INCOMES POLICY

I. THE BACKGROUND TO THE ARGUMENT

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Introduction
The "national interest" of the advanced capitalist economies of Western Europe, it is commonly argued, require that rates of increase of wages and salaries be kept within the bounds set by the rate of growth of real production. Laissez-faire methods of wage determination, in a context of full employment, or even where some key types of labour are in short supply, cannot be relied on to observe these limits. There are several theoretical solutions where growth of earnings threaten to exceed growth of production. A migration of labour may be encouraged, from agriculture to industry, or from low wage-high unemployment areas or countries to high wage-low unemployment areas. Monetary restrictions may be applied, which check the excess growth of incomes, reduce demand, and perhaps generate some unemployment. Inflation may be tolerated, and recourse may be had to devaluation. Each of these solutions has been employed at one time or another by the countries of Western Europe since 1945. A point has now been reached, however, in the development of neo-capitalism, where traditional solutions are not available, or have been rejected by governments and employers. There remain only two other possibilities. One is to reduce permanently the share of national income going to property, in order that wage increases are paid out of profits, thus enabling price stability to be achieved. Merely to state this alternative is to suggest that it is unlikely to be welcomed by property owners, and that even if carried out by a determined reforming government, it is a once-for-all measure. The economic factors which are responsible for the general problem would still exist after the limits of re-distribution had been reached. The other alternative is to establish forms of wage determination which will permanently guarantee predictable and controllable movements of wage incomes. Thus arises the crucial debate about Incomes Policy, which is presenting a major challenge to the trade union and socialist movements of Western Europe.

European Experience
Holland and Sweden have been Europe's testing grounds for wage control since the war. In Holland the State itself provided legal support for wage maxima and a wages structure established through elaborate
corporate institutions involving the unions, employers, and the government. In Sweden, the making and policing of wage agreements have been in the hands of powerfully centralized trade union and employer organizations, although here also legal restraints on strike action provide important supplementary backing, a fact which is often overlooked by the admirers of Scandinavian methods. Both systems have felt the strains of operating in a labour market where the demand for labour has always threatened to expand beyond the limits of the central wages plan. Although it was not easy to restrain the workers from exploiting local labour shortages, it was also found that "wage drift" at plant level stemmed at least partly from management's initiatives. In Holland particularly, the breaking of the tight control imposed by the State was led by the employers. This in turn has produced an upheaval in the trade unions, whose leaders now seek to emulate the employers in order to recover the support of their members. Sweden's elaborate labour market management which has aimed —by concerted employer-trade union attention to areas of labour scarcity—to eliminate high points in the demand for labour, and hence the earnings drift, has had only limited success. The lesson of these experiences seems to be that, in order to confine the movement of local earnings within the limits allowed by the national wage plan, extremely powerful or sophisticated methods indeed are required.

In Germany, Italy, and to a lesser extent in France, rapid growth rates in the 1950s were based on large-scale labour migration which undermined the power of the trade unions to disturb the accumulation of capital. This market restraint was supplemented by "active restraint on the unions by government" in the case of Gaullist France after 1958, and by the moderate policies of the unions, in the case of West Germany. As the sources of migrant labour dried up, as rates of growth slowed down, and as trade unions began to reflect the pressures of their members for more rapid advances in working-class standards of living, employer and State opinion turned in these countries towards the necessity of controlling union pressures through incomes policy. The cycle of development of post-war West European capitalism thus led directly towards a fundamental contradiction. In the first years of expansion, working-class docility was assured by (a) the reserve armies of migrant labour, and (b) the ease with which the system could afford to pay annual wage increases without eating into high profits and the sources of accumulation. However, the rapid rate of innovation characteristic of the post-war expansion in the major Common Market countries required that the growth rate should be constantly stepped up, to provide for the necessary rate of depreciation of fixed capital. In Western Germany this process inevitably reduced the rate of unemployment, a tendency which was enhanced accidentally by the building of the Berlin wall. As unemployment diminishes, there remains no market restraint preventing the trade unions from pressing for higher wages,
thus invading the source of high profits on which the growth rate depends.

"There thus appears a growing contradiction between the needs of neocapitalist programming and trade union freedom of bargaining for higher wages."

