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To the Graduate Council:

I am submitting herewith a thesis written by Ellen S. Bank entitled "The British 'Voluntary' Incomes Experiment, 1964-1969." I recommend that it be accepted for nine quarter hours of credit in partial fulfillment of the requirements for the degree of Master of Arts in College Teaching, with a major in Economics.

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THE BRITISH "VOLUNTARY" INCOMES EXPERIMENT, 1964-1969

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Ellen S. Bank

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ABSTRACT

There is general consensus that the most recent attempt at incomes policy in Great Britain was unsuccessful. In this thesis I shall attempt to analyze and evaluate the policy with an emphasis on the particular features of the policy to which its lack of success may be attributed.

Chapter I examines the factors which first made such a policy seem to be an appealing panacea for all of Great Britain's economic problems; specifically the economic conditions prior to the Labour Government's ascension to power in 1964 are analyzed.

Chapter II examines some early attempts at incomes policy with an emphasis on factors lacking in these policies that were included in the policy under discussion.

Chapter III summarizes the details of incomes policy as stated in the pertinent Government policy papers.

Chapter IV examines the structural features of the British system of collective bargaining rendering the type of incomes policy devised ineffectual; specifically, the post-war tendency towards decentralized bargaining is discussed.

Chapter V analyzes relationships between the Labour Party and the trade union organization; and relationships among various levels of trade union organization as these relationships pertain to incomes policy.

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Chapter VI examines the various exceptions to incomes policy which were instituted to promote long range goals. These exceptions were designed to encourage measures that were desirable in their own right, but may have been promoted more effectively in a manner other than through exceptions to an incomes policy. It is suggested that these exceptions may have contributed to the failure of the incomes policy.

Chapter VII traces the evolution of incomes policy from a voluntary policy to a statutory wage-price freeze and back to a peculiar hybrid of voluntary policy backed by statutory delay powers.

Chapter VIII evaluates incomes policy in terms of its success in achieving its initial goals.

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CHAPTER I

ECONOMIC ENVIRONMENT

In late 1964, when the Labour Government came into power, prospects for a successful incomes policy were considered optimal. The period was one of crisis stemming from Britain's external payments position. Governmental response to economic conditions in the preceding years was an immediate cause of this crisis. An economic downswing in 1962, exacerbated by a severe winter, caused the unemployment rate to reach a level of 3.28 percent. This figure was well in excess of past postwar unemployment levels which averaged between one and two percent (25, p. 273-274). The Government responded to the unemployment level by enacting, in 1963, drastic reflationary measures. Accompanying the government's expansionary policies, was a sharp rise in private overseas investment and a slow deterioration of the balance of trade position. During the first quarter of 1964, the slow deterioration of the balance of trade began to accelerate at a rapid pace. The long-term capital account balance continued to deteriorate over the year as a result of the rising overseas investment. By the end of 1964, Great Britain faced a current and long-term deficit of 769 million pounds; an alarming rise over the preceding year's deficit of 57 million pounds (59, p. 7). After these figures were released to the public, foreign holders of British currency

began to fear devaluation; thus a speculative drain was precipitated (25, p. 274).

This crisis was not a novel occurrence in Great Britain's recent economic history. In the postwar period, deficits were a recurrent phenomenon following each upswing in the domestic economy. Each time such a crisis occurred, the response was traditional monetary and fiscal measures such as reductions in Government spending, increased taxation, credit restrictions and interest rate increases. These contractionary measures were initiated to remedy the balance of payments crisis; but from a political standpoint, the Government was reluctant to pursue these measures. Restraints, therefore, were removed as soon as possible. Relaxation of monetary and fiscal policy prevailed until the next balance of payments crisis (36, pp. 144-145). This cyclical pattern of events is succinctly summarized by Mr. Guillebaud.

1951	Boom and balance of payments crisis
1952	Disinflation and mild recession
1953-4	Reflation
1955	Boom and balance of payments crisis
1956-7	Disinflation and mild recession
1958-60	Reflation
1961	Boom and balance of payments crisis
1963	Reflation
1964	Boom and short-lived balance of payments crisis

(27, p. 30)

The periods of restraint were not sufficiently contractionary to retard price increases; to do so would have required a rate of unemployment that was politically unacceptable. The more obvious result of the contractionary

periods were their influence on the country's growth rate. The periods of restraint were accompanied by cutbacks in private and public investment and resulted in intermittent retardation of growth. This was one of the factors leading to a postwar growth rate in Great Britain that was significantly below that of the other major Western European nations (20, p. 149). By late 1964, the failure of past policy had become apparent. The alternating expansion and restraint ("stop-go") policy had proven to be ineffective, destabilizing and inhibiting to growth.

The failure of "stop-go" policy became a campaign issue in 1964. The Conservative Government in power realized that if it imposed traditional deflationary measures in response to the current balance of payments crisis, this would sound their political death knell. Imposition of contractionary measures would have a two-fold effect: it would reinforce "stop-go" policy that was under attack by the opposition party; and it would adversely affect the voters' pocketbooks prior to influencing the balance of payments position (25, p. 276). The adverse effects would be particularly acute in regions which have a high unemployment rate even in boom times. For example, while overall unemployment in the United Kingdom was 1.7 percent during the 1960-1966 period, Scotland and Northern Ireland averaged 3.6 percent and 6.9 percent respectively (45, p. 107). Any attempt to institute deflationary measures would meet substantial political opposition from such vulnerable areas; the opposition would inevitably

be reflected at the polls. It became politically more feasible to support the pound through borrowing from the United States, and Western European central banks and utilizing International Monetary Fund stand-by credit (25, pp. 274-276). This, of course was not a solution, but deferred the problem until after the election.

In October, the Conservative Government was defeated the general election. The new Government inherited a balance of payments deficit coupled with a sizable debt incurred by the previous administration's short-run measured aimed at supporting sterling. Immediately after the election, the balance of payments crisis became acute as a result of further speculative drains. The Labour Government was in the midst of a crisis with only a small parliamentary majority. Monetary and fiscal deflationary measures were therefore precluded, since such measures might precipitate the downfall of the Government. In addition, such measures would be embarrassing since the Labour Party critically attacked the previous administration's "stop-go" policy during the campaign. The alternative to deflationary policy was to devaluate the pound. The Labour Government, however, already had the reputation of being the "party of devaluation" since it was in power at the time of the 1949 devaluation (25, p. 276). The Government based its decision against devaluation on the grounds of "its harmful effects on the standards of living of the British people, and because of the serious damage it might cause to world trade and monetary arrangement (49, p. 3).

At this time, incomes policy seemed an attractive alternative. The Government held several meetings with both labor and industry leaders to discuss the economic situation. It was generally agreed that a comprehensive new policy was needed that would promote long-term balance of payments equilibrium, maintain economic stability and promote growth. These objectives seemed to be in the interest of government, labor and management. The meetings resulted in the signing of the "Joint Statement of Intent on Productivity, Prices and Incomes" by the Government, the Trade Union Congress (T.U.C.) and representatives of various employers' associations. The statement committed the signatories to undertake join cooperative actions which would raise productivity, "keep increases in total money incomes in line with increases in real national output . . . [and] . . . maintain a stable general price level." The alternative to these actions being slower growth rates accompanied by less than full employment (49, p. 3). The benefits of faster growth would be distributed in such a way as to satisfy "the claims of social need and justice" (30, p. 10). The statement has been described as an "historic landmark in the relations between labor, management, and the government" (41, p. 76).

CHAPTER II

EARLY ATTEMPTS AT INCOMES POLICY

There were several unsuccessful attempts to institute an incomes policy in the postwar period. The 1964-5 experiment was not, therefore, without precedent. The new policy was, however, the most comprehensive to date and eliminated many of the major impediments to the success of earlier policies.

Implementation of an incomes policy was first attempted by a Labour Government in 1948. The attempt met with short term success, but was abandoned within two years. This first postwar venture began with a White Paper issued in 1948 recommending "there be no further increases in the level of personal incomes without a corresponding increase in the volume of production," exceptions to be made only where such increase "is essential to the national interest to man a particularly undermanned industry" (20, p. 182). The T.U.C. resented not being consulted in the early phases of planning the new policy and they expressed displeasure at the fact that it was not planned to impose similar restraints on other sectors of the economy. The T.U.C. finally expressed vague approval of the policy when the government agreed to include additional criteria for exceptions such as provisions for raising substandard wages, and the maintenance of traditional wage differentials. The restraint policy was

extremely loosely structured: it never received formal T.U.C. endorsement; it did not contain a specific policy for price or profit restraint; it contained no provision for consultation between either the T.U.C. and union executives, or the T.U.C. and employer federations; it gave no guidance in the form of general criteria for acceptable wage increases (19, p. 182). The success of the policy can be judged in part by wage rates which rose by only five percent during the two years the policy was in effect; compared to increases of over nine percent for the preceding two years and seventeen percent for the previous three. Retail prices increased by six percent (39, p. 135). The short-term success of the policy has been attributed to several strong personalities both in the Government and in the trade union organization (20, p. 182). There were indications, however, that the policy was beginning to disintegrate prior to its formal abandonment in 1950. Unions began to feel that their restraint was not matched by comparable restraints on the part of management. Uneven incidence of wage drift was another factor contributing to the breakdown (20, p. 183). Workers whose wages were negotiated nationally refused to be bound by the imposed restraints while their fellow workers whose wages were based on locally negotiated piece rates continually enjoyed increased earnings. As a result individual unions began withdrawing their support.

This experience demonstrated that if the economic situation were sufficiently serious, the unions would cooperate with a Labour Government; but the extent of this cooperation would be limited and subject to many conditions (39, p. 135).

In 1956, the Conservative Government made an attempt to impose a system of voluntary restraints. The Government issued a White Paper which called for curbs in price and wage increases in the hope of halting the steady inflationary pressures which had built up since the war. The White Paper emphasized keeping Great Britain competitive in world markets. It argued that this goal could be compatible with full employment if labor and management exercised self-restraint. Machinery for policy implementation was limited to an appeal for civic responsibility and obligation. Employers were given the impression that future resistance to wage claims would be supported by the Government and were somewhat amenable to the policy; but the T.U.C. flatly rejected the restraint proposal (64, pp. 37-38).

A national Council was established in 1957 to examine and report on changes in prices, productivity and incomes. The Council's first report emphasized the need for some unemployment as a means of maintaining price stability. This concept immediately alienated the trade-union movement; as a consequence several subsequent reports issued were largely ignored. By 1961, however, the membership of the Council changed and the next report placed greater emphasis on cost

factors than demand. This report stated,

> Inflation has sometimes been due to the pull of excess demand, but experience has shown that removing excess demand is not of itself enough. We have been brought to the conclusion that inflation has another cause, an upward push as rates of pay are raised and profit margins are maintained by raising prices. This cost push comes into play through myriad decisions on wages, salaries and prices. (3, p. 2)

This emphasis on cost factors was reinforced by a report by the Organization for European Economic Co-operation (O.E.E.C.) in 1961 which attributed price increases between 1953 and 1960 to wage increases (25, p. 272).

