



Trade Unions and Rising Prices

Evidence of The Institute for Workers' Control to the Court of Enquiry into Pay for Electricity Workers on the subject of the Causes of Inflation and the Public Interest in the matters of Trade Unions' pay claims.

THE INSTITUTE FOR WORKERS' CONTROL

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When the Government set up its "Court of Enquiry on the Pay of Electricity Supply Workers" under the chairmanship of Lord Wilberforce, following the very effective work-to-rule by power workers in support of their pay claim during December 1970, it required the Court, as part of its terms of reference, to consider the "public interest and the national economy" in its deliberations.

Knowing that the Government was hostile to the wage claim and that the Treasury would attempt to persuade that Court that the effect of the electricity workers' claim was bound to be inflationary, the Institute for Workers' Control decided to submit its own evidence about the causes of inflation.

The IWC's written evidence is reproduced in this pamphlet and it will be seen that its views differ sharply from those of the Government as propounded by the Treasury. We wanted our representatives to give oral evidence to the Court to support our written testimony, on the grounds that voluntary organisations had as much right to speak for the public interest as a Government elected on a minority vote. In the event, however, the Court decided to hear only the representatives from the Treasury, apart from those of the parties to the dispute.

Introduction

THIS ANIMAL IS DANGEROUS: IT FIGHTS BACK

This is a phrase that is said to have been hung on the bars of a cage in a zoo; it could well be applied to the attitude being shown by Tory Ministers to the current round of Trade Union wage claims. All the media of Press and Radio and Television are carrying the same insistent message — that it is wage claims that are pushing up prices. This isn't what the Tories said in their election manifesto and election speeches:

“Britain now faces the worst inflation for twenty years. This is mainly the result of tax increases and devaluation. In implementing all our policies the need to curb inflation will come first . . . We utterly reject the philosophy of compulsory wage control. We want instead to get production up.”

Nothing has happened since then to change the situation except that the Tories are now the Government, and have to find a scape-goat for their failure to “cut prices at a stroke”.

As socialists we have to admit that it was a Labour Government that started the price rise by devaluation, which raised import prices, and by deflation of home demand through higher interest rates and through increased taxes on expenditure. Chartists and the Tribune group of MPs did not criticise devaluation except that it was done too late; but they did most strongly criticise the raising of interest rates and of indirect taxes. For these fall most heavily on those least able to bear them and only push up industry costs when the home market is cut back and industry is forced to operate below full capacity. Instead, we recommended controls over imports and over foreign exchange movements, so that economic growth could continue and the balance of payments problem be solved without holding back all growth at home until exports caught up with imports.

For two whole years from September 1968 to September 1970 we had no real increase in industrial output; and the increase over the previous two years had been little more than 5%. But during these four years employment had been steadily cut back, until there were nearly a million fewer men and women employed than in September 1966. Only 350,000 of these had registered as extra unemployed; the rest — women of all ages and men over 64 — had not troubled to get to the Labour Exchange since they knew there weren't any jobs for them. At the same time new plant and equipment was being installed, albeit rather slowly because of the stagnant demand, and surplus capacity was growing. As costs rose and were passed on to the consumer in higher prices, workers saw their money wage increases being wiped out by higher prices. They were increasing their real productivity, as the same output was produced with fewer men, but they were getting no increases in their real wages.

This is where the Trade Unions began to fight back, first to get real wages back in line with productivity and then to get an advance in line with the new capacity that they knew existed and was not being fully used. And they did it in a way that put the interests of the lower paid wage earner first — by preference for the lowest paid, flat rate increases, tapered increases, special increases for women workers. The Trade Unions provided their own Incomes Policy. And they got the economy moving again in response to this expansion of purchasing power. Without their actions there would have been no spending spree this Christmas, unemployment would have climbed even higher than the current record of 700,000 and costs and prices would have been pushed up still further.

Why was this so dangerous for the Tories? The balance of payments had moved into the black to the extent of some £800m. Mr. Barber in his mini-budget could well have cut taxes on expenditure and interest rates; but instead he increased social service charges and promised to cut income tax next April. In effect he could have cut prices "at a stroke", but instead he chose to raise charges, bearing most heavily on the poor, and to promise tax relief that would give most benefit to the rich. The Tories were in fact engaged in a massive attempt to redress the small but steady

gains that had been made towards greater income equality since the war. Inflation could be allowed to run for a bit longer; owners of property whose value would rise with the prices would be alright, but the great majority of the propertyless would be hit — and the Trade Unions could be blamed for what is called wage inflation.

This whole strategy is closely connected with the Industrial Relations Bill to bring trade unions under legal controls. Whip up public opinion against the Unions as the selfish creators of inflation and the Unions can be bashed for a generation. This is the significance of the Government's confrontation with the electric power supply workers. Make no arrangements for emergency supplies to hospitals, force a shut down and blame the workers. The Court of Inquiry has been set up with terms of reference including the interest of the public. Evidence has been submitted by the Transport and General Workers' Union, by the Institute for Workers' Control and by others to show that it is in the public interest that real wages should be increased to take up existing productive capacity and encourage investment in new plant and equipment. To sustain this it is the Government that must act by reducing indirect taxes and interest rates. These rates are fifty per cent higher than they were five years ago. Owners of capital demand 10% and more for loans to local authorities, ICI offered 10%% for loan stock in the week of the power workers' industrial action. We were told that the power workers were "holding the nation to ransom", but what about the capitalists?

