

# **THE INCOMES PROBLEM**

by Paul Derrick

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# Foreword

This pamphlet is a revised and updated version of an earlier one. *Voice of the Unions* published it some years ago, at the height of the controversy about the Labour Government's incomes policy. Paul Derrick has consistently insisted that only common ownership can solve what he terms "the incomes problem". No-one in the higher councils of the Labour Movement was prepared to listen to him when the more conventional trade unions were swallowing George Brown's stories about helping the low-paid worker, and no-one in those higher councils has had anything to say about the subsequent fact that Labour's incomes policy ended with a mutiny of low-paid workers, whose condition had steadily deteriorated, both relative to that of other workers, and absolutely, throughout the reign of the P.I.B. Today, loud voices are to be heard urging the return to 1964. For this reason, it makes sense to hope that Paul Derrick's testimony will now be heard, at least by Labour's rank-and-file, before the whole crazy roundabout starts up again.

*Ken Coates*

# THE INCOMES PROBLEM

Paul Derrick

Ever since the end of the second world war successive British Governments, Labour and Conservative, have been appealing to trade unionists to exercise restraint in wage claims. They have argued that if money incomes are allowed to increase faster than output prices will rise; and that if British prices rise faster than those in other countries British exports will become less competitive and the country will have difficulty in paying for essential imports of food and raw materials.

The argument about the balance of payments has lost some of its force since the sterling agreements of July 1968 when certain holders of sterling were given certain guarantees; and in his 1972 budget Mr. Barber said that the pound would be devalued again if this was necessary to maintain the country's balance of payments.

Nevertheless British Governments will in the future be anxious to do what they can to maintain the value of the currency. The pound in 1970 was worth only 41 per cent of a 1946 pound and only 16 per cent of a 1913 pound. Rising prices often hurt the poorest sections of the community most and most people are agreed that everything possible should be done to control inflation. Yet it is becoming increasingly clear that it is not going to be possible to control it within the framework of a capitalist economy.

The trade unions have recognised that prices are bound to rise if money incomes increase faster than output; but have repeatedly insisted that trade unionists cannot accept an incomes policy unless it applies fairly to all incomes. It has proved impossible to devise such a policy while industry is run on a capitalist basis.

However heavy taxes on profits may be, however strict price controls and however tough curbs on demand, restraint by wage earners is bound to lead to gains for shareholders so long as industry is run for the profit of private shareholders. As Jack Jones and Hugh Scanlon have said socialism provides the only answer to the incomes problem - the only answer to the problem of inflation.

But socialism means the replacement of capitalist ownership by social ownership right through industry. It is not going to be enough for the next Labour Government to nationalise a few industries and buy shares on behalf of the state in aircraft, drug and other companies. It is not going to be enough for the next Labour Government to form a State Holding Company on the model of the Italian I.R.I. and buy shares in a large range of different companies. It is not going to be enough for the next Labour Government to introduce some scheme for profit sharing, "capital sharing" or wider share ownership like those in France, and Germany or like that proposed in Denmark. None of these schemes can possibly be described as a way of extending social ownership for all companies continue to be run for private profit and the Danish scheme, combining wage-related company contributions with flat rate benefits for workers, has some points in common with the latest social insurance proposals of the British Conservative Government.

Nor is it going to be enough for the next Labour Government to nationalise the biggest two hundred companies in the country. This would leave hundreds of thousands of companies run on a capitalist basis and the economy would still be basically capitalist even if much more was done than has been done by previous Labour Governments to extend co-operative and municipal ownership.

If the next Labour Government is going to be successful in controlling inflation it will need to nationalise a large number of large companies, including many UK subsidiaries of multinational corporations. It will be necessary to bring in effective measures to extend municipal ownership and pay much more attention to extending co-operative ownership through the proposed Co-operative Development Agency than to buying shares in capitalist companies on the B.P. model through a State Holding Company. It will also be necessary for it to *socialise* all companies not nationalised by a wider application of co-operative principles and by the organisation of production in the interests of the community in the kind of way pioneered by Robert Owen at New Lanark.

No schemes of price or dividend controls, no wealth taxes on individuals or new taxes on company profits will make it possible to control inflation while industry remains on a capitalist basis. The quotations which follow are illustrative of the vain efforts of various governments to try to find an incomes policy that applied fairly to all incomes.

The OECD produced a report on this problem in August 1964 but failed to suggest a way of applying an incomes policy to non-wage incomes. Facile promises to tax company profits provide no solution and such tax increases are in any case only too easily passed on to the consumer in higher prices in a capitalist economy. The only real answer to the incomes problem is to secure for workers by hand and by brain the full fruits of their industry, and the most equitable distribution thereof that may be possible, upon a basis of common ownership, together with the best obtainable system of popular administration and control.

Socialism is *about* incomes, about the "most equitable distribution that may be possible" of the national income; but a socialist incomes policy cannot be implemented except by replacing capitalist ownership by common ownership *right through industry* and thereby ending the exploitation of man by man. The incomes problem can only be solved by changing the basis of ownership.

1. Sir Stafford Cripps *White Paper, February 1948*

There can be no justification at the present time for any increase in incomes from profits, rent or like sources.

Note: Soon afterwards Sir Stafford Cripps persuaded the F.B.I. to recommend a voluntary limitation of dividends to the 1947 level, a recommendation observed by most companies till 1950.

