure and operations. The CIR would then make recommendations both on ways in which procedures could be improved and on ways in which higher productivity and earnings could be achieved.

Such a plan would have the same logic as the TUC's voluntary programme of action on disputes. The test of success in both cases would not be whether the voluntary approach succeeded on every occasion, but whether in the long run the voluntary approach would achieve more. In both cases the voluntary approach assumes that unions are prepared to exert some measure of internal discipline. There is a difference between tough bargaining backed by concern for members interests and militancy of a tiny minority of Maoist shop stewards who get more attention in the mass media than they do within the trade union movement itself. But even on the most pragmatic level, in the light of the incomes policy experience of the past few years, the voluntary approach would seem to be a good gamble.

low pay

On grounds of social justice alone, policies are needed for improving the relative position of the low paid. But such policies make even more sense as a complement to the general plans for the reform of collective bargaining set out above.

Two recent publications, the DEP's *A national minimum wage,* and *Low pay* (Fabian research series 270) by John Edmonds and Giles Radice, have drawn together the evidence on the extent and causes of low pay. Edmonds and Radice argue strongly for the introduction of a minimum wage. The DEP's report is more cautious, even hesitant, although it does not rule the idea out of court completely.

There is much common ground both in the interpretation of evidence and in the policy conclusions drawn from the evidence between the DEP and Edmonds and Radice. There is agreement first on the characteristics of the problem. There are individuals who are low paid because of disabilities: but there are also low paid industries and regions, mainly the development areas, with high proportions of low paid workers. Some industries and services have high proportions of low paid male workers: the service trades, agriculture and the public services. But there are some low paid workers in all industries. Most women and young workers are low paid. Low pay is not confined to manual workers, certain grades of technician and clerk also have significant proportions of low paid workers. There is reasonable agreement that supplementary benefit levels, about £14 a week for a family with two children, represent a working definition of minimum subsistence. Research has also thrown light on the characteristics of industries which employ the low paid

(Judith Marquand, "Which are the lower paid workers?" *British Journal of Industrial Relations,* November 1967). They are in the main declining industries, with few large units, poorly organised by trade unions and employing large numbers of women workers. Finally there is agreement that low family income is an even larger problem than that of poor pay at work. About two thirds of the poorest households have no breadwinner.

This evidence points to some fairly uncontentious conclusions for policy. There is little argument on some components of a strategy for low pay. Edmonds and Radice have set out these components in their pamphlet. A policy for low pay must include changes in the social security system, involving increases in family allowances and child tax allowances. The TUC in its *Economic review* for 1968 has also pointed out the steps that could be taken to alleviate poverty through fiscal redistribution. There should be more special help to the disabled and better employment services. The Wages Council system should be reformed so as to encourage voluntary collective bargaining and more effective representation for workers at their place of work. The NBPI in its report on pay in the clothing industries has made some suggestions for how this might be done in a sector which employs large numbers of low paid workers. There should be co-ordinated action by Government, employers and unions to identify the causes of low productivity in low paying industries and to increase industrial efficiency in these industries. The TUC has suggested that the Industrial Expansion Act should be used for this purpose.

On all these points there would be little disagreement. The problem of low pay is complex and requires co-ordinated action on a number of different fronts. But should a minimum wage be added to the range of policies? The strongest case for a minimum wage exists where through lack of bargaining power, the wages of large groups of workers in particular industries or regions are held down. In this situation the introduction of a minimum wage will have little effect on employment or output and will simply redistribute excess profit away from employers to the workers. Probably this classic situation, calling for a minimum wage, does not exist on any large scale in Britain, though there is little in the way of hard evidence one way or other. Many economic and social factors other than the ill will of employers, help to create the pattern of low pay. A minimum wage at a level of £14-15 a week would certainly reduce employment in some industries. It would also add to the national wage bill, both directly and to an unpredictable extent through its consequential effects as differentials were adjusted.