These may seem to be difficult and even abstruse economic arguments, but it is the task of active members in the Movement to expose what the Government is doing, because it is creating the political climate for its attack on the Unions through the Industrial Relations Bill and this must be fought; but the public must be persuaded that it is not the trade union animal that is dangerous and must be caged; it is the capitalist and the Tory Government that is endangering the public interest.

The Evidence

1. Introduction - the Government's Argument and the Workers' reply

It has been asserted by Government Ministers and widely accepted as true that an increase in money wage payments to any group of workers in excess of 10% would be inflationary in the present circumstances. The Prime Minister himself referred to the Local Government wage award of 15% by the Scamp Committee of Enquiry in November last as "wildly inflationary". The implications of these statements are that wage increases are the primary cause of price increases. This was not in fact the view of the Conservative Party leaders as stated in their June Election Manifesto, which read in part:

"Britain now faces the worst inflation for twenty years. This is mainly the result of tax increases and devaluation. In implementing all our policies the need to curb inflation will come first. . . . We utterly reject the philosophy of compulsory wage control. We want instead to get production up."

It will be contended in this paper that the Conservative Party leaders were more nearly right in June than in December and that nothing has happened in those six months to require a change of view - except that the Conservative leaders have become the Government and have had to find a scapegoat for their failure to halt the rate of increase of prices over the period, in spite of the promises they made that they could do so. It will be argued below that higher wage demands are not the cause but the effect of price increases and that the main causes of inflation have been increased taxes, higher interest rates and higher import prices at a time of under capacity working in an industrial economy where firms' monopolistic positions make possible the passing on of higher unit costs in higher prices to the consumer

From this view it would follow, as the Conservative Manifesto made clear, that it would be in the national interest to permit a more rapid growth in output in place of the last two years of near stagnation, so that firms could operate at higher levels of capacity, absorb any increased costs and make available a real income advance which the working people of this country have been denied for so long. This view is endorsed by the Economic Reviews alike of the T. U. C. and the National

Institute of Economic and Social Research. The attitude of workers who knew that additional capacity existed which was not being used would, in the absence of any consultation of their interests, be that it was up to the Government to ensure that this capacity was used to raise their real incomes. In the meantime they would think it reasonable to claim a money increase in wages adequate to provide such a real increase in income after discounting price increases.

II. The Causes of Inflation

1) Demand Pull Explanation

It is generally agreed that inflation in the sense of a sustained and rapid rise in prices may be caused when the supply of goods is inadequate to meet the money demand for them. This situation has occurred during and after major wars and particularly in countries where industrial capacity was destroyed or dislocated, as in Germany and Austria in 1918 and 1945. Since 1951 it cannot easily be argued that this has been the cause of the annual average, nearly 3%, price rise in Britain. This is because prices have tended to rise faster in periods of stagnation, when industry was running below capacity, than in periods of boom when output was near to full capacity.

Table I

Average Annual Percentage Changes of National Income and Prices in Years of Boom and Stagnation 1952 - 67

	Growth in G.N.P. (Current Prices)	Price Rises	Real Growth in G.N.P.	Real Growth per Person Employed
7 Boom years	6.5	1.9	4.4	3.1
8 Stagnant years	4.7	3.4	1.4	1.1
15 years average	5.5	2.6	2.9	2.1

Source: National Income and Expenditure Blue Book and National Institute *Economic Review*

Note: 7 boom years were 1952-55, 1958-60 and 1962-4
8 stagnant years were 1955-58, 1960-62 and 1964-7

Since 1967 the picture has been more complicated because there has only been one year which could be described as a boom and that was 1968. It can readily be seen from Table II, however, that the rise in prices between the fourth quarter of 1967 and the fourth quarter of 1968 was the only annual period after 1967 when the price rise was less than 5%. Even the more rapid rate of inflation since 1967 cannot thus be easily attributed to excess demand.

Table II

Quarterly Movements of Incomes and Prices 1967 - 70 (1967 Base Year = 100)

	G.D.P.	Prices	Real Growth G.D.P.	Real Growth per person
1967 IV	101.5	100.5	100.9	101.5
1968 I	102.2	102.5	101.7	103
II	106.9	104.5	102.1	102.5
III	108.5	105	103.5	105
IV	112	106.2	105	105.5
1969 I	112.7	108.7	103.5	105.3
II	115.2	110.3	104.5	106.6
III	117	110.5	106	107.1
IV	119	112	106.2	108
1970 I	120	114	105.2	108
II	124	116.5	106.5	108.5
III		118.1		

Source: NIESR *Economic Review*

Moreover, even if it were to be supposed that demand pull was the cause of inflation in these years the pull of wages on resources is only a small proportion of the total effective demand. It has been difficult to estimate from the Blue Book figures since 1960 the effective demand on national resources of personal disposable incomes after direct and indirect taxes and personal saving, but the proportions in 1960 were as follows:

Table III

Effective Demand as a Percentage of National Income 1960

1. Personal Incomes after payment of all taxes, N.I. and after savings	
Wages	28
Salaries	15
Forces Pay	1.5
Self Employment and Property Incomes	9
Pensions and Benefits etc.	9
Total of above for Consumption	62.5
2. Saving for Capital Formation	20.5
3. Foreign Disinvestment	-1.5
4. Taxation for Public Consumption	18
5. Error	0.5
Total G.N.P.	100

Since 1960 the shares of public consumption and overseas investment have both greatly increased and the number of salary earners have increased at the expense of wage earners. It is unlikely that in 1970 the pull of wages demand upon national resources was in excess of 25% of the total. In fact the growth of personal consumption since 1960 has been much slower than the growth of any of the other sectors of the economy, if we exclude the growth in taxes on consumption. This has been particularly the case in the years since 1964 when taxes on expenditure were raised very sharply. The main pulls on national resources in the decade of the 1960s were the increase in public capital investment particularly up to 1964 and the increase in exports after 1964. As a result consumption in real terms grew very slowly particularly after 1964. The detailed figures for the two halves of the decade are shown in Table IV.

Table IV
U.K. Annual Growth Figures 1959 - 69

Items	Prices	Growth at Current and Constant Prices			Values in 1969	
		1959 - 64 (1959 = 100)	1964 - 69 (1964 = 100)	1959 - 69 (1959 = 100)	£m	as %
A. G.D.P. current prices		137	132	180	38150	100
1963 prices		120	111	134	31326	100
B. Consumption: Current		133	133	178	28618	75
1963		117	109	128	22629	72.5
C. Taxes on Expenditure less subsidies: current		139	178	248	7024	18
1963		120	114	136	4252	13.5
B. - C. Consumption less Taxes:						
current		132	123	162	21954	56.5
1963		116	108	125	18371	58.5
D. Public Authorities: current		137	147	203	8118	21
1963		113	110	124	5800	18.5
E. Capital Investment Total: current		157	135	212	7927	21
1963		142	115	164	6602	21
Public: current		162	143	230	3688	9.5
1963		141	119	168	2956	9.5
Private Excl. dwellings: current		147	138	204	3564	9.5
1963		140	120	168	3091	10
F. Export of Goods & Services:						
current		126	159	200	9721	25.5
1963		119	134	160	8055	26

Table IV also suggests another reason why excess demand cannot have been causing inflation. Investment in new productive capacity is best indicated by the figure for private capital investment excluding that in dwellings. This rose much faster than the total of the national product and even faster than the

total of consumption (less taxes). By the end of the decade there must have been a growing excess of unused productive capacity, particularly after the short-lived investment boom of 1968. The index of industrial output was at the same level in August of 1970 that it had been in December 1968; but although the level of fixed investment by manufacturing industry had fallen off somewhat early in 1969, it had recovered thereafter. This fixed investment had barely surpassed the last 1968 quarterly figure by the third quarter of 1970, but it was at a level of about 15% above the 1967 average. Extra capacity must have been available during this period of stagnating output. This is confirmed by the continued high proportion (over a quarter) of firms reporting in the last year or two to the regular C. B. I. inquiries that they were operating below full capacity. Of course these figures do not indicate the size of the firms or the level of under-capacity working.

The available unused labour force was even more evident. Not only was there an average of nearly 600,000 unemployed in 1969 and 1970 or about $2\frac{1}{2}\%$ of total employees, but the figure for males was $3\frac{1}{2}\%$, compared with about $1\frac{1}{2}\%$ or 300,000 males and females in 1964-6. In fact the unemployment figures only reveal a part of the unused labour force. Many women and also men over 64 do not register for work. The total number of employees in employment in March 1970 was 22,425,000 or 900,000 less than in September of 1966. During this period the population of working age had, moreover, increased by 50,000, nearly all males. There were 650,000 unemployed as well as the 300,000 extra since 1966 who might have sought work if it had been available. Of course some young people stayed on longer at school, but, since there were already 300,000 unemployed in 1966, we may say without doubt that at least a million people were involuntarily out of work in this period.

We can conclude that there was unused productive capacity and unused labour in the economy during the recent period of inflation, as well as during earlier periods of more rapid price increases. Excess demand from wages or other income pressures cannot therefore be regarded as an adequate explanation for inflation.

2) Cost Push Explanation

The explanation for inflation in the conditions which have been described above is generally referred to as cost-push. Unit costs rise particularly in manufacturing industry and these are passed on to the consumer as higher prices. A major element in unit costs consists, of course, of wages and other incomes. This may be looked at in different ways. Taking all industries, the proportion of income from employment, including

contributions to national insurance, amounts to some 70% of the gross domestic product, the remaining 30% consisting of gross profits and trading surpluses. In manufacturing industry wages account for some 45%, salaries for 22% and employers' contributions for 6%. In capital intensive industries like gas, electricity and water supply, however, the proportions are wages 19%, salaries 15% and contributions 4%. Over 60% consists of trading surplus. These proportions of the gross domestic product, moreover, conceal the costs to the firm or industry of imports which are roughly covered by exports in the national accounts and the cost to the consumer of expenditure taxes and other taxes which come out of employment and other incomes.