2. T.U.C. *Resolution carried September 1950*

Congress is of the opinion that until such time as there is a reasonable limitation of profits there can be no basis for restraint in wage applications.... It urges the government to introduce statutory control of profits.

3. T.U.C. *Economic Report 1949*

The amount of profit made by an individual undertaking depends upon a number of factors and since many of these cannot be precisely estimated or controlled in advance, close statutory or administrative determination of profits before they are made is not practicable.

4. T.U.C. *Report 1950, p. 261*

The E.T.U. submitted a memorandum suggesting that a National Profits Arbitration Tribunal should be set up and should order the transfer to the Exchequer of all profits after dividends and taxation have been paid and after the provision of funds for immediate capital development and reasonable depreciation.

Note: The T.U.C. were unable to support the proposals. They would appear likely to have the same kind of effect as an Excess Profits Tax.

5. **Hugh Gaitskell *Hansard, 1951 Budget***

I have considered very carefully whether in the circumstances we should not introduce some form of statutory control of dividends . . . I have come to the conclusion that it is better to deal with this problem through the existing Profits Tax.

6. **A. Bevan, H. Wilson & J. Freeman *One Way Only, Tribune July 1951***

Bonus issues should be banned; and we should either ban or put a heavy tax on all dividend increases over the level of 1947-1948. The case for a capital levy is now overwhelming.

7. **T.U.C. *Report, 1951***

When they met the Chancellor in July the T.U.C. accordingly urged him to impose some form of statutory control of dividends.

*Note:* The T.U.C. also recommended the legal limitation of dividends in pre-budget memoranda in 1952, 1953 and 1954.

8. **Hugh Gaitskell *Hansard, July 26, 1951***

The legislation will impose a limit on the gross rate of dividend that may be distributed other than fixed rate dividends. In normal cases the limit will be the average of the dividends distributed in the last two accounting years. The control will not apply to companies distributing less than £10,000 gross. In the case of new companies which may need to raise more capital the standard will be 7% of the relevant capital.

9. **Labour Election Manifesto *September 1951***

We shall limit dividends by law, increase taxation on the small minority who own great fortunes and on large unearned incomes and take measures to prevent large capital gains.

10. **Daily Herald *Front Page Lead, October 10, 1955***

**BUTLER SEEKS NEW JOB: CABINET DIVIDED**

Mr. R.A. Butler wants to give up his job as Chancellor of the Exchequer. He has been defeated inside the cabinet. Before he went to the Conservative Party conference at Bournemouth Mr. Butler met an influential group of business men and industrialists . They rejected his proposals for some restraint on dividends.

At Bournemouth the clash was transferred to the cabinet. Sir Anthony, supported by other Ministers - notably by Mr. Harold MacMillan, Mr. Duncan Sandys and Sir David Eccles - turned down the Butler plan. The Chancellor pleaded that if he could impose no restraint on dividends then his hands would be tied when he wanted to ask others, notably the trade unions, to accept sacrifices. He argued in vain. At the right moment, when he can leave with honour, he will step aside.

*Note:* A few weeks later in an autumn budget Mr. Butler increased the Profits Tax from 22½% to 27½%. He resigned as Chancellor on December the 20th, 1955.

11. **J.Selwyn Lloyd *Hansard July 24, 1961***

In the present circumstances I do not consider that a further general increase in dividends in the coming year is justified. During the pause we must work out a sensible long term relationship between increases in incomes of all sorts and increases in productivity.

(And in October 1961: "It will be necessary to look again at the procedures for determining incomes" . . . "We need to give thought to the modification of traditional attitudes and practices".)

12. **Financial Times *December 12, 1963***

Members of the T.U.C. Economic Committee agreed that there could be no

talk of wages restraint unless there was a balancing restraint on profits and dividends. But some members were impressed by the attitude of certain employers' representatives at the last meeting of the N.E.D.C. It was said that these employers were ready to give serious consideration to the idea of limiting profits and dividends as part of an incomes policy.

13. N.E.D.C. *The Growth of the Economy. March 25, 1964*

There is a danger that incomes will rise substantially faster than output in 1964. There would then be a substantial rise in the general level of costs and prices . . . . We cannot afford to have more than a very slight increase in the general level of costs in this country.

14. *Times March 12, 1964*

At a two hour meeting some 200 leading industrialists, members of the F.B.I. Grand Council, rejected as unsuitably three possible schemes for curbing excessive profits. Mr. Peter Runge, President of the Federation, said he was deeply disappointed.

The schemes were (1) a variable profits tax designed to operate on higher profits when profits rose faster than wages (2) a price registration scheme through which prices would have to be registered with a Commission and (3) a price complaint scheme.

*Note:* The schemes had been devised by employer' representatives on the N.E.D.C. Hopes of an incomes policy "turned to ashes last night" said *The Times*. The N.E.D.C. decided to wait till the election before trying again.

15. Labour Party *Election Manifesto, September 1964*

Labour's incomes policy will apply in an expanding economy to *all* incomes: to profits, dividends and rents as well as to wages and salaries.

16. George Brown *Joint Declaration of Intent. December 1964*

Their social objective is to ensure that the benefits of faster growth are distributed in a way that satisfies the claims of social need and justice.

17. George Brown *Hansard. November 12, 1964*

We have to recognise that profits differ in character from earned incomes since they arise as a residual rather than as a main element in costs and, therefore, are not the subject of negotiation. We should hope that in most cases where restraint in wages and salaries is resulting in an excessive growth of profits that this could be looked after by the price review body to which I have referred. As to the rest it seems to us that fiscal weapons are the most suitable way of dealing with excessive growth of profits or dividends.

