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Labour and inflation

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1. introduction

This pamphlet is partly based on the lecture I gave as Chairman elect at the annual general meeting of the Fabian Society in December 1969. It was at that particular point of time essential for Fabians to couch suggestions, even if constructive, with due regard to a possible early election and the likelihood of our political adversaries quoting some passages out of context and to the detriment of the Labour government. Loyal support of the Labour government had the very first priority.

Nevertheless, it was pretty obvious to sense that our vulnerability, despite our splendid social achievements, stemmed from our inability to get on top of the incessant rise in costs and prices. Moreover, the conventional means to combat the effects of rising costs on the balance of payments, to which we had been forced back, threatened Labour's main social and economic achievement, the maintenance of full employment. To make matters worse, the accelerated expansion of real resources was also thwarted. Yet expansion was needed not only to satisfy increasing individual expectations, but also to fulfil indispensable social aims. Indeed, in the event we were unable even to maintain the insufficient rate of progress achieved by the Tories which we had derided and criticised in opposition. The critical increase in the deficit in international payments prevented the fulfilment of our pledges. We had become vulnerable on this vital flank mainly because we were unable to obtain trade union support for a balanced socio-economic policy.

Now that the Tories have slipped back into power through the dissatisfaction of the housewives and the old with rising prices, and the successful scaremongering abetted by "impartial" experts, a more detached and searching attitude to our experience of the last six years is not only permissible but essential. It is essential in order that the dynamism of the movement be restored and the lesson be learned. Those who cry "no inquest" are no champions of our ideals.

Why did the 1970 parallel to the "Zino-

viev letter", Lord Cromer's misleading telecast and Mr. Heath's alarmist statement on sterling so impress the electorate? Why was the electorate so unprepared for this scaremongering? Why were they not sufficiently alerted to the possibility, indeed likelihood, of a scare? We hardly ever had an election without one. Perhaps it was inevitable. Perhaps it was unreasonable to demand or hope at all that a Labour government should be returned on the basis of a doctors' mandate when it had seemingly placed exclusive priority on the strength of the balance of payments whatever the cost, and that criterion of success seemed threatened. Once the arrival of the Jumbo jets had caused a considerable deficit in visible trade after a run of exceedingly favourable balances, and the worsening of the general world situation had visibly slowed down the rise of exports, the doctors' credibility was put into jeopardy. Yet the Jumbos were imported despite the fact that they could not be used because of a wage dispute between BOAC and BALPA. The relentlessly over eager importer moreover was a nationalised industry under the *soi-disant* control of the Board of Trade. Any Labour President of the Board of Trade worth his salt could and should have seen to it that such unnecessary imports were postponed until the jets were needed and usable. The import of useless and immobilised Jumbos imperilled confidence and worsened the atmosphere.

All this suggests that the Labour government in its conventionality had become accident prone. We did not pick the personnel well, nor was government machinery adequate. If the Labour government had not tripped up on one thing, it might have done so on another. It seems that it is not conspiracy but stupidity one has to guard against. This is one aspect of the Labour government's alienation from its followers, aggravated by its lack of success in obtaining the positive (and not merely dutifully loyal) support of the administrative machinery.

The cost of attaining a favourable foreign balance was very heavy in terms of a slow down in the expansion of the real

national product, in unemployment and unused productive plant capacity. Mr. Jenkins' last three budgets heaped up an internal budget surplus of prodigious proportions—ever £2,400 million. Not only was productive investment in nationalised industries, some £1,400 million, fully financed by it, but £1,000 debt redeemed. The achievement of the turn-round of some £700 million in the balance of payments was the result of this feat of “freeing” resources—and under-employing others.

This financial tactic was partly due to the erroneous interpretation by the Treasury of the current economic situation and its probable development. That the Treasury should have erred towards restrictionism is only too comprehensible. The routine methods of forecasting of both schools of economic thought have received fearful knocks in the past few years. Inflation in terms of income, costs and prices has lately accelerated far above the rates experienced since the war. This has happened contrary to all known orthodox rules. Unemployment has been high in terms of post-war experience and production stagnant if not worse. This would presage in theory a fall in wage claims. So does the shrinkage of domestic credit; instead of an increase of £400 million permitted even by the International Monetary Fund, we have had a fall of £625 million. The supply of money, that mystic governor of bankers' minds, was also constrained. Yet inflation remained rampant.

No wonder that our traditionalists in both camps, having lost all their bearings, became over cautious. They refused to learn by events—though their American *confrères* have already begun their retreat from the formal elegance of conventional economics. These economics, both Keynesian and Friedmanite, both of the fiscal manipulators and of the monetary mystics, are based on perfect competition and smooth adjustment.

The root of our troubles, however, lies precisely in the fact that we no longer live in a competitive world. We live in a world of market power where wage

claims do not depend on, and adjust to, current demand which can be manipulated smoothly. They do not depend on current demand because they themselves create the additional demand needed to sustain wage increases. Fiscal manipulation and monetary tricks can stop inflation only through unemployment and stagnation and a fall in productive investment, that is the sort of policies which wrought such awful damage to Britain's international standing.

This pamphlet, like my original lecture, represents a further effort to warn the Labour movement against the complacent attitude of those who think that they can win support and power either on the basis of the swing of the pendulum, through the mistakes of their opponents, or by promising to provide a better administration of an unchanged socio-economic system. If the present *status quo* represents the farthest limits of collective ownership and public accountability of management; if the government machine is not adjusted to provide positive stimulus and direction; if nationalised industries are to be regarded as retirement gifts for deserving but rather unsuccessful Civil Service administrators (the better ones having been snapped up by the City or by industry), then surely the Labour party has no special claims for excellence. The election fought without positive pledges and socialist conceptions could have been successful, but it could only have been successful if nothing had come in between the government and the success story.

No doubt a good deal of valuable reform was in the pipeline. There was the (purged) Industrial Relations Bill and the (somewhat emasculated) Commission for Industry and Manpower. There was, of course, the earnings related retirement pay, a new conception for the welfare state. Beyond these no doubt there was also a much more humane and civilised approach to life and environment in general, and more especially to the grave regional problem. However important all this was in terms of mitigating individual unhappiness, it was obviously not enough

to convince the majority of an undiminished *élan vital* of the leadership creating before our eyes a better society.

The restored dominance of the Treasury may have been necessary to extract the resources needed to establish economic independence. But its attitudes and advice have lately not been balanced by advisers sympathetic to the government or even by a major economic department in charge of forward planning. This inevitably meant a bias towards a finance dominated system of priorities.

All this would not have been so damaging if the scene at home and abroad had not been increasingly dominated by the problem of inflation. For almost 30 years now, since the beginning of the second world war, most of the western world (and, indeed, the Soviets) have been struggling to combine internal stability, avoiding a rise in prices, with sustained growth. Apart from Germany—and she is no longer safe either—they failed time and again, either because the fight against rising prices caused such unemployment as was politically unacceptable, or because measures mitigating unemployment resulted in such a cost explosion as carried prices with it. Britain is one of the socially most balanced and agreeable countries. Yet the very insistence of demands for higher money income shows that the British people want more goods and services—individually and collectively—than are available. Private consumption is not the only field in which strain occurred. Housing, education, hospitals, roads, environment, not to mention improved social security; indeed in all public services there is extreme pressure on resources. The threat arises from the consequence of this pressure in the modern framework of the economy.

Unfortunately, the conventional attitude pictured, analysed, and criticised in this paper did not change, despite mounting evidence that a change was essential. It may well be true that the cause of a socialist incomes policy has been lost for the time being. Such is the power of intellectual (or anti-intellectual) vested in-

terest. If so, however, the emergence from our present perplexities will be difficult indeed. The measures to which the Tories have been pledged themselves in opposition and during the election represent a radically retrograde redistribution of income. They will not be acceptable without a contest of wills which might be savage. One can only hope that the Labour movement will learn at last from these experiences and will support a more deliberate and more rational alternative way, a deliberate control over prices and incomes under the next Labour government so that we shall be able to settle down to our real business; the creation of a more balanced, less competitive, less aggressive, yet nevertheless more prosperous community.

2. the post-war setting

Taking a long and broad historical view, there can be no doubt that the Labour Party directly, and indirectly through the pressure it was able to exert even when not in office, has brought about a transformation of Britain. It has been a transformation, the magnitude of which only people of my age can really quite gauge and appreciate; for the newly acquired habits of everyday life only too soon lead to taking for granted what really are great new achievements. Indeed, one might say that we have come to take much too much for granted. There is a danger that, by doing so, we have promoted a reaction against it. We now may well have to defend what has been won, with such idealism and hard work and fighting, from a society which—such as the British even of 30 years ago—was much less tolerant and compassionate and much more fraught with divisiveness and class hatred. In the West, despite its superior material achievements, this divisiveness and frustration is threatening an era of domestic violence. With the Tory victory the very basis of the post-war achievements might once more be put into jeopardy.

Let us look at these achievements.

full employment

Much the most basic change was, as I shall argue at greater length below, the achievement of full employment. Many, if not most other advances were, if not a direct consequence, at least conditioned by it. The post-war level of employment was quite dramatically different from previous history. It was different not only from the misery and indignity of the inter-war period, when 10 per cent unemployment was the "norm" and the horrible level of 20 per cent was often passed, but also from the era of vulgar Edwardian display and luxury to which are turned yearningly nostalgic eyes of plate-glass university doctorates, nurtured on state grants. Those were in reality days of stagnant production and productivity, and falling real wages. Unemployment twice rose above 6 per cent and never fell below 3 per cent. The loss

of our industrial vigour, as we shall see, dates back to, or even before, that. And if we are dismayed by our present production record because it is so much inferior to that of France or Germany—not to mention that of Japan—or even of the America of the Kennedy era, with their stormy expansion, a certain solace can be felt by reflecting that the sort of progress we have been enjoying since 1945 has had no parallel for the last 80 or so years. Nor have we sacrificed—and this is much more important—as much as have our competitors of our non-material values for material success.

This is still the nicest of the largish industrial countries to live and, especially, to work in. The "abrasiveness" of the Tories is a threat only, albeit an acute one since their electoral victory.

Without the tremendous efforts of the post-war Labour government and its retention of wartime controls, we probably could not now have maintained wartime levels of employment; a boom and a bust like in 1919-21 after the first world war would probably again have reduced a large part of the British people to uncertainty and misery. By the 1951 Tory victory the tone had been set and even the most complicated circumlocution about personal liberty and freedom of choice, about the "high pressure of demand", has not as yet succeeded in making high levels of unemployment politically palatable, nor indeed electorally viable.

Full employment not only makes domestic help scarce, but it generally removes the need for servility. This is its outstanding revolutionary consequence. Yet it is precisely this very fundamental change in class relationship which tends to undermine progressive governments, because it is the cause of the continuous rise in costs and prices which offends the majority, who, in fact, benefit most from the new economy. Unless we realise and accept these profound social, economic and political consequences of full employment, our economic problems will prove as difficult to solve and future progressive governments as vulnerable as in

the past. A new approach is as bitterly needed as it is repudiated.

social security

All important as full employment was, it could not deal with the worst hardship and misery, the hardship of misery of those who were unable to work or who had too many dependents for the skills they possessed. There have been vast improvements here too: social security, the transformation of assistance to social benefit as of right; the redundancy arrangements and upgrading of various types of pensions, the expansion of education and health services, and the acceleration of the housing programme, despite the recent setback.

taxation and harmonisation with physical controls

We have also had a far reaching reform of taxation, with the introduction of the Corporation and Capital Gains Taxes and the re-fashioning of tax instruments to fit them for planning purposes. The Selective Employment Tax (SET), the Regional Employment Premium (REP) and the system of variable capital grants enable the government to vary charges and to discriminate both geographically and by industry. This is of the utmost importance from the viewpoint of intelligent planning. The Tories in opposition paid lip service to the need for having regard to the social effects of economic activity. They took up pollution and the damage done to privacy by roads and airports. But they deny the means of achieving balance between individual advantage and collective needs by positive encouragement, such as a selective employment or, still better, a selective payroll tax could provide. They equally, or even more vociferously decry negative controls however necessary they are.

It was the successful resistance of the Inland Revenue against increased work load which prevented the Labour government from introducing, or rather, substituting a payroll tax for the SET. It will be interesting to see whether this switch

will permit the new Tory administration to escape from their pledge to abolish SET without losing too much revenue or imposing a damaging regression in our taxation. The protest against taxing services is obviously based on ignorance, even if we do not completely accept its beneficial influence on productivity. Take regional policy. The social cost of internal migration is vast. There is the human hardship, difficult to quantify but immensely important. There is also the depreciation of social capital, of water-works, electricity, and gas, not to mention housing and hospitals, which are by now more than substandard, verging on the intolerable in the more derelict industrial areas of the North and West. Without discriminating and flexible taxes and subsidies, an accelerated geographic redirection of production, rather than a forced migration of manpower, would not be possible. Nothing shows the abysmal ignorance of the Tories better than their attitude to regional depression and decay. Yet even from a purely economic viewpoint a lessening of regional differences could held in accelerating growth, because the redistribution of activity would relieve the overheating in the congested prosperous areas and enable a better national productive effort.

Nor could one, without discriminating taxation, put the social cost of economic activity on the shoulders of those who are responsible for the damage. The problem of pollution, of overcrowding, especially its effect on the cost and hardship of going to work, is now at last realised. Yet the Tories continue to proclaim their hostility to both discriminating fiscal measures and direct regulation alike. It was Labour who, with the establishment of the new department, made a beginning of the supremely important task of helping to implement the physical planning of the environment.

was it sufficient?

There can be no doubt that a radical social transformation has been wrought in the British community. Now for some, perhaps most of us, Fabians, it has not

2. the post-war setting

been a sufficient transformation. Some, perhaps most, of us feel dissatisfied, indeed frustrated, by what we know to be the extent of continued obvious social wrongs, the glaring inequalities and hardships, the empty offensiveness of conspicuous waste in the midst of public penury and cut-backs. Some of us feel that the precious main heritage of the post-war Labour government, the better balance between the public and private sectors in terms of ownership and of outlay, even though still very unsatisfactory in many respects, is being lost as a result of the relentless agitation against the former, however essential. The victory of the Tories opens a dismal vista also in this respect.

Finally some at least will attribute much of the progress, such as there has been, to the ordinary workings of industrial communities, the crossing, in the early post-war period, of the threshold—with other Europeans, who have now left us behind—of the era of mass-consumption through hire purchase, rather than conscious national idealism working through the democratic process. Marks and Spencer may perhaps have done more to conjure away the funny Punch figure of the daily charlady than Marx or even Keir Hardie.

It is such doubts and uncertainty that have contributed so much to the weakness of Britain through the lack of integration and the resistance against the Labour government's policy in fighting for international economic and financial independence. Failure on this point inevitably meant a deliberate turning back on most of these achievements under a Tory government.

terms of reference

If Labour is to be fully effective in its effort to initiate a peaceful social revolution it must not shirk discussing the basic problem which beset and fatally weakened the Labour government. This is the problem of reconciling full employment, and its immense social importance, with dynamic expansion and stability. Despite

the efforts especially of Harold Wilson and Barbara Castle to ward off this deadly yet insidious threat to steady progress the Labour government failed to find a solution. The fact that practically all, including Communist, countries have also failed in this task, can be no consolation.

This is no battle which can be won once and for all. It is a continuous campaign, an unending adventure. Britain, which has originated so much of the social engineering of modern communities, must try to do so in this field as well.

The failure was due to the incomprehension and resistance of the trade unions. They will now have to face a Tory government whose whole philosophy (before they came under the influence of the Civil Service) rested on the belief that either unemployment or the direct weakening of trade union bargaining power could and would produce stability. We shall see how far their actual policy will be determined by this sort of feeling. If so, either a bitter struggle is inevitable in which trade union strength may well be undermined; or the trade unions will extend to the Conservatives a better treatment than to Labour, despite the declared objective of that government to modify taxation in a regressive sense. It is perhaps permissible to hope that they will learn and that the next Labour government will be accorded that degree of co-operation by them to which it is entitled.

Unfortunately it is precisely in the field of communication, of educative effort, that the Labour government has been least effective. The facts of modern economic life, such as the need for consensus in restraint all round, and on the basis of equitable shares, have not been convincingly explained.

3. a new approach or a return to old beliefs?

Why was the Labour government unable, despite these great advances and achievements, to make so patent and unquestionable a success of its policies as to command unconditional and continuous support by an overwhelming majority; able to accelerate growth; bring about a better distribution of income, and yet satisfy the managerial class?

The answer is ultimately to be found, I think, in the victory, already during the Attlee government, of those leaders in the Labour movement who held that the attainment of a materially more prosperous and socially more balanced community was not only possible but possible within the framework of the post-war economy, as it emerged from wartime shortages, and the equality of wartime austerity. Could the price mechanism, moderated by slight, yet deft, touches of the tiller alone, be trusted to assure such harmony? Others questioned whether further and more fundamental changes were not called for to secure these aims. In particular, was an extension of national ownership required to achieve these ends, along with the continuation of direct controls, especially on foreign transactions?

The protagonists of the optimistic view successfully appropriated to themselves the daring sounding vignette of "radicals" and were so greeted by delighted Conservative-Liberal periodicals, hoping to aggravate the clash between Labour ranks. In a tone of self assured superiority they took the view that the problems of inflation, of imbalance and the consequent monetary restriction of unemployment, and the slowing down of progress, could be solved within the new "statist" framework of the economy. They tried to convict everyone else of being naive, obsolete, outmoded or tainted with the Marxist brush. The impression was conveyed of an effortless comprehension of the workings of the new socio-economic system.

In no field were the claims of the new radicals more explicit and far reaching than in the matter of full employment and growth. Full employment, in their

view, secured a substantial equality between management and labour, thus transforming the labour scene, indeed, society¹.

The policy which Britain needed, and which could usefully be carried out by Labour, was to strengthen the natural tendencies of this new social system. No doubt some increase in the rate of economic progress was necessary, but this, they asserted, could be achieved through fiscal policy without much trouble; fiscal policy to which subsequently monetary policy was added. The Daltonian cheap money policy had already been abandoned at the end of the 1940s. They claimed, in particular, that the problem of the steadiness of growth had been completely solved by Keynes. Unemployment was in their view a thing of the past and inflation was considered to be only a minor problem.

The great Keynesian "revolution" also assured a due role for the state. The basic problem had been conquered when, in 1944, the wartime Coalition government (and the American Congress in 1946) accepted responsibility for full employment. Substantial equality had been achieved not merely here but also in America; and, in particular, national ownership had lost its economic function, as private ownership had been superseded by management, which was actuated by new and different motives, not antagonistic to social progress.

At the same time they also argued that taxation might deal both smoothly and without structural change, with the problem of inequality and hardship. Dick Crossman coined a splendid word for it: taxolators. In some cases, such as land, of course, even our "radicals" were quite prepared to go farther, but then (as Professor Marshall had already said) land is a thing in itself and must not be confounded with other resources. But in the main the new revised doctrine conceived of the future programme of the Labour Party in terms of concentrating on education and on making England a brighter and more beautiful country: ambitions we all share, but which demand an ade-

quacy, indeed an abundance, of scarce resources.

new problems

The series of setbacks leading to the defeat of both Attlee and Wilson and of a number of progressive governments abroad; the increased level of unemployment; and the incessant erosion of the value of money which contributed so much to our discomfiture; all these signs prove to surfeit the invalidity of these proud claims. I have argued in other contexts, and I shall argue in this pamphlet, that the achievement of that peaceful change towards a better society, for which all Fabians work—irrespective of shades of opinion—has been impeded by the victory of these “radical” views.

Why were these splendid promises not fulfilled and unfulfillable? The answer lies, in my opinion, in the teasing problem, still unsolved, of how to reconcile a level of employment which is socially satisfactory with stability of prices and therefore with a balance in international payments. This I believe to be the most fundamental of all our perplexities. It is this problem which will determine whether policies aiming at greater equality, greater ease, greater tranquillity and greater balance can be at all successfully carried out without smashing—in the framework of a mixed economy and the predominance in it of the private sector—the hope of steady expansion.

A return to “outmoded”, “old fashioned” socialist principles is essential because monetary or fiscal manipulation cannot and will not ensure adequate domestic progress and international balance. Nor can it assure stability and equity in income distribution.

The managed economic system of the post-war period has indeed proved far more successful than nineteenth century capitalism, both in securing material progress and maintaining employment; but throughout this period practically all countries, including those in the Soviet orbit, suffered from an incessant increase

in prices. This in the West undermined governments and threatens social stability. I hold in particular that, in a world in which Britain has to co-exist with countries whose social attitudes are more ruthless and whose institutions are less compassionate, success in solving the problem of her international competitiveness depends on making effective a sense of individual and group responsibility. This responsibility must manifest itself in a far more conscious consensus—about policies on productivity, income distribution and the management and expansion of the public sector, especially of the social services, than has been hitherto admitted, not to say achieved.

The closer the relationship the greater is the need for this sensitive acceptance of responsibility. Thus the entry into the Common Market, especially if it involves monetary union which would exclude changes in exchange rates, must be judged mainly, if not entirely, from this viewpoint. Losses sustained through the worsened terms of trade, due mainly to the Common Agricultural Policy, but also to the loss of Commonwealth preference, could be offset by an acceleration of economic expansion. If, however, our unit costs continue to threaten to outstrip those in the rest of the Community, this country would be threatened with the fate of a declining region from which enterprise and capital would depart, leaving unemployment and desolation. It is the long term British problem which should decide our attitude, not the immediate impact of entry. A political desire to join the market makes the fundamental problem of stability even more urgent and vital.

need for consensus

I assert that this consensus is impossible if a far greater sense of what it is now fashionable to call “participation”, but which I would prefer to term a relaxed consciousness of steadily advancing social justice and accountability, is not created. The Keynesian “revolution” in economic thought has proved as broken a reed in helping to attain a steady dynamism in

See Jackson

our economy as the elegant neo-classical structure of thought it overcame. That arrogant belief based on Say's *Law of markets*, denying the possibility of unemployment, became the fundamental professional test for economists before 1933, despite the regular recurrence of slumps. It proved a Jack o' Lantern which led us fatuously into the avoidable catastrophe of the Great Depression, the victory of Hitler and the second world war. Liberal Keynesian growthmanship did achieve accelerated and sustained growth. But through the social tensions, which were caused by its failure to secure a sense of justice, it undermined its own success through escalating demands for higher money income.