A second contribution of the Council was its emphasis on the importance of relating incomes increases to productivity increases. This idea was given support by the Bank for International Settlement which in its report of 1961 expressed the opinion "that the UK balance of payments crises were not short-run affairs, but were in part the result of an almost continuous tendency for wage increases to exceed gains in productivity" (25, p. 272). Whether it was the Council's influence or the foreign influence which had the greater impact on Government thinking is not clear. Perhaps it was a combination of both. The important point, however, is that 1961 marked a turning point in Government thinking. Subsequent anti-inflationary policies reflected the shift in emphasis from demand factors to cost factors and attempted to stimulate the nation's productivity. Specific policy measures taken to achieve these ends are detailed below.

The new emphasis on cost factors was manifested in the adoption of the "pay pause." In July, 1961, the Chancellor of the Exchequer, Mr. Selwyn Lloyd, requested that the private sector voluntarily acquiesce to a temporary wage and salary freeze. This request was accompanied by a plea for restraint in dividend payments. Since there had been no prior discussion of this policy with the unions, they quickly expressed their opposition. The wage freeze was largely ignored in the private sector while being rigidly applied in the public sector over which the Government had control. The freeze generated deep resentment; both on the part of the public employees who were directly affected by the pause, and on the part of the general public who expressed sympathy over the discriminatory measures imposed on the public employees (10, p. 432). In February, 1962, the Government finally abandoned the unpopular and unsuccessful pay pause. A guideline policy was imposed in its place. A new White Paper declared that the pay pause would end in March, 1962, and that pay increases for the remainder of the year should not exceed 2 1/2 percent (22, p. 40). This "guiding light" figure was based on anticipated productivity increases. Again the plea for restraint was unilaterally imposed on the trade-union movement. The White Paper did not satisfy labor leaders since the previous decade experienced dividend increases of 145 percent while wages increased only 87 percent (10, p. 432).

The National Economic Development Council (N.E.D.C.) was established in 1962. Its primary function was to scrutinize the country's economic performance in order to identify obstacles to growth. Emphasis would be placed on achieving an optimum utilization of resources (22, p. 41). The N.E.D.C. received endorsement of both the T.U.C. and various employers associations. The endorsement of the T.U.C. was not without reservations. While recognizing that the objectives of the new organization were compatible with T.U.C. objectives, the T.U.C. took pains to emphasize that it would closely scrutinize the means chosen to achieve these objectives. They stated that their decision to cooperate with the N.E.D.C. did "not imply acceptance of the Chancellor's views that the solution to Britain's economic difficulties is to be found in wage restraint" (22, p. 41). The T.U.C. did not completely repudiate wage restraint but felt that wage restraint would only be considered in the context of a comprehensive planning scheme (20, p. 194). The lack of cooperation with both the "pay pause" and the "guiding light" was indicative of the union's attitude towards wage restraint as practiced by the Conservative Government.

This lack of cooperation with generalized wage restraints led the Conservative Government to try a new approach. A National Incomes Commission (N.I.C.) was established in 1962 "to provide impartial and authoritative advice on matters of importance relating to incomes (10, p. 432). The Commission

was composed of a chairman and three members all of whom had no affiliation with either labor or management. Its functions were three-fold: examination of currently negotiated pay claims at the request of the parties involved; examination of any pay claims in the public sector at the request of the government; retrospective examination of any private settlement at the request of the Government. These examinations were not meant to lead to any binding settlement or alter previous settlements. The trade-union movement repudiated the Commission on two grounds. They felt that since the Commission was small and had limited research facilities; it was not, therefore, equipped to give impartial, accurate advice on whether various claims and settlements were in the national interest. In addition the union leadership viewed the Commission as a spokesman for the Government, since no representatives of labor or management were included. The T.U.C. advised its members not to cooperate with the Commission. The Commission, therefore, had neither statutory authority nor authority by consensus. The Commission's role was never precisely defined. In general its function was to limit wage increases, but it was never quite clear just what the criteria were or whether or not there were any exceptions to the criteria. If the Commission's job was administration of government policy, a well-defined policy would have been required. If its function was to determine a policy and delineate norms and exceptions, the trade union's objections concerning

representation and adequacy of staff were valid (20, p. 191). During the two year existence of the Commission only four reports were issued. Of these, three were retrospective and were merely commentaries on agreements. A fourth helped build a case for a subsequent pay increase for university teachers (10, pp. 432-433).

The early history of incomes policies was largely a history of failures, yet valuable lessons were learned which could be applied to later policies. The Labour Government's policy in 1965 contained many elements that were lacking in previous attempts to implement incomes policy. In general the attitude towards such a policy was more favorable with a Labour Government in power. As was the case in the 1948 experiment, cooperation from the labor-union movement was more readily obtained since the Labour Party was a traditional ally of the working man. The new policy was not a result of unilateral government imposition as had been earlier attempts. Rather, it was a result of consultation and consensus on the part of the Government, the trade-union movement and representatives of industry. Restraint would be imposed on all forms of income rather than only on income earned by labor. Specific criteria were set up indicating levels of wage and price increases considered justified by increases in general productivity. Exceptions to these criteria were outlined, which provided incentives for specific productivity measures and for achieving specific social and economic objectives. An adequately staffed body,

the National Board for Prices and Incomes (N.B.P.I.) was set up to evaluate wage and price changes under these criteria. George Woodcock, (General Secretary of the T.U.C.) described the N.B.P.I. as being entirely different from its predecessor the N.I.C., which was a body capable of formulating and applying policy from the top down; in doing so, usurping functions of trade unions, employers and government (41, p. 80). The policy was presented not as an emergency measure to overcome a current balance of payments crisis, but rather as a comprehensive program which would promote increases in real income, through increased productivity while simultaneously promoting desirable social goals.

CHAPTER III

POLICY

The Government was encouraged by the support of labor and management as expressed both informally at several joint meetings, and formally in the "Joint Statement of Intent on Productivity, Prices and Incomes." As a result, it proceeded to publish two successive White Papers outlining specific details of the policy implementation. The first White Paper was published in February, 1965. Its purpose was to establish specific details and methods of implementation of the policy within the general framework set out in numerous conferences between labor, management and Government.

The National Economic Development Office, in conjunction with several other Government Departments, was delegated the task of "ascertainment, interpretation and assessment of the relevant facts about general price and income behavior" (11, p. 2). Reports of these findings would be submitted to the National Economic Development Council (N.E.D.C.), whose function was to review these reports and to assess their implications for the national interest. When deemed necessary specific recommendations would be made. Government, unions, and management would be responsible for acting on any of these recommendations (11, p. 2).

The National Board for Prices and Incomes was set up to examine specific price and incomes changes. The Board was divided into two subsections; one concerned with prices, and the other concerned with incomes. The Prices Review Division was delegated the responsibility

> to investigate any price or group of prices (manufacturing, wholesale or retail) of goods and services in private industry and in nationalised industry. Both particular cases of price changes and cases in which there has been no change, although prima facie some reduction appears to be warranted, will be covered. (11, p. 3)

The Incomes Review Division was delegated the responsibility

> to investigate claims and settlements relating to wage and salary increases, reductions in hours and other improvement in conditions of service, whether in the private sector, the nationalised industries or the public services; cases in which a revaluation of pay levels or an overhaul of pay structure seems to be indicated for economic or social reasons; the level of earnings in an industry or sector; and where appropriate, cases of increases in money incomes other than wages and salaries. (11, p. 4)

Membership of the Board would consist of a chairman, a representative of the trade-union movement and management and several independent persons with neither trade union nor management affiliation. The "independent" members would be collectively qualified in relevant areas such as law, accountancy, economics and industrial relations (11, p. 3). For investigation of specific cases, panels comprised of trade unionists and representatives of management would be appointed to assist the Board. In addition, the Board would have a permanent staff with expertise in the areas of accountancy, industrial relations and statistics (11, p. 3).

The Government would be responsible for referral of specific cases. Because of the Joint Statement of Intent on Productivity, Prices and Incomes, and other encouraging discussions with union and management representatives, voluntary cooperation was anticipated in all the Board's investigations. It was not felt, therefore, necessary to empower the Board with statutory authority. After the Board concludes its investigation and makes its recommendation known, it has no power of enforcement other than by persuasion and the marshalling of public opinion (11, pp. 3-4).

Two months after the initial White Paper was published, a second White Paper was released which outlined norms for acceptable wage and price increases. Consideration of anticipated increases in productivity and labor-force participation lead to the conclusion that incomes increases in the range of 3 percent to 3 1/2 percent (the norm) would be non-inflationary. This figure would be revised if periodic reviews by the N.E.D.C. deemed such revision necessary (12, p. 7). Application of the norm to wages and salaries should consider not only base pay rates, but any cost increases caused by reduction in hours without pay loss, increased fringe benefits or increased earnings resulting from premiums paid for shift work or overtime (12, p. 8). Wage increases in excess of the norm would be permitted in circumstances:

(i) where the employees concerned, for example by accepting more exacting work or a major change in working practices, make a direct contribution towards increasing productivity in the particular firm or industry. Even in such cases some of the benefit should accrue to the community as a whole in the form of lower prices;

(ii) where it is essential in the national interest to secure a change in the distribution of manpower (or to prevent a change that would otherwise take place) and a pay increase would be both necessary and effective for this purpose;

(iii) where there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living.

(iv) where there is widespread recognition that the pay of a certain group of workers has fallen seriously out of line with the level of remuneration for similar work and needs in the national interest to be improved. (12, pp. 8-9)

At the inception of the policy, these exceptions seemed appealing to government, labor and management. The first was aimed at encouraging productivity increases, a goal compatible with growth and therefore the potential for increasing real income. The second was aimed at encouraging a more efficient allocation of human resources. The third and fourth were aimed at social rather than economic goals with prime consideration being welfare and equity for certain segments of society.

Policy concerning forms of income other than wages and salaries was vaguely outlined. Incomes controlled by the Government and incomes of self-employed persons were expected to be subject to considerations similar to those outlined for general pay increases. In addition rental incomes would be subject to scrutiny of the Board (12, p. 9). In order to

assure that these income restraints would not result in a profit windfall, a specific price policy was outlined which would, in effect, limit profit increases to cases justified by increased efficiency. Price increases would only be justified:

(i) if output per employee cannot be increased sufficiently to allow wages and salaries to increase at a rate consistent with the criteria for incomes stated in . . . [the exceptions to incomes norm] . . . without some increase in prices, and no offsetting reductions can be made in non-labour costs per unit of output or in return sought on investment;

(ii) if there are unavoidable increases in non-labour costs such as materials, fuel, services or marketing costs per unit of output which cannot be offset by reductions in labour or capital costs per unit of output or in the return sought on investment;

(iii) if there are unavoidable increases in capital costs per unit of output which cannot be offset by reductions in non-capital costs per unit of output or in the return sought on investment;

(iv) if, after every effort has been made to reduce costs, the enterprise is unable to secure the capital required to meet home and overseas demand. (12, p. 7).