*Note:* Mr. Brown expressed the same view in his third White Paper.

18. T. & G. W. U. Resolution *Times, July 6, 1965*

An incomes policy can only succeed on the basis of an extension of public ownership and control and closer control of prices and profits.

*Note:* Similar views were expressed in C.E.U. and other resolutions on agenda of 1965 Trades Union Congress.

19. George Brown *Derbyshire, June 20, 1965*

This just cannot go on.

20. Sir Roy Harrod *The Times, July 20, 1965*

I recommend an immediate two-year legal freeze on wages, salaries and dividends.

21. Sir Cyril Osborne M.P. *Hansard, November 10, 1964*

As an emergency measure — I speak for myself — I would gladly accept a statutory dividend limitation, prohibition of all bonus issues, greater control of

expense accounts, sterner rent control and a bigger capital gains tax. But provided, and only provided, that they are accepted as part and parcel of an effective agreement to restrain wage and salary increases.

The government can, through legislation, if they so wish, impose austerity on capital, but they cannot pass legislation to impose a wage freeze. In any case the trade unions would not submit to it.

*Note:* Sir Cyril Osborne has often called for the legal limitation of dividends. So have a few other Conservatives such as Lord Balfour of Inchrye.

22. O.E.C.D. *Report on Policies for Prices, Profits and other Non-Wage Incomes. August 1964*

In Denmark the stabilisation plan introduced in the spring of 1963 included statutory control of dividends for a two-year period. Dividend rates were to be no higher than for the average of the previous three years, or 6% of the capital for new companies.

*Note:* Norway, Sweden, Holland and Germany have also limited dividends by law; but the legislation has been essentially temporary and involved no change of ownership. There is compulsory profit-sharing in Mexico and Egypt.

23. National Incomes Commission *Second Report, July 1963*

The national interest demands a clear understanding of what should be the destination of the fruits of greater productivity.

24. *The Times City Editor. January 14, 1949*

Clearly most companies would be only too happy to exchange dividend limitation for a measure of taxation relief along the lines proposed in the two recent memoranda of the F.B.I.

25. *The Economist January, 1949*

Industry would surely be entitled to ask for what period a voluntary freezing of the pattern of dividends declared in 1947 is expected. If no increases are to be permitted, then the sooner statutory sanction is secured the better.

*Note:* About this time the Investors' Chronicle and the *Sunday Times* both said that if dividends had to be limited then they should be limited by law. *The Financial Times* said the same thing in September 1949.

26. *White Paper on Steel Nationalisation April 30, 1965*

Maximum permitted rates of dividend are as follows . . . Personal liability for any loss suffered by the company may fall upon directors.

27. *Finance Act 1965, Clause 78 (2)*

The amount of Standard Dividends . . . shall be . . . whichever is the higher of (a) 7½% of the company's share capital . . . (b) an amount related to profits etc.

28. *Arthur Deakin at 1948 Labour Party Conference*

Conference calls on the trade union movement to work closely with the government to devise a more satisfactory prices and incomes policy. It calls on the government to take such action as will curb exorbitant profit distribution and in that way make an effective contribution to ensuring that money values, as represented by earnings, are maintained at reasonable levels.

29. *T.U.C. Economic Review for 1968*

The General Council believe that a long-term review is needed of the basis of company finance, the source of investment funds and the role of the shareholder.

30. *N.E.D.C. Conditions Favourable for Faster Growth, April 1963*

A policy for prices and money incomes can succeed only if those concerned are convinced that restraint by one section of the community will not merely result in gains by other sections.

31. Sir Walter Citrine *asked about dividend limitation when giving evidence to Cohen Committee on Company Law 1944*

We have talked many times about that . . . There is much to be said for limiting dividends without guaranteeing them though I agree that the limitation of dividends is a complicated thing and, offhand, I do not quite see how it would be operated.

32. Sir John Simon *Hansard April 23, 1940*

I think that increased profits, where they occur, are valuable in proportion as they remain in the business concerned and that they lose a great deal of their value if they are distributed freely as dividends. They will be very useful if they are available to sustain industry in the very difficult period of adjustment which will follow the end of the war. They are far less valuable if used for increased distributions into the hands of shareholders who may be tempted to devote a good deal of them to purposes of consumption. I propose accordingly to provide for the limitation of dividends paid by public companies during the war period.

*Note:* The limitation of Dividends Bill was debated on May 23 1940, but later withdrawn in favour of a 100% Excess Profits Tax.

33. *The Economist July 1949*

Many companies practised dividend limitation long before the Government thought of it. Once capital is raised it is easy for management to slip into the idea of regarding members of the company as lenders who ought to be satisfied with a more or less fixed rate of return.

34. Anthony Crosland M.P. *The Future of Socialism, Cape 1956*

The dividend restraint appeals of post war Chancellors were not wholly unpopular in Board Rooms since they provided an excuse for doing what many managements instinctively preferred to do: namely to give first priority to ploughing back for further expansion.

It seems unlikely that lower distributions will have much overall effect upon the supply of capital. Norway, which can boast the highest post war ratio of fixed investment to gross national product of any country in Europe has actually maintained a statutory limitation of dividends.