A rise in unit costs for a firm or industry may come about, therefore, through rising import prices, and rising rates of taxation, and also through the rise in the cost of capital, as well as through rising wage and salary costs. In the latest available input-output table for the U. K. economy - that for 1963 - the importance of imports and of taxes on expenditure can be seen. Table V summarises the aggregates for the different industries making up the matrix and Table VI gives the position for one group of industries - gas, water and electricity. Taking the overall figures in Table V, imports are equal to about a third and taxes on expenditure to another fifth of the share of income from employment in the value of total output. The share of gross profits and surplus is very nearly a half the value of the share of income from employment in this reckoning.

Table V
U.K. Input-Output Transactions Matrix for 1963. (£m)

Input Items	Intermediate Output	Final Output		TOTAL Output	
		Home	Export	Output	as %
Imports of Goods and Services	3602	2300	262	5964	7.5
Goods & Services (excl. imports)	12963	25404	5562	43929	55
Taxes on Expenditure less subsidies	637	2851	-	3488	4.5
Incomes from Employment	18145	-	-	18145	22.5
Gross Profits & Surplus	8582	-	-	8582	10.5
TOTAL	43929	30355	5824	80108	100

Table VI

U.K. Input-Output Transactions for Gas, Water and Electricity 1963 (£m)

A. Input Items		B. Output Items			
Imports	17				
Other Goods & Services	689				
Taxes on Expenditure	69				
Income from Employment	373				
Gross Surplus	455				
TOTAL	1603	Intermediate	Final Output	TOTAL	
		707	Home 692	Export 4	1603

It is clear from these figures that the rise in other costs may be just as important as wage and salary costs in causing an inflationary situation, as they are. It becomes a matter of great importance therefore, to discover the initial cause of a rise in unit costs. There will always be a strong tendency for money wage and salary demands to take into account price increases in order that those making them can achieve a real increase in income, especially where productivity increases in real terms have been made. The first and most important cause of a rise in unit costs must be the result of operating plant below full capacity. Overhead costs and many other wage and salary costs cannot be reduced when output is cut back or fails to advance in line with new capacity installed. This is the first and most fundamental cause of inflationary unit cost push - that costs are being spread over a smaller output than a firm or industry is capable of. Thus the first cause of inflation is paradoxically the result of deflationary measures designed generally to hold back home demand in order to encourage firms into the export market and correct a balance of payments deficit. The cost push effects of deflationary measures are aggravated by the very nature of these measures. Home demand has regularly been deflated - and never more so than in the last three years - by means of raising interest rates and increasing indirect taxes. The latter enter immediately and directly into prices and thus into many costs as well as encouraging new income demands. Higher interest rates have the double effect of curbing activity especially in the field of fixed investment and of attracting short term money into the country to balance a payments deficit. On the one hand home demand may be curbed by the high rate of borrowing. On the other hand funds become available for meeting raised costs before these can be passed on to consumers.

Here we may detect the second crucial element in inflation. Price competition in an advanced industrial economy is rare. Monopolistic positions and oligopolistic agreements - tacit as much as explicit - have created a situation where administered prices are the rule. Price wars are avoided and higher costs are passed on to the consumers as higher prices by leading firms without fear of undercutting from their lesser rivals. Many large firms in setting their prices include an additional item to their historic depreciation provision for replacement at the cost anticipated on the assumption of continued inflation. They then build into the price the very increase that they are preparing for. It still remains to be determined what have been the pressures which initiated the more rapid rise in prices in the last two years.

Table VII shows clearly the leap up in import prices in the first quarter of 1968 (it had begun in the last quarter of 1967) as

a result of devaluation, and this was followed by a continuously five times higher rate of increase in import prices than had been experienced in the previous eight years. It also shows the huge increase in indirect taxes - by 15% - in 1968 alone, continuing thereafter at a 50% more rapid rate than in the previous years. By contrast the faster increases in wage rates - concentrated mainly in 1970 - at only 1.7% a quarter compare with 1.3% a quarter in earlier years and earnings at 1.8% compared with 1.6% earlier are only marginally faster.