From this situation there arises a strategy based on the idea of a corporate agreement with the established leaders of the trade unions." Once the economic contradiction was apparent, the first formulations of this strategy by the international agencies of neo-capitalism quickly followed. The O.E.E.C. recommended in 1961 that governments should strive to establish incomes control on a permanent basis. This, it was said, would require changes in wage negotiating machinery and a continuous review by governments as to the increase in incomes "appropriate to the economic situation and consistent with price stability."

The theme was further elaborated in the following year:

"Governments are becoming increasingly convinced from their own circumstances of the need to evolve some form of national incomes policy to supplement the means by which they seek to achieve their fundamental objectives of full employment, rapid growth, price stability, and balance of payments equilibrium. At the same time they are committed to the maintenance and smooth functioning of free economic institutions and the maximum degree of freedom for wage and price determination. It follows that in our kind of societies a successful incomes policy must derive its ultimate sanction from the understanding and co-operation of all those concerned."

More recently the Council of Ministers of the Common Market recommended to their governments that they should

"explain to both sides of industry the pressing need for their stabilization policy and the principles underlying it, in order to be able to apply, for the rest of 1964 and 1965, wage policies ensuring that nominal incomes per head of the active population keep in step with the increase in gross national product."

The British Experience

In Britain, the post-war Labour Government, involved from the beginning in serious economic difficulties, had enlisted the loyalties of the trade unions for official support of wage restraint between 1948 and 1950. This policy was an ad hoc response to a crisis, although in the minds of the trade unions it was associated with the general assumption that the government's social and economic policies would continue to be acceptable. There was no question, however, of an elaborate or permanent agreement with the government, nor were any changes made in the institutional machinery of collective bargaining. When mounting pressure from below, aggravated by the increase in living costs associated with the Korean war, forced the T.U.C. to abandon official support
for wage restraint, there continued, in academic circles, a sporadic discussion of long-term wages policy. Attempts to reintroduce the subject by means of resolutions at the T.U.C. were met with huge dissenting majorities throughout the 1950s. An early attempt to formulate a wages policy, drawing heavily on the pattern of the authoritarian relations embodied in the Dutch system, was made by Alan Flanders in *A Policy for Wages*, published by the Fabian Society in 1950.

"If all wage movements are to come under some form of public control it will also be necessary to provide for the registration of collective agreements and their supervision by the authority responsible for the application of a national wages policy. It is hardly necessary to point out that this radical innovation is not likely to be regarded with favour by many British unions. Nevertheless, it has been accepted by the tradeunions in Holland with no apparent loss of their vitality and independence [sic] and without such a provision it is difficult to see how in the long run a wages policy can be universally applied."

In 1955, Barbara Wootton, in *The Social Foundations of Wages Policy*, contributed a witty and incisive study of the anomalous nature of British wage and salary structure, arguing that long-term policy should concentrate on a reform of this through the granting of higher increases to lower-paid workers. Both B. C. Roberts, in *National Wages Policy in War and Peace* (1958) and H. A. Turner, in *Wage Policy Abroad* (1957), contributed studies of foreign experience in the administration of wage policies. B. C. Roberts arrived at the conclusion that wage policies are to be avoided in favour of monetary regulation of the level of demand, while H. A. Turner believed that overseas experience could be studied with a view to drawing up a British blue-print; they both agreed however that elimination of inflation through wage control is no simple matter. As Roberts observed:

"The lessons of the Swedish experience would seem to suggest that the centralization of wage bargaining, under the aegis of a powerful Trades Union Congress and Employers’ Confederation, is not in itself any guarantee that wages will not rise in response to the level of aggregate demand."