The whole spectacular post 1948 German expansion of output and investment was accomplished with only a bare shadow of a free capital market. What market existed was dominated by municipal and state borrowing and, to a much lesser extent, by industrial fixed interest bearing stocks. Industrial share issues played a negligible part. Approaches to the market for new capital were on a negligible scale; and the role of the shareholder and of dividends was insignificant.

*Note:* The Volkswagen company was successful for ten years without any shareholders.

35. T.U.C. *Economic Review for 1968*

Between 1956 and 1966 income from employment increased by 80% while dividends on companies' ordinary shares increased by 170%. Trade unionists do not see why they should restrain wage demands to make the lives of shareholders more comfortable.

36. T.U.C. *Economic Review for 1970*

Particular attention needs to be paid to the question of the control of dividends. If the rate of dividends once again rises unjustifiably this will considerably strengthen the case for permanent limitation.

*Note:* The T.U.C. called for legislation for the limitation of dividends in 1951, 1952, 1953 and 1954.

37. *Prices and Incomes Act 1968*

The Treasury may prohibit companies declaring, without first obtaining its consent, ordinary dividends for any financial year at a rate greater than that paid



for the previous financial year; or from making any distribution out of assets or assuming an obligation to make such a distribution.

38. *Daily Telegraph April 22nd, 1968*

The great majority of boards do not like paying dividends at any time.

39. *Guardian. April 22nd, 1968*

Many company directors privately welcome dividend limitation – it enables them to retain a high proportion of profits for company use while the Government takes the blame.

40. *Third General Report of Prices and Incomes Board July 1968*

Wages foregone are lost for ever; but any limit on dividends merely means higher retained profits and possibly still higher profits in the future.

41. *Economist September 6th, 1969*

Dividends can only grow at 3½ per cent a year; and there has been scarcely a squeak of protest. In 1951 things were very different. Dividend limitation then aroused a sense of outrage. Today it is no longer fashionable to protest that shareholders as a class are, some people might say, victimised for political advantage. Nobody cares.

42. *Agenda for a Generation Labour Party, October 1969*

In this connection we shall also review the role of dividends. The “demise” of the shareholder”, his insignificance in modern industrial management (except in the case of the financial institutions and a small number of cases where ownership of the shares and membership of the Board go hand in hand) has raised the question of *why* he should be entitled to an increasing level of income as the process of capital accumulation in industry proceeds.

It is time to question his claim and to examine various proposals for the statutory limitation of dividends. We believe that this enquiry should be conducted as part of the broad review of company structure which we now intend to undertake.

43. *Mr. J. Diamond Hansard November 6th, 1969*

The present 3½ per cent ceiling scheme for dividends will come to an end on December 31st 1969. The Government gladly acknowledge that on no single occasion has it been necessary to use these powers. After December 31st it will remain possible for the Government to require notification of individual dividend increases. The need for companies to observe moderation when distributing company profits will continue.

44. *Productivity, Prices and Incomes After 1969: White Paper Cmd 4237 December 1969*

On general grounds a ceiling for dividends paid out by individual companies is undesirable as a long-term policy and it involves substantial disadvantages in particular cases. For example, fixed dividend limits can affect the ability of companies to raise in the open market additional capital needed for the efficient functioning of their businesses.

45. *Financial Statistics July 1971 and July 1972*

In 1970 0.8 per cent of the funds required for investment by industrial and commercial companies in the United Kingdom was raised by the issue of ordinary shares. In 1971 the figure was 2 per cent.

46. *J.K. Galbraith House Banking and Currency Committee Testimony, June 16, 1970*

One cannot have a policy that holds wages in line but does nothing about profits.

47. Alastair Cook Quoting George Meany *March 18, 1972*

The Pay Board is expected to keep wage increases down to 5½ per cent with 7½ per cent increases in exceptional cases; but in 1971 corporation profits increased by 19 per cent and the profits of the hundred biggest corporations by 71 per cent. The trade union representatives are withdrawing from the Pay Board.

48. U.S. Government Press Release *November 5, 1971*

The Committee on Interest Rates and Dividends has said that corporations should not increase their dividends by more than four per cent during 1972. Companies may choose as a base period any of the past three years.

49. Geoffrey Goodman *Daily Mirror, September 1, 1970*

Among plans being discussed by the Wilson Administration just before the 1970 election was one which, had Labour won, would have offered the unions a new type of incomes policy. The plan – it was Barbara Castle's – would have made profit sharing compulsory throughout state and private industry. The new idea was to take in organisations employing more than a few hundred workers. When profits were good workers would have expected at the end of the year about £40 – a figure which might vary from firm to firm. If profits were low – or there were losses – special provisions would be made by which, for instance, a worker's profit share would be left in "cold storage" as compulsory savings until business improved.

50. T.U.C. Resolution 81 *September 1971*

This Congress recognises the need for increased industrial investment in order to improve industry's productive capacity but is concerned that, in the private sector, the ownership of such assets, which are financed largely from retained profits, accrues only to shareholders.

51. Aubrey Jones *Lloyds Bank Review, January 1972*

It would be injudicious of a government not to recognise that workers, in struggling for earnings, see themselves as struggling for them at the expense of profits. The main point is that I doubt the acceptability of a policy of government intervention on incomes without any attempt to meet the traditional trade union view that earnings and profits pull in different directions.

52. F.A. Hayek *A Tiger by the Tail, Institute for Economic Affairs February 1972.*

The only solution of the inflationary problem that I can conceive is that the workers be persuaded to accept part of their remuneration not in the form of a fixed wage but as a participation in the profits of the enterprise by which they are employed.