Table VII

U.K. Quarterly Movements in Prices and Incomes and Indirect Taxes. (% changes by Quarter)

Year and Quarter	Retail Prices	Import Prices	Hourly Wage Rates	Hourly Earnings	Employment Income per Unit of Output	Taxes on Expenditure less Subsidies
1959 - 67 Average	0.8	0.3	1.3	1.6	1.0	2.1
Year 1967	0.7	0	1.0	0.8	0.5	0.7
1968 I	1.3	5.1	2.5	(2.0)	0.2	-2.0
II	2.1	0.9	0.8	(2.0)	1.6	7.1
III	0.8	0.9	0.7	(1.4)	0	6.9
IV	1.2	0.8	1.7	(1.4)	0.4	11.0
1969 I	2.0	0.9	2.1	(1.9)	1.9	-7.5
II	1.5	0.8	0.5	(1.9)		
III	0.1	1.5	0.5	(1.7)	1.5	4.5
IV	1.4	1.5	1.3	(1.7)	3.0	2.0
1970 I	1.5	1.6	4.0		2.7	-8.5
II	2.2	1.0	2.8		3.0	9.2
III	1.3	0	2.6			
1967 IV to 1970 IV						
Average	1.5	1.5	1.7	(1.8)	1.5	3.2

To this picture we must add the date of the major changes in interest rates. U.K. Bank rate which had averaged 5% from 1959 to 1964 was raised in 1965 to 7%, lowered briefly in 1967 and raised at the end of 1967 to 8%, coming down again only to 7% in April 1970. The average rate over the years 1967 to 1970 was well above 7½%, that is 50% above the previous five year average. Local authorities' 3 months deposits which had been averaging a little above Bank Rate at 5% were raised in 1969 to almost double that level. Those who have accused the power workers of holding the nation to ransom might consider the possible implication of the charge that owners of capital have been doing likewise. I. C. I. had to pay 10¾% for a loan in November last year. Indeed it is as natural for those who lend money to look askance at the return in a year's time of £10 on a £100 loan when prices are rising at 7% a year as it is for workers to look likewise at a 10% wage offer in the same circumstances. There is clearly an in-

terest rate-price spiral as much as a wage-price spiral and we have found good grounds for suggesting that, since interest rates as well as import prices and expenditure taxes were all raised well in advance of the stepping-up of wage rates, it must be that wage claims have been following, rather than leading the price increases caused by these sharp rises in costs. Of course, the problem of interest rates has become an international one, but it must be said that it was a British Government that started the Dutch auction in interest rates to attract short term capital to cover balance of payments deficits. U.S. rates and German rates have always been well below those in the U. K. and have followed them up and led them down until this year as Table VIII reveals.

Table VIII

Average Annual Bank Rates U.K., U.S.A., West Germany 1958 - 70

Year	U.K.	U.S.A.	West Germany
1958	4	2	3
1959	4	3	3
1960	5½	3½	4½
1961	6	3	3
1962	4½	3	3
1963	4	3½	3
1964	5	3½	3
1965	6	4	3½
1966	6½	4½	5
1967	6½	4	3
1968	7½	5	3
1969	8	5½	5
1970	7½	6	7

The conclusion of this argument is that more rapid money wage increases have not been the cause of inflation but the effect. The conclusion has been confirmed by the Treasury, the C. B. I., the T. U. C. and the National Economic Development Office at a National Economic Development Council meeting on January 6th 1971. According to Peter Jay, reporting in The Times of the next day.

"There was general agreement that wages and salaries had not originally begun the pay and price explosion which has occurred over the past 15 months. Devaluation was seen on all sides as the trigger mechanism working through its effect on import prices, higher indirect taxes, restraint of real income increases and higher unit labour costs spread over stagnant production."

The discussion at this meeting was based on Treasury and N. E. D. O. papers as well as a T. U. C. paper, and it is perhaps

of importance to note that these papers must have been in the Government's hands before Christmas when Ministers were claiming unequivocally, in the course of the electrical workers industrial action, that the wage explosion was the cause of inflation. The report of this N. E. D. C. meeting goes on to record:

"There was less agreement, however, over the question of how far the running had been taken up by pay pressures since the Autumn of 1969. The Treasury, the C. B. I. and the N. E. D. C. clearly blamed pay for the strength and continuation of cost inflation during 1970."

It is clear from the figures in Table III that wage rate increases accelerated in 1970, but it is equally clear that they were doing little more than catch up with price increases. No one ever doubted that there was a spiral effect. If, however, it is a price-income spiral and not an income-price spiral, then the remedy lies not in treating the effect (higher income claims) but the cause (higher prices). It is in fact not true that devaluation and the consequent higher import prices need have led to higher indirect taxes as was suggested at the N. E. D. C. meeting. Nor need it have led to higher interest rates. Other means could have been used to curb import demand and encourage exports. Import controls, for example, were advocated in 1967 by many economists including Sir Roy Harrod and the authors of the National Institute Economic Review. If the deflationary measures adopted by governments inevitably raise unit costs and prices, to blame the workers for raising their claims reminds one of the notice in a zoo which read, "This animal is dangerous; it fights back". The question for decision is what policy should be adopted in the present situation in the interests of the national economy and the public.

III The Interest of the National Economy and the Public in the matter of Trade Union claims for Higher Pay.

The recent wave of Trade Union claims for pay increases much in excess of those made in earlier years and the higher rates settled with employers in 1970 must be seen in relation to both rising prices and rising productivity. From Table VII it appears that 1967 was a very stable year and that the more rapid rate of increases in prices occurred thereafter. We may therefore safely take 1967 as a base line for indices of prices, incomes and productivity. This is done in Table IX which shows that in the economy as a whole, increases in real hourly wage rates remained well below increases in productivity over the whole two year period and were only just beginning to catch up at the end of 1970. For two whole years real wage rates were

actually below the level achieved in the first quarter of 1968, but productivity steadily rose.