Price reductions would be expected:

(i) if output per employee is increasing faster than the rate of increase in wages and salaries which is consistent with the criteria for incomes stated in . . . [the exceptions to incomes norm] . . ., and there are no offsetting and unavoidable increases in non-labour costs per unit of output;

(ii) if the costs of materials, fuel or services per unit of output are falling and there are no offsetting and unavoidable increases in labour or capital costs per unit of output.

(iii) if capital costs per unit of output are falling and there are not offsetting and unavoidable increases in non-capital costs per unit of output;

(iv) if profits are based on excessive market power. (12, p. 7)

CHAPTER IV

STRUCTURAL IMPEDIMENTS TO INCOMES POLICY

In an attempt to solve the problems facing Great Britain, the Labour Government designed a comprehensive apparatus to implement incomes policy. Its short-run objective was restraining wages and prices to achieve equilibrium of the balance of payments. Its long-run objectives were acceleration of economic growth and efficiency, and achievement of social goals. The policy considered all forms of income, so that benefits that accrued to society as a result of accelerated growth would not be at the expense of the wage earning sector. Since union and management representatives pledged their full cooperation to assure the success of the policy, the prospects for successful implementation of the policy seemed favorable. However, upon more careful scrutiny, it is obvious that there were inherent defects in the policy which jeopardized the potential for successful implementation.

The postwar structure of collective bargaining in Great Britain was an impediment to implementation of an incomes policy. The policy emphasized voluntary adherence and was backed solely with the sanctions of public opinoin. This would have been more suitable to the bargaining structure in Great Britain during the interwar period when bargaining took place on an industry-wide basis where employer associations and one or more unions carried on negotiations. Under these

conditions, settlements are likely to come under public scrutiny. The rationale behind this type of bargaining in the interwar period was the significant amount of under-employment during this period. Through this type of bargaining competitive wage- and price-cutting was avoided. A small group of specialists were able to conduct negotiations for large numbers of workers and firms. Unions felt it would be mutually advantageous to act collectively during a period when their bargaining power was weak. In addition, through this type of bargaining, workers were assured equal pay for equal work (1, pp. 103-104).

After the war there was a tendency for greater decentralization in bargaining. A two-tiered bargaining system developed in most industries. Basic wage rates and conditions of employment were still negotiated on a national level. In most cases these national negotiations merely served to set minimum rates and standard hours. Additional bargaining was then conducted on a plant level in order to complete the wage and benefit package (10, p. 437). Such local negotiations gave management a great degree of flexibility in determining wages and production methods to meet local conditions. This afforded a means of competing for labor in a tight market and permitted flexibility in setting up incentive schemes. Unions, too, were content with the system, since through the national negotiations, they could pool their strength to assure minimum pay and benefits; but were able to take advantage of local labor market conditions and often they

were able to increase earnings far above the national minimum (20, p. 167).

While this type of decentralized bargaining is advantageous to unions and management, it tends to act as a barrier to the Labour Government's version of incomes policy which was dependent on voluntary adherence and was enforceable only through the pressures of adverse public opinion. If the large scale national agreements actually regulated the entire wage package, this sanction might prove effective. The trend towards decentralization, however, resulted in numerous local agreements supplementing the national agreement. Thus, inflationary pay increases could easily escape the scrutiny of incomes policy administrators. Workers were able to get "legal" increases through the national negotiations; but the complete wage and benefit packages were determined through numerous local negotiations (55, p. 204).

There were several factors working in the British economy during the postwar period which tended to increase the amount of decentralization of the bargaining structure.

There has been intense competition between the larger unions to absorb smaller unions and therefore increase their power. In order for the larger unions to get the smaller unions to agree to amalgamations, it was necessary to demonstrate to the smaller unions the benefits to be derived from such amalgamation. This fostered decentralized bargaining since local level bargaining more clearly demonstrated the

advantages of belonging to a particular union than did the more remote national agreements (55, pp. 205-206).

Another factor contributing to the shifting of power from the national to the local level was a result of past conflict between national and local leaders of the two largest British unions. Local leaders felt that the national unions were too conservative. Sharp intra-union rifts resulted. When new national leadership came into power, the first order of business was strengthening internal matters. In order to accomplish this, the new leadership decided to give more power to the local leaders, and pledged strong support to them. The two unions involved (the Transport and General Workers' Union and the Amalgamated Engineering Union) comprised one fourth of all union members and were represented in almost every British industry. The trend to greater support of local bargaining, therefore, spread to other unions (55, p. 205).

The dynamic nature of British industry also influenced the structure of collective bargaining. When conglomerate corporations were created, the management wished to avoid reconciling various national agreements covering employees in several industries. This influenced the emergence of small unit bargaining. The tendency towards industrial and commercial concentration has had a similar effect. Larger firms tend to negotiate as a single unit rather than rely on employer association membership through which industry-wide bargaining is carried on. The advantages of employer

associations such as financial assistance during a dispute or industrial relations specialists are not necessary for the large firm. The larger firms are capable of providing for their own needs in these areas and can therefore free themselves from the restrictive elements of association membership (55, p. 206).

Increases in American investment has also hastened decentralized bargaining. A large number of American firms, or the British subsidiaries of American firms, resulted in the importation of American managerial techniques. American collective bargaining structure has been predominantly decentralized, and this method was preferred by the American managers in Great Britain. The success of the American managerial techniques lead British firms to imitate American practices, including decentralized bargaining (55, p. 205).

In cases of two-tiered bargaining, it is difficult in many cases to measure precisely the extent of local bargaining. Such bargaining "is neither explicit nor formal" (20, p. 167). Neither unions nor management wish to acknowledge the extensiveness of local negotiations.

> Employers feel that informal practices give them more discretion and constitute less of a restriction on their prerogatives; they do not establish precedent, and are reversible with the turn of the business cycle; they are less likely to lead to strike action or to "whip-sawing" tactics; and they are less offensive to employers' associations whose protection they value and who frown on individual bargaining. On the union side, much of the local bargaining takes place through the shop stewards and is thus outside the formal framework of the trade unions. For this reason the unions have not openly acknowledged or blessed local bargaining. (20, p. 167)

Though the extent of this type of bargaining is difficult to precisely measure, the fact that such bargaining did prevail had unfortunate consequences for the success of incomes policy as devised by the Labour Government. In order for a voluntary incomes policy to be effective, the number of negotiations must be limited so that any deviations from the incomes norm is readily identifiable. The non-complier must come under public scrutiny. In addition, a limited number of negotiations "implies a closer and more direct correspondence between individual action and the public interest" (42, p. 1224). As the bargaining system becomes more decentralized, the effectiveness of voluntary policy diminishes.

It is interesting to note that one feature of the Labour Government's incomes policy itself tended to encourage just the type of decentralization which renders such a policy nonviable. This is the section providing for above-norm pay increases in cases where employees make direct contributions to increased productivity. That provision brought about a rash of productivity agreements which justified above-norm increases. This type of agreement is more feasible if negotiations are conducted at the local level. In several prominent cases, companies which became signatories to productivity agreements simultaneously withdrew from employer associations (57, p. 369). Thus, the productivity exception clause, despite its intrinsic merits tends to encourage decentralization in collective bargaining, which is detrimental to a voluntary incomes policy (28, p. 42).

It is difficult to apply incomes guidelines to a system in which there is a decentralized form of bargaining. Even if national agreements conform to the incomes policy norm, separate negotiations at the plant level may increase this base rate considerably. Incomes policy made no provision for this contingency. The policy specifically stated that application of norms for pay increases should not be limited to base pay rates, but should include cost increases resulting from reductions in hours without pay loss, increased fringe benefits and increases as a result of premiums paid for shift work or overtime (12, p. 8). These benefits are more difficult to measure against the incomes norm. While the benefits may be desirable for their own sake, they may represent increased labor costs to firms and higher real income to workers. They are a means of bidding up the price of labor, while ostensibly keeping the money wage within the given norm under an incomes policy (35, p. 17). "From reason of sheer practical necessity, incomes policy must deal in terms of wage rates; only for these are statistics readily available, and only these, determined centrally and relatively infrequently, are feasibly amenable to influence by any practical planning machinery." (38, pp. 99-100)

The divergence between the rate of change of nationally negotiated wage rates and the rate of change of actual earnings (determined by local level increments, excluding the effects of overtime) is referred to as wage drift (9, p. 118; 35, p. 21). A high incidence of wage drift would indicate

that market forces are operating to bid up the price of labor. Estimates furnished by the Ministry of Labour indicate that during the period of voluntary incomes policy, wage drift averaged about 2.25 percent compared to an average of about .94 percent over the previous ten years (9, p. 118). Any statement concerning the "success" of incomes policy during the voluntary period must be regarded suspiciously since it is likely that the figure used does not take wage drift into consideration and wage drift was significant during the period.

Two possible structural changes could eliminate drift. Either bargaining could be conducted entirely on a national level or entirely on a local level. The former is unlikely to occur in Great Britain during a period of full employment. The latter has occurred in some industries, but if it became widespread, the chances of success for voluntary incomes policy would still be unlikely. As mentioned above, in order for a voluntary incomes policy to be effective, the number of negotiations must be limited so that any deviation from the incomes norm is readily identifiable.

Since the above estimates of drift exclude overtime payments, there probably is a tendency for the problem to be understated. Overtime is paid either because genuine production requirements necessitate increased overtime or because periods of tight labor market conditions necessitate guaranteed overtime in order to attract laborers. Robinson has suggested that the experience in Great Britain has, for

the most part, been the latter (40, p. 29). Guaranteed overtime, may therefore be another means by which the constraints or an incomes policy may be circumvented. Basic wage rates may comply with the incomes norm, but informal contracts may guarantee that overtime earnings will bring earnings well above the basic wage rate.

CHAPTER V

FROM THE T.U.C. TO THE WORKSHOP FLOOR: A WEAK-LINKED CHAIN

Incomes policy was developed by a Labour Government--a Government having traditional ties with the labor movement. The policy was officially endorsed by the T.U.C. As noted previously, these circumstances contributed to the likelihood of a successful incomes policy experiment. It is, however, necessary to carefully examine several relationships: specifically; the relationship between the Labour Party and the trade union movement, the relationship between the T.U.C. and its component unions and the relationship between these component unions and their membership.