53. *Times Leader February 22nd, 1972.*

To this end Professor Hayek suggests that the workers be persuaded to accept part of their remuneration as a participation in the profits of the enterprise in which they are employed. Thus he is strangely united with the socialist ideas of Robert Owen and the New Lanark mill owner's twentieth century disciples.

54. Lord Balogh *New Statesman, January 28 and February 25, 1972.*

We must try to explore ways and means of workers' participation in decision making and profits.

The aim which trade unionists ought to have in mind is to get a deal by which not only the workers' share in the national income is safeguarded but also one in which they obtain some general financial participation in the surplus to industry while investment is nevertheless encouraged.

55. A.A.Berle & G.C. Means *The Model Corporation and Private Property*,  
*Macmillan Company 1932.*

It is clear that the function of capital supplying and risk taking must be performed and that the security holder must be compensated if an enterprise is to raise new capital and expand its activity, just as the workers must be paid enough to ensure the continued supplying of labor and the taking of the risks involved in that labor, and in the life based on it.

But what if profits can be made more than sufficient to keep the security holders satisfied, more than sufficient to induce new capital to come into the enterprise? Where is the social advantage in setting aside for the security holder profits in an amount greater than is sufficient to ensure the continued supplying of capital and taking of risk? The prospect of additional profits cannot act as a spur to the security holder to make him operate the enterprise with more vigour in a way to serve the wants of the community, since he is no longer in control. Such extra profits, if given to the security holder, would seem to perform no useful economic function.

Furthermore if all profits are earmarked for the security holder where is the inducement to those in control to manage the enterprise efficiently? When none of the profits are to be received by them why should they exert themselves beyond the amount necessary to maintain a reasonably satisfied group of stockholders? If the profit motive is the powerful incentive to action that it is supposed to be, and if the community is best served when each enterprise is operated with the aim of making the maximum profit, would there not be great social advantage in encouraging the "control" to seize for themselves any profits over and above the amount necessary as a satisfactory return on capital? Would not the prospect of this surplus profit act as an incentive to more efficient management by those in control?

Certainly one cannot escape the conclusion that if profits have any influence as a motivating force, any surplus which can be made over and above a satisfactory return to the investor would be better employed when held out as an incentive to action by control than when handed over to the "owners" who have surrendered control.

The traditional logic of profits, when thus applied to the modern corporation, would indicate that if profits must be distributed either to the "owners" or to the control, only a fair return on capital should be distributed to the owners; while the remainder should go to the control as an inducement to efficient management.

It is clear that in dealing with the modern corporation we are not dealing with the old type of private property. These great associations are so different from the small privately owned enterprises of the past as to make the concept of private enterprise an ineffective instrument of analysis, it must be replaced by the concept of corporate enterprise. . . .

Nor is it clear than even if surplus profits were held out as an incentive to control that they would be as effective an instrument as the logic of profits assumes. Certainly it is doubtful if the prospect of a second million dollars of income would induce activity equal to that induced by the prospect of the first million or even the first hundred thousand. Just what motives are effective today insofar as control is concerned must be a matter for conjecture.

Demands are constantly being put forward that the men controlling the great economic organisms be made to accept responsibility for the well being of those who are subject to the organisation whether workers, investors or consumers. Eliminating the sole interest of the passive owner, however, does not necessarily lay a basis for the latervative claim that the new powers should be used in the interests of the controlling group. The control groups have cleared the way

for a group far wider than either the owners or the control. Neither the claims of ownership nor those of the control can stand against the paramount interests of the community.

56. **Harold Wilson** *The Relevance of British Socialism*, Weidenfeld & Nicholson, 1964.

Socialism: a system of society in which man's growing power over the means of production should be harnessed for the benefit of all, not for the profit of a few.

57. **Lord Eustace Percy** *Riddell Memorial Lecture*, 1944.

Here is the most urgent challenge to political invention ever offered to the jurist and the statesman. The human association which in fact produces and distributes wealth, the association of workmen, managers, technicians and directors, is not an association recognised by the law. The association which the law does recognise, the association of shareholders, creditors and directors, is incapable of production or distribution and is not expected by the law to fulfill these functions. We have to give law to the real association and withdraw meaningless privilege from the imaginary one.

58. **George Goyder** *The Responsible Company*, Blackwell, 1961.

What are fair and reasonable dividends? They are the dividends which give the shareholder a fair return for his risk and for being out of his money. They are the return which will persuade the shareholder to continue to invest in the company. They are not the maximum possible dividend.

59. **Austen Albu, M.P.** *New Fabian Essays*, Turnstile Press, 1952.

The dividends of ordinary shareholders should be permanently limited to an amount which might vary for different categories of company, but which would be no more than sufficient to cover the risks involved in modern conditions. The introduction of permanent dividend limitation in these companies would have the effect of stopping the appreciation in the value of their shares and so cutting off the most important remaining form of profit making by increase in the value of capital. Some part of the profit that would accumulate if dividends were limited should be distributed to those engaged in the enterprise.

60. **Anthony Crosland M.P.** *New Fabian Essays*, Turnstile Press, 1952.

A second approach would be by statutory dividend limitation, not in the form of a rigid dividend freeze but in some more flexible form . . .