The main arguments *against* a minimum wage are, therefore, first its cost and possible inflationary consequences, and secondly the view that the complex nature of the problem of low pay in Britain makes this relatively blunt instrument unsuitable for dealing with it. These arguments suggest strongly that a minimum wage would be much more easily introduced against the background of an expanding economy. The main argument *for* a minimum wage is that a minimum starting at a low level and moving gradually upwards, would give some momentum and purpose to the broader policies to deal with low pay. Without this spur, policies to raise efficiency in low paying industries might well have little impact.

A minimum wage would give force to the campaign against low pay, both in an economic and in a political sense, in a way that nothing else could. It might, however, be necessary to set the minimum, at least to begin with, at different levels as between men and women workers, and even to set different minima as between broad groups of industries, a suggestion originally made by the Donovan report.

The case for a minimum wage, as a part of a co-ordinated plan to deal with low pay on the lines suggested by Edmonds and Radice, is a strong one. A Labour Government should begin quickly to put this plan into effect. The low paid deserve action on their behalf, not just concern.

pay in the public service

"Government" in the broadest sense is by far the biggest single employer in the country. Negotiations in the public service cover about 3.4 million people, of which the main groups are manual workers in central and local government, local authority staffs, teachers, health service staffs and civil servants. They add up to 14 per cent of the employed population.

The case for reforming collective bargaining in the public service has so far been made in terms of short run incomes policy considerations. There have been anomalies in the way that different claims have been treated by different Government institutions and official review bodies. These have led to proposals for greater co-ordination, under the aegis of the NBPI, in the way the claims are handled. But this case only holds so long as traditional incomes policy holds. The more permanent case for changing in some respects the institutions and content of collective bargaining in the public service, in the context of the new policies set out above, is a different one.

The traditional systems of collective bargaining in the public services have some great achievements to their credit of which trade unionists will be very conscious. Before the war, for example, in the local authority field and in hospitals, there were great and inequitable differences in pay between authorities and between hospitals. Collective bargaining at the national level has, since the war, established national scales of pay and ended these anomalies. Pay has been determined within this framework of single national agreements by the principle of comparability. For the civil service and until now for the Post Office, comparisons have been made by fairly technical methods by the Pay Research Unit (PRU). The PRU seeks information on pay widely throughout the economy for occupations comparable to occupations in the public service. In other parts of the public service, in teaching and in the health service, the comparisons have been made on a more *ad hoc* basis. The use of the principle of comparability has by and large succeeded in ensuring at least for those groups covered by the PRU that pay levels are fair, in the sense that public servants are not under rewarded in relation to outside occupations, nor is the taxpayer footing the bill for extravagantly high levels of pay. Elsewhere in the public service the principle of comparability has permitted both the continuation of very low levels of pay, as in local authority manual employment and the growth of a bitter sense of injustice, as among nurses and teachers. But with these rather major exceptions the principle of comparability has made both for fair levels of pay and for industrial peace.

In general, collective bargaining in the public service has been less affected either by incomes policy or by other pressures for change, such as productivity bargaining, than has bargaining in the private sector or in nationalised industries. There has also been little change in payments systems, which tend to be on a straight time basis with long incremental scales. There have, of course, been some areas of change. Post Office engineering workers have carried on productivity bargaining for some years. The railways have moved away from the Cameron-Guillebaud principles of comparability towards productivity bargaining: NUPE has negotiated some incentive schemes for local authority manual workers. But the structure and content of collective bargaining remains much as it was in the 1950s.

The main weakness of this structure is that it does not allow for the negotiation of "effective" agreements in the sense that I have defined them earlier There are no opportunities to talk about productivity and pay together, nor are there opportunities to link changes in pay to changes in methods of work. Nor does the structure give much freedom to consider alternative payment systems. For example, it is only as a result of the Fulton report, that a payment system which links pay in part to individual performance, is being considered for the higher civil service. The case for making negotiations possible on such issues is not just a matter of increasing efficiency When pay and productivity are looked at together and when choice can be made between alternative systems of pay then both unions and individual workers have a greater degree of control over decisions affecting their lives.