Traditionally, strong ties existed between the T.U.C. member unions and the Labour Party, although the T.U.C. itself has maintained political independence. The Labour Party, however, was limited in its influence over the trade unions. In fact the unions were in a stronger position to influence the party than vice versa. At the inception of incomes policy, the unions controlled 5/6 of the votes at the annual conference of the Labour Party; they controlled a majority of the Party Executive; they had about 100 members of Parliament in the Parliamentary Labour Party and they provided the bulk of the Party's finances (20, p. 182). The British Labour Party has been fairly independent on questions

of a general political nature, but on questions relating to industrial matters (e.g., legislation concerning industrial relations or working conditions) party leaders were responsive to the demands of the trade unions (27, p. 58). While the trade unions

> can influence the party's policy [in matters relating to industrial relations], the party has no analogous means of influencing the policy of the trade union movement. Nor can the trade unions be bound by any of the party's decisions. (20, p. 160)

To understand the impact of T.U.C. endorsement of an incomes policy, it is necessary to examine both the structure of the T.U.C. and its relationship to its component organizations. The T.U.C. is a highly representative organization. Only two unions with memberships exceeding 100,000 were not affiliated at the onset of the Labour Government's incomes policy. Many unions, while not having direct affiliation with the T.U.C. were indirectly connected through various union federations (20, p. 155).

The General Council is the governing body of the T.U.C. This council is comprised of leaders of 35 trade unions (20, p. 155). It was this General Council that dealt with the Government in the initial agreement on incomes policy. Once agreement was reached with the Government, the Council called a meeting of the executive committees of the T.U.C.-affiliated unions which endorsed the newly formulated incomes policy as set forth in the "Joint Statement of Intent on Productivity, Prices and Incomes" and the two policy White Papers. While a large majority of the unions represented at this conference

voted in favor of endorsement, the question which comes to mind is how significant was this endorsement. Professor Ulman sheds some light on this question. He stated:

> to be effective as an instrument of persuasion, incomes policy must rely on the soundness of two links in a chain of transmission: the link between the central federation [the T.U.C.] and the national unions affiliated to that federation and the link between those national unions and the local or plant units affiliated to them. (56, p. 258)

Professor Ulman asserts that the first is stronger in the British system (56, p. 258). Evidence of the strength of this first link is manifested by the large majority of national union representatives who endorsed the T.U.C.'s stand on incomes policy.

While endorsement was favored by a wide majority of the unions, there was some dissent voiced at the conference. One union leader, Mr. Barr, of the National Union of Sheet Metal Workers and Coppersmiths stated that his unions would support an incomes policy only if the country was committed to a socialistic economy. Given the existing British economic system, incomes policy would not be acceptable (25, p. 279). Mr. Jenkins of the Association of Supervisory Staff, Executives and Technicians, expressed the opinion that labor costs were already too low relative to other factor costs. Management, therefore, used labor intensive production methods rather than making capital investments. This resulted in Britain's reputation for possessing "one of the most antiquated stocks of capital equipment anywhere in Western Europe" (25, p. 279). Several delegates expressed

the viewpoint that implementation of incomes policy would divert attention from what their unions felt were the more significant causes of Britain's malaise, such as over-emphasis on military expenditures and overseas investment. They urged a reduction in Government military expenditures and a policy aimed at the encouragement of domestic investment as an alternative to incomes policy (25, p. 279). It was also feared by some delegates that the entire system of free collective bargaining would be jeopardized by the adoption of incomes policy (25, p. 279). Despite these reservations, the conference delegates endorsed the Government's policy by a vote of 6,649,000 to 1,811,000 (25, p. 279). While this represents a substantial majority, the opposition vote was significant, since the T.U.C. has no legal authority to enforce majority rule on the dissenting unions.

The weakness in the link between the national unions and the local units (at the plant level) was potentially more threatening to the success of incomes policy than was the link between the central federation and the national unions. The branches of the national unions are geographically based rather than based at the place of employment (44, p. 8). The reason for this is the heritage of craft unionism in Great Britain. It is probable that any given firm will have to deal with numerous unions, with each union representing only a small fraction of its employees (56, p. 262). The national union, therefore, has a scattered membership. The local branch union officials are too few and too poorly paid

to spend much time in the plants in their districts. Workers rarely attend branch union meetings (20, p. 168). This situation gives the national union less influence over its members than would be the case if industrial unionism were prevalent. Shop stewards fill the leadership gap and achieve a role of exaggerated importance (44, p. 8). The members look at the shop stewards as their representative; they have little or no contact with any other union officials. The national union has little control over the locally elected shop stewards who are empowered to initiate action without approval of higher union officials (43, p. 191). There is, therefore,

> a complete break in internal trade union communication. Executive authority flows down to the branch, but the flow of workshop representational and wage bargaining activities goes up to the steward, with almost no connection between the two points. (20, p. 168)

The national union might, therefore, give its full support to incomes policy, but the rank and file membership might desire wage increases in excess of the norm set by incomes policy. These members, working through their representative, the shop steward, may press wage demands at any time. These demands are often backed by strike threats. Such strikes are unofficial, in that they are not sanctioned by the national union. Table I gives estimates compiled by the Ministry of Labour on work stoppages between 1964 and 1966. These figures indicate that a large majority of work stoppages were due to unofficial strikes. About 50 percent of these unofficial strikes concerned wages (18, p. 100).

TABLE I

OFFICIAL, UNOFFICIAL AND OTHER STOPPAGES OF WORK DUE TO INDUSTRIAL DISPUTES

Average annual figures for stoppages in the period 1964-1966[1]

Type of Stoppage	Number of Stoppages	Number of workers involved[2]	Number of working days lost
Official strikes	74	101,100	733,000
Partly-official strikes[3]	2	600	7,000
Unofficial strikes	2,171	653,400	1,697,000
Others, e.g. lock-outs or strikes by unorganised workers, unclassified	25	2,700	15,000
ALL	2,272	757,800	2,452,000

Source: Ministry of Labour

[1]The figures relate to stoppages beginning in the years covered and the total number of working days lost due to them.

[2]Including workers thrown out of work at establishments where stoppages occurred, although not themselves parties to the dispute.

[3]I.e., a strike involving more than one union and recognised as official by at least one but not all the unions concerned.

(18, p. 97)

Wage increases may result from these strikes despite the fact the collective bargaining agreement provides for wages within the norm under incomes policy. Collective bargaining agreements do not have contractual status in Great Britain. Therefore, despite official national trade union adherence to the incomes norm in the normal process of collective bargaining, unofficial strike action could result in wage increases well above the norm set by incomes policy.

CHAPTER VI

IMPEDIMENTS THROUGH EXCEPTIONS

Specific exceptions to the incomes norm were provided for in order to encourage specific long-run goals.

The first exception permitted above-norm increases in cases:

> (i) where the employees concerned, for example by accepting more exacting work or a major change in working practices, make a direct contribution towards increasing productivity in the particular firm or industry. Even in such cases some of the benefit should accrue to the community as a whole in the form of lower prices. (12, p. 8)

Exceptions to the incomes norm to encourage productivity increases seemed well justified. Wage increases coupled with equivalent increases in unit-output are not considered inflationary. This exception was intended to be an expedient method of increasing overall productivity which, in turn, would increase real incomes and ease the balance of payments problems. There is little doubt that there was room for improvement in productivity in the British economy.

> One study which compared productivity in plants of comparable size in the United Kingdom and Germany found that output per head was between 4 and 29 percent higher in Germany in the printing industry, between 6 and 27 percent higher in chemicals, and up to 20 percent higher in shipbuilding. A study of the chemical industry alone found that output per production employee in the United States was up to 85 percent in excess of British productivity after allowance for differences in scale of production; and also that an American firm using a British-size unit would have a higher ratio of production to maintenance employees. Less precise

> comparisons with the United States have yielded the inference that lower British productivity in steel and in petroleum refining reflect the influence of more inefficient working arrangements in these U.K. industries. (57, p. 332)

Much of this poor productivity performance results from traditional attitudes towards overtime and other restrictive work practices. The British worker has a notorious reputation for slacking on the job during normal working hours in order to artificially create overtime work. Normally, if the employers were free in offering overtime, there would be a relationship between the amount of overtime offered and the state of the economy. For example in the United States, the number of overtime hours offered are significantly greater during an economic upswing than during a downswing. In Great Britain, however, overtime offered is relatively independent of the level of aggregate demand (57, p. 357). One of the N.B.P.I.'s last reports shows that the average British worker considers overtime payment as a basic part of earnings. British manual workers average 46.5 hours of work each week, although the standard work week is 40 hours. The British worker voluntarily works additional hours. Eighty-seven percent of the workers reported that increased earnings was their sole motivation for working overtime. Such attitudes towards overtime tend to encourage inefficiency since workers must complete their tasks more slowly in order to stretch their job to fill the overtime hours (46, pp. 45-46).

Restrictive work practices are quite common in Great Britain. Britain's commitment to maintain full employment enhanced the bargaining power of unions in the early postwar period when many of these restrictive work practices originated. Politicians of both parties conveyed the idea to workers and unions that full employment was a prime objective no matter what the costs (21, p. 97).

> The unions used their bargaining power to secure wage increases for their younger members . . . while clinging to restrictive work and wage arrangements out of deference to the longer memories of their older members. (57, p. 332)

The unionized British labor force is organized predominantly into craft unions--a structure having great potential for unnecessary duplication of effort, and restrictions on tasks assigned to a given craft union member (57, p. 347).

> One rather unique by-product of both the structure and the spirit of British craft unionism is the pervasive occupation known as the "craftsman's mate," or helper. The mate is not an apprentice; on the contrary, he frequently belongs to a different union from the one to which the craftsman is affiliated, and he may be barred from promotion to craft status. Although the journeyman's helper exists in the United States, . . . he is [not] redundant by definition. In Britain, however, he is rather notorious as a brewer of tea and a status symbol for the journeyman craftsman who is by no means the least class-conscious member of a most class-conscious society. The extent of overmanning in this area can be gleaned from accounts of some major productivity agreements, which were marked by management's eagerness to reduce the number of mates or even eliminate the category altogether as part of an agreement to secure greater "flexibility" and "interchangeability" among different occupational groups. (57, pp. 347-348)

It was expected that restrictive work practices would gradually fade away in the long period of full employment

after the war. Professor Ulman suggests that restrictive work practices persisted for several reasons. British workers are embued with a "proletarian spirit" which is suspicious of employer motivations. The memories of the pre-war period were not erased even after many years of full employment. Professor Ulman uses a phrase "bloodymindedness" to describe various characteristics of the British working classes which tended to perpetuate restrictive work rules. "Bloodymindedness" includes "a combination of alleged laziness, suspiciousness of class and of progress, and an atavistic opposition to redundancy" (57, p. 332).

Overmanning cannot be entirely blamed on union restrictive work practices, but may also result from weakness on the part of management. British industry evolved through a system of family enterprises which lead to a tradition of paternalism. This paternalistic attitude of employers has often resulted in overmanning in many industries (57, p. 335). In many cases British management has tended to submit to union demands rather than risk a strike even in cases where rational calculations show that long-run costs are greater than probable losses attributable to the strike. This situation developed because management was more concerned about immediate short-term effects rather than long-term profitability (57, p. 331).