Consideration must be given to the possibility of altering the legal ownership of company reserves, perhaps by the compulsory payment of bonus issues to the workers in the industry. I am certain that some unorthodox and revolutionary scheme is needed, even though its exact nature is not yet clear, if the workers are to have a sense of partnership in and responsibility for the industry in which they work.

61. **Roy Jenkins M.P.** *The Pursuit of Progress*, Heinemann, 1953.

The large managerial company operates with a momentum of its own quite independently of the rewards which its shareholders receive or expect to receive. Many such companies would operate just as well if their dividends were limited by statute - or perhaps better for this would enable directors to retain more cash for the business; and they are, therefore, inviting candidates for permanent dividend limitation.

62. **Hugh Gaitskell M.P.** *Addressing T.U.C. on incomes policy*, Sept. 1951.

Perhaps we should not exclude altogether from our consideration some form of partnership by the workers in individual firms or industries through, for

instance, the distribution of bonus shares reflecting the rise in undistributed profits, I throw it out as an idea which you can chew over.

63. James Callaghan M.P. *Labour Party Conference 1950*

I do not agree that this resolution is useless. I want to see some teeth put into it. I think that where those who have been concentrating on wages policy over the last five years have gone wrong is that they should have concentrated first on a profits policy. I know very well that the Profits Tax did hit them to some extent. But I do not think we hit them hard enough.

It is no use turning off the tap after the water has passed through. I do not much mind if people make high profits. It may, in certain circumstances, be a reflection of greater efficiency. We should concentrate, not on more and more taxation of profits, but on altering the basis of the distribution of profits.

It is quite immoral to keep the Companies Act of 1855 which says that if you invest £500 in a company your liability is limited but your return is unlimited. That is the sort of statute that ought to be amended very quickly by a Labour Government.

The Executive should examine the whole basis of company financing. Let us alter the basis of the distribution of company profits. Instead of making the ordinary shareholders the residuary legatees of all profits that are made, let us make the workers the residuary legatees. Let the shareholders be content with a fixed dividend. Let us abolish ordinary shares.

It may not be possible in the case of some industries but in the case of large scale industries I believe that we could in many cases alter the whole basis of the distribution of profits so that you would get rid of this tension which exists between the wage earners and the men who get the profits.

Let the productivity, let the increased efficiency, return to the worker and if you do that by making the shareholder's return limited I believe that we should be able to call for an all out effort for productivity that would enable us to go ahead knowing that the harder work, the greater efficiency, that we were achieving in our industries would return to the worker or the consumer in industry.

Let the chap who has put his money in the first place be content with a modest and fixed dividend which can be taxed by the Chancellor of the Exchequer later as much as he likes.

64. A. Albu M.P. *The Anatomy of Private Industry, Fabian Society, 1951*

Private companies with more than ten shareholders should be known as Restricted Companies. The dividends distributed by Public and Restricted Companies should be limited by statute to a level based on past dividends.

65. G.D.H. Cole *New Statesman, November 12, 1955*

Another proposal is that the functionless mess of the shareholder should be recognised by law by limiting the dividends he is allowed to receive to a "fair" return on his investment. This is a proposal to limit dividends not merely temporarily in order to meet a crisis but permanently, once and for all . . . It seems to me that there is everything to be said in favour of this essentially simple reform.

66. G.D.H. Cole *World Socialism Restated New Statesman Pamphlet, 1956.*

The workers cannot be expected to rally with enthusiasm to the drive for higher output until they can be assured that the benefits will go to those who need them . . . The essence of socialism is not state management or bureaucratic control, which is deservedly unpopular, but the elimination of the claim of capital owners to levy toll on producers and consumers so as to constitute an exploiting class.

67. George Darling M.P. *Political Views on Industrial Democracy, C.P.F. 1958*

The revised Companies Act would allow companies to pay a fixed dividend, say 5 per cent, on their ordinary shares and to divide additional profits, after provision for reserves, investment, renewal, taxes and so on, between the workers, the shareholders and the customers. The proportion going to each would, of course, depend upon each firm's circumstances, as would the form of bonus going to workers and customers.

68. J. Johnston *Resolution Co-operative Congress, June 1919*

That the profiteering of private speculators and the trading community generally be eliminated by legislation or by administrative action, by limiting the interest on all capital employed in the process of production, distribution and exchange to 5 per cent per annum.

69. *Daily Worker June 4, 1965*

The Royal Arsenal Co-operative Society has carried by 190 votes to 107 a resolution pressing the government for legislation which would permanently limit the return received by shareholders and ensure that companies were no longer run for private profit but for community need.

*Note:* Early in 1965 the London Co-operative Society carried a similar resolution which called for the limitation of the return paid on capital by companies.

70. R.H. Tawney *The Acquisitive Society, Bell, 1920*

It is possible to attenuate the influence of capital by insisting that it shall be paid not more than a fixed rate of interest in advance and that it shall carry with it no right of control. In such circumstances the position of the ordinary shareholder would approximate to that of the holder of debentures. The property in the industry would be converted into a mortgage on its profits; while the control of the administration and all profits in excess of a minimum would remain to be invested elsewhere.

Such a change in the character of ownership would have three advantages. It would abolish the government of industry by property. It would end the payment of profits to functionless shareholders by turning them into creditors paid a fixed rate of interest. And it would lay the foundations of industrial peace by making it possible to convert industry into a profession carried on by all grades of workers for the service of the public, not for the gain of those who own capital.