The Left in Britain gave little or no attention to the problem until 1958–59. By this time, however, it had become obvious that a form of imposed wage policy existed, at least in state industries and public employment, in the shape of periodic wage checks applied during the "stop" phases of Conservative "stop-go" policies. When the London busmen’s attempt to challenge this in 1958 through strike action failed to evoke support from the leaders of other unions in the T.U.C., it became clear that such a situation threatened seriously to reduce the effectiveness of the trade union movement. At the same time the militancy which might have challenged the government's policies at a national level was fully absorbed in the local activities of isolated shop-
steward committees, engaged in the pursuit of wages drift at plant level. The trade union movement could not indefinitely postpone the development of a national strategy in these circumstances. The Left's first response, *A Socialist Wages Plan*, by John Hughes and Ken Alexander, appeared in 1959.\(^\text{13}\) It was, however, quite a moderate programme that they advanced, although their aim was to probe up to and beyond the limits of reform within a capitalist economy. Indeed their plan has since been appropriated almost completely by Mr. Wilson and his entourage. The core of their strategy was outlined as follows:

"We mean by the use of the term 'national wages policy' an alliance of government and trade unions on the basis of an agreement as to:

(a) redistribution of incomes by taxation and other means at the expense of unearned incomes;
(b) the objective of maintaining stable prices, and the use of controls particularly in relation to profit margins to achieve this objective;
(c) the rate of increase of real wages and salaries, that is of working-class purchasing power, that the policy will aim to achieve on the basis of a balanced growth of the economy.\(^\text{14}\)

Their detailed proposals for re-distribution at the expense of rentier incomes included the reimposition of rent control, the creation of a lower level of interest rates, higher income tax and surtax, a capital gains tax, budget surpluses from which to finance nationalized industry investment (thus avoiding the need to borrow from the private sector), the restriction of tax avoidance, and a variety of measures aimed at the control of profit margins. The latter included the abolition of resale price maintenance, the strengthening of the Monopolies Commission, and maximum publicity for the findings of state inquiries into costs and margins. "A vigorous policy of action against monopoly and high profit margins" would, so the authors envisaged, be accompanied by tax concessions to firms who keep their prices below certain prescribed maxima. "Such inducements should help to encourage the efficient low-cost firms to co-operate in a policy of pursuing profitability by way of greater efficiency and increased turnover..." This combination of policies seems to be quite acceptable to the advanced sector of the capitalist economy, and their effect would be simply to eliminate waste and inefficiency from the backward sectors; but no fundamental challenge was offered here to the centres of decision-making, or to the profit motive of the so-called mixed economy. Despite their intentions ("Our proposals do not mean that we dream of 'harmonizing' the mixed economy"), the conclusion is inescapable that the net result would be to endorse the "pursuit of profitability." Their fiscal proposals, viewed simply as reforms aimed at greater equality of net income, are unexceptionable; they are seen by the authors as necessary in order to ensure trade union collaboration in a wage-restraint exercise: "...such measures provide tangible inroads into inequality that trade unions can
show their members as part and parcel of a national wages policy."

The scheme proposed had some qualitative differences from the conventional bargain between trade unions and employers. The size of the annual adjustment to the general level of wage rates would, in the Hughes-Alexander plan, be recommended by a National Wages Advisory Council, composed of representatives of the government, the British Employers’ Confederation and the T.U.C. "Moral pressures," trade union "responsibility," and the conformity of arbitration tribunals to government policy would together enforce the wages plan upon the different sectors of the economy. H. A. Turner, who contributed to the discussion in the *New Reasoner*, which followed the publication of the *Socialist Wages Plan*, had little difficulty in showing that the gains offered to wage earners—"an increase in real wages of at least 3 per cent per annum"—were modest indeed.\(^{15}\)

The proposals of Alexander and Hughes demonstrated the limited horizons which existed at that time, on the Left. They were over-optimistic concerning the institutional prospects for their reforms, particularly in the field of trust-busting and the restoration of competition. They were also, by implication, oddly pessimistic about the future rôle of the working class. Their attitude in this matter stemmed from a failure to recognize the full implications of what they describe as "money-wage militancy," which in fact is by no means an entirely negative or defensive phenomenon. It is true that this militancy developed within the shadow of earnings-drift: but it also assisted in the growth of resistance to managerial control on the shop floor. This resistance, in turn, has led on from demands which are perfectly attainable within capitalism to the formation of objectives which are not. No one who participated in the debate on the *Socialist Wages Plan* appreciated that a discussion of incomes policy, if linked with a resistance to wage restraint and a defence of collective bargaining, could help in the shift from traditional, sectional militancy into a more general class understanding.