Productivity bargaining has several major advantages; including greater efficiency of workers involved in the agreement and higher productivity through inducing firms to

make investments in capital intensive production methods. Restrictive work practices either inhibit investment in plant and equipment or encourage it. If, because of such practices, management does not find it profitable to invest in modern equipment, he will patch up old equipment while retaining the restrictive practices. A more aggressive approach would be to react to restrictive practices by rapid technological advancement, thus giving management the upper hand. In Great Britain, there has in many instances been investments in modern plant and equipment without the elimination of restrictive practices. The cost reduction potential of the new equipment is thus cancelled out. Prominent examples of overmanning modern equipment occur in printing plants, the newspaper industry, steel mills and transportation equipment firms. The overmanning of modernized facilities is usually related to a strike threat. Management's concern with the short-run consequences of a strike, predisposes its acceptance of restrictive work practices (57, pp. 336-337).

Productivity bargaining might induce firms to make investments in more capital-intensive production methods. In cases where high wages normally would have led to greater capital-labor ratios, such investments often are not feasible due to restrictive work practices. These practices result either in managerial avoidance of investment or investment of a non-productive nature which retains restrictive work practices as described above. Productivity bargaining encourages investment in two ways. It can make the investment

productive, through the elimination of restrictive practices. In cases where initially low wages precluded capital investment, the wage increases from productivity bargaining would make such investment profitable (57, p. 366).

> Thus productivity bargaining is a potential source of increased productivity in the economy both by increasing the efficiency of utilization of labor and existing capital and also by increasing the rate of investment. Hence its broad appeal as a "growth policy." (57, p. 366)

There is little doubt that productivity increases would help solve Great Britain's economic problems. The significant question, however, is whether the encouragement of productivity bargaining by allowing exceptions to the general incomes policy norm is the most expedient means of obtaining productivity increases. The norm allowed for non-inflationary average increases is between 3 and 3 1/2 percent. This immediately posed a problem because this average rate was taken to be a minimum figure. When a norm is set few agreements will fall below the norm. The greater the number of productivity agreements there are, "the more inflation there will be and the more impossible it will become to contain incomes growth within the limits set by overall growth in productivity" (28, p. 42).

Productivity growth will inevitably be greater in some industries or firms than in others, regardless of the individual efforts on the part of workers. Productivity increases are more often the result of such factors as technical change, greater capital-labor ratios and increases

rates of market growth. Incomes policy, therefore tends to discriminate against workers in those industries where productivity increases are not likely to occur (55, p. 203). In cases where the potential for productivity bargaining occurs in several firms, it is highly probable that when some firms grant wage increases as a result of productivity bargaining, the wage increases will "prove more contagious for other firms than . . . the example of discarded restrictive practices" (10, pp. 435-436). The Confederation of British Industries (C.B.I.) pointed out this problem in its assertion that

> in conditions of full employment, strong trade unionism and closely integrated industry, the inflationary features of the bargain will spread far more easily than the beneficial features (56, p. 258)

Within the same firm, there are some workers for whom productivity bargaining would be more advantageous. For example, pieceworkers or production workers are in a better position to claim productivity increases than are other workers within the firm whose tasks are not directly linked to production or those workers whose jobs have limited technological possibilities for increased productivity. These workers found justification for wage claims in the Joint Statement of Intent on Productivity, Prices and Incomes, which states that as a social objective, "the benefits of faster growth . . . [shall be] . . . distributed in a way that satisfies the claims of social need and justice" (30, p. 10). Productivity bargains must, therefore, not be

examined in isolation. Since the rationale behind the policy implies that the benefits of such agreements must be shared, claims that are economically inflationary, are consistent with the social objectives of the policy (30, p. 10).

Even without such justification, there was a tendency in Great Britain for any increase in earnings of piece-workers to be spread to non-pieceworkers. Numerous factory wage systems operate with the earnings of certain groups of non-production workers related to the level of average earnings of production workers. The justification, on the part of the company for maintaining differentials is the contribution of all workers to the production effort and the possibility of inefficiency by some non-production workers if they are not given suitable incentives (40, p. 99). Indeed, it soon became an accepted notion that productivity increases ultimately are accompanied by overall wage increases regardless of the workers contribution to such productivity increases; the rationale given was the workers right to share in any gains made by the firm through productivity increases (28, p. 44).

Strike threats act as a catalytic agent spreading a chain reaction of wage claims following an increase in pay for any particular group of workers. There was, therefore, little need for theoretical or philosophical justification for sharing gains as a result of productivity increases. As soon as one group gains wage benefits as a result of a productivity agreement, strike action or the threat of strike

action will assure that accustomed pay differentials are maintained. The initial increase may be justified under the productivity exception, but the resulting chain reaction of wage increases is not so justified (43, p. 195).

Productivity agreements were instituted as a method of removing restrictive practices, but they may actually perpetuate such practices.

> Such agreements, if they are genuine, should have a once and for all effect on productivity. Hence after the first round of such agreements has been completed this criterion will have little application. There appears to have been a failure to stress this particular limitation of the productivity criterion and it may well be that workers and management will devote themselves to cooking up phoney productivity bargains in the future when the scope for genuine agreements has ceased to exist. (32, p. 11)

Increased efficiency and economic growth no longer are objectives in their own right, but rather become bargaining tools for pecuniary gain (28, p. 44).

The productivity exception to incomes policy created many problems. The policy states that above norm increases are justified in cases

> where employees concerned, for example by accepting more exacting work or a major change in working practices make a direct contribution towards increasing productivity in a particular firm or industry. (12, p. 8)

The implication of this statement is that pay increases are justified for any change in working practices, provided such a change is major. The qualification that a worker must make a direct contribution towards increasing productivity is really meaningless since the very act of accepting the

change can be construed as the workers contribution and hence the above-norm increase is justified (28, p. 44).

One qualifying provision that had the potential to make the productivity exception effective as part of an anti-inflationary policy was the stipulation that "some of the benefits should accrue to the community as a whole in the form of lower prices" (12, p. 8). A later amendment stipulates that the benefits could take the form of improved quality in lieu of lower prices (15, p. 7). This criterion for exception was objected to on the grounds that increases in other supply prices might cancel out price decreases resulting from productivity increases. The guidelines were, therefore, revised to read:

> There should be a clear benefit to the consumer, in lower prices or improved quality. In some instances, "lower prices" may mean prices lower than they would have been if the undertaking can prove that factors outside its control would otherwise have led to higher prices. (33, p. 41)

Most productivity agreements were not able to meet even the amended criteria with regard to lower prices. Rather than admit defeat, the Board stated:

> Since productivity agreements cannot always achieve cost reduction immediately, their benefits to the consumer will sometimes be delayed. Where an agreement is the first in a series, sizeable savings may not be achieved until the late stages have taken effect. A small-scale or partial agreement is unlikely to provide sufficient savings for immediate price reductions; and indeed a major agreement may contribute only a fractional saving in relation to the price of a product. It is also possible that the effect of a productivity agreement may be absorbed in offsetting an inevitable increase in costs arising from other reasons. (33, p. 44)

The Board, in effect, further weakened the provision by stating that benefits to the consumer should be "through a contribution to stable prices" (33, p. 45).

The productivity bargain became the most popular justification for above-norm wage increases. The Department of Employment and Productivity records show that by June, 1969, some 3,000 settlements (most of which occurred in 1968 and 1969) claimed wage increases on the basis of productivity gains. Only 130 claims had been disputed by the N.B.P.I. on productivity grounds. The N.B.P.I.'s second report on productivity agreements stated that in 75 percent of the productivity increases they examined, increased efficiency exceeded wage rate increases. According to this it would appear that Great Britain should have had tremendous productivity increases during the period. The statistics, however, contradict this claim. Annual average productivity increases during the 1963-1967 period were 3 percent; for the 1967-1968 period, (after the labor market shakeout) the annual figure was 7.7 percent; for the 1968-1969 period when there were numerous productivity agreements, the annual average was 2.8 percent (55, p. 202). These figures imply the spurious nature of some of these productivity agreements. Mr. Turner suggests that a

> large proportion of agreements in the main merely set out in formal terms changes in working methods or practices which would have had to occur anyway, as a result of technical change, and put a price on them. That is, the productivity increase was mostly that which would have happened in any case; so that what many so-called "productivity bargains"

> really did was to use this to justify an exceptional wage-increase. (55, pp. 202-203)

In addition, productivity bargaining tended to encourage piecework schemes and decentralized bargaining; both of which raise the potential for wage drift and diminish the chances of successful voluntary incomes policy.

In summary, increases in productivity were and still are certainly needed in Great Britain. The inclusion of a provision for increasing productivity made incomes policy acceptable to labor and management since, in theory, such a policy would encourage long-term growth. However, by using such a provision as an exception to the incomes norm, many loopholes were formed. These loopholes, combined with some of the institutional features of the British system of collective bargaining had the effect of defeating the purpose of incomes policy.

The second exception to the incomes norm was:

> (ii) where it is essential in the national interest to secure a change in the distribution of manpower (or prevent a change which would otherwise take place) and a pay increase would be both necessary and effective for this purpose. (12, p. 8)

Many economists felt that this exception could lead to a highly inflationary pattern of wage increases. They felt that changes in the distribution of manpower that would be in the national interest must be more specifically detailed. There will undoubtedly be some firms in virtually every industry with a manpower shortage. An attempt to attract workers to these firms could boost wages for the entire

industry in the national level bargaining (9, p. 118). It is likely, too, that firms facing a tight labor market will tend to exaggerate their manpower requirements.

A recent study showed that labor mobility is not as sensitive to changes in relative wages as had been thought. A group of international experts, in the field of labor economics, including such men as Professor L. Ulman of the United States and Professor H. Phelps Brown of Great Britain were commissioned by the Organization for Economic Co-operation and Development (O.E.C.D.) to study the relationship between changes in wage differentials and the distribution of employment. The study evaluated these changes in wage differentials and employment distribution in ten countries. The data used was taken from records of the postwar period when unemployment was low. The main finding of the study is:

> there is no evidence of a strong systematic statistical relationship between changes in earnings among individual industries and variation in relative employment. This finding applies equally to the shorter and longer term relationships studied and to periods when unemployment was relatively low and/or falling, although it may be that there is some tendency for a higher relationship to be observed as countries move from periods of higher to lower unemployment. Moreover, in most instances where the data provide evidence of a statistically significant relationship, it is clear that the explanatory role of relative wages is overshadowed by the influence of other factors. (62, p. 16)

The failure of the wage mechanism to perform its allocative function is attributed to such imperfections in the labor market as; lack of knowledge of job opportunities,

lack of mobility because of geographic or skill factors and institutional restrictions (62, p. 11). Particular cases may occur, where wage differentials may be of some value, but they question the assumption that wage differentials will automatically reallocate labor. Incomes policy in Great Britain encouraged and perpetuated the notion that workers will relocate in order to take advantage of pay differentials between firms and industries. Therefore such pay differentials were believed to perform the allocative function. If the O.E.C.D. report is correct, incomes policy may actually be encouraging firms and industries to grant wage increases that are unnecessary and ineffective in achieving the desired reallocation.