71. R.H. Tawney *The Acquisitive Society, Bell, 1920*

A Committee of Employers and Workmen issued in August 1919 a report on the building trade entitled, "Scientific Management and the Reduction of Costs".

"We believe" they wrote, "that the great task of our Industrial Council is to develop an entirely new system of industrial control by members of the industry itself - the actual producers, whether by hand or by brain - and to bring them into co-operation with the state as the central representative of the community they are organised to serve".

Instead of unlimited profits the employer is to be paid a salary for his services as a manager and a rate of interest on his capital which is to be both fixed and, unless he fails to earn it through his own inefficiency, guaranteed.

Anything in excess of this, any profits in fact, which in other industries are distributed as dividends to shareholders, he is to surrender to a central fund to be administered by employers and workmen for the benefit of the industry as a whole.

There is to be publicity as to costs, open dealing and honest work. Capital is

not to employ labour. Labour, which includes managerial labour, is to employ capital; and to employ it at the cheapest rate of which in the circumstances of the trade, it can be got. If it employs it so successfully that there is a surplus when it has been fairly paid for for its own services, then that surplus is not to be divided among shareholders for, when they have been paid their interest they have been paid their due. It is to be used to equip the industry and to provide still more effective service in future.

72. **Michael Posner** *New Statesman, June 25, 1965*

We could adapt the managerial revolution to the aims of moderate socialism by two major steps. First we could recognise that the redistribution of income can in the future be pressed further by raising capital gains tax and by increasing discrimination in favour of earned income.

Secondly undistributed profits, now additionally encouraged, should pass from the nominal ownership of the shareholders into the hands of the consumers, the workers and the state. For if the shareholders no longer have the right to all profits this right should be transferred to other hands, not left in the control of the managers.

73. **John Strachey M.P.** *New Fabian Essays, Turnstile Press, 1952*

The movement should carefully examine the new ideas being put forward in many quarters for the transformation of our basic existing productive units, the joint stock companies. It may be that the swiftest progress towards socialism can be made not by fusing these productive teams into great centralised public corporations but by drastically altering their very nature.

74. **The Labour Party** *Towards Equality, 1956*

The vital change brought about by nationalisation is the replacement of equity share capital by fixed interest compensation stock.

75. **Harold Wilson** *Hansard May 12, 1958*

There is plenty of room in our taxation system and in our financial system for a very big expansion of that kind of company organisation that rules out the equity element and the possibility of unearned capital gain.

76. **Robert Owen** *Third Deed of Partnership, 1813*

All profits made in the concern beyond five per cent per annum on the capital invested shall be laid aside for the benefit of the workers and of the community at large.

77. **Labour Party** *Clause Four of Constitution, 1918*

To secure for workers by hand and by brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the Common Ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry or service.

78. **Labour Party** *Labour and the Nation, 1928*

The Labour Party is a Socialist Party. Its aim is the organisation of industry in the interests of all those who bring a contribution of useful service to the common stock.

79. **John Cole** *The Guardian June 7, 1962*

The argument about the pay pause and a national incomes policy is an argument about nothing less than the whole pattern of the distribution of wealth in Britain.

80. **Harold Laski** *The Grammar of Politics, Allen & Unwin 1925*

There must be an alteration of the character of the owner of wealth into a person to whom a fixed dividend is paid for the use of his wealth.

He must cease, that is, to control the business in which the property he owns is invested. Exactly as the owner of government stocks is not given, as such, the advantage of a budget surplus and does not, as the owner of government stock, influence the policy of the Ministry in office, so similarly the owner of industrial capital would be paid the market price, and no more, for the service rendered by the loan of his capital. He would not be, as he now generally is, the residuary legatee of industry.

There is no more reason for offering industrial capital more than its fair market price than there is for offering a wage to labour that is more than the industry can bear. We can only make industrial relationships creative by making the exercise of authority arise naturally out of function.

By socialisation I do not necessarily mean nationalisation though that is, of course, one of its forms. I mean the production of certain essential commodities by methods which do not leave them at the disposal of private profit. Whatever the method the chief point in it is that the profits therein earned will benefit the community and not the private undertaker.

**81. Co-operative Party** *Building the New Britain, 1950*

The rate of interest paid on shares of co-operative societies is fixed. The value of the shares does not fluctuate with the prosperity of the society. Capital is a hired servant, not a master. In capitalist industry, however, equity shares reflect changes in the profit earning capacity of a concern and those who hold them largely determine financial policy . . .

It is socially and economically desirable that a larger part of the capital employed in industry should be converted into redeemable fixed interest bearing stocks, especially in concerns in which the element of risk has been converted into special advantage.

**82. Labour Party** *Let us win through together, 1950*

The Labour Party therefore proposes that the proprietary insurance companies should be taken out of the realm of private profit and be mutually owned by the policy holders instead of by private shareholders.

**83. G.D.H.Cole** *The British Co-operative Movement in a Socialist Society, Allen & Unwin 1952*

The state, after taking over the private retail undertakings which it had decided to acquire, would convert them to some sort of "mutual" basis rather on the lines of the suggestion put forward by the Labour Party in 1949 for the mutualisation of industrial insurance.

**84. Harvey Cole** *Socialism and the Press, Fabian Society 1952*

Adoption and avowal of these responsibilities should be made compulsory for all newspapers with a sale of over 50,000. Consideration should be given to Auston Albu's suggestion that dividends should be permanently limited to a figure taking due account of an allowance for risk bearing. The great newspapers would then lose one great incentive to lower standards as a means of profit making. It is worth noting that many of the most respected newspapers - the Times, the Manchester Guardian, the Observer, the Economist, - are already under some form of trust control.