Economic calculus cannot deal with this fundamental aspect of its own problem: and this in the main is owing to two reasons. Firstly, an increase of output needs to be measured by some conventional standard, based on the prices of some base period, to give comparable total values to the goods and services produced. But this common measure is itself determined by the distribution of income and does not take into account changes in that distribution. Thus it cannot measure the welfare or the happiness of the community. An acceleration of the expansion of the national income will not bring an unquestioned satisfaction if it is stimulated mainly by the artificial creation of new needs rather than a balanced advance on a broad social front. Obsolescence imposed by psychological manipulation creates a sense of frustration. A tendency towards more inequality and a relative reduction in collective consumption, and an increase in conspicuous waste creates its own undoing. The increase in productive power, instead of being allocated to increased leisure, increased education and increased general amenity, without which leisure cannot be enjoyed, might be concentrated on creating new individual material needs, creating discontent in order that the supply of these needs should provide outlets for new enterprise.

Collective needs, because they demand collective resources, are discouraged, and

intense propaganda is waged against "mollycoddling" through better schools, hospitals and libraries, whose support demands high tax revenue. The richer and the more successful the system, as we see it in America, the greater the psychological malaise. When we are exasperated by the antics of students of the new Left we should take into account the complex character of the problems they face and which we did not have to face. This is the reverse of the coin of material success without moral content. Purposive education only, towards a less competitive, less materialistically conditioned state of existence, and more compassion, can bring real fulfilment.

Thus the dialogue between the negative personal rights of the individual and the needs of the community could at last be resolved in a general economic ease of living, which would no longer depend on uncertainty and dissatisfaction for its dynamism. Such a system would attain undisputed superiority over the totalitarian systems, which fail in their lack of regard for the dignity and integrity of the individual.

In the second place liberal Keynesian growthmanship tends to undermine itself by its failure to eliminate dissatisfaction and uncertainty; hence its inability to reunite stability and dynamism. The change in the balance of social power, unaccompanied by a change in social attitudes and institutions, undermines its own success by leading to inflation.

the consequences

Those who thought that the basic economic problems had already been solved neglected this issue. Through its victory, therefore, the new thought provoked a double reaction, fatal to stable progress. On the one hand there are the ardent liberal conservatives (aided by the more gullible of our party, indeed even in our society) who hope for the bliss of automatic balance through a slight increase in unemployment. The Tories are enthusiastic votaries in this queer new form of liberalism. (See, for example, Sir Keith

Joseph's "philosophy" as it has emerged from successive pre-electoral pronouncements; cf *The Times Business News*, 9 March, 1970). These hopes, as I shall demonstrate, are not founded on experience. Consequently the proponents of this view do not, in my opinion, take into due account the awful risk of stopping expansion altogether and bringing on a pre-war type of self-cumulating depression. The Wall Street decline and its possible consequences emphasise this danger.

Hardly less distasteful is the new lunatic fringe on the left which partly demands the maintenance of full employment, while raucously asserting their faith in unrestricted collective bargaining, in a free for all in the labour market. They do not even try to reconcile their demand for planning and deliberately controlling all other phases of national life with their surprising new enthusiasm for the law of the jungle in the matter of wages. In the jungle the tiger and the leopard triumph, and the sheep, and even the goats suffer, while the agile monkeys simply slide away. As we shall see, the left wing refuses to analyse the experience of the past 25 years, which shows not only that industrial action unaided by state intervention cannot increase the share of wages, but moreover that it will lead to the disadvantage of the poor, the defenceless, the weak. Thus they repudiate all efforts to change and civilise the existing socio-economic system; yet, when they demand its root and branch repudiation, they are quite unable to specify what machinery to put in its place.

The grave danger is that the political leaders, faced with the negativism of the Left, will be driven to an at least partial acceptance of the false *nostra* of the Right for fear of being outflanked in the middle ground of the electorate. In British politics it has always been considered especially clever to outflank one's adversaries through what is now politely termed occupying the middle ground, and what was described in more robust days of British controversy as stealing the Whig's clothes. History does not confirm

this widely held maxim. When Labour ran out of ideas at the end of the 1940s and set course on liberalisation and rearmament, the Tories, who had been advocating just that, recovered from the shattered ruins to which they had been reduced in 1945. When, after 1961, they tried to expropriate planning from Labour, who stood steadfastly behind the belief that market forces in a modern setting could bring no lasting prosperity, they lost credibility and two elections.

A new approach is clearly in order: it must be based on a clear realisation of the impact of full employment or socio-economic (class) relations.

social implications

Full employment, in order to be meaningful politically and sociologically, must imply a situation in which people know that if they lose a job they will, with but little delay, be able to regain employment; though, of course, in some localities and occupations, a certain degree of movement geographically and retraining might be needed, but these can then be provided without hardship. The essentially non-economic nature of the concept is clearly demonstrated by those economists who wish to employ the definition of full employment to further their political ends, by limiting the concept to those situations (of severe unemployment perhaps) in which price stability is maintained automatically, without "artificial" (deliberate) measures. It is a situation in which people feel wanted, needed, and members of a dynamically advancing community; a community in which material resources are accumulating, for whatever purposes the community in the end decides to use them, be it for private consumption, be it for public consumption, be it for consumption investment such as houses, such as amenities, be it for productive investment, giving one more earnest of a yet better and easier life later on.

Production thus has another aspect which has been disregarded even by some eminent authors who, like Galbraith, other-

wise have evinced great sensitivity². Human dignity and satisfaction are not compatible with the lack of employment, even if the anguish of insecurity and the fear of penury have been eliminated by social services³. The knowledge that a man fulfils a role in the community, that he has a positive function to perform, is surely in itself of great importance, which no system of social security, on however lavish a scale, will provide. The individual must know that he is needed and that as he grows more mature he is likely to be given increasing scope and eventually dignity in old age. A feeling of optimism, with a conviction that the trend is upwards, can make up for much hardship and lack of satisfaction in the present. And, above all, it will be needed to induce a feeling of interdependence, the essential precondition of true, willing responsibility.

What is involved here is nothing less than the most basic problem in economics, the relationship between ends and means. Yet the problem of full employment is the most fundamentally misunderstood problem. Not only have we, in the last decade or more, come to take it for granted, despite the traumatic struggles of the inter-war period, but a majority of the people have deliberately shut their eyes to its vital social and economic consequences. This is partly owing to their desperate efforts to re-assert their own immediate short term self-interest. A growing portion of our population (and the overwhelming part in the south which has always been prosperous) no longer remembers the personal anguish of the inter-war period. These people will not admit that, as I shall argue, the very mechanism of the mixed economy has changed by full employment.

Thus the achievement of full employment necessitates a complete reconsideration of our attitude to economic and social policy, a rethinking of social institutions and obligations and responsibilities both for individuals and groups. We need a new "*contrat social*", a deliberate agreement on economic and social policy.

Full employment is, then, not merely a

means to higher production and faster expansion. It is also an aim in itself, through its implication on social relations—the end of the dominance of men over men, the destruction of the master/servant relation. It is the greatest engine for the attainment by all of human dignity and of equality, and not merely in respect of incomes and consumption, important as these may be. Indeed much of the improvement of the share of salaries and wages in the national income since before the war comes from this source. Even more important, however, was its impact through a fundamental change in the status of the non-privileged individuals in the community, those who are not managers or owners (and this also goes for a communist society where managers and party officials have limitations imposed on them by the scarcity of labour and especially of skill). This aspect of the change has been well stressed both by Harold Wilson and Barbara Castle. Yet it is this total change in general welfare which is completely neglected in the pure "economic" calculus, in the crude figures of "growth".

It is in terms of human dignity, the end of fear of unemployment and penury and misery that we must count its blessings. And if there are abuses, that is a price which we should be prepared to pay. It is not a question of ten guilty persons escaping in order that one innocent should not suffer. The orders of magnitude are the other way round. Yet can there be any doubt that the cut in, or disappearance of, long term unemployment relieves a vast number of men from cringing in the need for subservience? The effortless superiority of an intrinsically unworthy class has been destroyed.

Yet, if so fundamental a change is wrought in social and economic relationships, certain inevitable consequences follow. These are as upsetting and unpalatable to the traditional and traditionalist following of Labour as they are to the protagonists of "free" enterprise among the "upper" class. Unfortunately all these strange allies share is the dislike of the new problems and the distrust of even their discussion. They cannot com-

bine in any constructive positive proposal for their solution⁴. It was this unholy conjunction before the election, between Enoch Powell and the right wing of the Tory Party on the one hand, and the Tribune Group on the other, which demands discussion and remedial action.

The tactics of the former are quite comprehensible. Under the guise of anti-inflationism they want to destroy full employment as a policy. Their tactic in *defining* full employment as the level compatible with price stability and using the pejorative term "overfull employment" for the rest is an obvious verbal gambit. It would not solve the political problem raised for governments by the determined expectations of the mass of voters for job security. Unfortunately the electorate might not be able to see through this. The almost continuous increase of prices since the end of the war has created, even in domestic politics, as we have had in the US, a willingness to accept measures which can plausibly be put forward as dealing with the problem of price instability, and this problem has become almost as corrosive politically as unemployment was in the war and immediate post-war periods. Thus the domestic aspects of price rises might force governments away from a full employment policy and towards one of price stability. Nor can it be doubted that internationally the persistent increase in the prices of industrial exports will tend to rob the less developed countries of the fruits of technical progress. It is debilitating internally and retrogressive internationally⁵.

But those were not the problems which played havoc with Britain and British prospects, and resulted in her being overhauled and surpassed materially by all her principal competitors except Japan (reckoned *per capita*) and Italy. If our costs and prices had risen at the same pace as those of our industrial rivals our external problems would indeed have been less intractable.

4. the British problem

In Britain the brunt of this fatal post-war dilemma between unemployment and stability manifested itself in her external economic relations. For years before 1969, for longer than we care to contemplate, the British economy has been regarded as the sickest in Europe. Gone were the prestige and power of the immediate post-war period; the glory of resisting Nazi Germany alone, and of winning the war alongside the super powers, faded. Britain lost the advantage gained by the fact that British productive capacity had, in contrast to France, Germany, Italy and Japan not been crippled, but only wounded and exhausted.

The country was plunged into a series of balance of payments crises and vast deficits in international payments. This happened no less than eight times since the war—four times under Labour, and four times under the Conservatives. No sooner was there a sign of economic expansion than we ran into balance of payments difficulties. Imports poured in. Exports lagged behind. Expansion had to be stopped. What was even more ominous, was that at each recovery, employment could be permitted to rise less, while at each curb unemployment had to be forced to rise more. Thus the rate of expansion of Britain over good years and bad was lower than in most of the industrialised world.

Britain's industrial weakness is not of yesterday's making. It dates back to before the first world war when she failed to develop vigorous new industries as the old dominant ones faded out. These industrial difficulties were aggravated by the historical role of the City, with its vast machinery for facilitating lending and investing abroad, irrespective of whether Britain had resources to spare or not. So long as Britain was strong and influential, foreign lending and investing generated overall balance of payments surpluses sufficient to carry them even at a high level of employment. It stimulated the production of food and raw materials Britain needed at low cost and high profit. Once the superiority was lost, the traditional structure worked to the detriment of Britain. It stimulated capital

exports for competing industrial development abroad, while causing balance of payments difficulties. These led to increases in rates of interest and thus checked home investment as much as or more than, foreign.

The two most striking and paradoxical aspects of the British problem since the end of the first world war are its repetitiveness and apparent persistence and incurability on the one hand, and its triviality, its relative paltriness on the other. With boring regularity crisis followed crisis. The response of governments of all shades and parties was, until the 1960s, identical. They jammed on the brakes. The expansion came to a stuttering halt—indeed in the inter-war period, it was shaply reversed. Unemployment increased, national income ceased to grow and much of the productive potential was wasted and investment cut back, to the prejudice of the future. This periodic repetition of stop and go has undoubtedly quenched the eagerness of our entrepreneurs to invest, despite the various forms of government stimulus both during the Tory and the Labour regimes. Part of the reason at least for the lesser efficiency of such investment as there was can be attributed to the defensive and pessimistic attitude which grew up in this country during this period.

Nor is the view borne out by historical experience that an alternative to such basic change in cost effectiveness could be found in monetary manipulation. After devaluation or the adoption of a (managed) floating rate for the pound, as after 1931, the competitive advantage so secured was worn away by the renewed bursts in the rise of costs relative to our competitors. The lessons of the post-1931 years were bedevilled by the all round increase in economic nationalism (including our own). It is nevertheless relevant to note that in the inter-war period the sustenance for our exports came from the British Dominions and Empire. In the post-1949 devaluation period, the Korean war and rearmament obscured the meaning of the experience. The British devaluation of 1967 worked well

when the American inflation and the German revaluation and inflation seemed for the first time in post-war history, to outdo our own increase in costs.

the post-war achievement

Yet there was an immense contrast between the misery, dejection and indignity of mass unemployment in the inter-war period with the far better performance in production and the maintenance of employment during the post-second world war period. This was due partly to the restraint and determination of the post-war Labour government. In contrast to 1919-20 they retained controls and prevented a repetition of the boom/bust. While the British production record in international terms is rather inferior, it compares well not only with the inter-

war period, but also with the stagnant luxury and ostentation of the vulgar Edwardian era, and even with the latter period of Victorian prosperity.

The immediate cause of Britain's discomfiture was a much faster rise in money costs, mainly in money wages, relative to the increase in productivity, than was experienced by her industrial competitors. It was this which interfered with exports and sucked in imports. It was our relative industrial performance which lay at the root of our economic problem.

No doubt military expenditure abroad, and the continued and indiscriminate export of capital, aggravated the problem. However, the uninterrupted worsening, in each successive period, of our visible trade balance would have led to a crisis nonetheless, even if military expenditure and the export of capital had been duly controlled. Left wing critics have either wantonly belittled or wholly decried and disregarded substantial achievements in both these directions. In palpable fallacy they also forgot that even a more

RATE OF GROWTH OF REAL PRODUCT IN SELECTED COUNTRIES*

	UK	USA	W. Ger- many	France	Italy	Japan
1950-60	2.5	3.3	7.8	4.5	5.3	8.8
1960-69	2.7	4.5	4.9	5.6	5.9	10.9
1950-69	2.6	3.9	6.4	5.0	5.6	10.2

*Gross domestic product except US and France (1950-60) where GDP at market prices is given. The London and Cambridge Economic Service figures for UK, USA, Japan and France differ from those given.

sources: UN *Statistical Yearbooks*, 1965 and 1968 (Table of index numbers of real GDP at factor cost): for 1950-60. *Ibid*, 1968 (Table of Rates of Growth of GDP at factor cost): for 1950-60. NIESR, *Economic Review*, February 1970 (Statistical Appendix, Table 17): for 1960-69. London and Cambridge Economic Service, *The British Economy, key statistics*, 1900-64, (Times Publishing Co. Ltd.): for 1960-64. CSO, *Economic trends*, 1968; *Monthly digest of statistics*, April 1970: for 1964-69. Institut National de la Statistique et des Etudes Economique, *Annuaire Statistique de la France*, Resultats de 1967 (1968): for 1960-67.

OUTPUT PER MANHOUR IN MANUFACTURING

	USA	UK	W. Ger- many	France	Italy	Japan
1950	67	74	54	51		
1951	69	75	58	55		
1952	70	73	60	54		
1953	72	76	63	57		
1954	69	78	64	62	66	63
1955	73	82	69	68	66	66
1956	75	81	71	72	69	71
1957	78	83	75	76	67	76
1958	81	84	77	80	69	72
1959	85	88	82	82	72	77
1960	89	92	87	88	80	83
1961	92	92	91	92	85	90
1962	96	95	95	97	95	92
1963	100	100	100	100	100	100
1964	104	106	110	107	110	111
1965	107	110	113	111	122	118
1966	110	114	116	118	133	129
1967	112	118	126	124	139	151
1968	115	125	137	133	146	175
1969	118	129	144	148	150	202

radical policy could only have led to a once for all improvement, which would not have prevented the continuous worsening of the visible trade from ending in a crisis. Certainly the policies they advocated would undoubtedly have speeded that climax.

The inevitable worsening of the trade balance enforced defensive action by the Treasury, first usually through increases in taxation and, periodically, by credit restriction. This slowed down technical progress and stored up a renewed and even more acute trouble. What was far more dangerous, it struck at the very root of the improvement in the social environment, full employment. The level of unemployment, which had to be, and was, tolerated, rose; with incalculable consequences for the future.

This tendency for costs to rise faster than elsewhere is due partly to the low rate of increase in productivity, in turn a consequence of the country's historical industrial inheritance, and partly to changes

in the structure of industry and the trade unions, and therefore to industrial relations and indeed the wage bargain. Let us deal with these in turn.

the historical inheritance

Historical research as well as statistical comparison shows conclusively that the mediocre British industrial performance has been caused mainly by the failure of entrepreneurship and management. (A good review of available sources is given in D. H. Aldcroft and H. W. Richardson, *The British economy 1870-1939*, Macmillan). To an appreciable extent this must be attributed to the class dominated choice of élite. "Free trade", the fresh winds of competition, produced neither the optimal productive units nor the most favourable techniques. The "who knows whom?" was far too important in forming industrial leadership.

From 1880 onwards Britain was forced from the van of technological leadership

HOURLY EARNINGS IN MANUFACTURING

	USA	UK	W. Ger- many	France	Italy	Japan
1950	59	46	37		43	
1951	63	50	43		47	
1952	68	54	47	42	50	
1953	71	57	48	43	50	
1954	72	60	49	46	52	56
1955	75	65	52	53	56	56
1956	79	71	56	57	59	58
1957	83	74	60	62	62	61
1958	86	78	65	69	65	63
1959	89	81	68	74	66	66
1960	92	87	75	79	69	71
1961	94	93	84	85	75	80
1962	97	96	93	82	86	90
1963	100	100	100	100	100	100
1964	103	107	109	107	114	111
1965	106	116	119	113	121	123
1966	110	125	127	120	127	137
1967	115	130	132	127	133	154
1968	122	140	138	143*	138	178
1969	130	151	151	159	149*	210

* Effects of major strikes unknown.

WAGE COSTS PER UNIT OF OUTPUT

	USA	UK	W. Ger- many	France	Italy	Japan
1950	88	62	69			
1951	91	67	74			
1952	97	74	78	78		
1953	99	75	76	75		
1954	104	76	77	76	80	85
1955	103	81	76	78	84	84
1956	705	88	78	80	85	82
1957	107	89	80	81	92	80
1958	106	92	84	86	94	89
1959	105	92	83	89	92	86
1960	103	94	86	89	87	85
1961	102	100	92	92	88	89
1962	102	101	98	95	90	97
1963	100	100	100	100	100	100
1964	99	101	99	100	103	100
1965	99	106	105	102	100	104
1966	101	111	110	101	95	106
1967	102	110	105	102	96	102
1968	107	112	101	106*	95	102
1969	110	117	105	107	100*	104

* Effects of major strikes unknown.

and relied on the abundance of labour and a relatively low wage economy for continued prosperity. This meant that a relatively large portion of national resources was being devoted to labour intensive industries: these, as might have been expected, were most easily displaced by new arrivals on the industrial scene, which either had the advantage of even lower wages, or of being in the vanguard of technical progress. The latter, by revolutionising mechanisation, were able to overcome the barrier of low wage costs which England had been unable to penetrate. This had a momentous and, as we shall see, dangerous impact on the development of trade unionism.

The insufficient attractions after 1880 of investment at home then (as even now) stimulated the export of capital on a scale never before achieved (or suffered) by a major industrial centre. Especially in the period 1890-1914, a substantial proportion—up to half—of the nation's savings was invested abroad. Before the first world war most of these investments went to open up vast new territories and to transform them into suppliers of food and raw materials. This at least benefited the balance of payments through the increased supplies of goods Britain needed and the consequent improvement in the terms of trade. In the inter-war period, reconstruction loans to industrial competitors made up a much larger part of the total. Most of these were lost or only partially recovered after the great depression and the Second World War. Yet the problems of British industry and the vast machinery of the London financial markets continue to divert a substantial portion of our insufficient resources abroad whenever they are not regulated or prohibited. The returns from direct investment, especially, seem insufficient, both in terms of increased exports or increased revenue. (See, for example, W. B. Reddaway, *et al*, *Effects of UK direct investment overseas. Final report*, University of Cambridge, Department of Applied Economics, Occasional Papers 15, London, CUP, 1968.) The latter contrasts sharply with American experience and drives home the lesson that a major reorganisation of British indus-

trial management is more than overdue. (See John H. Dunning, *American investment in British manufacturing industry*, London, George Allen and Unwin, 1958.)

Those Whiggish Conservatives who nowadays vociferously expect a renewal of dominance in British industry on the basis of the spur of competition, should study the pre-1931 situation in which, for a vast range of new industrial products vitally necessary for the life of a modern nation, such as chemicals, electrical goods, even motor vehicles, international competition hindered rather than spurred the establishment of efficient British units.

Only protective measures at first selective and after the crisis of 1931 general (including devaluation), helped to redress the deficiency. This failure of negative measures to bring about the change was also conspicuously demonstrated in the post-1950 period of liberalisation.

If the view of those had been justified who look for state "protectionism" or lack of competition for the main cause of British industrial sluggishness and the ineffectualness of such investment as was undertaken, this "opening" of markets surely would have cured the malaise because the extent of the protection that remained was relatively small. Nothing of the sort happened. The immense improvement in the terms of trade after 1952 was exhausted by a premature relaxation of import prohibitions, quotas and tariffs, without any relative improvement in our relative industrial performance.

This improvement in the terms of trade ought to have been, but was not, used for strengthening our material base through increased investment. Had it been so used, it could have laid the basis for an industrial efficiency, which would have prevented the protracted crises of the early 1960s. It was during this barren period, when voters were bribed by increase in private consumption unjustified by productive performance, that disillusionment set in. Thus when Selwyn Lloyd was forced to fall back on the restrictive policy, he accompanied them by a return

to "planning", under the aegis of the newly formed National Economic Development Council. But this death bed repentance of the Tories (as Harold Wilson called it) was of no avail. (See *New Statesman*, 29 March 1961, also my essay "Planning in Britain" *Essays in honour of Professor Mahalanobis*, New Delhi, 1964). There was no time for industrial rejuvenation through deliberate policy.

When Mr. Maudling, in contrast to practically all his predecessors, attempted to force a breakthrough through continued expansion, especially in public expenditure, in the teeth of a worsening balance of payments situation, the inevitable result was such a deterioration in our relative cost position as to cause, in 1964, the gravest balance of payments crisis on record. The competitive strength of the country was so weakened that even the most strenuous efforts of the Labour government to restore it did not succeed fully. They tried a double assault on the problem through raising the rate of increase in productivity and by trying to keep the rise in wages in some relationship to that increase. The novelty of the approach lay merely in the energy concentrated on improving industrial structure and productivity. The view of the "liberalisers" and "trust busters" of various hue had been shown up as a demonstrably foolish illusion ever since 1880 and lately, as we already mentioned, in the 1950s. Like all fallacies, including those about money, it takes an unconscionable time dying, and is not dead yet. Indeed, the dispersal of the Board of Trade seems to have infected other Ministries and Departments. Not only the Tories influenced by Mr. Powell (for example, Sir Keith Joseph) hope that what has not happened for a hundred years will happen tomorrow and that business men will act against their immediate interests. Some devoted members of the Labour Party labour under the same misconception.