Socialists have the responsibility to analyse the reasons for the persistence with which the demand for incomes policy has been stated in recent years in West European countries. This goes far beyond the confines of a discussion about wage costs, inflation, and growth rates. From such a socialist analysis, we can proceed to the formulation of alternative policies which challenge the basic functioning of a profit-based economy. The core of such an alternative is contained in the article by Ernest Mandel in the 1964 edition of the *Socialist Register*.

"Socialists should not accept the neo-capitalist myth about the welfare state and the mass consumers’ society. They should oppose their own values of consumption to those of the system geared to the maximization of private profit for a few monopolies. They should challenge further the inability of neo-capitalism to change in any way the autocratic structure of business, which is the basis of the alienation of labour in contemporary industry."
"For that reason, and also because it is the necessary answer to any campaign in favour of an 'incomes policy' (everybody knows the wages bill, but since there are innumerable ways of hiding profits, in order to avoid tax payments, why should we believe any statement from the employers?) the demand for workers' control is today the strategically central demand of socialists and of the labour movements generally.

"...the demand for it is the means of drawing the working class into the great debate around the aggregate volumes of wages and profits (surplus value) which the discussion around an 'incomes policy' will inevitably lead to."

The discussion around the Socialist Wages Plan in 1959 failed to generate any such alternative demand, and soon petered out. The events of the ensuing period down to the present day have brought attention sharply back to the problem.

The reluctance of the T.U.C. to challenge government wage stops by concerted action, first apparent in 1958, was made even more clear during the Selwyn Lloyd pay pause of 1961. Although the T.U.C. contemptuously rejected any idea of collaborating with the government's National Incomes Commission (a five-man body appointed by Royal Warrant, concerned with "the desirability of keeping the long-term rate of increase of the aggregate of monetary incomes within the long-term rate of increase of national production"), nevertheless it moved a significant step towards collaboration with the state by accepting (in 1962) the invitation of the government to join the National Economic Development Council. The purpose of this organization—the establishment of plans for fast and stable growth rates—was bound to involve consideration of incomes policy. The government's initiatives with N.I.C. and N.E.D.C. were British capitalism's first approximations to the O.E.E.C. and O.E.C.D. strategies already quoted. From 1961–62 therefore, the strands of post-war development in the separate national economies of Western Europe come together to promote an international outlook with a higher level of sophistication from that of the earlier period.

**The Evolving Strategy in Britain**

From 1962 onwards a flood of reports, debates, journalistic coverage, statements from the T.U.C., employers' organizations and the government, have examined the problems involved in incomes policy, and there is no doubt that there has been a growing "accommodation" to the idea within the trade union movement. Evidence has accumulated on the extent and persistence of the wages drift. Overtime, piece-work rates, bonus schemes, and lieu rates have all been carefully scrutinized: and the conclusion is that these features of the wage system mean that a national agreement on wages control could be rendered ineffective unless local bargaining was restrained. Strike statistics, moreover, have showed a steady increase in local, spontaneous stoppages since
1957. There has been a growing realization that local working-class power would have to be tackled, quite as much as the traditional bargaining function of the national leaders. The pro-incomes policy strategy has therefore evolved on two fronts, one searching for the minimum terms acceptable to the trade unions as a whole, and the other seeking measures to stop wage-drift locally.

Nationally, the agreement offered is some form and degree of profit control. This offer occurs in many schemes prepared by Fabians and the Labour Right. Usually it goes no further than implying that the incidence of an incomes policy will not be allowed to switch the global distribution of incomes in favour of property, which make such schemes less ambitious than the earlier Alexander-Hughes plan. An example of this kind occurs in the pamphlet by Rex Winsbury and Michael Stewart written in 1963:

"An essential requirement of an incomes policy is obviously that a slower rise in wages and salaries should be reflected in a slower rise in profits."15

In the same year, Thomas Balogh argued that such an objective was a reasonable one.