The use of wage differentials to reallocate labor from declining industries to expanding ones is predicated on the assumption that there will be free mobility of labor. For such free mobility to occur, the workers must be aware of these wage differentials. Such awareness is obscured by the wide deviation between wages set by collective bargaining and the actual earnings resulting from wage drift. When true wage differentials between industries are unknown or obscured, then the allocative mechanism will not work. These wage differentials must be unusually large to become known and bring about the desired reallocation. A wage increase large enough to perform this function is inflationary and inconsistent with incomes policy (24, p. 381). Personal motivation plays a similar role. Workers often

require a very high wage differential to lure them away from jobs they have worked at all their lives (24, p. 381).

Thus, Government policy encouraged wage increases in order to reallocate labor, when such inducements may not be effective. Rather than perpetuate this notion, Government should concentrate on educating employers that such action is not necessary. The provision of data by the Government may be sufficient to alter this attitude. The basic problem stems from lack of adequate information concerning local labor market conditions.

> There is no substitute for a dramatic improvement in the amount and kind of information available about the working of labour markets and in particular of the factors affecting the allocation of labour between different employers. This calls not only for improved economic and statistical information but also for knowledge about the sociological and psychological factors affecting people's choice of jobs and their job changes. (40, p. 167)

Robinson believes that such fact gathering on the part of the Government is extremely important. In order for Government to affect macro-level policies, it must successfully encourage adjustments on the firm level. The aggregative results of these adjustments is redirection on an industry or regional scale (40, p. 167). Thus any proposed reallocation of resources in the national interest must be dependent on the component actions of individual firms. If firms believe this can be done only through wage incentives, then not only will reallocation efforts be ineffective, but results will be counter-productive by causing additional inflationary pay increases.

Perhaps a more fruitful approach would be through an expansion of the labor force and a more efficient use of available manpower. For example, married women, foreign labor and the hard-core unemployed are potential labor sources. Married women might be induced to enter the labor force if hours of employment coincided with their children's schooling. Expansion of day care facilities would also help (40, p. 167). In the late 1960's there were 24,000 children in state subsidized day care centers, while several surveys show that 430,000-550,000 children would be placed in such centers if space were available (3, p. 22). Provision of such centers would help raise the labor force participation rate. Foreign labor might be attracted through advertising. For example, one firm used television advertisements to inform people in Urdu and Bengali of job opportunities in Great Britain and was, therefore, able to recruit a sizeable number of individuals (40, p. 156). Another potential source of manpower is the hard-core unemployed.

> A survey of the characteristics of the unemployed which was carried out at a time of high demand for labour in October, 1964 showed that 60% of unemployed men would be difficult to place on personal grounds or grounds of handicap. Most of these men are unsuitable for retraining in Government training centers, but evidence of Swedish policy shows that they can be rehabilitated through special training programmes. (3, p. 22)

Improved public employment services would also be useful. The service has deteriorated to a point where it only fills about 15 percent of the job vacancies; this

proportion is diminishing annually. The occupational guidance division of the employment service has been successful in administering aptitude tests to persistent job changers and others who are not satisfied with their jobs. There is, however, great need for improvement. Staff training could be improved; more contact with industry is desirable and increased advertising is needed (3, p. 22).

The success of these suggested aspects of manpower planning is predicated upon the existence of adequate data concerning future manpower requirements. Private firms have a major role in providing reliable forecasts. The Department of Employment and Productivity Manpower Research Division conducted a survey of 300 large and medium-sized firms in the metal industries and found that about half of the firms did some forecasting, but less than 25 percent made any forecasts for more than two years in the future (3, p. 23).

These structural improvements seem to be a fruitful approach, especially since the Department of Employment and Productivity studies show that there will be no increase in the labor supply until the late 1970's (3, p. 21). Projections by the Department of Employment and Productivity also indicate that shifts in the demand for labor will effect both the agricultural and mining sectors. Industrial mergers will also lead to unemployment in particular areas (3, p. 21). These workers with proper training, and aid in placement and relocation would ease the labor shortage problem in expanding areas without the need for inflationary wage increases.

Possible avenues of appropriate manpower policy have not been exhausted. It is not within the realm of this study to thoroughly examine the methods of matching supply of and demand for labor. However, given the suggestion that competitive wage bidding is not an effective method of reallocating labor, I believe that it would be a more fruitful approach to attempt to seek structural changes which in turn would ease the demand for labor and its consequent inflationary pressures. A version of incomes policy which encourages competitive bidding may not only be an ineffective method of labor reallocation; but is inimical to the central purpose of incomes policy.

The last two criteria for exceptional wage increases were aimed at social goals. Their inclusion had originally helped make the policy acceptable to the labor movement. These criteria provided for above norm increases in cases where:

> (iii) there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living;
>
> (iv) there is widespread recognition that the pay of a certain group of workers has fallen seriously out of line with the level of remuneration for similar work and needs in the national interest to be improved. (12, p. 8)

Both of these exceptions contained ambiguities. The specific wage levels necessary to "maintain a reasonable standard of living" was not defined (55, p. 201). There was a "standing temptation for unions to narrow the interpretation of

'widespread recognition' to their own membership attitudes" (7, p. 31).

While few comprehensive studies have been made on the distribution of earnings in the United Kingdom; there are indications that structural features may lie behind low pay in many cases. In 1967, nearly 80 percent of the women holding full-time jobs earned less than 15 pounds a week. Forty percent earned less than 10 pounds a week. The agricultural and mining sectors had the highest proportion of workers earning less than 15 pounds a week (51, p. 33). Mr. Crossley suggested:

> that there is a distortion in the wage structure because strong trade unions have been able to raise wages relatively, in some of the high paying industries where conditions have been particularly favorable to them, even though this relative wage gain has been at the expense of the exclusion from employment in those high paying industries of some people who would be willing to take jobs there for less. Their exclusion swells the labour supply to the lower paying industries, and widens the differential between the strongly and the weakly organised sectors even more. (9, p. 125)

These explanations for low pay suggest structural reform as a solution to low pay rather than using an exception to the incomes norm as a means of attempting to raise wages of low paid workers.

There has, in actual practice, been little attempt by the N.B.P.I. or the Department of Employment and Productivity to positively apply these two exceptions (3, p. 10). As a result, it has been felt by the working people of Great Britain that incomes policy failed in its stated social goals.

None of the exceptions to the incomes norm provided for quantitative guidelines. There was no indication of

> the total margin available for wage increases above the norm. The total size of "exceptions" thus becomes indeterminate since it is unrealistic to expect some groups to keep below the norm because other groups have ignored it, or have gone through one of the loopholes. (7, p. 31)

CHAPTER VII

EVOLUTION OF INCOMES POLICY

Within a few months of the implementation of the incomes policy, the Government began altering the policy. The initial alterations were not dramatic and were aimed at making the voluntary policy more effective. By the summer of 1965, the Government realized that one of the major drawbacks of the policy was that the N.B.P.I.'s effectiveness was limited since it could only examine

> a small fraction of price or wage changes [out of the] over a million price changes, thousands of wage agreements and hundreds of salary negotiations in any year. The Board handles something like fifty cases a year. (31, p. 61)

The Government turned to the T.U.C. as a means of establishing a more comprehensive wage vetting (screening) system. The T.U.C. was initially reluctant to perform such a function. However, under pressure of government threat to set up a compulsory system requiring advance notification of all pay claims, the T.U.C. set up a voluntary wage vetting procedure. The T.U.C. regarded the vetting procedure as an alternative to government interference in collective bargaining. The unions realized that if they did not exercise self control, Government interference would result. Under the system all pay claims were to be submitted to a special committee of the T.U.C. Unions were expected to delay actions on these claims until they heard the committee's evaluation

of the pay claims. A similar request was made by the Government to the Confederation of British Industries (C.B.I.) in order to assure screening of price increases. This loosely structured central employers' association did not comply with the request (2, pp. 30-31).

In retrospect, the Government's action in encouraging a wage vetting system was of questionable value. While it did overcome the problem of the limitations of the N.B.P.I. to effectively screen large numbers of wage claims, it did not compensate for lack of effective T.U.C. control over its members. The T.U.C. could not enforce its recommendations.

In addition to the vetting system, the Government instituted an early warning system in November, 1965, which required advance notification of all pay claims involving a significant number of workers. Similar notice was required for price increase intentions on specific commodities. Justification of these proposed increases as specified under the initial policy requirements were to be submitted to the appropriate Government agency. Actions on these pay claims or price increases were to be delayed until the Government indicated whether investigation by the N.B.P.I. was necessary. If referral to the Board was deemed necessary, actions were to be delayed for up to three months in order to permit the Board time to issue a report (13, pp. 3-8).

The early warning system and the T.U.C. vetting procedure did help eliminate one of the shortcomings of the original policy. Board investigation, under the original

policy was really an after-the-fact evaluation to determine whether price or wage increases were justified. The early warning system and the T.U.C. vetting procedure provided for evaluation prior to implementation. However, the system was still voluntary. Neither early warning, nor compliance with findings of the Board were compulsory.

The Government did not take definitive actions to strengthen incomes policy until March, 1966.

> It has been suggested that one reason why the Government . . . [was] . . . tardy in producing the necessary legislation was that until March 1966 it was surviving on so extremely small a majority that this type of legislation was impossible. (25, p. 286)

Mr. Brandon suggests that the reason the election was held in March was the hope of electing a large enough majority in Parliament, so that the legislation would pass (4, p. 102). The March election resulted in a massive victory for the Labour Party. The Government immediately instituted the legislative steps necessary to strengthen incomes policy, the most important of which was giving statutory backing to the early warning and delay procedure. The bill which was to become the Prices and Incomes Act of 1966 received its first reading on July fourth (25, p. 286). Provisions of the bill included establishing the N.B.P.I. on a statutory basis; thus giving it authority to require evidence and summon witnesses (26, p. 129). Also included was Part II which gave legal sanction to the early warning system and the delay procedure. Under this legislation, notification of

any wage award or settlement must be given to the Minister of Economic Affairs within seven days of the settlement. The Minister has thirty days within which to decide whether or not a referral to the N.B.P.I. is warranted. No action can be taken on the award until the month is up. If referral is made to the Board, action is further delayed until the Board reports or three months pass. In order to bring this section into operation, special legislation is required, which, when passed, would be valid for twelve months (22, pp. 47-48).

Before the bill was passed, the situation changed dramatically. The pound sterling was under heavy pressure putting the country again in a state of crisis. On July 20, 1966, the Prime Minister made a statement in the House of Commons indicating that money incomes had been rising at a rate far in excess of that justified by productivity increases. He called for a six month freeze on all prices and incomes followed by a six month period of severe restraint where increases could be justified only in exceptional cases (14, p. 2).