Experience has shown that, in England at any rate, a negative anti-monopoly drive will not result in the much needed rationalisation and restructuring of in-

dustrial. It was not realised that what was termed a "restriction" or "distortion" of competition—especially if measured by the fraction (one third) of goods and services supplied—was, from the point of view of productivity and rapid technical progress, far from being the worst possible industrial structure; this latter might rather be represented by a smallish number of large firms, each controlling a much smaller than the "critical" fraction of production with relatively high profit margins, while being protected by a large number of inefficient firms with high costs. It was in these industries—the electrical industry, for instance—where research and development was at a low level and in which Britain lagged behind.

Deliberate outside help and initiative are needed to reorganise industry to enable it to make use of methods of mass production. The influence of the private merchant banks has perhaps been expert in managing access to the capital market. It certainly has not been able, in the absence of technical expert knowledge, to contribute much to industrial logic or to its being made effective in industrial organisation. It is from this viewpoint that the establishment of the Ministry of Technology and of the Industrial Reorganisation Corporation is noteworthy. The former was enabled to intervene and help directly with finance.

However, the Ministry of Technology, since its reorganisation in 1969, is now less suited than it previously was to urgent tasks. Moreover, in organising and manning the IRC, merchant banking traditions were imitated and relied on. Given the conventionality of the banking fraternity, the obvious wish of the Labour government was to soothe the inevitably ruffled feelings of the financial oligarchy, which had, quite rightly, to accept the founding of IRC as a reflection on their performance. The IRC was precluded from holding shares for a longer term and thus benefiting from the capital gains due to its initiative. Its size was also insufficient to make an early impact. Despite its eminent board, its means in the field of technico-economic

intelligence, were perhaps not quite sufficient either.

Yet there can be no doubt that deliberately planned and energetically executed schemes of rationalisation are the only way in which we can hope to readjust ourselves to the increasing competition from ever larger scale foreign giants. Moreover, the change in management is often desperately resisted and this resistance has to be overcome: nothing shows more clearly the importance of ownership so deprecated by some than the impotence both of the "market" mechanism and of the government in situations in which owners refuse to fall in with industrial restructuring before the industry loses out in international competition.

Some progress in preserving and reorganising decaying industries such as shipping and shipbuilding, as well as textiles, was made. And in the middle and lower levels of management the career was opened a little to talent rather than nepotism. In the top echelons, even in the nationalised industry, the influence of the "old boy network" is still dominant. Indeed, in some important cases energetic top managers seem to have lost out to the Establishment, not the least because the government had not learned to use patronage to the best advantage.

In the meantime the expectations of both salaried and wage earning masses have been gradually pitched at higher and higher levels, wholly out of proportion to the actual advances achieved in productivity. Now, given the unfortunate history of industrial development and industrial relations in this country, it is comprehensible that the trade unions could not accept as a norm, in negative acquiescence whatever increases in productivity were produced by an imperfectly working industrial system under managements of questionable ability.

What is more difficult to understand, however is that they, for their part wholly disregarded the accumulation of evidence that, by industrial action alone, they could not implement any policy which could claim to be social, let alone

Socialist. Thus, instead of using their bargaining power to secure a package deal of the sort which I shall discuss presently, they did not hold back their membership. As a result we had until 1968 (with the exception of the Cripps period and the wage freeze in 1966-67) in rate of increase in unit costs of output which has been far higher than that in competing highly industrialised countries. Consequently the erosion of the pound has continued.

If the policy outlined in the Tory election manifesto is viewed in this context, its pledges seem calculated to exacerbate the tendency to crisis. On the one hand, the tax "reform" seem to lay a heavy burden on the consumer. This must increase the cost inflating tendency by evoking higher wage demands. On the other hand, much the likeliest cuts in expenditure, such as the abolition of investment grants, seem calculated to diminish savings. Finally, the increase in foreign expenditure and measures of liberalisation, such as the abolition of import deposits, seem directly calculated to aggravate the problem as all concessions to the top salary earners.

The historical inheritance thus calls for a reappraisal of much more than economic policy in its narrow sense. The recent improvement of our international position is no argument against this conclusion.

a hopeful interlude

Good news on the international front has been so rare as to be incredible when it did come. Good news on the international economic front was rarer still. Yet in the year from May 1969 we had such good news, and a burst of it at that.

Britain's international economic situation was suddenly transformed. The export led expansion, for which we have been waiting so long, started. Harold Wilson and Roy Jenkins could, with full justification, take credit for their steady determination and unflappability in the face of adversity. They had courted extreme un-

popularity by taking restrictive measures which were necessary to achieve economic consolidation and free the country from foreign dependence, as far as restrictive measures are at all capable of this achievement⁶.

If their achievement was to endure, measures would have had to be taken to assure that the cost structure did not, once more, slide out of harmony with that of Britain's more dynamic industrial competitors. It would therefore, have been prudent to reflect on how much Britain owed to foreign developments, and on how changeable they were. It would have been reassuring if the determination and insight shown in 1968-69 had been followed up by a long term attack on the roots of our basic problems—costs and prices—and by a strengthening of our external economic defences. There is much to be learned, too, from the merits and mistakes in the policies of our competitors.

Little was done in either respect. The uncontrolled jumps in prices and wages continued. And the relaxation of control over tourist expenditure and of import deposits was not offset by a tighter regulation over so called portfolio investment, such as investment in stocks abroad, which heavily weighs on the balance of payments and does not stimulate exports even to the limited extent that British business investment abroad does. The old fashioned bankers' priorities for the use of the surplus in payments were not really touched, far from being altered root and branch. Yet too much, indeed, almost exclusive, importance was attached to the improvement in the balance of payments, while too much was left to chance, to the uncontrolled lurches in international economic forces. This had adverse effects which could have been avoided.

Germany to the rescue

Among the foreign factors there was, the important, unexpected, and somewhat incomplete, victory of Social Democracy in Germany which gave good

hope for greater balance for some time to come. The Mark was upvalued by almost 10 per cent—far more than could have been expected in the troubled political atmosphere in which the alteration of the parity of the Mark became one of the most contentious issues and far more than was advocated even by the Central Bank. Even though the frontier taxes on exports and bounties on imports were abolished at the same time, as a last gesture of the departing Christian Democrats, ex-Coalition partners and the embodiment of German economic nationalism, the revaluation increased German costs in terms of foreign currency, including Sterling, by some 5 to 6 per cent. This did not relieve foreign competitors quite as much, as the Germans (following the lessons of their 1961 up-valuation) cut profit margins to maintain markets at home and abroad. Still it was a considerable relief—not the least for Britain.

A second up-valuation of the Mark had been fiercely resisted before the elections by the rivals and erstwhile Coalition partners of the Social Democrats, the Christian Democrats and especially by their aggressive ally and probable future leader, Herr Franz Joseph Strauss. They had good reasons for this attitude. The under valuation of the Mark suited their followers, the landowners and peasants, and industrialists, both large and small. German agriculture is cursed with high costs and is relatively depressed. The peasants, and those dependent on their prosperity could be counted on to support the Christian Democrats. A revaluation could have been expected to cut their Mark prices, because the Common Market support level is fixed in gold or dollars. German industrial exports (and those products competitive with imports) were benefited by a relatively low level of German costs in terms of foreign currencies. It caused a tremendous visible trade surplus. This in turn maintained full employment, profits and investment. Moreover, new manufacturing units could be planned with confidence on the basis of expanding exports. They were not limited by the *relatively* lagging home market, due to relatively lagging money

wages. Thus productivity shot ahead; and real wages increased far faster than they could have done in more sluggish economies, despite the favourable share of profits in the total national cake. German real wages are now well above ours, yet twenty years ago ours were at least half as big again as theirs. This placated German trade unions, who were in any case fearful of being accused of once more endangering the stability of the currency by causing price inflation.

Indeed, it was only the all-pervading fear of the argument of a continued rise in prices which gave the Social Democrats, and especially Dr Schiller, courage to advocate revaluation. By increasing the real purchasing power of the Mark (and Mark wages) abroad, he hoped to put sufficient pressure on German prices to keep them stable (or rather he could avoid having to increase German prices to keep step with the rise in foreign prices). The electoral victory of the Social Democrats justified these tactics and Professor Schiller was able to implement his policy when a new Coalition was formed between the Free and Social Democrats. German costs increased relatively more than before and the competitive pressure slightly lessened. Professor Schiller had to apply the monetary brake. This was not popular at home, but restored the strength of German competitive power. The eventual fate of the Social Democratic experiment will depend on whether he can control this movement of prices without causing a politically intolerable slowdown of production and unemployment which would ill contrast with the vigorous progress attained under the dominance of the Christian Democrats. The factors assisting Britain are under vigorous political attack, complicated by the uncertainties caused by the dispute of how to manage relations with the Communist East.

America helps, too

Britain has had an earlier and perhaps even greater benefit from abroad: the American inflation and the worsening of their balance of payments. President

Nixon was elected to end the war in Vietnam and to put a stop to the accelerating rise in US prices. The growing and increasingly urgent needs of the dispossessed, the problem of bitter misery among ostentatious opulence, made up the third element of the horrid political bequest from L. B. Johnson. As the leader of a normally minority party, Nixon was just squeezed into office by the bullnecked and ill advised blunderings of his predecessor, the weakness of his rival, and the tragic death by violence of the favourite contender on the Democratic side, Senator Kennedy. His future fortunes seem to depend on resolute and adroit action. What we have seen as yet is postponement, prevarication and blunder. In violent policy somersaults, he has outdone anything as yet experienced.

As to the war he promised a steady withdrawal of the troops and went for the old futile quest after the quick kill in Cambodia. The moral and political atmosphere is far worse than ever; while the hoped for dampening of expenditure has been largely postponed, without helping some of the giant members of the military industrial complex whose difficulties contributed to the setback in Wall Street.

As to the needs of the dispossessed, they have been exacerbated by trimming and cheese-paring without helping with the inflationary pressure. Indeed it is squirming over the problem of inflation that really typifies both the awkwardness of his inheritance and his inability either to abide by his election pledges or boldly to strike out for new, or rather the old, democratic policies.

On the economic front his blunderings seem to begin to undermine the one and only precious heritage of the world from the last war, the firm belief in the persistence of high employment and continuous progress. The change on the economic front is profound. President Hoover's ghost stalks Wall Street. The Stock Exchange suffered severe losses. The President's reassuring noises, like Hoover's, only served to undermine con-

confidence. Yet prices have risen by a quarter; and real estate by more. Production is still at a very high level though construction, especially housebuilding, has suffered a sharp decline as a result of the monetary squeeze. Republican policy-making seems a series of contradictions.

The all but uninterrupted material progress in America since 1945—indeed, since 1940—has encouraged the belief, as in 1927-28, that the economic problem was licked, a belief that was shared by the “new” progressive Democratic school of economics (based on Keynes) as much as by those of the “old” monetarist faith. Yet they were unable to reconcile prosperity and stability; and their efforts to stem inflation has produced a critical situation. The Republicans have the worst possible record here: they landed into the catastrophic stock exchange crash forty years ago and muddled the unmatched American productive machine into seizure and disintegration. In Eisenhower’s days they twice saw unemployment rise above the critical 5 per cent level. Their punishment then was years spent in the political wilderness. This exile would have lasted much longer but for Johnson’s Vietnam madness. If Nixon slid into a panic and depression, the Republicans would seem to be doomed for a generation or more. The fact that the stock exchange setback originated in the war industrial sector and especially in its most sophisticated part, aerospace, electronic and computer (including software) industries, might be a clue why the President, after the decline, was inclined to listen to generals who had already forfeited the confidence of intelligent observers under Johnson.

On all these occasions it was the threat of rising prices, of inflation, that led them into the fatal policies which caused the Republican recessions and even the great crash. These policies dangerously resemble those which led to their present discomfiture: general global monetary restrictions hitting at business confidence and curtailment of government expenditure ruining expanding firms. As *The Economist* explained on the last occasion

in 1957: “Provided that pressure on the money supply is firm enough, the authorities cannot fail to affect confidence. Indeed, the criterion by which the adequacy of monetary restriction is to be judged is itself the state of business confidence”.

Such destruction of confidence through a psychological shock is wholly unlike the subtle working of changes in interest rates through the price mechanism. A crisis of confidence is likely to lead to a liquidation of bankrupt equity holders and postponement of purchases, which would in turn aggravate the cumulative downward slide in production. The new Bourbons seem to have learnt nothing. Yet it is certain that if Mr. Nixon involves himself in his third depression (he was Vice-President in the Eisenhower debacle) and a Republican administration on taking office in a fourth consecutive depression, the party will be branded irremediably with the guilt of economic mismanagement. The present weakness of markets, with its threat to investment, is a far cry from the view of Nixon’s advisers—but even the belief of such people as Professor Heller in the Democratic camp—that financial and/or monetary policy—in one word global measures—could steer the economy from violent inflation to a smooth landing on a steady growth trend at full price stability, or to a tolerably slow rise. The mutual recriminations between orthodox Keynesians and monetarists, each accusing the other of fallacious reasoning from misinterpreted or manipulated facts showed, however, that the whole proud edifice of a “scientific” economic management was built on sand.

Mr. Nixon’s advisers, as much as Mr. Heath’s, ought to realise the danger lest, through playing with water in order to quench inflation, a flood of deflation is suddenly discharged, drowning all Republican political hopes. Monetary restrictions and a cut in expenditure led to the Wall Street decline and an increase in unemployment. Yet prices and wages have nevertheless continued to soar. This,—as the similar fate of similar measures here—rudely falsifies the hope of those who believe that the inflation could

be dealt with by fiscal or monetary "fine tuning" of the economy, by expanding or curtailing demand at will. Interest rates are at crisis levels. The Budget would have balanced or even shown a surplus had the recession not set in and cut profits and capital gains. Optimism, or "the inflationary spirit" as it is now called, still persists, albeit battered. It persists because it has lasted for a long time, and no one believes that the President really means to break it. Should it be broken, however, and this could happen any day, it is most unlikely that the psychological change will be a gentle one. Once the break occurs it will be violent and there is enough tinder especially in the Euro-Dollar market to cause a financial explosion carrying economic activity into the abyss. The similarity to 1931 is only too apparent to those who do not wilfully close their eyes. American embarrassments are so similar to ours that one would have thought that they would have learnt their lesson from our troubles. Not so. Not only have Nixon's advisers revolted against the inexorable conclusion, the orthodox Democrats have done so too. The former dreamed of the subtle impact of monetary policy on demand, mainly through a variation of the volume of money). The latter fancied that a relatively small change in public expenditure would achieve the same. They both thought that a small variation of unemployment would suffice. They have now woken up to a rude disappointment. Some, like Professor Burns, are showing a change in view in favour of incomes policy. Professor Galbraith (and probably under his influence, Senator Kennedy) was always an outspoken sceptic of the efficacy of both fiscal and monetary policy.

It is clear that the inflation in the United States, as in Britain, has been caused by wages rising too fast. Any improvement will be as difficult for Nixon's government as it would be to Mr Heath's: it would be quite impossible to restrain wages and costs so long as the trade unions are not assured that their compliance would not be exploited to boost profits at their members' expense. The politics of Republicanism are, however,

as the crude if electorally effective mus- ing of the Tories, all but incompatible with deliberate consensus on employ- ment, wages, taxation and the distribu- tion of income (See the scare statement of Mr. Heath, *Conservative Central Office News Service*, 16 June 1970).

The dangers are obvious: a forced liquidation is the first worry. A number of armament firms are in deep trouble, so are the investment trusts and railways. More financial conglomerates have financed their purchases by borrowing long and short at fixed terms, partly in the Euro-Dollar market. The expansion of the latter from some \$8,000 million to some \$40,000 million, in four years suggests foolhardiness which would be re- venged if a large scale forced liquidation of assets took place, very much like that in 1929.

The Reconstruction Finance Corporation which has done much stalwart service in formed troubles has been liquidated.

In pre-war days the crash would almost certainly and immediately have caused sharp curtailment of consumption and investment. So far this has not happened. The American economic situation is far stronger than in 1929: agriculture, which was the Achilles heel then, has been completely isolated by price guarantees and a strict regulation of production; bank- ing failures have lost their deadly sting through deposit insurance; stock ex- change credit and security issues have been under more stringent control. Con- fidence might be less easy to shake. How- ever, if Nixon carries long and, instead of acting, wrings his hands like Hoover and predicts an early recovery (and an early withdrawal from Indo-China) we might well see the first post-war liquidity crisis on a large scale. And the extension of the war with the concurrent increase in government expenditure may not suf- fice to stem the avalanche. Nixon might combine war and unemployment.

Should this happen the *immediate* effect on Britain would depend on whether cost inflation continued. If it did, the effects of the decline might not be wholly

unfavourable for a time at least. US competition would continue to be hampered. The decline in US demand might turn the terms of trade in our favour by causing primary prices to decline. Once a real slump develops, however, and the US trade unions become frightened and our experts get under pressure, we might well get hurt. If the Americans adopt a policy of import restriction the damage to British exports and the balance of payments might be appreciable. We can only hope that US economic management will learn more quickly than ours has.

world inflation

To complete our relief the French did not, until the winter, recover from the violent blow to their international competitive position—so unlike the piecemeal erosion in our case—inflicted in 1968. However cleverly it was carried through, the devaluation of the franc did not solve their problem; an overall export surplus was not promptly re-established, but is now in the make. After Pompidou's election and the general shift of public opinion in favour of the Conservative position, however, their trade unions have not thrown down the gauntlet. The upward bound in industrial costs slowed down. The Italian political scene has also been thrown into disorder by the protracted crisis in the leftish coalition. The associated industrial unrest blunted Italy's competitive power and led to a wave of capital export out of the country. As yet there is no end to be seen of this turmoil, though production is still expanding, albeit at a lower rate than in previous years. The cumulative increase of costs and prices, however, continues all round. Thus the relief to our balance of payments was at the cost of inflation abroad and at home. Politically this weakened Labour, however unfair the Tory charges may have been.

Only the Japanese productive explosion continued unabated. The balance of payments continues to be favourable and the accumulation of reserves unchecked. The impact of the more recent troubles in the United States, which exerts so power-

ful an impact on the Japanese capital market, is yet to be seen.

international monetary reform

Finally the demise of de Gaulle's regime permitted the implementation of the long planned international monetary reform. For the first time in history, deliberately and consciously created international reserves—"paper gold"—can be used to cover balance of payments deficits and can be counted into the general cash reserves of a country. Admittedly the amount is not very great; \$9,500 million over three years, that is less than five per cent annually of the existing total (of which 30 per cent remains sterilised).

This is certainly insufficient to cope with a serious disturbance, with an acute crisis of confidence. It is far less than had to be found over the years to buttress the pound or the dollar against speculative attacks. But the principle is invaluable, and promises, in the long run, to end the recurrence of the crises we have experienced at regular intervals ever since 1947. This is in line with the rise of the impact of domestic central banks on internal liquidity crises, such as occurred regularly in Britain before the 1870s and in the US as late as 1907. Moreover, the "debt" (that is the short term liabilities of the key currency countries which served as the essential reserves of the rest of the world) could be "founded"; that is, they could be taken over by a new international authority in charge of creating reserves. This would reduce the cost of liquidating our erstwhile role as the centre of the Sterling Area to manageable levels. (I have dealt with this problem at greater length in the *Bulletin of the Oxford University Institute of Economics*, 1970.)

In addition to this new departure, the traditional resources of the International Monetary Fund—national quotas enabling members to acquire other countries' currencies—have also been increased. True enough, the doctrines of that agency have rigidified in a hopeless mechanistic muddle about the relationship of the

volume of money in existence and spending by individuals, firms and the government. They confuse the changing desire of individuals to hold cash or longer term assets, with their willingness to invest or consume. By creating a false criterion by which to determine policy, so-called Domestic Credit Expansion, they are on the best road to recreating the instability and violent fluctuations of pre-war times. Their advice was not accepted by the Labour Government—one only wonders whether it would have been taken had it counselled restriction rather than expansion. As it was, unemployment remained appreciable.

what next?

It was this exceptional conjuncture of domestic and foreign factors which resulted in a violent favourable reversal of our fortunes since last autumn. But as we have seen, the powerful foreign influences buttressing, if not mainly responsible for, our relief, could not be counted upon to endure. Indeed, if Mr Nixon's economic over-kill is effective, he may yet bring about a reversion to the pre-war type of fluctuations in economic activity, with all that that might mean in terms of human suffering. Dr. Schiller's and M. Giscard d'Estaing's success would equally be difficult for Britain. A competitive beggar my neighbour cycle may well be in the making. Britain would not have been exempt. The current surplus in the balance of payments could no doubt have been used to help in weathering the crisis. Had that not been enough further powerful defensive features, possibly a change in parity and control of imports would have been available. The most likely circumstance in which a renewed devaluation might appear to be the least evil policy is not indeed the British inflation getting out of hand, but an American depression.

Britain, for the moment relieved of immediate pressure, ought to have used her increased authority last Spring to buttress as much as possible the slight voices of reason. Professor Burns, the Chairman of the Federal Reserve had called for the

introduction of an incomes policy, but was rudely and ignorantly slapped down by the business advisors of the President. An immediate gesture of co-operation towards easing the fiscal and monetary squeeze in the US was urgently needed. Much the best would have been if Britain had persuaded Germany and Japan to act in unison with her. But the Labour Government ought to have acted alone if necessary, to give a lead. Tighter international monetary co-operation was the order of the day.

The electoral victory of the Tories, their philosophy, their pledges, all presage that, once more, an attempt will be made to deal with our socio-economic problem in the neo-orthodox fashion. This together with the renewed vigour of the same approach abroad seem to bode ill for that creative collaboration which one might have hoped would result from the continuation of Labour administration in renewed economic strength and political authority. The outlook is indeed troubled.

5. Labour and inflation

By the time that Labour once more came to power in 1964, there had been seven odd exchange crises, three or four bouts of stop-go, mainly on account of the rapid increase in costs, and a reappearance of heavy (if predominantly regional) unemployment after 1961, as a result of efforts to staunch the deficiency in international payments in the orthodox manner. All this should have warned politicians and economists alike that the substantial equality of bargaining power between management and labour—with, indeed, a bias towards the latter's superiority—had also posed new questions which were so far unresolved. Full employment no doubt made for a transformation in the social scene, and secured better progress than had been experienced for a century. This was proudly acclaimed. But these plaudits and references to the increased strength and capacity of the government to intervene did not add up to a successful policy of steady expansion, that is the harmony between expansion and relative stability in prices and international payments. Labour failed to devise a coherent and expansionist policy to combat inflation.