There are of course many difficulties in negotiating about pay and productivity together in the public service. In many public service activities, teaching and nursing are obvious examples, it is very difficult to measure output. In these activities and in the civil service any drive for higher productivity might lead to reductions in standards of service. But the dangers have to be weighed up against the great need to improve use of resources in the public service. The thesis has been advanced that wage and salary bills in the public service must consume a growing proportion of GNP, because little gain in productivity is possible (E. A. Collins, "Inflation and Government expenditure", *Public administration,* Winter 1968). Acceptance of this thesis means that we have to abandon a major part of any attempt to make the most effective use of the limited sums available for social spending. There is also a need for new thinking on how to deal with specific shortages in public services. Shortages, for example of nursing staff in psychiatric hospitals and of primary school teachers in slum areas, have already forced the introduction or extension of internal pay differentials. In face of particularly acute shortages there is a need for greater freedom to introduce such differentials.

Changes in the content of collective bargaining, aimed at increasing freedom of choice, must be carried out while retaining the achievements of the old system. These were that pay was fair in relation to pay levels in the community generally and that there were no anomalies in pay within the public service. But the scope of collective bargaining is changing in the wider community. The Government should give a lead in developing more effective agreements, in cooperation with trade unions in the public service rather than as until now, following the rest of the community.

manpower policy

An active manpower policy is important both for economic and for social reasons, Its economic role is to ensure a better matching of the supply of labour to demand. It can alleviate imbalance in skills within labour markets, and in employment levels between regions. Socially it can help to alleviate insecurities caused by the threat of redundancy. More widely it can aim to give people a greater range of choice and power of decision over the content of their working lives. Insecurity about present or future job prospects is a major influence for the bad or industrial relations as well as a cause of personal anxiety.

The economic case for such policies will be strong in the next five years. The DEP's forecasts for the overall supply of labour show no increase in the working population between now and 1974. Only in the late 1970s will it begin to rise as it did in the early 1960s. Within this stable total the composition will change as participation rates fall for younger women and continue to rise for the over forties. The only group to show a significant increase will be married women, the group which needs the most help in taking up jobs. On the demand side, relative shifts in manpower will be greater in the years 1970-73 than in the past five years. There will be continuing shift out of agriculture and mining. Changes in industrial structure, through the mergers policy, will also add to numbers of redundancies. These developments are already being reflected in the increasing numbers drawing redundancy pay.

Manpower policies have been developed farthest in Sweden and in the United States. They grew in response to particular problems in those countries; in the US the problems of structural employment and of discrimination in employment, and in Sweden the need for people to move from the rural north to the industrial south. Manpower policies in Britain should not attempt to imitate those in other countries, but should have objectives related to British needs. They should aim to provide better labour market information, to increase labour supply, to stimulate manpower planning and to assist mobility between regions.

The starting point of manpower policies, apart from a return to full employment, must be to give people improved information about the jobs and training opportunities available. Successive Governments have allowed the employment exchange service to run down. It now fills only about 15 per cent of vacancies and the proportion is diminishing every year. But the evidence shows that where it *does* provide a good service it can attract custom. The occupational guidance service which gives vocational guidance and aptitude tests to persistent job changers and others who are dissatisfied with their work, has been a success. Some immediate steps are possible to raise the quality of service. There could be better training of the exchange's own staff and more contact between the staff and industry. It could advertise vacancies more widely. Other changes, such as raising the standards of premises will take longer and will require more money. These changes might best be brought about if the service were made the responsibility of an independent statutory body with a clear managerial responsibility for it. In view of the need to spend more money on the service it might be desirable to introduce an element of charging for its services to employers. Once it was providing a better service the evidence from the youth employment service and the occupational guidance service is that people would come back to it.