**85. Harold Wilson** *Social Ownership in Britain's Fight for Independence C.P.F. 1953*

I believe it should be a cardinal point of government policy to assist appropriate forms of co-operative production as a complementary form of social ownership in those industries where nationalisation, for whatever reason, is not contemplated.



86. R.H.Tawney *The Acquisitive Society*, Bell 1921

All these rights - royalties, ground rents, monopoly profits, surpluses of all kinds - are "Property". The criticism most fatal to them is not that of the socialists. It is contained in the arguments by which property is usually defended.

The meaning of the institution, it is said, is to encourage industry by securing that the worker shall receive the produce of his toil. But then precisely as it is important to preserve the property which a man has in the results of his own labour, it is important to abolish that which he has in the results of the labour of someone else. If the former "turns sand into gold", the latter turns gold into sand for it saps the motives of productive effort. The considerations which justify ownership as a function are those which condemn it as a tax.

The owner of royalties who, when asked why he should be paid £50,000 a year from minerals which he has neither discovered nor developed nor worked but merely owned replies: "But its property". He may feel all the awe which his language suggests. But in reality he is behaving like the snake which sinks into its background by pretending that it is the dead branch of a tree, or the lunatic who tried to catch rabbits by sitting behind a hedge and making noises like a turnip. He is practising protective - and sometimes aggressive - mimicry. His sentiments about property are those of the simple toiler who fears that what he has sown another may reap. His claim is to be allowed to continue to reap what another has sown.

87. J.C. Harper *Profit Sharing in Practice and Law*, Sweet & Maxwell, 1955

Limitation of liability has long been available to proprietors through the medium of incorporation under the Companies Acts. In considering these Acts in retrospect it certainly seems remarkable that they have not required proprietors availing themselves of their benefits to forgo some of their profits in consideration of the advantage of limited liability. Such an arrangement would clearly appear equitable.

88. William Temple *Christianity and the Social Order*, Penguin 1941

The early Christian Socialists strongly urged when limited liability was first introduced, that this should always be accompanied by conditions securing the public interest against exploitation. I cannot doubt that they were right or that we should now remedy the omission. What is required here is an amendment of the Companies Act imposing certain conditions whenever limitation of liability is granted . . . Whenever limitation of liability is granted a maximum rate of dividend must be fixed.

89. Pius XI *Quadragesimo Anno*, 1931

The wage contract should be modified where possible by a contract of partnership.

90. American Bishops Programme of Social Reconstruction *Catholic Bishops in U.S. 1919*

That the owners of public service monopolies should be restricted by law to a fair average return on their actual investment has long been a recognised principle in the courts, the legislatures and public opinion. It is a principle which should be applied to competitive enterprise likewise.

91. Anglican Conference *Birmingham 1924 (C.O.P.E.C.) Report on Industry and Property.*

Those who serve should hire capital instead of capital hiring those who serve.

92. J.K. Galbraith *Reith Lectures 1966*

The shareholder is a passive and functionless figure remarkable only in his

capacity to participate without effort or even, given the planning, without appreciable risk, in the gains of the growth by which the directing organisation now measures its success. No grant of feudal privilege in British history has ever equalled, for effortless return, that of the American grandparent who endowed his descendants with a thousand shares in General Motors or IBM.

**93. J.M.Keynes *The End of Laisser Faire, Hogarth Press 1926***

A point arrives in the growth of a big institution at which the owners of capital that is the shareholders, are almost entirely dissociated from the management with the result that the direct personal interest of the latter in making a profit become quite secondary. When this stage is reached the general stability and reputation of the institution are more considered by the management than the maximum profit for the shareholders. The shareholders must be satisfied with conventionally adequate dividends.

**94. Professor L.C.B. Gower *Modern Company Law, Stevens 1957***

Company directors are not, in law, entitled to have regard for the interests of their employees or those of their customers or those of the community as a whole except insofar as doing so helps to increase the profits and dividends of their shareholders.

**95. Winston Churchill M.P. *Conservative Conference 1946***

We seek as far as possible to make the status of the wage earner that of a partner rather than that of an irresponsible employee.

**96. A.W. Benn M.P. *Labour Party Conference 1971***

We intend to explore the concept of Common Ownership taking many forms.

**97. Douglas Jay M.P. *President of the Board of Trade, February 14th, 1967***

I am hoping to legislate for wider reforms in the structure and philosophy of our company law. I think it is time to re-examine the whole theory and purpose of the limited joint stock company, the comparative rights and obligations of shareholders, directors, creditors, employees and the community as a whole. I am putting in hand a systematic review of all these issues.

**98. Labour's Programme for Britain *July 1972***

It is time to question seriously the present legal basis of the company, its structure and its power . . . There remains an urgent need to reconsider the basis upon which the community confers the immense legal advantages enjoyed by the company. We will seek, therefore, a radical reform of company law. We intend to challenge the basic approach and philosophy of present company law.

**99. Jack Jones *October 1970***

Socialism provides the only answer to the inflationary problem.

**100. National Union of Public Employees *1972 TUC, Brighton.***

No consideration can be given to an incomes policy unless it is an integral part of an economic strategy which includes control of rents, profits, dividends and prices and is designed to secure a redistribution of income and wealth.

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