Yet the first thing to note about our economic ills was their basically trivial nature. They are trivial both in terms of international economic relations and of internal economic policy. The redirection of resources required at no point of time amounted to as much as one per cent of total visible world trade. Certainly it amounts to no more than two or three per cent of the national income. Neither in international nor in national terms would it need an exceptional sacrifice; some slight foregoing of immediate consumption might be called for to get our situation right, but thereafter we should be able to embark on a steady yet sound acceleration of our economic life, which would more than recoup the temporary sacrifice.

The second conclusion to be drawn from the history of the past decades is the nigglingly repetitive character of the problem. How often has it been thought that our situation has been forever cured? How often has a temporary re-

covery in our balance of payments been greeted as the new dawn which will irrevocably set us on the path of recovery and progress—only to come to grief after a few months in the middle of a renewed strain on our resources?

The triviality of the problem and the nagging inevitability of its recurrence surely must teach a lesson. Yet that lesson has not been learnt. Indeed, some Labour supporters are at the moment in grave danger not, indeed, of profiting by, but of repudiating such lessons as have been learnt. This failure, however, has been hotly denied.

Now it is not unduly difficult to explain why this lesson was so bitter that it remained unlearned by the partisans of both Right and Left. For the former, the interaction and interdependence of wages, prices and other incomes ruin the perfection of the price mechanism and the moral basis of the "free" enterprise system. If cumulative movements, which cannot be controlled by a slight touch on the tiller, can start, the much vaunted capacity of the system to "allocate resources in the best way" and to carry out the "commands of the sovereign consumer" is destroyed. Thus the economist would be robbed of his status as a scientist. His rage at this threat is comprehensible. Equally comprehensible is the extreme distaste of the politician for being deprived of his best fig leaf, his best cover up for having failed to take intelligent deliberate action. The modern trade unionist, on the contrary, wishes to argue in favour of intervention to sustain outlay, while demanding "freedom" of action for his own bargain. He naturally prefers to have the cake, even while preventing its baking. Nowhere, alas, is the vested interest of the obsolete so painfully difficult to eliminate as in ideas.

the theory of harmony

Understandably then, the conventional approach "solved" the problem by assuming its absence. This was done on the plea of eliminating the "veil" of money and analysing a system which was limited

to the production and exchange of a specific number of goods (usually one producer or capital, and one consumer good), which would be created by two, and at most four, factors of production: capital and labour, with land and entrepreneurship possibly slipped in later. It was also assumed that, as the demand and production of either product increased, so did its cost and price. Thus a continuous balance could be secured. This dominant "scientific" convention, dating back to the 1870s and still going strong in pre-war days, considered the labour market to be very much as any other market; as, say, that for turnips. The behaviour, both of the employer and employee, was not studied in an actual historical and traditional setting and framework; it was analysed within a theoretical construction, in which both employers and employees were assumed to act in a "perfect" market, that is, a market which neither party could deliberately influence. This means that, if "real" wages were to rise above the "real" productivity of the worker (that is "his" marginal product), he would be dismissed, as his continued employment would diminish profits. Unemployment, then, was the result of undue "interference" with the natural forces in such markets. In the absence of such unnatural meddling, the economic system would automatically return to full employment. Demand, according to "Say's Law" creates its own supply, and supply its own demand. "Interference", such as public works or deficits, would only intensify the imbalance and depression. This was the thesis defended by Chicago and the London School of Economics in the 1930s. This still remains the attitude of a number of "Liberals" who by advocating shop level bargaining unwittingly exaggerate the threat of cost-inflation. But goods do not in fact exchange against goods. Somehow money and monetary institutions had to be allowed for, had to be incorporated into the schemes. Thus was born the quantity theory of money. While *relative* prices—that is the exchange rates between goods—and the real remuneration of capital and labour, were all determined by "real" factors—that is technical and phy-

sical factors which were assumed to be relatively slow changing (except for harvests)—*money* prices and incomes depended on the quantity of money in existence. Provided "money" remained "neutral" all was well. Only fiscal mismanagement, such as Budget deficits, could upset the harmony of the system under which everyone got his deserts.

the Keynesian revolution

It was these imbecilities which were, for a time, successfully attacked by Keynes. He pointed out that the market for labour was by no means like any other market. It is an appreciable part of the economic system itself, and changes in it, provided they are general, will affect the economic system as a whole, especially if, as is most likely in an oligopolistic type of economy, a movement of wages is, with a certain lag or perhaps even without a lag, followed by an increase in prices and therefore in other incomes. Keynes, however, unlike Mrs Robinson's essay, eschewed the discussion of this aspect of the problem; he was writing in a period of deep depression and wanted to concentrate on showing that involuntary unemployment could persist. The fury of the attack on Keynes showed that he had touched on a raw point at the innermost centre of the intellectual dishonesty of his conventional adversaries. It was followed by desperate efforts, culminating, among others, in the attempt to show that it was not the inherent defects of price mechanism, but the rigidity of prices, and especially of wages, which caused the trouble, and that in the end monetary forces would end the slump. The most ridiculous of these efforts was the argument that the appreciation of money and monetary assets in real terms would induce an increase in spending (the Pigou effect).

the limitation of the Keynesians

The Keynesian "revolution", however, was limited in breadth, and, especially after its formalisation, in the main, deeply conservative in character. Its ad-

herents believed that the economic problem could be solved by painless reform, by new gadgets—mainly in the monetary and fiscal field. Budgetary management and changes in the long term rate of interest would do it all. Its *political* success was due partly to the increasing revulsion felt in the 1930s against the neo-classical dogma, and partly because its proposed remedies seemed easy; yet it provoked a paroxysm of rage among a majority of conventional *economists*, who asserted that, given flexibility of wages and prices, full employment and progress would automatically be maintained by the individualist private enterprise system. The Keynesian revolution was a revolution only in the sense that it asserted that no balancing mechanism existed which worked automatically and that this mechanism had to be provided by intelligent intervention on the part of the central banks in the monetary sphere and by the government through budgetary policy; that is, with indirect global measures, which did not necessitate direct controls or direct positive state intervention, far less state ownership. The liberal Keynesians (and, apart from Mrs Robinson, there were few Keynesians who did not incline towards liberalism and, apart from the need for global management, did not basically subscribe to the neo-classical approach) dismissed the threat of inflation. The case of those who thought that here was a new and vitally critical problem was said to be non-proven—after years and years of failure with the Keynesian attempt to achieve harmonious balance on the tight rope, managing demand so as to have full employment and stability. (See, for example, Mr Worswick's and my own memoranda to the so-called Cohen committee in *Oxford economic papers*, June 1958).

The stop-go in every one of the countries showed the inevitability of slipping either towards unemployment or towards inflation; often suffering from both. When one of the erstwhile optimists accepted that there was a problem, because obviously by 1962 the vital importance of the issue of stability could brook no denial, they somehow hoped that in one

way or another it could be solved without a radical change of the system. Professor Meade's "liberal socialist solution"—not much liberalism involved—was based on direct regulation of wages while offsetting price control is rejected as administratively impracticable. To make matters worse he wished to introduce wage controls at the precise moment when a devaluation or a free floating of the pound would tend to increase prices and cut real wages. The social contradiction and lack of political sense in this sort of proposal necessarily worsens the chances of a more balanced approach. It was not only on the accumulated divergence of costs ("over-valuation" of sterling) but mainly on this unresolved problem, however, that the Labour government's plans for a much accelerated economic expansion came to grief between 1964 and 1969. This happened in spite of their energetic efforts to tackle the problem, both on the side of increased production and of restraint on incomes: that is, *not only* by trying to check the rise in *wages*. Now, as we have seen, we are as far as ever from internal price stability, even if foreign developments at this juncture favour Britain's international economic strength. It is characteristic of the propagandists for the right that, having supported the preservation of the \$2.80 parity by restrictive measures after 1964, they pretended for electioneering purposes in 1970 that foreign countries were not in a worse predicament than Britain.

The current neo-Keynesian case is conducted, not in terms of the real world with its massive concentration of economic power, but in terms of the same imaginary economic system of fine adjustments through price mechanism which Keynes so fiercely attacked, and which has existed only in the minds of his academic adversaries. Its protagonists believe that stability and dynamic development can be assured at "full" employment, suitably defined, by a proper management of the budget, helped by monetary policy and, rather reluctantly, control of credit.⁷

They convinced themselves of the exist-

ence of a firm relationship between unemployment and wage demands, which permitted the attainment of stability of prices at a slight, or at any rate reasonable cost, in terms of the foregoing of output and expansion. Hence the extravagant, and now that it has completely failed, rather ludicrous, enthusiasm and praise for this "discovery". If such a simple and stable relationship did exist (as it certainly has been shown that it does not) then the reinstatement of the neo-classical "theory" of social harmony would be complete⁸.

This obstinate and deeply mischievous doctrine was the direct consequence of the classicisation of what might be called the open ended proto-Keynesian approach. Once investment, consumption, savings, imports and exports are linked by a rigid equation system, policy becomes the plaything of wrong, because rigidly framed, predictions. Thus, what was once celebrated by as intelligent a man as professor Samuelson as the "alternative to classical economics", denying the possibility of unemployment, perishes as a way of salvation by the same weapon as the old system. Almost as much suffering was caused by the obstinacy of simple econometricians wishing to enclose reality into "rigorous" models, than even by the neo-classical frenzy. Some of the mistakes in policy can certainly be attributed to consistently wrong (and mostly far too optimistic) forecasts fashioned on the basis of Keynesian models. They assume that long term real growth of production and international real competitiveness is independent of short term policy and that the balance of payments is extremely income sensitive downwards as well as upwards. The former is obviously nonsense. The latter, because of the neglect of the former has also been shown to be fallacious⁹.

Ideologically, however, there was much to be gained by this approach. It could serve to revive the classical moral claim that income distribution provided all contributors with their due rewards. If a (slightly) underemployed system is stable, the old theory of "real" marginal con-

tributions determining incomes can be (and has been) revived. A reinforced "modern" defence of capitalism was at hand.

the new instability

The fatal snag in the new conventional wisdom was, however, that hardly had these neo-Keynesian claims been made, when they were rudely controverted by events. So long as this ineluctable fact is ignored, our emergence from the consequent general instability—not restricted to this country or even to the "Western" World—is as yet uncertain. In an affluent society, global—predominantly fiscal but also monetary—controls, such as were envisaged by the Keynesians, seem to work very imperfectly. Violent variations in savings through consumer credit or repayment, the use of vast idle money reserves, immense accumulations of durable consumer possessions, these can offset—and more than offset—changes in the budget in taxation, or in monetary policy. Expansionary policy, budget deficits, and the pumping of purchasing power into the economy can be offset by increased saving, increased repayment of debt due to apprehensions, however ill informed. The Gadarene might be proved right.

On the other hand increased interest charges can, provided they are numerous, be offset against taxes or might be shifted on to the consumer. There is no God ordained rate at which money will be used. Money can act only through *expenditure*, and money and expenditure are mainly connected through the rate of interest—though general ease on the money market might directly stimulate increased speculation or productive or consumption outlay. Earlier views presumed that once demand fell, the least successful firms would suffer losses and some would go bankrupt. This will discourage investment, especially in stocks, and bring forth a further decline in demand. With increasing unemployment, consumption also falls. If, on previous occasions, experience has shown that the process will not be counteracted, antici-

pation will sharpen the impact. A cumulative expansion or decline sets in. The booms and slumps of the 150 years before the second war represented exactly this sort of basic instability.

Since the second world war, this sequence has no longer been the main economic problem. The new problem, however, the problem of ever increasing incomes and demand under the new politic-economic conditions, is especially difficult, if not impossible, to deal with by the methods proposed by the Keynesians. Demand has never actually fallen. All fully industrialised countries have experienced, however, a relentless increase in prices; this has continued even in periods of relatively increased unemployment. This violent contrast of post-second world war with inter-war and even with pre-first world war experience has been attributed to the wisdom acquired at such cost in the 1930s, and to the greater sophistication in economic analysis and policy. I personally doubt that it was the improvement in human wisdom that explains the change in climate. The behaviour of the political "experts" of the Nixon administration (or of de Gaulle's government) shows how superficial the change has remained. Nor do I believe that the struggles against "inflation" can be resolved as a problem of excess demand.

The post-war performance can be mainly explained—especially in the US—by the increases in the budget, and in government expenditure, both in absolute terms and in terms of the national income. This, in turn, was to a considerable extent due to the increase in defence and war expenditure which could not be resisted by the troglodytes of the Right.

For the rest, voters, and even those who in many countries are excluded from effective voting, became accustomed to and demanded the maintenance of employment and an increase of income. *It was political pressures rather than intellectual achievement that secured the favourable background for employment and expansion.* The fact that we have fallen into the trap of continuous inflation, which has not yielded to the policy meas-

ures adopted, shows the extent of intellectual failure.

Much of the most important change working in this same direction, however, has been the change in the structure of industry, which has contrasted sharply with the much more slowly responding evolution of the pattern of trade unionism. It is this contrasting development which is the most important explanation of a wage increase at a rate far higher than productivity. And it is this fact which has been denied so fiercely, because it offends against the pet theories, indeed against the justification for economists, politicians, heads of trade unions and, at the same time, the rationalisation of the "free" enterprise system from the viewpoint of the industrial leaders.

the cause of the malaise

This development could be foreseen already during the war. I wrote in 1943: "Is trade unionism on the basis of sectional wage bargaining compatible with full employment? The answer to this question is in the negative. If there is no central planning agency strong enough to enforce decisions, employers would have no possible inducement to expand employment to the point where a labour shortage would arise, such as at full employment. Their disciplinary powers would slip from their hands as the threat of the sack would then carry no further terror."

"Trade unions, on the other hand, would push their advantage while the going was good and prices were rising. The process of cumulative inflation would be unavoidable. One has only to look at the war economic system of any of the belligerents, irrespective of the vast differences in their economic structure, social background and political outlook. Every one of them was forced by the threatening monetary chaos to adopt stringent controls over manpower and wages as well as over production, investment and prices. These controls released the productive power of the nations represented by restrictive influences imposed on them

by monopolistic interests which profited at the cost of the community."

"Trade unionism, however, is one of those monopolistic associations which is syndicalist in its approach, i.e. incapable of securing harmony between the different branches of the economic system. It would be foolish not to recognise this, however necessary and desirable one considers its rise in its historical setting. It grew up as a defensive organisation of helpless employees against powerful employers. Their defence measures in the competitive fight are akin to those of the employers: they consist of restrictions on labour supply, such as on the intensity of work and on entry into the industry. Thus they establish a bargaining position to extort as much as possible from the employers. Incidentally, they give further impetus to the combination of employers in order that they should be able to recoup themselves by mulcting the public. The story does not end there, as the evolution of monopolistic associations rarely does. Trade unions in due course became vast organisations possessing a distinct bureaucracy. Any weakening of the sectional character of the organisation of the working class would therefore have distinctly adverse effects on the bureaucrats, whatever the gain to the rank and file. Indeed the continued prosperity of the trade unions depends partly on the workers being disgruntled enough (or being compelled) to pay their dues for favours to come, partly on their ability (helped by relatively good relations with the employers' organisations and by the strength of the employers' organisation to exact levies on the community through raising prices) to deliver these favours. The embarrassed silence of the Labour Party whenever the increase in the price of coal, or other vital commodities in which this dual monopolistic control exists, is discussed is a direct consequence of this system."

"Some of the trade unions are among the most bitter restrictionists in the USA, the most vehement opponents of a lowering of the tariff barriers, and thus potential partisans of an isolationist Republicanism. Economic stability and progress

at full employment can only be achieved either: if a centrally conceived manpower plan is imposed compulsorily on the workers (as happened in Nazi Germany even before the war and has been increasingly happening in this country ever since May 1940), or if a responsible collaboration is established between the workers as a whole represented by a central executive organ (such as a strengthened TUC) and a democratically controlled government. Such responsible collaboration can only be based on confidence, and that presupposes a conviction that the policy worked out collectively is determined solely by the aim of ensuring a steadily rising standard of life and promoting a juster (though not necessarily egalitarian) distribution of income. The TUC machinery as it now exists must be reformed if full employment is to be achieved. If that goal is to be reached, the reforms will be imposed by or originate within the labour movement, coincident with and depending upon a general reorganisation of the economic system. Thus, at one and the same time, the positive attitude of the trade unions is both necessary to and conditional on their having been introduced as full partners into the administrative machinery of the State dealing with economic planning" ("Trade unions and the future," *Left News*, 1943).

In analysing the situation as it emerged from the first post-war revival of mechanistic monetary delusions after 1951, I was constrained to reiterate this judgement. (T. Balogh, "Productivity and inflation," *Oxford Economic Papers*, June 1958). The startling failures of monetary policy in the period 1921-38 had been forgotten. Monetary policy then had invariably worked through psychological shock. It failed to provide an elastic and subtle influence through the price mechanism which could check booms and slumps without causing further contrary fluctuations. The "monetarists" after 1951, therefore, succeeded in influencing policy making in both the UK and US. They just failed, under political pressure, to induce a slump of the pre-war type. They succeeded, however, in sharply cutting the rate of expansion and in increas-

ing unemployment. What they patently did not succeed in doing was to stop inflation.

"Their failures found expression in fluctuations in the velocity of money, which offset—more than offset—changes in the volumes of money. Nonetheless, the Chancellor of the Exchequer and the Governor of the Bank of England lent their authority in support of the "Monetarists". This disregard of the complexity of the problem was, perhaps not surprisingly, supported by *The Economist*. When statistical evidence was finally produced by the Midland Bank (see 'Bank Deposits and Currency', *Midland Bank Review*, November 1957) which could not be dismissed, a new version of the theory was produced, in which the price level was determined by the interplay of the supply of money, the stock of old money and "confidence in its widest sense". "Confidence in its widest sense", of course, makes no analytical sense; it can affect anything so strongly as to offset or more than offset the primary factors without having any systematic relationship with them."

I anticipated the recent resurgence of the excess demand theory based on the quantity theory of money: "It should be noted that there is no need to assume the existence of excess demand in order to show that trade union claims led to the increase in prices. It would suffice if entrepreneurs thought, as indeed they could not fail to do, that individual wage demands are part of a general wave, likely to be self justifying. The point has received ample attention in connection with the problem of starting development in a poor country, a problem which has been in the forefront of interest recently."

"No doubt singly no entrepreneur could grant wage increases, for he could not be sure of being able to pass on the addition to his costs by raising prices. But if all (or most) entrepreneurs are faced with almost identical wage demands, and react to them in a more or less identical manner, experience will teach them that it is safe to accede to these demands: it will be the increase in income due to the

wage bargain (including, of course, the increased profit) that will provide the additional demand required to sell the output at the enhanced price. There is no need to postulate a hidden, unspent or dormant, excess demand which becomes 'active'. The fallacy of those who are looking for the unseen and unseeable is that they apply the *ceteris paribus* method to a situation where the change justifies itself because it is of a finite and not of an infinitesimal magnitude. Provided that the process is general, as it is, and repetitive, as it is bound to be; provided that single wage bargains overshoot the average, as they are bound to do, there is nothing to stop it from accelerating its velocity as anticipations of further wage and price increases swell speculation."

Experience all over the world has shown that in the new industrial system, which relies for its viability on mass production, the needs of productive efficiency in most industries will reduce the number of firms. A concentration of power takes place which enables manufacturers to manage their selling prices. Price movements can be closely correlated with the movement of wage costs. Consequently in the medium short run the trade unions cannot be successful in increasing the share of wages in the national income.

Owing to the particular situation of Britain in depending heavily on international trade, the outcome of this process is quite tragically inevitable: it results in a foreign exchange crisis, deflation and unemployment or devaluation and depreciation or a mixture of all or some of them. On the other hand, it results, as we shall point out, in an increase in inequality among trade unions themselves and between organised and defenceless labour. This surely is not the road to social justice and integration.

Thus a completely new situation can arise in which prices and wages chase each other at widely different levels of employment. In the absence of deliberate policy and deliberate agreement, which is likely only through government interven-

tion, there is no determinate solution. The political atmosphere, the social environment and institutional factors will mainly determine the rate of the absolute increase in wages and prices. The very stability of the economic system is undermined. The crocodile tears shed by some about the fate of the low paid workers, the unemployed, the sick and the old, are surely disingenuous. It is trade union action which, through wage induced price movements, has created the basic problem.

This conclusion, let us repeat it, is of course repellant to the Conservative Right *and* to Labour's two extremes—both to the Labourite Keynesians and the (non-Communist) Left. It undermines their most cherished beliefs, the most plausible rationalisation of "global" policies.

6. productivity, trade union strength and the future

Once the intellectual and emotional somersault implied in this conclusion has been accomplished the way is opened for an exploration of its implications. The battle for a sound balance of payments, increasing and increasingly effective investment and accelerated expansion is not one that can be won once for all.

It is only on the realisation, on the acceptance of the lesson that *economic* management of a modern mixed economy demands *social* change and not merely economic gadgeteering, that the foundations of solid, deliberate progress can be laid; a progress founded on a due balance between social considerations as against individual material advantages. It is the disregard of these socio-political aspects of economic policy making which brought Labour into the impasse of 1966 and 1968-69 when the government was forced to use policy measures such as monetary and fiscal restriction to hold back demand, and to tolerate a far higher level of unemployment than had ever been contemplated it slowed down progress even below the unsatisfactory rate, attained by the Tories who because of favourable foreign developments, despite their atavistic yearning for a free for all, were therefore successful in obtaining popular support. The moderate masses, by their incomprehension, have opened the way for the extreme, on the Right now, and inevitably on the Left subsequently.

trade union structure and inflation

The trade union structure as it evolved in this country was the response of the working class to the dominance of employers, due partly to the enormous increase in the supply of labour during the nineteenth century, and partly to the beginnings of the concentration of economic power into far too few hands on the employers' side. Consequently trade unions have developed segmentarily in skilled occupations, in which a smallish number of people could, by co-operation, exert an appreciable bargaining force. The rise of the general unions for the less skilled, and even more

of the general mass unions in specialised industries, came very much later. Unions were very numerous. It was mainly among those of the general workers and labourers and less skilled workers that amalgamations became more rapid, so as to evolve powerful large unions such as the Transport and General Workers, the General and Municipal Workers, and also the Engineering Union.

While the number of trade unions has been considerably reduced, there are still a large number in existence and within each factory a number co-exist. For bargaining purposes sometimes, and in some industries, organs of co-operation—such as the confederations—have been established. Nevertheless both the interest and the bargaining tactics of the unions has often clashed. This is shown by numerous demarcation disputes and strikes. One of the main reasons for the unco-ordinated wage pressure which has been forcing up costs was unquestionably the continuing lack of cohesion of the unions. The Trade Union Congress, unlike some parallel organisations on the Continent, is a looseish confederation, whose authority is severely limited by the basic autonomy of the unions themselves.