Measures to increase labour supply should concentrate on attracting married women back into the labour force and in reducing the number of hard core unemployed through special training programmes. Provision of day nursery facilities is one important way of raising the participation rate among married women. Day nurseries have been provided by local health authorities since 1945 primarily to meet the needs of certain children for day care on health and welfare grounds. The service is not intended to meet a demand from working women generally for subsidised day facilities. At present there are about 24,000 places in state day nurseries. This is expected to rise to about 28,000 by 1976. The recent survey of women's employment estimated on the basis of questionnaire and interview answers by a national sample of women that there was a demand for 430 to 550,000 nursery places. This buoyant demand has shown up in a rapid expansion in the numbers of places in private nurseries, which doubled from 38,144 to 75,132 between 1964 and 1966 in England and Wales. The survey of women's employment showed that most working mothers with young children get them looked after by grandparents. The evidence is that many married women would re-enter the labour force if their children could be looked after. They would be prepared to pay for these day nursery places. Expansion of child care facilities should be seen as part of an active manpower policy with productive results, rather than as an inessential service of a luxury kind. Measures to eliminate discrimination against women, in taxation, in recruitment to jobs, and in promotion, would also be necessary if more married women are to be brought into the labour force.

The hard core unemployed are another group that could be brought back into the labour force with special help. A survey of the characteristics of the unemployed which was carried out at a time of high demand for labour in October 1964 showed that 60 per cent of unemployed men would be difficult to place on personal grounds or grounds of handicap. Most of these men are unsuitable for retraining in Government training centres, but the evidence of Swedish policy shows that they can be rehabilitated through special training programmes.

Swedish manpower policy has concentrated heavily on encouraging mobility.

It provides removal grants, hostels for single men and special earnings supplements during the removal phase. The Government social survey report on labour mobility in Britain does not suggest that any general policy to encourage labour mobility between regions would meet with great success. Except in the South East and the London area the population was very stable. It would also be difficult to decide just what directions the mobility should take in view of the co-existence of chronic housing shortages and high pressure of demand for labour in the London and Birmingham areas. Only the higher professional groups show a great deal of mobility and operate in a national labour market. But the survey also showed that there was expressed interest in mobility. 36 per cent of all male workers would be prepared to move because of pay or prospects, and 64 per cent of male workers under 30. A policy for mobility should concentrate on these younger groups which have higher turnover and greater interest in moving. This part of the policy could include much more co-ordinated systems for exchange of job information between regions and the provision of hostel accommodation for single workers, particularly in the London area. Swedish labour market policy reserves a certain proportion of municipal housing for mobile workers. Certainly a greater freedom to transfer between council house waiting lists would help here.

The final, and perhaps the most essential element in manpower policy must be better manpower planning in firms. The DEP has made an excellent start towards encouraging such planning with its booklet, *Company manpower planning*. But there is a great deal to do. In its survey of some 300 large and medium sized firms in the metal industries, the DEP's manpower research unit found that while about half the firms did some form of forecasting, fewer than one in four made any forecasts for more than two years ahead.

Once redundancies have been foreseen, the State can then provide services in terms of information about job opportunities, retraining and settlement grants. In development areas the Government should also use its powers to create employment through public works to ease the shock of redundancies in isolated communities.

These policies for manpower form an essential complement to the wider policies for change in industrial relations set out in this pamphlet. Manpower policy, to which the Social Democratic Government in Sweden has made such a major commitment, has for too long been neglected by the Labour movement. In particular we have accepted too readily that people's occupational choices, both at the beginning and in the course of their working lives should be dictated by their environment.

SUMMARY AND CONCLUSIONS

The experience of the last four years shows the ineffectiveness of traditional incomes policy, even when backed by the strongest statutory controls, as an instrument of short term economic management. But the policy has had certain positive results, particularly in productivity bargaining and in ensuring greater accountability by firms for pricing decisions.