Table IX

Index of U.K. Prices, Incomes and Productivity 1967 - 70

Year and Quarter	Retail Prices	All Hourly Wage Rates (Men)		G.D.P. Output per person Real	Manufacturing Only Hourly Earnings O.M.H.		
		Money	Real		Money	Real	Real
1967	100	100	100	100	100	100	100
1968 I	102	105.1	104.2	103.1	106.9	104.5	105
II	103.5	106	102.4	103	107.2	103.8	105
III	105.2	106.8	101.1	105	107.2	101.9	105.8
IV	106	108.2	102.2	105.7	110	103.7	107
1969 I	108.2	111	102.3	105.5	114	105	107.2
II	110.2	111.8	101	106.8	115.1	104.2	108.6
III	110.8	112.3	101.5	107.2	116	104.5	107.8
IV	111.2	114.2	102.8	108	120	107.6	108.9
1970 I	114	119	104.2	108	125.2	109.8	109.5
II	116.8	122.1	105	(108.5)	130	111.2	108.6
III	118.3	125.2	105.7		133.5	112.5	

We may also see from Table IX that in manufacturing industry, analysed separately, hourly earnings (not rates this time) were below increases in productivity right up to 1970. Since then earnings have begun to overtake productivity increases, but it has to be born in mind that the productivity measure comprises both changes in output and changes in employment. In a period when output has barely increased changes in productivity are the result of reductions in the labour force. We have already seen earlier that the employed population has been reduced by some 900,000 between 1966 and 1970 - only 300,000 of whom had registered as unemployed in addition to the 300,000 unemployed in 1966. The decline in employment and the consequent increases in productivity have in fact taken place mainly in non-manufacturing production industries - coal and transport and construction in particular, but in gas, electricity and water also. It is in these industries from which the main demands for increased earnings to match increased productivity have come.

If productivity and real earnings have both been held back by deflationary policies which have raised unit costs as unused capacity has built up and if the situation has led to a price-wage spiral, the obvious requirement in the interest of the national economy is to reduce the main elements which pushed up the costs in the first place - that is to say interest rates and indirect taxes. This will, moreover, have the effect of bringing output nearer to capacity so that extra wage costs can be absorbed

To attempt to hold back output and wage demands in the present circumstances is to ask that the whole burden of deflationary policies should be born by those who can least afford to cope with rising prices. It is in any case no solution either to the problem of increased investment for future growth in productivity or to the problem of balancing the country's foreign payments. It is argued by the N. E. D. C. that firms have been held back from investment by increased wage payments and reduced profit margins. This is to fly in the face of all the teaching of J. M. Keynes who was at pains to point out that savings were not a sufficient requirement (although obviously a necessary requirement) for increased investment. The crucial requirement was an expanding market and profitable opportunities in it. So long as Government deflationary policies - of high interest rates and high indirect taxes - remain unchanged, market and profit expectations will not improve. Capital investment will continue to be sluggish and British industry will become increasingly uncompetitive with industries abroad.

This view has been strongly urged by the T. U. C. but it is supported also by the National Institute's latest Economic Review. With a balance of payments on current account expected to exceed £600 millions and, thanks to improved terms of trade, no reason to expect more than a small decline in this figure next year, the arguments against an early reflation of the economy have disappeared. "There still exists a prima facie case for expansionary measures" in the words of the Institute "because the trend of forecast output lies below the path of productive potential". What has to be understood is that it is only thanks to the pressure of wage demands that output began to expand again at the end of 1970. Had it not been for this increase in purchasing power figures for unemployment would have risen even faster and industrial capacity would have been even more underutilised with consequent higher unit costs to be passed on in higher prices to consumers. Far from the wage claims of the last six months running against the national interest, they have saved the economy from what might have been a very serious downswing. Far from the Government being right in claiming that wage increases are a threat to future employment, the opposite is the case.

IV. Conclusion on Policies relating to Prices and Incomes

During the industrial action of the electricity supply workers it was widely suggested and generally accepted on the media of Press and television that the workers should moderate their claim in the public interest. The interests of the national economy and the public were incorporated in the terms of reference of the Court of Enquiry. It has been argued here that the national economy does not require a moderation of wage settlements to prevent inflation; rather it requires a reduction in taxes on ex-

penditure and in interest rates. Short of that, it would be better for the economy if wage settlements were maintained at a high level so that aggregate demand may be brought up more in line with existing capacity and a stimulus given to new investment.

The possibility of price control has not, in fact, been discussed here but there can be little doubt that many prices are raised by businesses today using the occasion of a particular strike or wage settlement or new tax to make increases that are not justified by the particular increase in costs involved. The general absence of price competition means that the efficient business and the inefficient benefit alike. The Confederation of British Industries has warned that there will be a substantial crop of bankruptcies following the rise in wage settlements and the shortage of money supply. This would have been regarded by an earlier generation of economists as a very proper development from which would result the emergence of the more efficient firms which, with the larger market open to them, would be able to reduce prices to the benefit of all. No such result can be expected today. The larger firms with the larger financial reserves will survive but there is little evidence that these are at all certainly more efficient by any criteria than the smaller firms they replace.