Finally union leadership itself has been loosened with the increase in militancy and the power of the shop stewards and conveners in various industries. Thus, while economic policy and successful management of the economic system and the increase in quality, and the eradication of pockets of poverty would all need a greater co-ordination and concentration, the trends in the trade union organisation have been, on the whole, if anything in the opposite direction. The "new" conventional approach, as characterised by the Donovan Report, ignoring the disastrous potential economic consequences, advocated plant bargaining. In present conditions, without overall co-ordination, this would reinforce the strength of the basic factors, making for leap-frogging, and thus aggravate the fundamental maladjustment in Britain. Unions know that entrepreneurs' resistance to wage increases is weakened by the knowledge that they can pass it on to con-

sumers by price increases. Thus there is no limit to the process spiraling inflation.

So long as the trade union structure exacted a rate of wage increases higher in relation to productivity than that suffered by foreign countries this meant a well known sequence of a periodic and increasing weakening of our balance of payments, and led ultimately to devaluation. This particular threat is certainly quite absent in those countries which have a rate of inflation which is relatively smaller than that of their competitors. In these the balance of payments may be strong despite the rise in prices. In parentheses it should be added that this *general* tendency to inflation in the fully developed world has been one of the main culprits in the worsening of the external situations of the poor areas of the world. The impact of this inflation on the international distribution of income has been profound and deplorable: it has meant that the immense gains in productivity have been pre-empted for the benefit of the rich countries of the world, while the poor could not retain those made in agriculture.

Those countries whose balance of payments remained strong, therefore, blamed the foreigners for the inflation: their exports grew apace and their imports lagged behind: both increasing the price level. This is the reason why the Germans, in the teeth of their fierce prejudice against tampering with the currency, in the end decided to revalue the mark. I shall return to this problem presently.

This instability might become aggravated and accelerated in the longer run. Once unions, in their wage demands, and firms in their investment and other decisions, anticipate further increases in prices, they will take defensive action by increasing their wage demands and prices respectively. This would accelerate and aggravate the process. There is some evidence that this has happened last year (*The review body on doctors and dentist remuneration*, 12th report, Cmnd 4352, has introduced this reprehensible method into official income determination.) Should it intensify, the creep of inflation might be-

come a walk, a trot, a canter and eventually a gallop. In the end it could cause unemployment and undermine the currency.

the social consequences

Secondly, "free" bargaining increased inequality; it resulted in a relative worsening of the position of the poorest paid and least aggressively organised classes of society. This is obvious not only as between the various classes of workers, but as between increasing sections of the top salaried and of the middle classes, BALPA pilots and doctors, and the lower paid, unskilled workers. Trade union action was successful in certain instances in increasing the share of certain privileged or closely organised groups such as tally clerks, dock workers and so on. The lower paid, the defenceless and the handicapped, despite the declamation of the unions, have not been protected.

The direct total social gain from "industrial action" was not merely negligible; it might well have been negative. Neither in this country nor anywhere else have trade unions been able to increase the share of wages in total national income. The increase in money wages has been frustrated by rising money prices. These robbed the wage earner (or rather his wife) of the expected gain; frustration and anger were the result. The indirect loss due to the resultant worsening of the balance payments and the enforced slowdown of expansion was, on the contrary, immense.

A free for all in the labour market is incompatible with the achievement either of full employment or of a satisfactory rate of expansion of material resources needed for a better, fuller, more civilised and humane way of life. In my opinion it is these largely neglected internal effects of the inflationary price-wage spiral which are of such importance and danger. In earlier textbooks this was handled merely as a question of equity and of the distribution of wealth and income, and it was pointed out that the pensioners, widows and orphans would

be gravely menaced. The menace is now much wider; it is the savings, which in the case of many people are in terms of fixed money claims, which are at stake, and it is their growing anger at the rising cost of living which is the political danger. If in Germany the annihilation of the currency had not, in 1931, been seen as a recurrent threat, the terrible deflationary policy would never have been pursued and we should have been spared Hitler and the war. It is on the despair of the not so prosperous lower middle classes that potential dictators can rely. It is from this viewpoint that Mr Powell is an ominous portent.

The problem of achieving monetary balance has baffled even a writer with the insight of Professor Galbraith. In his earlier books, especially on *American Capitalism*, he hoped to attain perfect equilibrium by matching the countervailing powers of great corporations against those of the trade unions. This obviously could not work because either employment was full, or fullish, in which case neither employers nor employees had reason to keep wages from rising; or employment was not full and then progress was retarded and immense potential production was wasted. In his *Affluent Society* he gave up in despair and called for higher unemployment as the only remedy. This aroused the ire and contempt of our "optimists", despite the fact that he advocated good pay for the victims of the policy. In fact it was a policy, much like that pursued after 1965, of high redundancy rates and wage determined unemployment compensation. In fact this policy proved futile in stemming the cataract. Professor Galbraith has lately become one of the most courageous advocates of an incomes and prices policy.

labour policy

The Labour government, much to its credit, from its inception tried to cope with this problem. They perceived that it had to be tackled from two sides at the same time. The rise in wages had to be mitigated and a rise in productivity

accelerated. There were some initial delays, mainly caused by the *laissez faire* tendencies of the Board of Trade, at that time still primarily responsible for industrial policy—the Mintech was just being formed and did not embrace many of the most important industries, though it had engineering and most of the modern sector. Eventually the IRC was founded, and the reorganisation of industry got under way—perhaps a little too slowly and a little too amateurishly—but still under way. There were, moreover, contradictions between the various bits of industrial policy. The Board of Trade still thought, negatively, that prohibition, in practice unenforceable, of collusion and mergers would do the trick. The DEA and the Ministry of Technology, however, perceived that what was necessary was a much more thorough restructuring of industry and, at the same time, a supervision of the functioning of industry, especially its price formation.

A disappointing sequence of events followed; in the *Declaration of Intent*, both sides of industry were pledged to accept some moderation in advancing claims. The disregard of this need led to the 1966 legislation, providing for a twelve months freeze and for a suspension of increases thereafter until investigated by an independent board, which should become statutorily established. Unfortunately, after the end of the freeze a surge of increases led to the rapid worsening of the visible balance of trade, a confidence crisis and, eventually, to devaluation, after heavy loss of reserves, in the least favourable circumstances for such a step. This was followed by the 1968 legislation which tightened provisions of the previous Acts. Since the famous White Paper on Employment of 1944, Coalition Labour and Conservative governments have issued a dozen or more similar documents or pronouncements, adjurations and pleas. Each "liberalisation" was followed by a crisis and the reluctantly accepted need for more stringent statutory powers against rogue minorities.

In 1969 the Labour government, visibly stimulated by the Donovan Report, considered that, in analogue to the anti-

monopoly approach, a change in the structure of trade unions and some modification of industrial procedures, especially the introduction of a cooling off period and secret strike ballot, would deal with the major problems (*In place of strife*, Cmnd 3888). The disagreement between the Labour government and the unions was then shifted from the field of incomes policy, where the public and the government had an obvious legitimate interest and the issue was generally comprehensible, to the major operational field of the unions. Now the wide and often exaggerated publicity made unofficial strikes, concentrated as they were in a few vital industries, patently unpopular. Nevertheless the switch of policy weakened the hand of the government because of the technicality of the issues, and because it touched on the most sensitive points of the freedom of functioning of unions. In the end, all statutory backing of restraint had to be abandoned—even the hard fought activation of part IV of the 1966 Act; this made no more stringent demand than a maximum 4 months (as against the previous one year) suspension of wage bargains, during which the National Board must investigate and report on the acceptability of the claims under the Prices and Incomes Policy. Consequently a wave of wage demands, originating mainly in the public sector, which had been overtaken by the rising incomes elsewhere, put paid to the incomes policy, though the white paper on *Productivity, prices and incomes policy after 1969* (Cmnd 4237, section 36) did contain a reference to an admissible norm of between $2\frac{1}{2}$ and $4\frac{1}{2}$ per cent. Even that would have been in excess of the likely increase in productivity. However, given the developments analysed above, it would certainly have been more than compatible with the maintenance of a very desirable overall surplus in our international payments—especially if the government had used the period of undoubted recovery, indeed acknowledged strength, to tighten the defensive armoury over foreign exchange.

This did not happen. Indeed the Labour government in the last months of its life,

having for some time refused to abandon the direct controls needed for the defence of an independent economic policy in periods of adversity, such as import deposits, travel allowances and restrictions on capital export, relapsed somewhat towards the old policy of liberalisation. Yet it is only in a posture of strength that defensive weapons can be sharpened without affecting confidence.

At the same time resistance against the acceleration of wage demands (and price increases) seemed to cease. References to the National Board for Prices and Incomes became rare and adventitious. The inflationary spiral markedly accelerated to rates far above those experienced since the war, and, as we have seen, certain signs of a tendency towards hyper-inflation became apparent, that is income demands anticipating further inflation. Fortunately developments abroad analysed above gave a certain respite to Britain. Her competitive position in the Spring of 1970 did not seem to have deteriorated, though the expansion of exports slowed down.

The policy of the Labour government in the last six months of office seems to have been based on the assumption, held (with notable individual exception, such as Sir W. Armstrong's Stamp lecture, 1969) by the Treasury and all its Chancellors without party distinction, that action on the fiscal and monetary part can directly influence costs and prices, and thus international competitiveness. We have demonstrated the fallacy of this assumption in a modern economic framework. Their attitude is perfectly comprehensible. A Chancellor is always tempted to disregard the need for measures other than those which are at his will directly. They have an inbuilt professional hope and pride strengthened by liberal Keynesian advice that they can solve the basic economic problem by demand management. They hope to offset any undue increase in incomes by increases in taxes, not the least by indirect taxes which push prices up farther and create a new urgency for a further repetition of the wage movement. The whole mystery of the budget, of "budget secrecy", of the

Chancellor's "special relationship" with the Prime Minister is involved. Without trust in this magic power the Chancellor would have to share with his more important colleagues the basic decisions about economic policy packages which would enable, in the ways outlined presently, the combination of expansion, full employment and stability. The mumbo-jumbo of the battered red box and bell and candles would disappear.

It is not astonishing that Chancellors prefer to take pride in their fortitude, in not shrinking from unpopularity in the face of their duty to defend the balance of payments, through restrictive global policies. The trouble is that the balance of payments cannot be defended in this way. Taxes, especially indirect taxes, do not keep costs down. In fact they tend to lead, so long as unemployment is not disastrously increased, to an aggravation of the disease through claims for higher wages to offset higher prices.

No doubt they are able to manipulate demand (though the manipulations are far rougher and more brutal than the fine tuning or touches on the tiller which they sometimes assert they can exercise). They could act on *costs* only indirectly, by cutting demand for labour and hoping to bring about a reduction in wages.

This has not happened since before the war and would be quite impossible without causing a deep recession. Failing such a cut in wages they can influence the balance of payments by monetary and fiscal measures (as against persuasion on trade unions) only through depressing the level of activity and of imports—though for a time at least the emerging idle capacity might lead to an increase in exports by shortening delivery dates and possibly inducing firms to forgo profits. But in the longer run, falling profits will depress investment and the old vicious circle will receive another twist. Thus the Labour approach was not very dissimilar from the Tory approach in 1961, when efforts at restraining wages through monetary means were followed by the attempt by Mr Selwyn Lloyd to get wage movements directly under control.

When trade union leaders threatened to thwart the Chancellor's policy by further wage demands, they challenged a fundamental constitutional principle, the principle that parliament only can decide on general economic policy through the government which it supports. Quite apart from the fact that this is a most certain method of inducing a crisis through loss of international competitiveness, it is based on a complete misunderstanding of the relative power of unions and the government. An increase in costs, an undermining of the currency, the forcing an aggravation of unemployment, all this the unions can accomplish. What they cannot do is bring about a steady and durable increase in demand or an increase in the share of wages in the national income. What in fact they did achieve was a price and cost increase which by threatening the housewife, the old, and by creating an atmosphere of doubt about the undoubted basic achievements of the Labour government led to a Tory victory at the polls.

the next Tory phase

If any conclusion stands out clearly it is that the simple, liberal, quasi *laissez faire* global Keynesian approach has failed as abysmally as the "monetarist" one to steady the economy and harmonise full employment with a desired surplus in international payments and sufficient price stability to enable people to plan the future. Its failure has not led to a revision of the basic approach to economic policy. Indeed, what we are witnessing in the well publicised dispute in the US is in fact a dispute about a no-problem or nonsense problem of whether to manage by fiscal or by monetary policy—but both global or indirect means—so as to get full employment without inflation.¹⁰

The answer shouted by facts from all over the world and over 25 years of peace, is that global, indirect means cannot secure the proposed harmonious end. With the present concentration of economic power only unemployment so severe as to be politically intolerable, would in-

duce labour unions to eschew demands for pay increases so much beyond the increase in productivity as to cause a cumulative upward movement of prices¹¹ unless more direct policies are employed¹².

However that may be the victory of the Tories on the basis of a (from an economic viewpoint) "liberal" Manifesto has completely changed the vista of the immediate future. Basically the situation seemed in June ideal for taking the easy and popular "Maudling way". Indeed the whole economic strategy of the Tory manifesto was based on precisely this kind of analysis. Cut income tax, cut out SET and possibly purchase tax and prosper (with a far lesser value added tax). As output expanded costs would fall. The cut in taxation would enable further price reduction. The country would pull itself up by its bootstraps. If there were an increase in imports, exports might increase too as a result of the deflation. And wage claims might be mitigated.

In actual fact the late Mr. MacLeod came to the House of Commons in a very different mood; and the stern warning since his death to the banks about the need for restraint indicates no change under his less experienced successor. They were obviously impressed (who isn't?) by the more sombre visions of their officials. That these views are different from a Maudling-type ebullience is equally comprehensible. They would hardly advise giving full throttle when inflation of prices and costs reached its post-war maximum.

There is of course a way in which the effectiveness of the price mechanism could be restored though not through the means overtly envisaged by the Tory election manifesto, but by a return to the hard concepts which transpired after the notorious Selsdon Park Conference. Moreover they are in an extreme difficulty as a result of their election pledges and propaganda. They promised, for instance, close supervision of prices and incomes in the public sector, only to come out in violent partisan defence of questionable recommendations by the so-called Kindersley (Review Body on Doc-

tors' and Dentists' pay) Committee which would have given 30 per cent all round to a profession which had been granted exceptional pay increases the year before and in 1966. They try to differentiate sharply in favour of the private sector though it is quite clear that price determination is over the greatest field no longer based on free competition. They would abolish the Prices and Incomes Board when they have nothing to substitute in its place except the anti-monopoly procedures which so conspicuously failed (as they were bound to fail) to "restore" a world of harmony and smooth adjustment, which in reality never existed. The overt Tory "solution" is based on the idea that by enforceable wage bargains unofficial strikes could be avoided and a "cooling off" period would deal with official strikes. It is obvious, however, that if unions will not voluntarily accept enforcement, no agreement stipulating it can be negotiated. Nor is it plausible that such superficial changes could alter the *size* of the wage bargain, that is its inflationary impact.

Cooling off periods and strike ballots, rules against unofficial strikes, only make certain (as the US example shows) that when conflicts threaten, strike will be made official immediately. There is reason to suspect that far more drastic action was envisaged originally. This was based on diminishing the bargaining strength of unions by legislation and Mr. Heath's threatening noises to the 1922 committee confirm this impression. When the Tory Manifesto says that they: "reject the detailed intervention of Socialism which usurps the function of management and seeks to dictate prices and earnings in industry", while at the same time proclaiming "we much prefer a system of general pressures"; this can only mean running the economy at a much higher level of unemployment. If that is combined with the threat that "our new act will establish clear rights and obligations for unions and employers. It will lay down what is lawful and what is not lawful in the conduct of industrial disputes" (*A better tomorrow*, p12). This can only mean penal clauses to punish "unlawful" behaviour. Thus we ar-

ive at a slippery slope at the end of which mass trials are inevitable. The Tory "comprehensive Industrial Relations Bill" could impose on unions enforceable contracts through a Registrar of Trades Unions and Employers' Associations. The penalty could be non-registration or deregistration and prosecution for conspiracy to utilise unlawful monopoly practices punishable by fines and imprisonment.

This is no policy on which even a confident government can lightly embark. The braying of the Tory die-hards before the election suggested, however, that another alternative might emerge which would indeed weaken the bargaining position of Unions. This could be achieved by altering the rules of income tax repayment and social service benefits and by bringing trade unions and their practices under the Monopoly Act and fining them for non-compliance with the direction of the Restrictive Practices Court or the Commission.

It might be, of course, that the TUC and the unions will accept implicitly and very tacitly a pattern of behaviour in wages bargains compatible with stability, an acceptance not vouchsafed to Labour government. They may well be afraid that otherwise they would invite retaliation by the sort of measures just outlined and rigidly enforced—not without the approval of a considerable portion of the voters. This will (given the basic fiscal and social proposals of the Tories) undoubtedly damage the chances of the return of Labour to power and of a progressive policy in future.

More honourably there might be a fierce clash of will in which the unions might (as in France) not come out victorious. Finally the Tories might shrink from pursuing this policy to the logical end. In that case the stop and go cycle will continue; so will the loss of the value of sterling until either a devaluation or some other spectacular break gives an opening to more extreme policies; nor will the relative decline in Britain's industrial power cease.

7. a new labour approach to economic policy?

The bitter strife which preceded and followed the 1951 defeat of Mr Attlee's administration has left deep wounds behind. The temptation is enormous to avert one's eyes from the lessons of the Wilson government lest similar dissension should arise. A number of influential voices have been raised in favour of what is called "no recrimination"! Yet it would be foolish in the extreme if the time in opposition would not be employed in a searching analysis of what went wrong—for obviously no one in his right senses could possibly maintain, despite the great social and economic achievements, that all went according to plan. If my analysis is right, a peaceful transition to a more balanced social system demands a policy package of which an *Incomes and Prices Policy* is one of the most essential basic elements. Only in such a planned and consciously managed system could workers have a (more) equal chance and influence in decision-making. The Labour movement could then, but only then, count on the steady support of a large majority of the population. Nor is it possible to expect that without some statutory backing in the background a voluntary policy could succeed. We have seen that selfish (and often highly privileged) groups will try to squeeze undue advantages for themselves, which must undermine the greatest goodwill and self discipline. We must not on any account continue to fail to communicate the ends and means of Labour policy to our rank and file and sympathisers. This more than anything else that caused the loss of faith and support. Workers could not understand the reason for the restrictive measures which their wage claims made inevitable, their wives and parents became restless and dissatisfied because they could not understand the spiralling prices.

the basic need for stability

It is essential, therefore, to have a ruthless analysis of the past, a new policy for the future and a determined educational programme to make it understood. In my view this is the only way to demonstrate to the majority the ethical and

material superiority of our approach. I summed up in my analysis in 1957 as follows: "It is clear that in this country a solution cannot come from a unilateral pressure on trade unions as it has come in Germany in the years between 1950 and 1955. Mass immigration and the financial weakness of the unions were the twin pillars on which the remarkable increase in investment rested and which subsequently permitted an accelerated rise in real wages without encroaching on the basis of the expansion by raising the share of wages in the total national revenue. Neither factor can in Britain be expected to help the achievement of stability without stagnation. The inevitable conclusion is that growth and stability are only compatible in a 'free system' if productivity rises sufficiently to meet trade union demands without the need for an increase in prices. At the same time an increase in productivity should mitigate the drive towards higher money wages as the rise in real wages accelerates, and dissatisfaction of the wage earners with their income position is mitigated. Monetary policy cannot be expected to help in this respect: in the circumstances that prevail in Britain, and, probably, also in the US, it could only attain stability at the cost of ending growth."

"It is clear that a double pronged attack on the problem is the only one likely to succeed. Investment must be increased to accelerate the rise in productivity (and thus in the ability to satisfy wage demands) and wage demands must be mitigated first to permit an increase in investment and subsequently (and to a much lesser degree) to keep them within the bounds of the increase in productivity achieved."

I added: "Neither can be achieved without the whole hearted co-operation of the trade unions. But such co-operation can hardly be expected if restraint is not imposed upon profits. Nor would it be equitable if the restraint on profits took the form of a mere dividend limitation, for the accumulated undistributed profits represent an enhanced claim on future earnings and, through their capitalisation

in the form of higher equity prices, also enable subsequent capital consumption without impairing wealth."

Here, then, we have a sufficient explanation of the emotional blockage of understanding which the Labour government experienced which otherwise would be difficult to account for. For everybody concerned a global, impersonal solution would have been pleasing. It would not need individual and group responsibility towards the community, which is so difficult to obtain. It would not involve a conscious integration of victimised minorities whose exacerbated protest, and the backlash it evokes, has produced such grievous conflict in practically all countries. Even in Britain it was the revolt of the underprivileged in the public sector which started the last round of indefensible wage claims.

Inflation, is then, in the main, not a consequence of a periodic excess of demand or excess of monetary circulation to be corrected by easy, impersonal, non-politically acute measures. It is a structural consequence of modern economic organisation which cannot be remedied except through structural or rather functional changes. It can be resolved through a profound alteration in the structural relationship between government, management and trade unions.

Trade unions, both leaders and members, must realise that their altered status and strength, the immense improvements that have been attained, necessitate an acceptance of duties and responsibilities to the community. Trade unions are no longer the weak representatives of underprivileged poor. They are one of the most potent vested interests in the state though in the main they still stand for the less affluent¹³.

Collective bargaining no longer represents a desperate effort to obtain a rightful share in the national product by preventing the great corporations from increasing their profit margins through their market power, and thus obtaining a lion's share of the total. It was the fatal spiralling of costs and prices that gave small

privileged minorities—mostly of the middle class type such as doctors, pilots, petty managers, technicians, but also civil servants and judges, but also strong unions—an opportunity to snatch advantages from their less privileged fellow workers. No doubt some of this illicit gain is recouped by taxation. But that is not the whole story because the pension arrangements obviously follow salaries and in this context they become increasingly important. The distribution of income before tax worsened to the detriment of the lower paid and efforts to redress the situation in this way have had, up till now, only the result of making the situation even more acute, the cumulation even more dangerous. It is this "free" collective bargaining in the modern framework which creates these inequalities and which creates the classes of ill paid workers, and not the other way round.

feasibility of a prices and incomes policy

The incompatibility of full employment, the human dignity and greater equality it embodies, and of stability without a conscious agreement on incomes has been demonstrated over 25 years, all over the world. The question is how to overcome the tremendous obstacles which manifested themselves during Mr Wilson's whole administration and contributed (if not brought about) its defeat. The success of any attempt involves the creation of an ambiance in which considerable sections of the population will not feel done down. It also involves more specific conditions in which wage negotiations can be conducted rationally. It must equally persuade and convince the people affected that their co-operation would benefit not merely the country, but themselves.