The provisions of the freeze were incorporated in Part IV of the 1966 Prices and Incomes Act. Part IV was essentially a statutory wage and price freeze which provided penalties not only for an employer who raised prices or paid wage increases, but for any

> trade union or person who took or threatened to take action (including strike action) with a view to compelling, inducing or influencing the employer

> to contravene the regulation was himself liable to legal action. (25, p. 288)

The provisions of this section were applicable for one year. The Government hoped that the policy would be adhered to voluntarily without the application of the penalties as provided for in Part IV (22, p. 48).

Wage and price freezes were accompanied by stringent deflationary measures. Initially incomes policy was regarded as a preferable alternative to rapid deflation. During the 1964 election campaign, the Labour Government had been highly critical of the alternating deflation and reflation (stop-go) policies of the Conservative administration. The deflationary measures taken were reminiscent of this policy. Included in the deflationary package was an increase in the bank rate, 100 million pounds of special deposits were called up from the banking sector, excise taxes on gasoline and alcohol were raised by ten percent, restrictions on hire purchases were increased, income taxes were increased and 150 million pounds was cut from public investment expenditures (59, p. 35). The Government was forced to take the type of actions for which it had previously criticized its predecessor--measures which would inevitably lead to unemployment and inhibition of growth. It was also forced to replace the voluntary incomes policy with a statutory wage and price freeze. Such an action was unprecedented in a country committed to free collective bargaining.

During the first six months of the wage freeze, there were no exceptions permitted. During the next six months

(the period of severe restraint) two of the exceptions were retained. In order to make these exceptions more effective, the productivity exception was made more stringent by permitting only those productivity bargains that would ultimately result in lower prices for the consuming public. In addition, such wage increases granted for increased productivity had to stem directly from the efforts of the workers. The exception pertaining to the maintenance of a minimum standard of living would now be applied only to the lowest paid workers and such increases would not be passed on to other groups (41, p. 74).

The wage freeze and the period of severe restraint marked the end of the honeymoon between the trade unions and Government. At the start of the freeze, "British trade unions had neither the funds, nor the popular support, nor the inclination to battle in open confrontation against the Government" (23, p. 7). Towards the end of the period of severe restraint, the General Council of the T.U.C. reiterated its belief that an incomes policy must be voluntary; it cannot be imposed through legislation on reluctant trade unions. It stated that the T.U.C. reluctantly went along with the freeze because it didn't want to see the Government acting unilaterally. The Council felt that Part IV of the Prices and Incomes Act (lapsing in August) should not be renewed and Part II (which provided for statutory early warning and delay procedure) should not be implemented (50, pp. 6-7).

The freeze received an electoral test in April, 1967, in the elections for the Greater London and county councils. The Party was abandoned by its most loyal supporters--the working class. The biggest defeats for Labour candidates were in the predominantly working class boroughs. The defeated labour candidates felt that "Labour supporters abandoned Mr. Wilson because they considered that by freezing wages, Mr. Wilson had abandoned them" (29, p. 317). These candidates felt that the electorate was not cognizant of the seriousness of Britain's economic problems and even if they were aware of the problems they were unwilling to accept the measures necessary to solve them (29, p. 317).

The Government soon found itself faced with the problem of devising policy measures for the period after the lapse of the statutory backing for the freeze and period of severe restraint. It embarked on a vacillating course which attempted to achieve the mutually incompatible goals of satisfying the trade union movement and maintaining an effective incomes policy.

The Government began exploring policy measures to make the post-freeze incomes policy effective. The remittance of all pace setting claims to the N.B.P.I. was considered, but this would only be effective if the Board's recommendations were given statutory authority. This was considered politically unfeasible. Another alternative was the strengthening of Part II to increase the delay period to 12 months. Several factions in the Government felt this was too stringent

and it was finally decided to reduce the delay period to seven months. In order not to further alienate the unions, (who were against the activation of Part II with the four month delay period), the Government stated that it would allow back dating of awards (38, p. 319). This would in effect make the delay period completely ineffective since any claim that was delayed could be put through after the delay period with a back date provision covering the entire delay period.

In March, the Government, after consultations with the T.U.C. and C.B.I., published a new White Paper setting out criteria for resuming voluntary incomes policy. The policy was very similar to that outlined in the 1965 White Paper. Again exceptions to incomes policy were used as a means of encouraging the same objectives as in the original policy (16, pp. 4-6). The Government realized at this point that the initial 3 to 3 1/2 percent norm which was meant to be an average rate of income increase was in practice a minimum rate of increase. The new guideline, therefore, stated that nobody would be entitled to a minimum increase. All increases had to be justified by one of the stated criteria (16, p. 5). Prohibition against general wage increase was referred to as a "nil" norm. The new policy paper also considered a twelve month period as the minimum period between successive incomes improvements for workers (16, p. 6).

The Government tried to take into consideration the T.U.C.'s request that Part II not be activated, nor other

compulsory reserve powers be implemented in conjunction with the new policy. In deference to the T.U.C., the Government stated that reserve powers were not an adequate substitute for voluntary cooperation. However it added that experience of the last few years has shown the importance of having some reserve powers available. Therefore the activation of Part II (strengthened by the additional three month delay period) was proposed (16, p. 8). The bill activating Part II was passed by Parliament in July, 1967. This bill was not well received by organized labor, who were vocal in their opposition to the continuance of statutory powers.

In the meantime, the Government encouraged the T.U.C. to take an active role in the administration of incomes policy after the period of severe restraint. Specifically the resumption of the vetting procedure was encouraged. The T.U.C. agreed and the General Council outlined their own version of incomes policy to begin after the period of severe restraint. The motivation behind the policy was to preclude governmental action through self regulation. The policy proposed that the T.U.C. General Council issue an annual report on economic conditions with particular emphasis on wage developments. Included would be estimations of appropriate wage increases for the coming year and conditions that might necessitate exceptions from the norm. The report would be a result of prior consultation with the Department of Economic Affairs and the C.B.I. The wage vetting system in operation prior to the freeze would continue to operate.

Under this system, unions were expected to notify the T.U.C. of any claims for increased wages or improved working conditions prior to negotiations with employers. Unions would be expected to refrain from pressing claims pending an opinion of the General Council's incomes policy committee and these opinions should be taken into account when proceeding with the claim. The T.U.C. should be advised of the final settlement (22, pp. 49-50).

The T.U.C. took its wage vetting function quite seriously. In the first six months of the resumptions of the vetting procedure, the T.U.C. screened 315 claims covering 7,468,000 workers. It found 145 of these claims incompatible with its policy and therefore referred them back for reconsideration by the unions involved (63, p. 23).

Despite the apparent desire on the part of the T.U.C. to accomplish a successful vetting procedure and the sincerity with which it went about its tasks, there are several reasons why this procedure was ineffective in restraining the level of incomes. The criteria used by the T.U.C. were more flexible than those used by the Government, particularly in respect to its interpretation of the exception clauses (41, p. 84). The fact that the T.U.C. endorses a claim does not mean that it is justified. The Economist expressed the view that if the majority of the claims which received endorsement by the T.U.C. were granted incomes policy would "go bust" (23, p. 8). Even if only valid claims were endorsed, the procedure would still not be effective since the T.U.C. has

no means of enforcing its decision. The individual unions are subject to a great deal of pressure from their membership and are likely to be more responsive to this pressure than to the suggestions of the T.U.C. It has also been suggested that the effectiveness of the vetting process was further limited by the fact that several representatives of large unions on the committee made mutually compatible bargains which were more in the interest of their own unions than in the national interest (48, p. 325).

Paralleling the voluntary vetting system of the T.U.C. was the compulsory notification of claims to the Ministry of Labour. The Ministry had several types of sanctions at its disposal. It could threaten the firm granting the increase that if it did not comply with policy, a critical examination would be made of price increases resulting from the wage increase. The Minsitry could also refer the case to N.B.P.I. and therefore affect a possible six month delay of the implementation of the increase (62, p. 23). However, even when referral is made to the Board, such a move serves only as a delaying tactic and there is nothing to prevent the increase (or perhaps a greater increase than initially proposed to compensate for the delay) at the end of the delay period.

The balance of payments situation which had been steadily improving since the 1964 crisis began to deteriorate. Government advisors predicted a continuing deficit well into 1968 (5, p. 868). This precipitated another dramatic turn of events---the 14.3 percent devaluation of the pound in November,

1967. Devaluation had serious implications for the future of incomes policy. Domestic price increases seemed inevitable as a result of devaluation, but if these price increases were matched by income increases, all the advantages derived from devaluation would soon dissipate. The Labour Government was confronted with the problem of whether to increase its power to intervene in incomes decisions. Politically, such an action would mean further alienation of the unions, so the Government, instead, chose to rely on its powers of persuasion. It announced to union leaders that as a result of devaluation prices would rise 2 1/2 to 3 percent. No new measures would be taken to keep incomes from rising, but the Government expected the T.U.C. to enforce incomes criteria more rigidly (37, p. 1). In return, the Government promised to keep strict watch on dividends. An increase in the corporate tax rate was also imposed to prevent industries from making an exceptionally high profit because of the expected rise in industrial production. All sectors of the economy would therefore have to make sacrifices rather than just the workers (6, p. 17).

The T.U.C. agreed to cooperate with the Government in the post-devaluation period. Unions leaders stated they would not regard increases in prices arising from devaluation "as constituting in themselves justification for increases in wages" (54, p. 1) and would regard as incompatible with incomes policy, claims for improvement in wages due to take effect within 12 months of a previous settlement. Cooperation,

however, would be predicated on the success of efforts to prevent unjustified price increases (54, p. 1).

In addition to the Government's plea for incomes restraint after devaluation, other measures were taken to curb domestic demand. Among these measures were an increase in the bank rate from 6 1/2 to 8 percent, limitation on bank advances except to priority borrowers (especially exporters), more stringent hire purchase regulations and, as mentioned above, an increase in the corporate tax rate (5, p. 869).

In December, the T.U.C. and the Government began considering alternative policies intended to succeed current incomes policy when supporting legislation expired in the middle of 1968. Government and union viewpoints were again divergent. The Government wished to maintain the policy of no general pay increases other than those permitted by the exception clauses, i.e., the "nil" norm. The T.U.C. felt that continuance of the "nil" norm was unacceptable on several grounds. Unions had not been able to negotiate general pay increases since the 1966 freeze. Only through the exceptions to the norm could any betterment in the workers position be achieved. These exceptions led to problems in themselves. Continued exceptions based on the low pay criteria would disrupt wage structures. Continued exceptions based on the productivity exception would lead to many "spurious" productivity bargains (53, p. 1). A small general increase would be more realistic. The T.U.C. sought a 3 1/2 to 4 percent general wage increase to become effective in the second half

of 1968. This proposed wage increase was based on anticipated increases of the growth rate of six percent. Mr. Woodcock announced on national television news,

> I don't think we can expect unions to [accept] another standstill lasting until the middle of 1969. From the middle of next year there has to be some give which will enable people to get some wage increases . . . and the argument will be what is tolerable. I don't think the argument can be that nothing is tolerable" (47, p. 1)

Mr. Wilson told the T.U.C. that such a general increase was unrealistic. Even if the anticipated six percent growth rate were achieved, if wages moved up too rapidly, such a growth rate could not be maintained and another period of restraint could result (47, p. 1).