"It should prove administratively quite practicable to generalize a policy of restraint and control strategic prices and margins."20

Such proposals, signifying nothing more than the preservation of the existing distribution of income between Capital and Labour, are quite compatible with the "fundamental principle" of an incomes policy as laid down by the Tory government's National Incomes Commission—"to keep the rate of increase in money incomes within the long-term rate of increase of national production."21 As Vittorio Foa, Deputy Secretary-General of the Italian C.G.I.L., has observed:

"Even when concealed by decoys, like public control over prices and profits, the procedure is always and necessarily aimed at restoring the profit mechanism to full capacity, not only for the obvious reason that public control again raises the eternal theme of control over the controller, but also because in explicit terms control over profits is put forward as a means of guaranteeing the conditions for further capitalist accumulation . . . the most far-sighted capitalist groups, those capable of a systematic strategy, and the reformist tendencies in the working-class movement find a common meeting point."22

J. R. Sargent, in yet another Fabian tract of 1963, argued that Labour should be prepared to tolerate a more unequal distribution of income, in the interests of capital accumulation and a faster rate of growth, his model being, no doubt, Germany in the 1950s. He outlines the consequences of a "competitive struggle with profits."

"As the share of wages continued to rise, the life blood of capitalism would begin to run dry. Capital would try to flee abroad, and would presumably be checked by applying exchange control with the necessary
severity. This done, businesses would gradually begin to close down, as there would be insufficient profit to induce them to replace worn-out assets. To avert this the state would have to take them over and private ownership of the means of production would be slowly extinguished.

Since the protagonists of limited profit control certainly do not envisage these consequences, they may well find Sargent's logic slightly embarrassing, for it confirms Vittorio Foa's emphasis upon the real purpose of wages control: the protection and indeed enlargement of the profit mechanism. The hope is, of course, that the working class can be induced, through the talk of "fair shares," to accept major inroads into trade union autonomy and working-class freedom in order to achieve what is presented as economic growth under reasonably stable conditions.

If we suppose that agreement is reached at national level, and this now seems possible following the signing, by T.U.C., Government and Employers' organizations, of the "Declaration of Intent," there remains the problem of holding back the locally induced wage drift. There are three elements to the strategy at this level: legislation, indoctrination, and the "package deal."

The judgment in *Rookes v. Barnard* creates the opportunity for the "modernization" of the law in relation to strike action, and this the strategy requires. The case has provided a pretext for sections of the Tory Party to demand a Royal Commission on the trade unions. All this has occurred against a background press campaign which has nourished and revived the ever-latent anti-union prejudice of the middle class. The Labour government proposes, as an immediate measure, to restore the *status quo ante* in relation to *Rookes v. Barnard*. Further, the T.U.C. has recently announced its acceptance of the proposal for a Royal Commission. This seems to concede the case for reform, since the interpretation of the law was quite clear prior to *Rookes v. Barnard*. Further, the T.U.C. delegation which visited Sweden in 1962 appeared to approve the legal restrictions on strike action which prevail there. The present Minister of Labour, Ray Gunter, himself formerly National President of the railway clerks' union (the Transport Salaried Staffs Association), is a well-known advocate of tough measures to "put the trade union house in order."

"I am persuaded," Mr. Gunter has said, "that unless the unions face the facts of life as they are in the late 1960s, then in seven to ten years' time the state will have to intervene. Industrial courts, with the authority of judicial courts, will be created and any dispute will have to be referred to them. Some of my trade union colleagues are gloomy enough to believe that this is inevitable in any case and that the main object should be to make sure that they are completely independent of any government. I am not so pessimistic: the unions can do it themselves, but one thing is certain—the trade unions are not eternal. They will exist just as long as they are relevant to the times in which they seek to exist."
The most explicit statement from a Labour source linking incomes policy with a curb on strike action occurs in the Fabian tract by Michael Stewart and Rex Winsbury quoted earlier. It is astonishingly frank.

"Acceptance of an incomes policy will also have implications for the right to strike. Clearly, to be operable, such a policy cannot have hanging over it the threat of a strike by a dissatisfied union. Probably the adjustment here will only come about gradually and voluntarily (as indeed will the whole incomes policy). But the point must be recognized from the outset."