Let us first discuss the latter. Of the two essential narrow pre-conditions the first is to find an equitable system for determining wage and other incomes, or rather income (including "top" income) differentials¹⁴. It is on the resistance against change in these, and its opposite, the bitterness of being diddled of due re-

ward, of being left behind and ill treated, that much of the initial impetus to leap-frogging has come. The second is that machinery has to be devised which can be accepted as equitable, and effective to implement the policy.

On the broader canvass success would seem to depend on being able to accelerate the rate of expansion of the domestic product, and to secure its more equal distribution. It is at this point that, in my opinion, conventional Keynesian optimism has broken down, and where, if we are to get a workable mixed economy, socialist measures aiming at a basic change in social power relationships are essential. Apart from the moral imperative, economic reasons alone demand that justice should be seen to be done.

Had Labour won the election the difficulties of persuading the unions and their members would have been formidable. The whole problem of incomes and prices policy was twisted out of context by the grave conflict which developed between the unions and the Labour government in 1969-70 on its proposed legislation on industrial relations. Thus Labour would first have had to convince the rank and file that social equity would be safeguarded. In my opinion only a general price stop followed by a relaxation of monetary policy, to allow corporate liquidity to be restored, could have done the trick¹⁵.

A price stop, however, could only have been a transitional measure in this respect, however necessary it may be from a psychological viewpoint. It would have had to be followed by a more flexible arrangement. A slow but steady rise in prices should not be combated. It is needed to reduce the claims of the rentier on the state and the entrepreneurs. It lightens the risk of bankruptcy and lubricates a system inevitably beset with risk and uncertainty. The price rises, however, must be slow enough not to engender anticipations of further rise as otherwise a cumulative feedback would ruin the delicate balance achieved. There is no need, however, for us to speculate what arrangement would have been feasi-

ble. It is the Tories' turn now and it will be interesting how they will deal with a problem that utterly defeated them in their previous term of office.

The Labour Party has some time in which to prepare for its next period of power and no time should be lost in discussing the issues involved.

It has been suggested that the trade union movement could deal with undue wage claims on a voluntary basis. This proposal, I think, underrates the clash of interests between unions. The successive General Secretaries of the TUC sought to achieve a reform of the structure and of the functioning of the unions. While the present incumbent has shown his great powers of persuasion, I do not believe that the interest of the poorer and the most defenceless can be protected without some statutory fallback against rogue elephants. Past experience, in any case, does not suggest that the TUC as a vetting agency would work acceptably. Their economic analyses have wildly disregarded the most obvious interrelations between cost inflation and the balance of payments.

flexible exchange rates and "effortless freedom"

At this point an important issue has to be discussed. There is a substantial progressive and expert section in the Labour Party and their views are shared by some logical right wing Tories like Enoch Powell and his less abrasive, more conventional followers such as Sir Keith Joseph, which holds that incomes policy could be obviated or made superfluous by "floating" the pound or devaluation. They are even technically mistaken. Politically they are disastrously wrong.

Their mistake lies in the fact that they ignore the psychological impact of devaluation or "floating" on speculative anticipation and income (including wage) claims. The aim of devaluation is to cut production costs in terms of foreign currencies and also real wages without having to cut money wages. The need for the operation arises because the govern-

ment had been unable to control costs relative to foreign competitors and, therefore, exports flag and imports rise because of the "overvaluation" of the currency. The consequence of the operation is to raise prices. Only if wages do not rise in cumulative doses to match the *net* "advantage" of devaluation (or depreciation), that is the advantage remaining after the previous "overvaluation" has been made good, will devaluation "work". How well it will work depends on the speed and energy of entrepreneurs in making use of the opportunity vouchsafed them and the attitude of trade unions.

There are good examples for this. There is the British case of 1931. British economists of the neo-classical tradition and even of its Keynesian variants, however, have been bemused by the success of the 1931 experience and forget that Britain then suffered a savage deflation and well over 20 per cent unemployment, experienced rapidly falling prices, followed by slowly declining wages, instituted a new tariff with a number of industrial competitors sticking to their old gold parity. "Success" was dearly purchased.

There is the German resurgence after 1950 and France after the second devaluation of 1957/8 (the first having been frustrated by the Algerian War and wage inflation). In both cases real wage costs were deliberately cut. A profit inflation ensued, stimulated by exports, leading to a surge in productive investment and productivity. The "miracle" then would yield increasing money and real wages without a deleterious impact on imports and exports. All round satisfaction would then have been achieved.

The success in the latter cases (as in the British) depended on trade union compliance or impotence. In Germany the trade unions were bankrupt after the Nazi assault, and an immense immigration kept the market for labour easy. In France the failure of the general strike broke their bargaining power until 1968, when they successfully brought expansion to a halt and destroyed the parity of the French franc. In Britain serious

doubts must arise at the present time about the effectiveness of either devaluation or (managed) depreciation as a deliberate and continuously or even frequently used instrument of policy. It is unlikely first of all that a cut in real wages can be achieved surreptitiously. It will be resisted by escalating wage claims, as we have seen in the last two years; though part of the blame must be put on the Treasury's notion that inflation could be fought by raising prices through indirect taxes. If these wage claims are rejected a bitter struggle might ensue which could rob the measure of its stimulating influence on investment. Thus it is unlikely that without a new attitude on the part of the government, trade unions and employers, without a consensus policy British costs are likely to remain sufficiently competitive to provide the external export lead lift to the economy which is needed.

The symmetry of the price mechanism has been destroyed. Wage movements are asymmetrically directly upwards; never downwards. Price increases are, like wage and salary increases in connected or equivalent occupations, are matched or anticipated by wage and salary claims. This leads to a hyper-inflationary spiral. The 1967 devaluation, no doubt, came belatedly. But could one, without an agreed incomes policy, and with a Parliamentary majority of 5 (rapidly reduced to 3) embark on a course which necessarily implied a cut in real wages and which had to be reinforced by severe deflationary measures? The country was in no way prepared for that course. Nor should it be forgotten that the attitude of the Confederation of British Industry and especially of its Director General, now Minister of Technology, when devaluation was forced on a reluctant Chancellor, robbed the measure of much of its booster force. By ill informed statements which implied that devaluation impaired our competitiveness they discouraged a prompt and full exploitation of the new chance. Coming in 1964 this might well have been fatal to the government. Changes in the external value of the currency are no substitute to consensus economics. *Indeed consen-*

sus economics on incomes and prices are the essential part of the mechanism of international readjustment, whatever form it takes.

This does not mean that parities should be sacrosanct. If, in the longer run, and despite an effective incomes policy, costs slide out of line with those of industrial competitors; if structural changes in production or demand destroy foreign markets and new export products or markets need to be found¹⁶; if full employment is threatened by a violent slump abroad revaluation or depreciation might be a valuable adjunct to other measures, including incomes policy.

Such a change of parity must be an exceptional and rare measure. If repetition is foreseen and even more if it is built into the system (such as automatic creeping peg—or floating) the wage-price spiral will be accelerated and the policy itself will undermine the “natural value” of the currency. A collapse follows. Thus the success of devaluation depends on consensus on incomes and consensus on incomes depends on forgetfulness, on the money illusion. When that illusion is destroyed inflation is transformed into hyper-inflation. Both the Keynesian and the monetarist mystery mongers completely neglect the impact of anticipation on the behaviour of speculators and trade unions. This they are entitled to do in a system only where changes in parity occur reluctantly and seldom. They are certainly not entitled to do so for the system they propose.¹⁷

It should be noted that if the success of the 1967 devaluation was considerably delayed by the reluctance of British entrepreneurs, it was subsequently materially helped by the spread of inflation the world over and more especially in the US. It was even more helped by German revaluation because of the asymmetry of the economic mechanism. Thus the original idea of Keynes of shifting at least part of the onus of readjustment from the debtor to the creditor receives a powerful reinforcement by their considerations. The reluctance of the US to adopt a system in which downward ad-

justments are symmetrically required with up-valuations is quite comprehensible. This would represent a limping system because downward adjustments are more likely to be frustrated than up-valuations, and the threat arises of a general unsettlement. In fact the new propaganda for a “flexible” system is merely a ruse to get consent to a system which would demand higher unemployment even than a system of fixed parities, for the push for higher wages would be more forceful.

The conventional case thus depends on the assertion that changes in the exchange parity do not affect anticipation and motivation. Alternatively one would have to assume that there are policy means—either fiscal or monetary—which can, within an acceptable policy framework, so modify the impact effect of the parity change as to make it innocuous. This is the reason for the Hosannah intoned for the so-called Phillips relationship, which (as Friedman himself showed) neglects this particular and vital aspect of the problem. Friedman makes the equally false and unproven assertion that a steady increase in the money supply will eliminate this fatal weakness. The conventional economists have been proven utterly misguided by the events of the last two years, just as the neo-classical analysis was contraverted by the great depression. Like Say’s law, their assertions will continue to bob up and vitiate policy. Their advice amounts to a recommendation to accept a politically intolerable level of unemployment. No verbal trick can disguise this simple fact.

It is for these reasons that it is essential to break the inflationary spiral and obtain a breathing space, even if foreign countries continue to suffer from the same malaise. A new departure, a new “*contrat social*” is needed.

In a dynamic economy a solution should be feasible without interfering with the existing system of collective bargaining on the lines of the 1968 Act. Any attempt to modify the wage bargain itself or its ancillary agreements would cause acute fear and hostility as we have seen in the

case of the White Paper. On the other hand it is essential that the interest of the community which is sorely affected by the bargain, should be safeguarded, and the requirements of the general economic situation taken into account.

general ambience

Equity or revolution by stealth. Among the general preconditions of a successful incomes policy is the feeling that a more equal distribution of income, less crass inequality is under way. As we have seen the Keynesian optimists have insisted not only that this can be achieved by appropriate taxation but also that it was being approached. I share the view that some redistributive taxation leading to a large increase in the share of the budget surplus in new savings seems indispensable for a balanced policy for stability. Tightening of our tax laws, elimination of a number of loopholes, especially in surtax and death duties, is called for. A wealth tax and a gift tax based on the wealth of the recipient, if their introduction is well timed so as not to interfere with the paramount aim of expansion, would represent valuable additions to our fiscal armoury. Some at least of the difficulties of the Labour government in its last two years arose because fewer and fewer people believed that a steadfast redistribution of income was one of its main policy planks. Hence a free for all ensued forcibly stimulated by the increase in indirect taxation falling relatively more heavily on the less well to do. But I do not believe that, in the words of Tawney, the tiger of private property has turned into an onion recently, which can conveniently be skinned leaf by leaf. The claws remain. And they will resist skinning! A revolution by taxation is not an experience which has as yet been witnessed. Incentive cannot be diminished beyond a certain limit without diminishing drive, and it is foolish to expect that private enterprise would or even could remain as enterprising after, as it was before, redistributive taxation was introduced. An élite left in command of the decisive part of the economic system can bend the system in such a way as to

escape taxation and, if it comes to the worst, defeat a democratically elected government subject to re-election. In as much as in opulent communities people in acute material poverty and distress represent a shrinking proportion, these campaigns may well be increasingly successful politically. The number of materially satisfied people who have compassion or guilt feelings about the fate of their less privileged fellows is, psephologically speaking, not over important. Thus general progress might easily undermine the drive towards equality. The recognition of material duties to other human beings which was the characteristic of Western ethics might fade at the very moment when its fulfilment was within practical material possibility. There can be little doubt that leading ministers in the last Labour administration were impressed by the jingle of shillings in the pockets of the "people" and thought it represented the most modern form of music. Its indirect effects were less considered. I have no doubt that if the tax proposals of the Tory Manifesto are implemented the resultant revulsion will give the next Labour administration a flying start in evolving an acceptable policy.

I do not believe, however, that there exists a short cut in the field of taxation to reconcile the basic schizophrenia of the individual taxpayer against taxes which, in his better mind, he knows must be exacted and paid. Thus there is amidst growing opulence, and increasing capacity to bear the "burden" of taxes, an increasingly vehement agitation against taxes. Yet their burden, over bad years and good, is objectively far less now than it was when the momentum of state finance did not stabilise national and personal incomes in case of setbacks, and impart to them a buoyancy which has been able to overcome such setbacks quickly. The relative steadiness of the growth of income ought to, but does not, contribute to the willingness to bear taxation (See the brilliant analysis of these difficulties by Aneurin Bevan, Fabian tract 282). In an economy with decentralised decision making and atomistically fragmented risk bearing, the effective

taxation falling on profits must be kept in due relation to risk, and can only be increased as risk is diminished.

In particular, hopes that an American type of democracy, based on high pressure salesmanship to titillate consumption, and managed by a minority, is compatible with a ruthless combination of taxes on income, expenditure, and especially on wealth, represent a dangerous illusion. If these taxes are not avoided and if capital is not exported to a degree that will irretrievably weaken the economy, the inertia which is in any case a handicap to the British industrial future will be further solidified. High taxation without ultimate control promises either a spiv economy based on evasion, or a relative decline. Tax policy is no substitute for a direct policy on income distribution at the source. It is characteristic that the majority of the "tax radicals" are also in favour of Britain's entry into the Common Market, which would have made their tax proposals impossible so long as Germany, France and Italy did not follow suit. Otherwise a huge export of capital from Britain to the Continent would ensue and its control would be prohibited by the Rome Treaties.

social services

The stark accusations from the Labour left that inequality has increased, taken up with glee by the Tories, must be repudiated. Nevertheless it is clear that pockets of grave poverty remain and hardship exists especially in respect to housing. The latter can be dealt with only in the broader framework of accelerating the growth of resources which would enable Britain to reach the original Labour target of 500,000 units a year. But even a faster expansion, and the steady increase in real wages associated with it, will not deal with the problem of large families and dependents in relatively low paid occupations, or with special cases (such as widows, abandoned wives, unmarried mothers, the chronically sick and the old and so on).

It has been suggested that a guaranteed

minimum income scheme would provide the most humane and most rational solution; humane because impersonal, and rational because it leaves the individual to make a free choice. But a viable income guarantee would at this stage be insufficiently generous to deal with the immense complexity and diversity of human needs. Much the most important step in this respect would, in my opinion, be a generalisation of claw-back system of family allowances, in which the (generous) family allowance is progressively withdrawn from higher income recipients. There is very little doubt that an enormous effort in education and propaganda is needed if that system is to be acceptable, especially among Labour supporters, because it is normally the woman who gets the money and the man who pays the tax. Still this effort has to be made if future Labour governments are not to suffer from the handicaps which beset the last.

This certainly is not the context to go into a detailed analysis of the institutional changes and policies needed to foster a community in which increased material prosperity does not exacerbate rivalry and discontent. Education, health care and urban planning must all play their due role. Intentions, however well meant, depend on the willingness of individuals and groups to assume collective responsibility; and collective responsibility in this context means willingness, in demands for due remuneration, to have regard to the needs of the community. Without individual and group responsibility Labour's dreams and ambitions will remain unfulfilled.

the role of public ownership

The extension of public ownership, which agitated the Labour movement in the 1940s and 1950s, has since become a dormant, indeed an extinct, issue. Yet, apart from the important growth aspect, which we shall discuss in the next section, public ownership has a double function, difficult if not impossible adequately to fulfil in the private sector. The insistent assertion that the motivation in

the private sector has so completely changed as to make an extension of national ownership unnecessary, is discussed below.

Public ownership and income distribution. So long as public ownership is a small minority sector of industry, it either accepts the tone of the private sector or loses its capacity to attract people without a particular sense of dedication. It would be foolish, however, to expect that a sense of dedication to serve the community could be the sole basis for all the numbers of people needed. Publicly owned industry, conducted on much the same principles as any other, existing within a vastly larger private sector (which enjoys lavishly opulent remunerations), does not offer much spiritual satisfaction, even if the recruitment at the top were completely altered. This has been badly mismanaged at the inception by appointing retiring or failed civil servants and generals, admirals and air marshals. The system has not much improved since. Managers of publicly owned industry have been successful in persuading the government and the National Board for Prices and Incomes that they had to provide the sort of remuneration which is offered by the private sector, or see the quality of managerial ability deteriorate. Thus the important social function of public enterprise of helping to modify the income pattern of the community in the sense of greater equality was lost; indeed, the public sector after 1967 contributed to the acceleration of the inflationary spiral.

The argument that managerial salaries must be absolutely high in order to obtain efficient management, cannot be fully substantiated from the British experience, though material incentives in terms of bonuses certainly play an important role in harmonising managerial and ownership interests—if they ever diverged as much as is sometimes suggested. In this context it suffices to emphasise that it is the relatively of incomes that matters. So long as the publicly owned sector remains limited and specialised, it is more than unlikely that it can influence the pattern of income

distribution, and thus lessen the demands either for a distorting and punitive kind of direct taxation or for accelerated increase in wages.

Public ownership and accountability. The absence of a sense of change has been made much more acute by the peculiar organisation of public enterprise in this country which reduces, if not completely excludes, public accountability of the boards of public corporations to parliament and ministers for day to day problems of management. The reasons put forward are flimsy and just as Parliament has not yet been able to organise a sufficiently expert discussion of government policies, the accountability of the broader public sector remains largely formal. (See various rather superficial reports of the Select Committee on Nationalised Industries, especially on the means and machinery of government control.)

No doubt the general tone of management, the continuity of the old type of administrator, the failure to achieve visible changes in approach were important causes of the failure to achieve a change in the labour relations. No doubt that those industries were the recurrent victims of economic policy and of the failure of planning (including securing international competitiveness) which expressed itself in more than proportionate cuts in their investment programmes and greater resistance to wage increases, as they were more easily controlled. The last of these attempts was the pledge in the Tory manifesto to strict control of incomes and prices in the public sector, while eschewing any control over the private one. This policy derives obviously from the jejune fallacy that the public sector prices are monopolistic while the private ones are "tested" and "controlled" by a competitive market. Nothing could be more primitively silly.

A much more scientifically worked out system of public accountability must be established for the public sector during the time in opposition. In the same way studies for a much deeper reform of the company law, allowing worker and gov-

ernment participation in decision making, is needed. This need not, but might, take the form of membership of boards of companies above a certain size.

the need for accelerated expansion

Is there a need? We have seen that the dominant opinion in the Labour Party questioned the need for accelerated expansion. We have also seen, however, that the Wilson administration (just like its Tory predecessors and, if they do not learn more than they seem to have learnt in the wilderness, its Tory successors too) was doomed, like Tantalus, to continued failure, because premature claims for increased individual money income, in the hope of obtaining an increased real income, robbed the country of international competitiveness, and in this way of being able to increase the *real* means of satisfaction. Thus there can be no doubt that a higher rate of growth of national real income is needed. If this could be attained all other problems would be eased. It would be, for instance, far easier to assure greater equality in private consumption and achieve a higher rate of investment and public expenditure. After the bitter disappointments since the war, can there be any doubt that these are in their turn the integral conditions for the success of a policy for price stability and steadiness of growth? The insistent pressure for higher consumption on *all* income levels of society shows that the British people do not feel satisfied with their individual material lot. We do need more resources.

The cost of "progress". It is clear, of course that an acceleration of the increase in real income, such as availability of material goods and services, can be purchased at too high a price in terms of side effects. Discriminating taxation, such as has invariably been opposed by the inland revenue, could, as we have said, bridge the increasing gap between private money, and real social cost. With growing affluence this becomes increasingly urgent.

Pollution of the environment, the ruin

of the country has at last received some attention, even if few have really envisaged the cost of its control in terms of effort and consumption foregone. Successful "growthmanship" as such does not provide the ultimate happiness, and the increase in output measured by some conventional standard does not give the ultimate proof of success. An acceleration of the expansion of the national income will not bring unquestioned satisfaction if it is stimulated mainly in the artificial creation of new needs rather than by a balanced advance on a broad social front. Psychological obsolescence, as we have said, might create a sense of increasing frustration. A tendency towards greater inequality, towards a relative reduction in collective consumption, and an increase in conspicuous waste creates its own undoing in times of explosive social tension. Our analysis has shown that the increase in productive power, instead of being allocated to increased leisure, increased education and increased general amenity without which leisure cannot be enjoyed, might be concentrated on creating new individual material needs, creating discontent in order that the supply of these needs should provide outlets for new enterprise. Collective needs, because they demand collective resources, might be discouraged, and intense propaganda waged against "mollycoddling" through better schools, hospitals and libraries, whose support demands high tax revenue. But all this does not mean that we should not work intensely for a balanced increase in resources and their use.

The richer and the more successful the system, as we see it in America, the greater the psychological malaise. Purposeful education towards a less competitive, less materialistically conditioned state of existence, and more compassion, could bring real fulfilment. Equality of opportunity would bring about a more equal distribution of command over resources. Stability and progress could be reconciled by a more conscious (re-) distribution of income, without penalising anybody unduly.

Statesmanship in these circumstances

would aim at satisfying this desire at the lowest social cost, while bringing to bear all the powers of modern mass communication to counter the tendency of the producer to create and manipulate demand, and to turn people against collective needs. In the present affluence it is not the usefulness or cheapness of a product which is decisive, but its connotation, its image, its impact on other people, the suggestion that the potential buyer is inferior if he does not possess it, which seems to be gaining importance in propaganda campaigns. If some economic systems create more wants than others or even than they are able to satisfy, how are they to be judged? Should not the excess demand created count as a negative? Should they not be judged to other, differently organised, systems, even though their productive capacity is also increasing faster? The purposive creation of wants must no longer be classed in all circumstances and uncritically as a way to superior living, the creation of divine discontent, the enlargement of valuable experience. New discontent, new needs would have to be counted as the cost of "progress" in the field of choice. These are awkward questions and no satisfactory answer can be given.

A discrepancy is growing between the capacity to provide material goods and education for their sensible use; what inevitably leads to this exaggeration and distortion of demand is the organisation of production on the basis of the profit motive. The propaganda of the private firm in favour of its products is generally regarded as legitimate even if, to say the least, it lacks candour. In this respect Britain is in some ways worse off than the USA, where a certain standard of truthfulness is enforced by law depending on the character of the administration.

The balance is shifted between desires which are spontaneous and those which are catered for by large organisations capable of manipulating the psychology of their potential customers. This has serious impacts on those needs which can be met only by the State. Needs of this kind become increasingly neglected.

It is for this reason that we urgently need to review the proposal for a tax on advertisements.

If then, such balanced increase in the wherewithall is accepted, our aim should be, not to make competition more abrasive or aggressive, but to stimulate managerial efficiency and encourage the interest, both material and psychological, of the workers to participate.