The changed character of inflation also suggests that traditional incomes policy has become increasingly inappropriate as well as ineffective. It no longer makes much sense to operate on export competitiveness at second remove by attempting to influence the domestic price level. The cost push forces result mainly from inequitable pay structures and patterns of industrial relations within firms. They can no longer be dealt with by simply ordering people not to claim more money but only in the context of fundamental reforms in collective bargaining.

The aim must be now to begin on the long task of developing equitable and effective voluntary policies for incomes, while at the same time dealing with the most damaging short term effects of inflation—its effects on export competitiveness. The main components of such policies would be as follows:

1. The NBPI would be reconstituted to deal mainly with problems of export competitiveness and of import substitution. It would undertake enquiries into costs and profits in key exporting firms and industries.

2. The NBPI would continue to carry out efficiency audits in the public sector. Such audits would also be extended to key prices in the private sector. The aim would be to bring large corporations within a framework of democratic accountability.

3. The reform of collective bargaining would go ahead both at the level of national agreement and at the company level. At the national level co-ordination of the purposes and timing of agreements would be responsibility of the TUC. The job would be done along guidelines drawn up in consultation with the Government.

4. The CIR would be the main public agency for the reform of collective bargaining in companies. Its brief would be widened to include matters concerned with productivity, pay structures and payments systems. It would operate from a white paper, drawn up by the Government, in consultation with the TUC and the CBI.

5. Methods of pay negotiation in the public sector would be reformed so as to make possible links between pay and productivity. This job would be the responsibility of Whitley councils, together with the CIR.

6. Policies for the reform of collective bargaining would be closely associated with complementary policies in the manpower field, and for low pay. These would include provisions for a minimum wage, for increasing job opportunities, and for dealing with redundancies and retraining.

Over the last few years a signal gap has opened up between the purposes of the economic and social policies of the Labour Government. Social policy has had some recognisable moral goals. But economic policy has been concerned in a crude way with "efficiency". Part of the lesson of incomes policy over the last four years has been the shortcomings of crude efficiency based policies. The policies outlined above should be seen as the first necessary steps towards radical changes in the structure of power in industry. The aim in the long term must be to establish democracy in industry, as well as to strengthen democratic control in the political spheres. Clearly, the first step towards this goal is to strengthen voluntary collective bargaining.

It will be argued, perhaps against the policies outlined above that they are too weak, and that they do not take enough account of short term economic realities. Thus the Labour Party study document on *Economic strategy* arguing for the retention of four month delaying powers, with higher direct taxation as an alternative, says that "To do nothing would be tantamount to inviting the outbreak of an uncontrollable inflation". But incomes policy has had slight discernible impact on the rate of inflation. There are few reasons to think that the act of abandoning it would have such a major effect.

The best hope for the future lies in making a serious attempt to develop voluntary policies for incomes, as part of a plan for change in collective bargaining. The existing policies have tried to make up in statutory weight for what they lacked in purpose and persuasiveness. Their voluntary phase was short and inconclusive. Given the challenge of developing voluntary policies, trade unionists would respond. Irresponsible claims by a tiny minority grab the headlines, but they do not reflect the mood of the trade union movement generally. Voluntary policies have not failed: they have never been either properly defined or given a proper trial.

young fabian group

The Young Fabian Group exists to give socialists not over 30 years of age an opportunity to carry out research, discussion and propaganda. It aims to help its members publish the results of their research, and so make a more effective contribution to the work of the Labour movement. It therefore welcomes all those who have a thoughtful and radical approach to political matters.

The group is autonomous, electing its own committee. It co-operates closely with the Fabian Society which gives financial and clerical help. But the group is responsible for its own policy and activity, subject to the constitutional rule that it can have no declared political policy beyond that implied by its commitment to democratic socialism.

The group publishes pamphlets written by its members, arranges fortnightly meetings in London, and holds day and weekend schools.

Enquiries about membership should be sent to the Secretary, Young Fabian Group, 11 Dartmouth Street, London, SW1 ; telephone 01-903 3077.

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