In most of the countries of Western Europe, courts and governments are engaged in the 'modernization' of the law on strike action with such consistency as to justify a conclusion that a degree of coercion at least plays an essential part in the evolution of a corporate rôle for the trade unions. Apart from legal inhibitions, coercion may also be exercised through trade union discipline. Some of the T.U.C. leaders find the tough measures available in the Swedish system for dealing with unofficial strikers very attractive. Employers are not slow to record their approval of this tendency, and one prominent industrialist recently went so far as to argue that the closed shop should be institutionalized in such a way as to deny to the shop stewards what he called 'power without responsibility.' Tighter discipline seems to be the purpose behind a good deal of the current discussion and initiatives in the field of trade union structural reform. It is often argued that the difficulty of disciplining the shop stewards, and their committees, originates in the existence of many different unions within the same firm or plant. This leads the stewards to form horizontal links with each other, which cut across union lines of authority. The replacement of many by one union within the firm, it is supposed, would enable vertical control to be exercised from the apex of a single trade union pyramid of authority.

The T.U.C., as well as the employers and the state, would hope to restrain local shop steward initiative by means which are less obviously authoritarian: hence the growing emphasis upon shop-steward training, which is now the subject of a formal communique agreed jointly by the T.U.C. and the British Employers' Confederation. This speaks of the right of employers to be consulted about syllabuses where day release with pay is offered to shop-steward trainees. Conformist attitudes towards current T.U.C. and unions' national policies are fostered through many of the internal education schemes which unions organize for their own members, and the T.U.C.'s recently acquired control of the educational work previously provided locally and regionally by the National Council of Labour Colleges gives further opportunities for this kind of opinion forming.

The long-term contract, embodying a productivity "package deal" constitutes the third strand in the drive against wage drift and local working-class initiative. Here the purpose is to take control of the labour force out of the hands of the shop stewards, and to intensify
work methods. This is a sophisticated version of old-fashioned speed-up. By eliminating all the elements which constitute wage-drift from the pay-packet (piece-rates, bonuses, lieu rates, and overtime) and by substituting simple time rates, the area formerly controlled by the shop steward is reduced to a minimum, and managerial authority is thereby restored. The watchword, "management must manage," which crossed the Atlantic from the New Jersey headquarters of Standard Oil, to the Fawley refinery of its British subsidiary Esso, is being urgently and earnestly reiterated throughout British industry. "Wage plans" at plant level are being energetically negotiated by a significant minority of the traditionally leisurely British management. In this new efficiency drive, workers are caught up more firmly than ever in the tempo of the production line. There are many small sacrifices to be made in the interests of the productivity package deal, along with the loss of washing times on dirty jobs, and the loss of travelling-time allowances. With extra payments eliminated, and greater managerial authority justified by reference to the "national interest," with shop-steward controls signed away in the deal, and also surrounded by legal checks and the threat of expulsion from union and job (the union's closed shops being enthusiastically enforced by management in return for the unions' aid in disciplinary matters), the policing of earnings drift becomes a practical proposition. It could, at last, be restricted to within reasonable limits determined by the national incomes policy.

The nearer this strategy is brought to full realization, the greater the violence which will be done to the practice of collective bargaining, and to the limited degree of economic democracy and freedom which have been won and defended by the trade unions. It is a strategy supported in all sincerity by many reformist members of the Labour movement, not because they are authoritarian—though some undoubtedly are—but because they see no other way out of the dilemma of modern trade unionism. We do not believe that the strategy of an incomes policy can restore smooth growth rates or produce a society anesthetized against class conflict, for the contradictions inherent in neo-capitalism are too deep for such spurious resolution. The self-confidence and healthy scepticism of the working class remain considerable, despite the barrage of "national interest" propaganda. A concern for trade union independence, as the only sure bulwark against the authoritarian and bureaucratic state, exists amongst many trade union leaders; and these are powerful forces upon which to build the positive responses and alternatives to the problems of an incomes policy.

NOTES


16. Michael Kidron, in "The Limits of Reform," *New Reasoner*, autumn 1959, did, in passing, suggest the counter-cry "Open the books," but it was neglected in the general polemic, and since then, the group to which he belongs has characterized the slogan as an anachronistic transitional demand, and those who present it as "pickpockets."


29. J. R. Edwards (Managing Director of Pressed Steel Ltd.), reported in the *Guardian*, 28 April 1964.