Increasing investment. Whatever our view of the relative importance of the *volume* and the *quality* of investment in increasing national real income, it is almost certain that an increase in the former and not only the latter is needed. Conservative propaganda has concentrated on the need to give incentives to saving and investment through reduction of corporate and individual income taxation. They neglect the side effects of an increase in net profits on wage claims. They also neglect the inevitable erosion of part at least (and probably not an unimportant part) of the tax remission through increases in consumption. There is no evidence whatever that high net profits encourage productivity. They certainly did not in the 1950s. If any impact is to be made on the quality of investment while safeguarding the increase of its volume, different means need to be employed.

On the one hand Budget surpluses could provide the financial basis of accelerated investment without the rapid increase in profit and capital gains, and the consequent further distortion of the distribution of the increase in resources in favour of the property owning classes. Such increase in inequality would inevitably stimulate the struggle for higher wages, and with justification, and in the end lead to "stop" measures, reducing investment. On the other hand the renewed vigour of an independent body supervising profit margins should help in this respect. An important, if not the most important, contribution of the National Board for Prices and Incomes was its success in making both sides of industry cost conscious, even in cases where the productivity component of a wage bar-

gain was less than "copper bottomed". Some at least of the acceleration in 1968-69 in productivity was due to this greater awareness.

Increasing the effectiveness of investment. Investment was not only lower in Britain than in most of the countries which are her industrial competitors; it was also less effective in raising income. The increase in productivity in Britain was appreciably lower than elsewhere. As we have seen, liberal economists, bankers, publicists and even a number of Labour supporters hoped, and hoped in vain, but still continue to hope, that liberalisation and a legislative promotion of competition might increase the effectiveness of investment. We have seen that there are good grounds for holding that what is needed is a consciously promoted restructuring of industry, far more energetically pursued standardisation, and a purposive supervision by an independent body of the development of costs, prices and profit margins in Britain as compared with developments abroad. The idea that, by a bogus reduction of government expenditure on investment grants, incentive would be improved as taxation could be "reduced", is really not worth discussing. All the research which has shown that investment allowances were ineffectual, seems to have been suppressed. (See the conclusive study by Robert Nield *Pricing and employment in the trade cycle*, NIESR, occasional papers, xxi, Cambridge, 1963).

A steady pressure by an independent body on prices is the only way to reproduce in the modern framework—in a framework of symbolic co-existence of a bilateral monopoly or, worse, oligopoly control over prices and incomes—the effects of competition. The re-creation with more extensive powers of the National Board for Prices and Incomes is essential. I shall discuss presently the changes in procedure which the lessons of the last years indicate.

A more positive influence could be exerted by an increase of the financial base and liberalisation of the powers of the Industrial Reorganisation Corporation.

An extension and intensification of their research activity will be urgently needed. Neither the IRC nor the Ministry of Technology was adequately equipped to undertake this vital intelligence work. A state holding company might be organised to hold and administer the shares of single companies in the public hand.

The attitude to national ownership must be further changed. In particular much greater use should be made of the broadening of the powers of nationalised industries to diversify their activity. The Tories are likely to cripple a number of these—as their ill thought-out proposals on the air transport corporations show. But Labour will have to be far more active than has recently been the case.

National ownership must not be confounded with the total takeover of whole industries. As Renault has shown, the public management of key firms might well stimulate the rest of the industry remaining in private hands. In particular, far greater initiative should be exerted to obtain for the British taxpayer the benefits of the vast discoveries of oil and gas in the North Sea and the Irish Channel. Mineral rights should be nationalised as recommended by the Mineral Resources Committee, which sat in 1946 and 1947, and whose membership contained a number of the geological experts of the large mining and oil companies. The shocking scandal of local authorities and new town corporations being forced by formal budgetary reasons to lease land at excessively favourable rates to developers should be ended. Development surplus should accrue to the public authorities of these corporations.

On the other hand the public accountability of these corporations (not necessarily comprising the whole or even the majority of any single industry) should be strengthened by the appointment of Ombudsmen, empowered to inspect any relevant document and enquire into detailed decisions.

In all these matters the Wilson administration did much valuable work and achieved considerable progress. But it

would be unfortunate if the psychological ill-success of its achievements among the rank and file, its failure to create a new atmosphere, should be attributed to the malevolence of the organs of mass communication. It would be fatal if ex-members of the last Labour government, like their predecessors a score or so years ago, should think that all had been well when a perverse electorate put paid to it. All was not well and our industrial policy, though a great advance on what had been achieved before, was still based on guesswork and insufficient knowledge.

To demand that the trade unions should unquestioningly accept in their wage claims the rate of increase in productivity, however bad managements are, however backward, however unwilling to increase their commitments and study and introduce new methods of production, would be asking for the absurd. It is obvious that trade unions would have to have a say in industrial policy, if they were to accept an overall ruling on the rate of increase which is permissible for the nation. It is for this reason that a return to older concepts of socialist policy is urgently needed if for somewhat different reasons than the authors of clause four of the Labour Party's constitution had in mind.

Specific policy

It is not unlikely that during the Tory regime the National Board for Prices and Incomes will be abolished, weakened, or amalgamated with the Monopolies Commission, losing its powers to investigate prices, profit margins and even wages, in the process. If the conclusion is valid that monopoly and oligopoly pervade the British industrial structure; and that the need to utilise fully the great savings from mass production methods will not really allow the restoration of competition in its classical sense, this decline in powers will represent a regrettable step backward. It will be the more astonishing as the Tories themselves issued innumerable papers on the subject of prices and incomes and then proceeded to establish the National Incomes Committee.

There is no doubt that Labour in opposition should, with the help of the trade unions, work out in detail the constitution and functioning of the next organ to help the TUC and the government in implementing a policy for stabilisation. The experiences of the last years suggest that:

1. The Commission must be independent. It must be charged with *all* income and price surveys. The creation and suitable manning—one is almost tempted to say packing—of special review bodies in charge of income determination of particular—high or top—incomes must be ended immediately. Labour again wins power. A feeling of greater equity may not be a sufficient condition for the success of a planned and rational increase of incomes. The irresponsible and often ignorant concessions given to privileged minorities certainly vitiated efforts to achieve it.

2. Collective wage agreements should be registrable with it. If any one agreement exceeds a certain norm, the Commission should *automatically* be entitled to receive the submission both of the parties and of the government's economic advisers as to whether the implementation of the bargain would be compatible with continued (relative) stability of prices and/or the balance of payments. Price increases should be dealt with analogously. If collective bargains or the setting of prices were to be found in this sense incompatible with social interest, the proposed increases should be phased over a given time without alteration of relativities.

3. It would be foolish to aim at complete price stability. But the norm should be fixed so that the inflationary pressure does not rise to a level at which it becomes self-inflammatory.

4. In the heady atmosphere of continued full (or almost full) employment, it would seem helpful to introduce some direct deterrent against the frivolous or despairing granting of wage increases by employers in the hope of being able fully to recoup themselves. A number of tax

reforms have been proposed. All of them suffer from grave administrative difficulties. The least unhelpful perhaps is the disallowance for tax purposes of an increase in wages which is above a certain norm or the infliction of a differential increase in the pay roll tax. This would imply, however, that the commission would have to ascertain the excess—a procedure which is politically difficult, especially as the increase might be the result of productivity deals or other justifiable causes (such as catching up, change in the status or responsibility of jobs and so on).

5. Much the most difficult yet essential feature of an incomes policy is the avoidance of resentment over relative pay. Hypothetical alternatives are always inconclusive, but it is perhaps arguable that once MPs, judges, civil servants, doctors, the chairmen and members of the boards of nationalised industries were given hefty rises, there was no hope of curbing violent action for higher incomes for people in lower brackets. Ironically the Tory government, after the brave talk about holding public sector prices and incomes down, has already abandoned the idea of a wage freeze. They ask for moderation at the very moment they agree to further large rises for "top people". They certainly seem bent on repeating all their worst mistakes. At the same time the Tories within two months of the election have repudiated the Kindersley report recommendations which they so violently sponsored a few days before the vote. This illogical and unsystematic approach must undermine all sensible attitudes that remain. It is said that the impact on total demand of large increases in the £10-15,000 range is very small because of the low numbers involved. This point (just as the argument about general management of demand) is completely irrelevant in this context. When Permanent Secretaries are to receive an extra £5,000—no matter in how many stages and subject to no matter how heavy taxation—it is politically difficult to resist an extra £100 or so for farmworkers and dustmen.

The increase differential in favour of the

higher paid has been an exasperating cause of the general explosion. Moreover the revision of the top salaries in the public sector seems to have itself resulted in the counter adjustment in private industry. Changes in the fiscal rules have further encouraged tax avoidance through complicated pension schemes. Altogether far more attention will have to be paid to the politico-social consequences of income determination than to the pseudo-scientific "measurement" of a "man's worth".

6. As to the establishment of such a measure, this is a political operation. Attempts—one of the most interesting was Professor Jacques—to arrive at an *objective* standard must necessarily fail, as the relative weight of arduousness of the work, its unpleasantness (filth, polluted air, and so on), interest, responsibility, authority, etc., are subjective and politically coloured. A fair measure is what is accepted by most as fair. The most important single requirement is that the machinery operating the policy should be trusted and should be recognised as independent from all the different parties concerned.

7. So far neither the Labour government nor the National Board for Prices and Incomes have succeeded in establishing acceptable criteria. Those laid down in progressive White Papers suffer from grave weaknesses. Comparability must necessarily be qualified because it is at the very base of the inflation. Increases in productivity must not be entirely appropriated by wages. The shortage of skill can hardly be a decisive argument in a state of full employment. Finally the exception on the basis of "low pay", that is pay "too low to maintain a reasonable standard of living", has to be qualified by the problem of large families or misfortune, which has in fact caused much of such poverty as remains. In general the acceptance—though it will be politically difficult to secure by the higher paid or better placed workers, who are also the more articulate—of a narrowing of the differentials seems a precondition of success. If an incomes policy is to be effective it has to deal with blatant inequality

source, that is at the point of income determination. Only then can the dialogue between the negative personal rights of the individual and the needs of the community be resolved in a general economic base of living which no longer depends on uncertainty and dissatisfaction for its dynamism.

The government machinery

As in so many other vital matters, the Labour government has not only brought about a great reform in the structure of government machinery, but has also proven very flexible. The improvement both in departmental organisation and in the training and promotion of personnel has been notable. Nevertheless it seems essential to reconsider our experiences between 1964 and 1970; complete success for the next Labour government demands, in my opinion, further reform. If, as seems likely, the Tories will to a large extent restore the *status quo* of 1964, such reform should be facilitated as no Labour Prime Minister could possibly accept that violent step back.

Departmental structure under Labour. Following the reports of Fabian working parties, the Department of Economic Affairs, the Ministry of Technology and the Ministry for Overseas Development were organised. Health and social security were later on combined in a new Department; Housing, Local Government and Transport were combined under a Secretary of State for Environment Planning. The role of the Ministry of Labour was enlarged into a Department of Employment and Productivity, and the Board of Trade's sprawling functions were delimited and rationalised. Subsequently the Ministry of Technology, while preserving its title, absorbed the Ministry of Power altogether and also the wide industrial functions of the Board of Trade. The Department of Economic Affairs, having been one of the most powerful elements in the government organisation, was for a time put under the Prime Minister, but with its own Cabinet Minister in daily charge, and later disappeared altogether. Finally

the task of managing the Civil Service was taken from the Treasury and put directly under the Prime Minister, but with its own Minister in the Cabinet.

These drastic changes reflect the problems and experiences of the country and its administration in the last few years. The present state represents a streamlining of the chain of command and a desire to reduce the need for Interdepartmental Committees. It also represents a restoration of the dominance, if not complete monopoly, of the Treasury in the field of general macro—or global—economic decision making. In the last two years of the Labour administration when the restoration of the competitive power of the country by devaluation had to be buttressed by fiscal and monetary restrictions, this great restoration was seductive. I doubt whether it was right even in that particular context. In other respects it was even less constructive. We have pointed to the regrettable consequences in diagnosis and policy making before the election. It is doubtful moreover whether Treasury supremacy can give the positive lead towards a balanced planning of development, of the preservation and restoration of amenities and environment and a better distribution of the national income which is needed for consensus economics; towards that programme, in fact, without which all financial restriction will prove unable to solve the problem of cost inflation, of the growing discontent at home and debauching of the currency abroad.

On coming into office Mr Wilson was confronted with two major problems in the sphere of government and administration. The first was the obvious lack of economic expertise; the second, not unconnected with it, the dominance of financial considerations in the structure of bureaucracy. The number and status of economists was a lowly one, that of statisticians, worse. This contrasted with the powerful engine of intelligence built up in the Cabinet Office during the war. Churchill, as Prime Minister, created a research unit of his own, untrammelled by departmental traditions and interests. The Treasury dilettantism was trans-

formed by the entry of Keynes and Henderson. Since then all this glory had departed. The cadre of high level non-administrators in the economic field was reduced to a single adviser who was sometimes consulted, and his staff, which worked in an even greater vacuum. The only relief was the gradual advancement of some administrators of good economic expertise. Despite all the improvements made since 1964, we are still paying the price for this state of haphazard muddle in terms of (statistically) "lost" exports, of contradictory indications on the development of the national income and product, and of belated indications on everything else.

As to the Treasury, the double shake up by Mr. Macmillan much improved its organisation, and even more its permanent high command. Yet its preponderance (and through it, that of the Bank of England), secured by a superiority over a closely knit staff of permanent secretaries, left the government liable to be swayed by the Treasury's own particular departmental cares, financial rectitude and the needs of the City, only periodically qualified by the electoral exigencies of the Tory Party. These enforced financial permissiveness before each Tory election campaign—1955, 1959, 1963-64—each time with dire results for international solvency. The need for reform in both directions was overwhelming. Lord Cromer's attitude displayed on the television (8 June 1970) and in *The Times* (interestingly enough on the same day) should be a warning to Labour Ministers. No change has been made in the formal relations of the Bank to the Treasury such as were recommended even by the Radcliffe Committee. The "comments" of the Bank frequently embarrass the government and weaken sterling. It is incomprehensible how a member of the "extreme Left" such as Mr Mikardo can have co-authored so complacent a report on the Bank of England such as issued from the Select Committee on Nationalised Industries.

Mr. Wilson had been rightly devoting much time and attention to these fundamental questions during his time as

leader of the Opposition. Mr George Brown's memory of having founded the DEA in a taxi between the St. Ermyrn's Hotel and the House of Commons is fanciful. In actual fact, a number of us were involved in discussing and planning government reform over a long period. All who thought seriously of these problems were convinced that so far as the machinery of government was concerned, a short term reinforcement of the economic staff and the establishment of a general economic department, separate from the Treasury, in charge of basically general (macro-) economic problems, was essential. Only in this way, in our view, could the defects of the Cabinet system and the particularly British way of organising the Civil Service be rectified. Essentially, that system was admirably suited to a situation where the socio-economic system, as in the Victorian age, could be assumed to be organically evolving, not merely self propelling, but also self balancing. It followed that each of the great departments of state could act independently in its own sphere, because their impact was marginal and corrective only. There was no need for purposive co-ordination. Intelligence, common sense and a capacity to take decisions on the basis of an impartial and wise weighing of evidence were the decisive qualities needed for the civil service. Generally cultured administrators would be trained in the art of administration on the job by their elders, who had been trained in the same manner. They would prepare briefs for ministers, setting out the objective arguments for and against proposals and policies. The ministers would bring political considerations and the common touch into the process of policy making. The Treasury's role would be to cut down expense, and not to weigh the relative merits of the proposals. Departments could appeal to the Cabinet, and bargains between them and the Treasury would depend on the status of the minister making the proposals.

Once it is accepted, however, that purposive government policies are needed and that the decisions of the government affect large areas of the economy, while the government assumes (because it can-

not shed it) responsibility for maintaining full employment, while avoiding international crises, some co-ordinating agency is needed. Moreover, a number of departments have assumed responsibility for the affairs of private and nationalised industries, becoming their "sponsoring" ministries, and receiving representations from them. *The natural tendency of the sponsor is to live in unity with the sponsored*; his task is made that much easier, he will receive information and need not develop his own expertise. The fact that ministers' careers depend on the successful administration of their particular responsibilities much reinforces this trend. Few ministers revel in crises. It follows that the macro-economic co-ordination of the conflicting interests of ministers and departments must not be entrusted to a department involved as a sponsor in the problem. This means that the Treasury cannot act as a supreme arbiter in macro-economic decisions because it is, itself, interested as a sponsor for lower taxes and greater financial freedom. The Prime Minister must have an overall brief. In the US this problem has been tackled by creating the Council of Economic Advisers and a staff of economic advisers in the White House. In France and Italy the planning staff forms part of the Prime Minister's office. This was the reason for the erection of DEA.

The second requirement, that bureaucracy should be effectively controlled by the political leadership, necessitates an organisation which supplies ministers on any major question (and even on detailed problems, if they have vital implications), with at least two briefs, independently arrived at, from at least two departments interested in the general problem. Opposing arguments should be properly represented and documented, and the opposing viewpoints should be argued at the *political* level and not within one department having a monolithic view and a special interest. The more vital the question, the greater is the need for it to be argued, not merely inter-departmentally, but in a way that will give the fully informed political heads the ultimate choice. The plea that we should aim at the reduction of the number of

interdepartmental committees as much as possible, must accordingly be *severely* qualified.

The well known rivalry of senior cabinet ministers, each of them hoping, and actively striving to attain the highest office, necessarily imparts undue and rationally irrelevant bias into decisions on planning and priority. Ministers use their personal political influence in favour of their departments because their successes foster their own political reputation and influence. This is far from "the language of true priorities" postulated for socialism by Aneurin Bevan.

This and the inevitable bias imparted by "sponsoring" to which allusion has been made already, necessitate strict inter-departmental co-ordination on the basis of expert briefs. Viewed from this angle, the final changes in government machinery under Labour need adjustment if the sort of forward looking programme based on trade union co-operation envisaged in this pamphlet is to succeed.

In the first place the shift of responsibility for the basically macro-economic question of wages and prices policy on to an enlarged Ministry of Labour should be reconsidered. The Ministry of Labour's job is to conciliate. To be successful it must possess the confidence of trade unions and of employers. This is largely incompatible with being responsible for prices and incomes policy; the terms of reference of the "new" department were as internally inconsistent as the Chancellor's time honoured role of being final arbiter on economic policy, when his own and his department's most urgent interests—financial conservatism and the City—are involved. This, of course, is the explanation of the doubts aired publicly by the Permanent Secretary of the DEP about the practicability of incomes policy.

The establishment of the two new super-ministries was only a qualified advance from this point of view. No doubt it is a very important advance to group all ministries connected with environmental planning, including Transport, in one

ministry, provided that ministry has the proper attitude to physical planning; whether the Ministry of Housing and Local Government can furnish the nucleus for such a super-ministry is a question the answer to which we shall now hardly know. It is probable that the Tories will completely change the structure, the new secretary having already disappeared. The dismemberment of the Board of Trade, that monster of mixed responsibilities and *laissez faire* doctrine, has been a major achievement. Concentrating on exports (and leaving import substitution to the Ministry of Technology) might perhaps have established a new tradition in the Board, more propitious for the maintenance and improvement of our balance of trade, even when employment is recovering. The Ministry of Technology, however, like the DEP, became schizoid; it was to deal with the restructuring of industry, and to sponsor industry and technological advance, while trying to secure a general climate clement to its task. In the vast welter of its own problems it is difficult to conceive that it could stand up to the Treasury on general economic questions. The tradition of bilateral negotiations between the Treasury and departments, with the Treasury holding eight aces up its sleeve is only too likely to persist.

The complete acceptance by the Ministry of Technology of the earlier attitude of the Ministry of Power in dealing with North Sea gas, which gives the country worse conditions than some of the small shiekdoms of Arabia, abundantly shows the drawback of the structure. The same can be said of the proposed amalgamation of the National Research and Development Corporation with the collection of research stations (mainly I presume to integrate the activities of aerospace and atomic research after the half hearted hiving off of the "commercial" development of atomic engineering). No permanent secretary can supervise a century of under-secretaries, nor can the most able and industrious ministers, overwhelmed by these duties, act as anything except spokesman of the sponsored industries. For to be able to do otherwise one has to have adequate personal

expertise on hand, and this is not possible over the range of care now entrusted to a few politicians, even if they had (as they had not) political economic advice available in their private offices. The field of industrial policy making ought to be subdivided into three ministries, dealing respectively with light and heavy industry and energy. The interest of these groups often diverges, indeed clashes, *One* minister cannot be expected to attend to these tasks in a politically feasible yet economically sensible way.

The co-ordination, then, must necessarily be done under the auspices of the Prime Minister, the head of the government; yet he is the sole senior member of the government, apart from the Lord President, not having a department to advise him. The Cabinet Office has once more reverted to its old secretarial and recording functions. The importance of this role will never be denied after the publication of Dr Thomas Jones' and Lord Hankey's diaries and memoirs. Still, even after its growth in 1964, when the secretary was reinforced by three deputies for foreign and defence, social and economic affairs respectively, and the further enlargement by the appointment of a second secretary in 1970, the Cabinet Office does not provide an adequate base for supreme co-ordination. The floundering contradictions of the new Tory government show that they have not even begun to realise the need for, and the mechanics capable of, strict co-ordination.

There are several ways in which these urgent requirements can be fulfilled. It is essential that Labour should thoroughly consider them: a Department of Co-ordination could be created under the Prime Minister with a cabinet minister in charge. For reasons which will be presently discussed, this department would need to be supported by a council or committee of advisers—mainly economists, but also political sociologists and social service experts. Unlike MacDonal's unfortunate advisory committee, the proposed council must not have experts who are not in full agreement with the aims and methods of the government.

The naiveté of the 1929-31 government in thinking that non-political "expertise" should be tapped must not be repeated. Whether this modified DEA should have direct executive duties, that is, regional policy and industrial location, should be subject to detailed discussion. Prices and Incomes Policy, however, must necessarily come under its competence.

Alternatively a council of socio-economic advisers could be set up under the Prime Minister, possibly with direct access to the Cabinet and a permanent secretariat.

A second and hardly less important need is for an organ of mass communication, again under the Prime Minister, but also having a cabinet minister in immediate charge. The most obvious failure of the Labour government has been in explaining its measures and policies to the wider public and in securing their co-operation. If, despite their achievements, the fate of Labour has been in jeopardy until the spring of 1970 and lost the election despite its formidable recovery; if their plans and pledges could not completely be fulfilled, for all these relative failures the lack of appreciation, especially by trade unions, of the inwardness of their policies has been mainly responsible. Unfortunately Mr Wilson intensely disliked the idea of having a Minister of Information. This dislike was quite justified when in Opposition, as the Tories had no new policies to put over. It is much to be hoped that in his next government Mr Wilson will change his mind and act resolutely. Adequate mass communication is the basis of success.