The National Board for Prices and Incomes has made some very valuable reports on prices and its chairman recommended just before he was retired that more price references should be made to the Board. The new Government has, however, ordered that the Board be wound up. Britain will then be one of the very few Western European countries that has no agency for price investigation and price control. The ministerial call for the abrasive atmosphere of competition is not one that can be realised in an advanced economy of giant companies which can administer their own prices to build up reserves and have access to the capital market which others are denied. 110 companies received 90% of all new capital issued on the London Stock Exchange between 1957 and 1963. The old adage that prices could not be controlled because there were so many of them and changes in quality rendered control useless, has no longer the force that it once had. There are now only a very few suppliers in many areas of production and there are workers in those areas who would easily detect it if quality was being sacrificed to evade controls.

The argument in favour of price control has been said to apply equally to wage control. This is not so. With the exception of a few suppliers of personal services, a price is a value set by a person or persons on the labour of others. The right of a person to sell his own labour at whatever price he can get for it is thus infringed by wage control, but not by price control. The argument that a man has the right to do what he will with

his own property has long been challenged by a democratic society, in other fields than price fixing. The point is of more than philosophical interest. Workers who are asked to restrain their demands for wage increases in the public interest cannot be expected to take these requests seriously if they see that employers can raise prices at will and owners of capital can raise interest charges likewise.

What was in effect being asked of the power supply workers, as it was earlier of the local government workers, was that they should take upon themselves the responsibility for economic action - albeit the wrong action as we have argued - which the Government and employers also had failed to take. Mr. Barber's "Mini-budget" of last October was an opportunity for interest rates to be lowered and taxes on expenditure to be cut. Instead charges were increased in areas of the social services where these changes bear most heavily on the poorer citizens and a promise was made of lowering income tax next April. It is well known that income tax is a progressive tax and that indirect taxes are regressive.

Table X

U.K. Taxes as a Proportion of Household Income, 1967

(Percentage of income paid by a Household of Man, Wife and Two Children)

Pre Tax Income Range (£.s.)	Proportion of Households in each range %	Taxes as % of Income in different ranges			
		Income Tax & Surtax	N.I. Contributions	Indirect Taxes	Total Taxes
10.15 - 13.10	1	1	10	37	48
13.10 - 15.15	3	3	10	25.5	38
15.15 - 19.0	10	3	10	24	37
19.0 - 23.0	16	4	9	20.5	33.5
23.0 - 28.0	21	5.5	8	19	32.5
28.0 - 34.0	21	8	6.5	18	32.5
34.0 - 41.0	14	10	5.5	16.5	32
41.0 - 49.10	7	14	4.5	15	33.5
49.10 - 60	4	15.5	3.5	16	35
60 plus	3	23	2.5	12	37.5
Average	100	9.5	6.5	17.5	33.5

Source: *Economic Trends*, February 1969.

Table X shows how regressive is the structure of indirect taxes compared with income tax and surtax and how regressive indeed is our whole tax structure. Of course it is true that the benefits received in the lower-income ranges more than offset the taxes paid. The fact remains that the rapid increase in taxes on expenditure with a corresponding fall in subsidies shown above in Table VII has acted to increase inequality of incomes.

The T. U. C. has for long argued that any prices and incomes policy, to be acceptable, has to start from an assurance of state action to control prices and to make possible a continuous rise in real incomes. To ask trade unions to moderate wage claims without any such assurance and after some years of increasing prices - not caused by wage increases - and of declining or stagnant real incomes is to ask workers to bear the burden of Government failures to achieve a rate of economic growth commensurate with what workers know could be achieved with the advances in technology now available. The T. U. C. and the Trade Unions individually have been adopting policies which have given increases to those of their members with the smallest incomes - through such means as flat rate increases, tapered percentage increases, disproportionate increases for the lowest paid and for women workers. The increases won by trade unions in general in 1970 have done much to offset what up to 1967 had been a steady worsening of the unequal distribution of incomes in this country. The facts leading to this conclusion have been amply demonstrated by John Hughes and other writers in this field.

Recent wage increases have not only gone some way to rectifying a tendency towards greater inequality in our society, they have had the effect of stimulating economic growth. We can assume that without them unemployment this winter would have been much higher because purchasing power would have been by that much reduced. There is a further justification for the trade union claim to a higher wage when it is well known that the productive capacity of machines and the full utilisation of the labour force is not being achieved. This is that if a wage increase is foregone the worker involved is in no way consulted about the way in which what he forgoes will be distributed. Will it be used to lower prices to the consumer and if so to which consumer? Will it be used to increase property incomes through profits and interest rates either directly from the enterprise for which he works, or indirectly through lower costs for other enterprises? Will it be used to expand and improve the services his enterprise can offer? These are questions to which the educated worker of today expects to receive answers. If he is not consulted he cannot be expected to do else than follow where others are showing the way and get the best price he can for his labour without caring too much about the result.