The Civil Service. When the 1964 Labour Administration took over, economic expertise, indeed any kind of expertise, practical knowledge and, worse still, quantified knowledge, was woefully lacking. Promotion under Lords Bridges and Normanbrook did not seem to have been based on any recognisable relationship with previous achievement, and the great shake-up under Macmillan had not as yet provided any appreciable results. There was, however, improvement on the way, especially in the Treasury and more

especially in the middle and highest ranks.

The Labour government at its outset appointed a committee to look into the recruitment, organisation and training of the Civil Service (excluding from its purview the question of government machinery, despite the fact that the policies to be pursued would seem to determine both the organisation and training of the Civil Service.) The extremely moderate membership of the committee (most of them had been or were eminently successful Civil Servants) showed the power of the Service over appointments. Nevertheless, much to the scandal of the Establishment, the first chapter of the report went far in justifying the critics of the British government machine. (See the debate in the House of Lords (*Lord's Hansard* 1968) in which mostly retired civil servants participated. Also Lord Simey's reservation (*The Civil Service*, vol 1, p101. Cmnd 1638, 1968). A surprising number of academics and journalists sprang to the defence of the Civil Service.)

No doubt that, partly as a result of the appointment of the committee, partly on the initiative of the then Prime Minister and some, surprisingly small in number, of his colleagues, very marked changes had been undertaken while the committee was sitting. It was only the most intelligent who realised that they could not master their department without outside help. A limitation was imposed on the shifting around of administrators which had been so destructive of the essential special expertise in men and matters which even the best education and training cannot provide. (See Fulton report, *op cit*, para 115.) Greater stress was laid on forward planning units of which a number were established.

By far the most important change was that at the highest administrative levels men were coming into their own (or almost their own) such as economists even in the administrative cadres in the Cabinet Office, whose expertise was undoubted; and that experts were recruited from the outside at a level securing direct access to ministers. (See *ibid*, paras

124, 125, 127 and especially 129 on personal advisers and 182-4 on senior policy advisers; but see also note 3, p15.) The government's economic, and especially statistical services were hugely expanded, and an altogether incomparably higher status was secured for them. At one point it looked as if, on an informal basis, a council of economic advisers might come into being, working in closest co-operation with the heads of the central economic departments and being asked by the Cabinet or its committees to give expert advice on specific questions.

With the passing away of the DEA, little if anything remains of this balanced structure. Most senior outside advisers had departed by the end of 1969, and those who remained had generally been wholly absorbed by the Treasury, or represented the remains of the pre-1964 regime. Unless the next Labour government can basically change the attitude of the universities on part time consultancy, it would seem essential to arrive at a solution which allows outside experts, sympathetic to the government, access to official papers with minimum interference on their academic activity, as members of a Prime Minister's council or advisory committee. Nothing less will do, if the programme needed for stable progress is to be put into effect in the teeth of the enormous increase in Treasury influence and pressure by the Bank of England towards financial liberalisation and economic restriction. Operationally the best arrangement would be if academicians could be released for full time duty in the government. In this way a change of regime or even of ministers would allow for a much needed relief for experts and a recharging of batteries on the one hand and continuous (but less strenuous) advice to the new Opposition. In America, with its great wealth, something of this sort has already happened through research institutes, notably Brookings and those connected with the great universities.

Such outside influence is also needed because the Service seems to be drifting into a possible decline of the intellectual

quality of its recruits. This it cannot afford. This has been due to the gradual encroachment of the interview system, which weighs the chances in favour of the self confident, "outward going" (more rudely, the exhibitionist), the upper class origin against academic quality. The revealing analysis of the method of recruitment to the Secret Service (See Philby, *The spy who betrayed a generation*, by Page, Leitch and Knightley, Penguin Book 2945, especially ch 9) cannot be wholly dismissed in respect of both Foreign and Home Civil Service. The violence of the reaction to the critical Fulton report shows the fear of the vested interests menaced. The Civil Service Commission chose as the right person to investigate the suitability of this method (which places most emphasis on interview, inevitably a subjective affair), the Assistant to the Governor of the Bank of England (now a member of the Court of Directors). How could an employee of The Old Lady, sitting in the innermost nook of the old boy network, impartially adjudicate whether an interview (with the old boy network) would or would not yield the happiest of results? By condemning it, he would condemn himself. The result (if not counteracted) must inevitably be the decline in intellectual virility while safeguarding social status. Have we not already got tightly knit diplomatic families, happily assuring continuity in blunders as a result of Mr Bevin's somewhat ingenuous hope that he would get trade unionists into the Foreign Office by relying *exclusively* on the interview method?

Two remedial steps are urgently needed. In the first place ministers will have to insist on cutting down the overwhelming number of those members of the Final Interview Board representing the old boy network and its academic satellites (including civil servants retired into universities). Young and progressive academics and successful young managers should predominate. In the second place appointments should not be made permanent until after candidates have taken a purely intellectually based examination on passing out from the new Civil Service College. On that institution our hopes

or better policy making now increasingly depend. It is to be hoped that its lecturing and seminar staff (as against tutors and instructors) will be drawn from *all* shades of opinion from *all* the universities. Variety and brilliance, not indocrination, are bitterly needed.

In addition a thorough reform of the Official Secrets Act and Civil Service Regulations and corrupt practices legislation is in order. If we are to have intelligent discussions, the limitation of the Act to security cases proper, such as spying for foreign countries, is essential. Mr Crossman's dictum (quoted in *Philby*, *op cit*, p133) "In a secret department the greatest temptation in the world is to use secrecy not in the national interest but in the departmental interest to cover up", is by no means confined to secret departments. It is a universal trait. Its pointlessness is emphasised by the constant leak and the well paid memories of high personages, especially when they try to fudge history in the interest of their reputations. The small clerk, the wayward typist, selling "secrets" to the Press or to private competitors should be punished by dismissal and loss of pension rights, but not by the clumsy machine rumbling into action and violating every principle of British justice, including that of assuming everyone to be innocent unless proven guilty and assuring equality before the law. If small clerks used state papers or notes as cabinet ministers, especially Prime Ministers, do they would soon be in the Criminal Court. (See the amusing review by Dick Crossman of Mr. Gordon Walker's book on the Cabinet, *New Statesman*, 1970.)

On the other hand far stricter rules must be laid down to prevent the undesirable impact on policy making caused by the increasing habit of civil servants of appointing each other to membership of government corporations on retirement; or worse, permitting the acceptance of top jobs in private firms which came under their jurisdiction shortly before their retirement. It is not a question of a Balkan or South American type of corruption. No money passes to secure specific douceurs to specific firms. Only an

insidious presumption is created of nice niches for nice men. This, as can readily be shown, has not benefited the firms. Share after share has drooped or dropped as high civil servants, smooth rather than expert, joined the firms, while public policy making could hardly remain unaffected. This practice must be stopped.

Not much can be done to make the Parliamentary supervision of the executive more effective until members of Parliament realise the importance of their choice of advisers, and acknowledge the fact that experts of conflicting opinions must be available, as there is no "objective" truth in most affairs of interest to politicians. In the USA this is now accepted. Here even "radical" Labour members do not realise it. The Select Committee on the Nationalised Industries is a sad example.

The hiving off of administrative routine to corporations or boards, recommended by the Fulton Committee on the lines of the Swedish practice, could be acceptable only if much closer scrutiny of their decisions by the Ombudsman or parliamentary committees were made possible. A possible further development would be the extension of the terms of reference of the latter to include problems of policy. While this seems essential, if comprehension and co-operation of the public and its groupings is to be secured, the opposition of ministers and their official advisers would be fierce.

8. some conclusions

The second post-war Labour administration greeted with such high hopes, admiration and goodwill after its convincing victory in 1966 was not able to establish so outstanding a record as to obtain the solid support of an overwhelming majority. Yet that record in the field of social advance, in the field of personal rights and not least in the economic field was admirable and their programme for the future impressive. They took over in an acute balance of payments crisis created by the ruthless determination of the Tories to curry electoral favour by increasing public expenditure. They left office with a strong surplus in the balance of payments, an unmatched budgetary surplus due to Mr. Jenkins' austere, if somewhat ineffectual, determination to safeguard the former. They were not thanked by the voters for their self-abnegation.

The inconsistency, the contradictions in the pledges piled up by the Tories for increased real expenditure and cuts in taxes were exposed during the electoral campaign. The real inwardness was explained of the promise of a more abrasive or aggressive (in other words savage) society in which "general pressures" would steer the economy, the latest "euphonism" for unemployment deliberately created to tilt the scales against the workers in a general return to a free for all. All this was of no avail to the losing party.

It was of no avail, in my opinion, ultimately because the Labour government were unable throughout their tenure of office to reconcile the claims of the trade unions and the need for relative stability. The steady worsening of our international competitive power before 1967 imposed a policy of restriction and unemployment, and even after devaluation there was no let up because of the fear of cost increases once more stultifying our efforts at economic independence.

Now it cannot be stated often enough that the Chancellor cannot by restrictive fiscal or monetary policy maintain, far less regain, international competitive power. He can safeguard the balance of

payments, but only at an inordinate social and economic cost of unemployment, fall in income and thus of imports. On the other hand trade unions cannot by industrial action alone gain a secure increase in the share of wages. They can debauch the currency and provoke measures which lead to stagnation, but they cannot obtain what they really want. It is possible to argue that the Treasury was over-cautious in advising the last Budget. But when the acceleration of inflation and further wage demands are taken into consideration, can we be sure? It is evident that, had trade unions been less extreme in their wage demands, economic policy could have been far more relaxed and *all* would have gained. It was not to be.

In consequence the Tories have their turn and we shall now see how a party, whose whole economic philosophy is based on competitive pressures which are no longer effective, will cope with the problem of inflation. Mr Nixon's is a deterrent example. The process of trying to frighten the unions with legislative regulation and withdrawal of supplementary benefits to strikers' families has begun. It is most unlikely that this tactic will succeed. The Tories, however, are precluded from the sort of new "*Contract Social*" which is advocated in the present pamphlet.

I hope both the industrial and the political wing of Labour will earnestly, and without an automatic defence stance, reconsider the problem. On the one hand an effective incomes policy demands very much more government intervention than has been contemplated hitherto. This is so because if the government is to obtain their willing co-operation, reasonable assurance must be given to the trade unions, not merely that equity and sacrifice will be temporary, and that it will not be in vain, but also that the restraint on wages, on which the restoration of British prosperity depends, would, in the due and not too distant future, yield positive results in accelerating the increase in living standards. This assurance cannot be given credibly without comprehensive institutional arrangements to

ut some coherent and self-consistent plan into effect. This is far beyond anything contemplated by liberal Keynesians, or even by Professor Galbraith, let alone by our own right wing. To say that the trade unions should accept a rate of increase in productivity, however bad the managements, however backward, however unwilling they are to increase their commitments and to study and introduce new methods of production, would be asking for the absurd. It would be equally absurd if trade unions were to acquiesce in the hardship of the low paid workers, if they were to accept changes in taxation which impinge on the worker more than the affluent circles of society, in the name, however well meant, of the argument that it is needed to restore incentives and to reward efficiency.

f it is true that a change in attitudes rather than strictly economic manipulation is needed for a steady advance towards a better life in this country, then it must be reiterated that the late Labour government has shown its greatest weakness in not appreciating the need for very much greater efforts in education and explanation and communication. The government has never explained the in-ardness of its measures, perhaps because it has only half believed in them. Ministers have added to the confusion because they seem to have listened too much to the clamour about the burden of direct taxes and paradoxically think that a Labour government can gain popularity by limiting public expenditure. There is no evidence that the limits of taxation have been reached or indeed that such limits exist. There is evidence that income inequality and conspicuous consumption remain rampant after 5½ years of Labour in power and it is this rampant character of economic inequality and conspicuous waste that renders the economy so vulnerable to further wage demands, necessitating in turn further sharp action to keep it within bounds.

he question is, how national income could be much more equitably distributed; how the wage structure could be modernised; how monetary equilibrium and our relative competitive position can

be preserved without creating unemployment and under-employment of our productive capacity. The vital conclusion of this pamphlet is that it cannot be changed by industrial action. To a very large extent the fate of the country depends on the trade union leaders. Only if they use the time Labour has to spend in Opposition to explain the need for closest co-operation with a government which is prepared to safeguard social justice and secure economic advance, can we hope for a new deal. After the Tory approach has once more proved futile, perhaps the unions will succeed in securing voluntary compliance with an effective prices and incomes policy on conditions in terms of social policy including taxation and social services. Only in this indirect way can trade unions successfully influence and improve the distribution of income, secure advances in investment and obtain a restructuring of industry.

It is not (as some people have alleged) a puritanical, sour, and envious view which lead people like myself to demand a greater equality, less conspicuity in consumption; it is, apart from ethical considerations, the very worldly knowledge that, without greater equality in consumption, that consensus of opinion will never be reached which is needed to safeguard the steady progress of this country.

notes the conclusions

¹For example, C. A. R. Crosland in *The future of socialism*, wrote: "With personal consumption rising by 2 per cent to 4 per cent a year and likely to double in 20 years, it will really not much matter a decade from now whether we plan to produce rather more of this and less of that, or exactly what prices are charged for this commodity or that. The level of material welfare will soon be such that marginal changes in the allocation of resources will make little difference to anyone's contentment. If they wish, let the violent economic planners and anti-planners battle the matter out. The rest of us will grow progressively more indifferent." (p324).

²Dr. Mishan disregards the misery of unemployment and its threat on human satisfaction though he lays special stress on the deleterious, secondary or side effects of "progress" or "growth".

³Even if the problem of malingering, of abuse, of incentive for work because of high benefit levels for those without loss could be as easily solved as some advocates of minimum income guarantee imagine at tolerable guarantee levels.

⁴This factor was recognised by a team of the Oxford University Institute of Statistics, working on post-war economic problems as early as the latter part of the second world war. See Professor Kalecki, "The political aspects of full employment", *The Political Quarterly*, October, December 1943; T. Balogh, "The trade unions and the future," *Left News*, June 1943. Professor Joan Robinson's *Essays on the theory of employment*, written in 1936, hinted at the problem (p24): "The point of full employment, so far from being an equilibrium resting place, appears to be a precipice over which, once it has reached the edge, the value of money must plunge into a bottomless abyss".

⁵Professor Friedman argues that anticipations will necessarily force unemployment to a definite level compatible with price stability as anything less would lead to a cumulative acceleration of inflation and lead eventually to a breakdown. He may well be right in thinking so; but his view holds that the price rise is due to excess demand, actuated spontaneously, and not through its impact on the

rates of interest, by an "excessive" rise in the volume of money. In his view it is not the anticipation of accelerating trade union action which causes speculative cumulation. In actual fact no close and stable relationship between the volume of money and prices or wages can be established. Some relationship could of course exist, as the volume of transactions is affected by prices and wages (See Professor Kaldor's brilliant article on the causality of these relations (*Lloyds Bank Review*, 1970).)

⁶These misgivings are not the result of hindsight; they were voiced in a number of articles in 1969-70. The slowing down of the expansion of exports gave it a poignant urgency in 1970.

⁷The Radcliffe committee (on the monetary system) reporting in a phase of temporary disillusionment with (and revulsion from) orthodox monetary management, incurred fierce condemnation from traditionalists as soon as the memory of utter failure in the 1950s faded.)

⁸See H. G. Johnson, "Recent developments in monetary theory", Groom and Johnson (eds) *Money in Britain 1959, 1969*, pp110 and 111. "In this context a major contribution to the theory of economic policy—in my judgement the only significant contribution to emerge from post-Keynesian theorising—has been the 'Phillips curve'." Interestingly enough the "monetarists" have also discovered an analogous trick assuming that for any given economy there is *one* definite "natural" level of unemployment which will secure price stability. Any attempt to change it would, in their view, result in inflation or deflation.

⁹Dr. Bray's recent econometric study (*The Economist*, May 1970) suggests that the Treasury "model" suffers from "wide margins of error in predicting unemployment from GDP. Thus policies based on it might be (and in fact were) quite erroneous. Of this very important conclusion there can be no doubt. Far more doubtful is his most significant positive conclusion that unemployment would, after a time lag of three years, stabilise at an "equilibrium" level at various rates of growth; for example, 580,000 at 2 per cent or 280,000 at 5 per cent. Thus a policy aimed at higher

unemployment would be as self justifying as one aimed at a higher growth. The latter conclusion is a non-sequitur: the effects of a fall in unemployment on incomes and the balance of payments might be fatal to its stability. Moreover increases in productivity do not come out of the air by "shifts" in the "pattern of (manpower) flows towards productivity increasing flows". Managerial and structural reorganisation and a change in the use of resources towards well chosen investment would be needed. The figures available can hardly sustain the manipulative skill of Dr. Bray.

⁹Some financial journalists of the daily and weekly press (such as Mr Peter Lay of *The Times*) sensationalised this debate. As the "monetarist" view implies a certain mystique, and computers are glamorous no matter what the quality of the material that is put in or what, given the nature of that material, the plausible interpretation is of what comes out. This "non-debate" is really the consequence of the mechanistic view of economic development which picks up certain more easily or plausibly quantifiable relationships to the detriment of others: in the present case, for instance, the impact of monopolistic power on wage bargains and that of stock exchange prices on investment have been completely disregarded.

¹⁰Conservative economists try vainly to escape this dilemma by *defining* full employment as the level of unemployment at which price stability is achieved. Levels above this are called over-full employment. This is playing with words and not solving the basic politico-economic problem. But, in a sense Professor Friedman's quite sound in thinking that without consensus a politically *tolerable* level of unemployment might cause a cumulative upward movement of prices.

¹¹The attempt by Professor Lipsey and Mr Parkin (*Incomes policy: a reappraisal*, *Economica* 1970) to prove that incomes policy makes it harder to avoid high rates of increase in wages at high(ish) rates of unemployment was, even before publication, on the basis of ragged press reports, joyously taken up by Tory leaders. In fact if Professor Lipsey's and Mr Parkin's methodology were right they

might have provided a good case for incomes policy: for if incomes policy enabled the maintenance of low unemployment and faster progress, it would be preferable to a policy which necessitates high unemployment (and slower progress) because in the longer run the rate of progress will co-determine the movement of unit cost of output and international competitiveness. Unfortunately their evaluation is worthless and cannot therefore be used for this purpose.

What they have done is not only to assume that a rather primitive relationship exists between unemployment and the rise in wages, but also that this relationship has been unchanging in the last 20 years. At the same time they admit that for the latter part of this period the "relationship dissolves". There therefore is an internal contradiction which is aggravated by the fact that they nevertheless produce a "Phillips curve" for the policy-on period pivoted on the policy-off curve. This is not all. The "policy-off" periods fill the decade from the middle of 1950 to the early 1961—with a slight interruption in 1955-56, and the "policy-on" periods the all-but decade since 1961 and they derive their results by assuming that the only difference between the "policy-on" and "policy-off" periods was incomes policy. This is, of course, quite unwarranted.

Moreover, the equation itself is derived from a model which is arbitrary and conceals, even in the period 1950-61, vast divergences of actual observations from those predicted by the "law" or "curve", divergences which render their equation worthless for policy making purposes. Worse still, Lipsey and Parkin try to take the "militancy" of the unions into account by adopting a method first used by Mr Hines to demonstrate that unemployment cannot in Britain explain wage movements. He used the rate of increase of the percentage of the Labour force unionised as an index of aggressiveness. This is quite unwarrantable and its inclusion in the model twists the original framework. Plainest common sense, moreover, should have indicated that Clive Jenkins is by no means as responsible for our troubles as say Mr. Scanlon or Jack Jones, though it must be said

that the effect of the organisation on trade union lines of a higher paid *Lumpen-Bourgeoisie* on lower paid workers must necessarily be aggravating in the extreme. The relationship, however, is not likely to give pleasure to mathematical cranks by being either stable or linear.

Theoretically, the "Phillips curve" is based on the notion that a determinate (underemployment) balance exists at which prices are either stable or move in a predeterminable stable rate. This would then enable economists to operate with their orthodox historical neoclassical tools and prove that all is well in the best of worlds. Unfortunately, none of these gimmicks take into account that the changes in demand for labour are not independent from changes in the price, that therefore the outcome of general wage bargaining, as I argue above, results in an awkward indeterminacy of the absolute level of wages and prices. Neither a Keynesian (that is income) or an Irving Fisherite (that is quantity of money) explanation of the determination of the absolute level of prices provides an escape. Thus the political use made of this "contribution to science" is quite unwarranted. The really interesting fact is that the pre-classicised Keynesian analysis was able to deal with problems. In its new "rigorous" form it is quite unable to do so.

¹³One of the intractable aspects of modern developments in this field is that the higher income groups, including judges, doctors, pilots and schoolteachers have "integrated" themselves in professional pressure groups. As their numbers are relatively small and the services they render essential, their organisation has resulted in furthering inequality and the creation of an atmosphere of conspicuously successful blackmail which is only too obviously contagious. It is reported by *The Times Business News* that the remuneration of part time Chairmen increased 91 per cent between 1968 and 1969 that for non-executive directors by 22 per cent.

¹⁴The scepticism of the Permanent Secretary of the Department of Employment and productivity (*The Times*, 21 May 1970) about the possibility of an incomes

policy is quite comprehensible if perhaps somewhat unfortunate. It shows that a department based on sponsoring a vested interest cannot be expected to sit in judgement over policies affecting that interest. It will wish to conciliate and retain confidence and goodwill. The implications of this on the machinery of government are as obvious as they are important.

¹⁵Michael Shanks (*The Times*, 16 June 1970) argued higher profits are needed to increase investment. This is perfectly reasonable. Unless, however, the income inflation is stilled, emergence from the vicious circle is impossible.

¹⁶After the utter failure of both Keynesian and monetarist concepts one ought to have expected a new global gadget in a desperate effort to safeguard the neoclassical approach to economic problems. The latest attempt, M. Brittan's new booklet on *The price of economic freedom* (London, 1970) shows the inwardness of the mechanism by which the "solution" is marginal. First it should be noted that the problem of anticipation and the psychological impact of the devaluation or depreciation on wages and prices is discussed in a few lines of the text on p62/63 and of the Appendix, p95.

The whole case rests on the hope that monetary (aided possibly by fiscal) policies could restore balance without difficulty and hardship. *Actually we have seen that only a slump causing grave unemployment could be effective.* This "solution" will not prove politically practicable in a democratic setting. Complaints that the inflationary spirit has not been broken merely means that we have as yet avoided a crash.

¹⁷I share therefore Professor Kaldor's misgivings about renouncing monetary sovereignty as a condition to entry into the Common Market which would impose a grave strain on our balance of payments and social relations. I do not believe that by this retention of the power to devalue the peril can be overcome. Without consensus economics on income levels I would regard entry as perilous for the British system and well being.

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