Whatever system of values is brought to bear upon a case like the claim of the power supply workers, four points appear to be incontrovertible:

- a) it has not been wage increases but price increases - caused by devaluation, higher taxes on expenditure and higher in-

- terest rates at a time of stagnant output - which have caused the increase in the tempo of inflation;
- b) the recent rapid rise in hourly wage rates did no more than correct a widening gap between productivity increases and wage increases and helped rather than hindered a necessary expansion of the national economy;
 - c) the trade union claim for higher money wages has not only a justification in terms of greater equality but creates an economy with more equal distribution of incomes, which itself encourages more rapid economic growth since it is not savings but an expanding market that is the sufficient condition for increased investment;
 - d) workers cannot be expected to forego wage increases in an assumed national interest when they see increases in property incomes resulting from higher interest rates and promised reductions in direct taxation and when they are not in any way consulted about the way in which the wages foregone will be distributed to the public.

Nothing less than a major inquiry into the causes and effects of inflation and the movement of costs and profits over the last decade - such as the West German Trade Unions have proposed to their employers - could begin to create an atmosphere in which free wage negotiation can once more be re-established without a succession of long drawn out strikes over the next year. If the Government were to require under a new Companies' Act a full revelation of company books broken down by geographical location and by plant, and at the same time withdraw its proposed legislative controls over the Unions, then a beginning might be made in joint negotiations between the T. U. C., the employers and the Government concerning the public interest in wage claims and wage settlements. Until then in a free-for-all the Unions will remain part of the "all".

APPENDIX

Correspondence between the Secretary of the Institute for Workers' Control and the Court of Enquiry.

Lord Wilberforce,
Court of Enquiry into the
Power Workers' Pay Dispute,
House of Lords,
London S.W.1.

24th December 1970

Dear Sir,

We are writing to advise you that the Institute for Workers' Control is preparing evidence for submission to the Court of Enquiry into the Power Workers' Pay Dispute, under the provision for consideration of public interest and the national economy. We should be most obliged if you could advise us on the correct procedure for presenting our evidence and any other details as regards the form and timing of our presentation and so forth.

We have sent a copy of this letter to the Secretary of the Court of Enquiry, c/o The Department of Employment and Productivity, 8 St. James Square, London S.W.1., and look forward to receiving a reply to our letter in the near future.

Yours faithfully

K. J. Fleet
Secretary.

COURT OF ENQUIRY ON PAY OF ELECTRICITY WORKERS

8 St. James Square,
London S.W.1.
1st January, 1971.

K. J. Fleet Esq.,
The Institute for Workers' Control
45 Gamble Street,
Forest Road West,
Nottingham NG7 4ET.

Dear Mr. Fleet,

Lord Wilberforce has asked me to write and thank you for your letter of 24 December in which you advised him that

your Institute is preparing evidence for submission to the Court of Enquiry on the pay of electricity workers.

The Court of Enquiry would like to receive any written evidence you may wish to submit, preferably by 11 January 1971. Please send it to the Secretary at this address.

Yours sincerely

J.H.Locke
Secretary

4th January 1971.

Mr. J. H. Locke,
Court of Enquiry on Pay of Electricity Workers,
8 St. James Square,
London S. W. 1.

Dear Mr. Locke,

Thank you for your letter of the 1st January regarding submission of evidence to the Court of Enquiry.

We are glad to learn that the Court of Enquiry will be prepared to consider our evidence and we will submit this in writing within the next few days.

We should also like to give oral evidence to the Court, so that we can expand and elucidate as well as answer questions on our written submissions. We look forward to hearing from you with details about the appearance of our representatives before the Court.

Yours sincerely

K. J. Fleet
Secretary.

8 St. James Square,
London S. W. 1.
11th January, 1971.

K. J. Fleet Esq.,
The Institute for Workers' Control,
45 Gamble Street,
Forest Road West,
Nottingham NG7 4ET.

Dear Mr. Fleet,

Thank you very much for sending 12 copies of your Institute's submission to the Court. This will be studied. Unless there are any points which the Court feels it necessary to elucidate in an oral hearing, the Court does not intend to ask anyone other than the parties to the dispute and the Treasury to appear before them.

We shall be letting the Electricity Council, the Unions and the Treasury have sight of your submission and it will be available to the Press at the public hearings.

Yours sincerely

J. H. Locke.

The IWC protested against the decision and issued a Press Release but the Court refused to change its mind.

THE INSTITUTE FOR WORKERS' CONTROL

PRESS RELEASE

The Institute for Workers' Control has submitted evidence to the Court of Enquiry on Pay of Electricity Supply Workers under its terms of reference which stipulate that the public interest and the national economy should be considered. A copy of the IWC's submission is attached.

The IWC has been advised by the Secretary of the Court that oral evidence will be taken only from the parties to the dispute and the Treasury. The IWC has protested against this decision and asked that it be reconsidered on the grounds that representation of the "public interest" cannot properly be pre-empted by the Government alone since well over half the electorate do not support this Government. In the circumstances, there is bound to be debate about the meaning of the public interest, and voluntary organisations have a right to be heard.

14th January 1971.

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