As indicated above, in November the Government had stated its intention not to seek any additional power, in the realm of income restraint, in the period immediately following devaluation. The Government would rely on the voluntary cooperation of the unions in their joint effort to reap the benefits of devaluation. However, by the beginning of 1968, the current legislation was due to expire. The Government announced that further legislative measures were necessary to prevent the erosion of the competitive advantages resulting from devaluation. It learned in 1966, that reserve statutory powers backing up "voluntary" incomes policy tend to promote compliance. A new White Paper was published in April, 1968, outlining new policy and the statutory powers sought to back up policy. Prior union requests for a general increase were not considered. The new policy paper

designated a 3 1/2 percent increase as the "ceiling" above which annual pay and benefit packages could not exceed. The term "ceiling" was specified rather than "norm" as had been used initially. The 3 1/2 percent figure was to be an absolute maximum increase rather than an average increase. In other words the "nil" norm was still in force and any increase justified by the stated exceptions could not exceed the 3 1/2 percent ceiling (17, p. 7). In this White Paper the Government indicated that it realized the fact that national level negotiations were greatly increased at the plant level. In order to assure that the total wage package was within the ceiling, it was stipulated:

> Changes in rates or scales may be settled at national, local, firm, or plant level, but where groups benefit from increases or improvements settled at more than one level, the application of the ceiling requires that the overall increase should not exceed the 3 1/2 percent ceiling. In considering increases settled at national level account must be taken of probable increases at local, company and plant level; conversely, increases in rates settled at the plant level should take account of relevant increases settled at other levels. (17, p. 32)

Excluded from the ceiling, however, were any earnings resulting from "necessary increases in hours or in the amount of work done" (17, p. 7). This provision opened a wide loophole since in the British industrial relations system, such overtime payments are normally included as part of the unwritten agreement between labor and management and many workers consider such overtime payments as a basic part of their earnings.

Another loophole was the absolute exception to the ceiling in cases where productivity was increased (17, p. 9). While the White Paper did attempt to specify stringent requirements for these productivity increases, past experience shows that this was probably the most used and most abused justification for increases.

The policy also stipulated that the 3 1/2 percent ceiling could be exceeded in cases of the low-paid workers as long as the settlement package remains within the ceiling limit (17, pp. 8-9). This provision was satisfactory to the unions since it made special provisions for the low-paid workers. On the other hand, the provision, if carried out rigorously, would play havoc with existing wage differentials.

The early warning system was retained and the maximum delaying power was increased to 12 months (17, pp. 10 and 14). Legislation giving the Government power to enforce the early warning and delay procedure was passed in mid-1968 and extended for 18 months.

The new policy was extremely unrealistic. Stringent budget measures enacted in March put a strain on incomes policy. These tax changes were estimated to increase the cost of living by six percent. This superimposed on the domestic cost increases resulting from devaluation made the 3 1/2 percent ceiling on wages difficult to maintain in practice. It seemed likely that the 3 1/2 percent figure would be interpreted as a norm rather than a ceiling and be a starting point for wage and salary increases. For a total

wage increase of 3 1/2 percent, agreements would have to be a great deal less than 3 1/2 percent since rising output would likely increase the potential for wages to drift well above the nationally negotiated levels (34, p. 3).

The T.U.C. expressed its opposition to the new policy by announcing it would no longer use Government criteria as the basis of its own vetting procedure. It set its own criteria as a 3 1/2 percent average norm for national agreements that could be supplemented by an additional 1 1/2 percent on the local level, rather than the Government's 3 1/2 percent ceiling inclusive of both national and local agreements (52, p. 3).

By the end of 1969, (prior to the expiration of the 1968 legislation), the Government ceased making referrals to the N.B.P.I. No governmental action was taken on several completely unjustified wage claims which were far in excess of the ceiling. While the N.B.P.I. was not phased out until the following year, in practice, the incomes experiment ceased at the end of 1969. The growing and active opposition to the trade unionists (at all levels), and the Labour Members of Parliament were undoubtedly factors leading to the demise of incomes policy. More important, the pressing need for such a policy no longer existed. The balance of payments on current and long-term accounts steadily improved in 1969. The first quarter deficit of 61 million pounds moved to a 72 million pound surplus in the second quarter to a 214 million pound surplus in the third quarter (19, p. 34).

CHAPTER VIII

EVALUATION OF THE BRITISH INCOMES POLICY EXPERIENCE

It is necessary at this point to look back at the initial goals of the voluntary incomes policy and to evaluate the policy's success in achieving its goals.

Voluntary income policy as devised by the Labour Government after coming into power in late 1964 had several goals. The immediate goal was to extricate Great Britain from its current balance of payments crisis without resorting to devaluation or stringent monetary and fiscal measures. Longer range goals were to promote growth and to achieve some measures of social equity. These longer range goals were encouraged through including in incomes policy certain exceptions to the policy geared to achieve these goals. As indicated in Chapter VI, the attempt to achieve these goals through exceptions to incomes policy not only proved to be an ineffective means to achieving these goals, but the inclusion of the exceptions opened many loopholes contributing to the ineffectiveness of the policy itself.

The question of how incomes policy fared in achievement of its immediate goal, i.e., restoring balance of payments equilibrium is complex. Since implementation of voluntary incomes policy preceded an improvement of the balance of payments situation, a cause and effect relationship might be implied. Incomes policy might therefore be deemed successful

since its immediate goal was extricating Great Britain from her balance of payments difficulties. But a close examination of the relationship between incomes policy and the improving balance of payments position questions the validity of such a relationship. By the end of 1965, the balance of payments deficit on current and long-term accounts was reduced from -769 million pounds in 1964 to -354 million pounds (59, p. 7). Slow, but continued improvement occurred in early 1966. During this period exchange controls and tariff changes were also employed to restore external balance. Foreign exchange for private direct investment outside the sterling area was provided at the official rate only if substantial short-term continued return on the investment was promised. Some potential investors, were therefore forced to obtain foreign exchange from the investment currency market. This market was made tighter by regulations diverting incoming foreign exchange to official sources rather than the free market (58, p. 21). Several quantitatively less important exchange controls were also introduced including restrictions on currency allowance for travel and prohibition of utilizing foreign exchange obtained through the investment currency market to purchase property abroad (58, p. 21). Various changes in corporate tax rates were introduced in order to discourage British foreign investment abroad and to encourage foreign investment in Great Britain (58, p. 22). An import surcharge was also imposed (59, p. 9). It appears that improvement in the balance of payments situation can be

attributed to these factors at least as well as to incomes policy. The balance of payments improvement could be attributed to incomes policy if, as a result of incomes policy, incomes were restrained; resulting in smaller price increases therefore making British products relatively more attractive to foreigners. This, however, was not the chain of events occurring in Great Britain in the 1965- early 1966 period. Hourly wages were seven to eight percent higher than during the previous year (59, pp. 9-10; 35, p. 21). Therefore, though the balance of payments situation was improved following the implementation of voluntary incomes policy, it cannot be concluded that there was any cause and effect relationship. It appears reasonable to attribute most of the balance of payments improvements to the exchange controls and tariff measures.

Even if incomes had been restrained, this type of approach to achieve balance of payments equilibrium is probably not the most expeditious. Recent evidence shows that there is little correlation between changes in domestic prices and changes in export prices. For example, in the period from 1958-1963, consumer prices increased 2.25 percent per year while export prices of manufactured goods increased by only 1.45 percent. In the period from 1963-1968, consumer prices increased 3.85 percent per year while export prices increased by only .80 percent (3, p. 3). Great Britain has been generally successful in its ability to "shield . . . export prices from changes in the domestic price level" (3,

p. 3). Perhaps rather than Government encouraging incomes restraint, it might have been more useful for Government to encourage non-price export competitiveness such as improved marketing techniques or more rapid delivery dates.

Examining the more direct effects of incomes policy, it is apparent that the policy was not effective in restraining incomes. At the close of the voluntary phase (prior to the 1966 freeze) total earnings were some ten percent over what they had been the previous year.

Mr. Jefferson ascribed the failure of voluntary incomes policy to restrain incomes

> to the incompatibility of full employment (at the 1965-1966) level and income and price stability with only a voluntary system to hold the balance. The Government made the mistake of assuming that the economy could be allowed to boom, and that what was in effect an appeal for moderation in wage and salary increases would suffice to hold the movement of incomes in check. (25, p. 284)

The only period when incomes policy was effective in restraining incomes was during the statutory freeze and period of severe restraint; during these periods wage increases were successfully frozed in the period from the end of July, 1966 to the end of December, 1966 and were kept down to two percent from the end of December, 1966 to the end of June, 1967 (25, p. 284). After this period, however, wage rates rose rapidly as workers attempted to compensate for earnings lost during the freeze. The post-freeze period was similarly unsuccessful. Loopholes were uncovered under the post-freeze policy when the only statutory provisions were the early

warning system and the delay procedure. When delays were imposed increases could occur after the delay period and could be renegotiated upward from the initial settlement in order to compensate for the delay period. Earnings increases in the post-freeze period (mid-1967 until the end of 1969) averaged nearly nine percent (61, p. 43). This rate of wage increase was extremely high during a period of high unemployment and an official policy which called for a "nil" norm and (after mid-1968) an absolute 3 1/2 percent ceiling.

While the only period when incomes policy was effective in restraining incomes was the freeze and severe restraint period, it was this same period that caused the alienation of the unions. The initial success of incomes policy was predicated on the cooperation of the unions. However despite ostensible cooperation during the voluntary phases, incomes rose rapidly. Cooperation was more apparent than real. Most national agreements adhered to the incomes guidelines, but local increases to the wage package brought earnings well above the norm. Given these circumstances during a period of cooperation, it is not difficult to understand the large wage increases in the post-freeze period when disenchantment with the policy was becoming more and more apparent.

In January, 1968, John Corina wrote in the London Times:

> For more than three years, the Government has been swamped by crisis, culminating in devaluation . . . . Consequently incomes policy has been blown by the winds of emergency--from a voluntary "positive" norm carrying expections of a real incomes increase, to what is tantamount to a mandatory freeze (albeit with "exceptions") carrying expectations of a real

> incomes decrease. The circuitous route of a legally invoked "severe" restraint and of a "nil" norm has lead incomes policy to the verge of losing its residual voluntary support among unions and employers. (8, p. 23)

Mr. Corina implies that because of persistant crises voluntary incomes policy has not been given the chance to evolve into a positive policy measure. I cannot completely agree with this proposition. While Government action in response to crisis did alienate the supporters of the voluntary incomes policy, these crises cannot be regarded as external factors influencing incomes policy, but rather are an indication that incomes policy did not achieve its goal of preventing these crises. The first crisis was the speculative attacks on the pound in mid-1966. The attacks came at a time when the balance of payments position was substantially improved over the position at the onset of incomes policy. Despite the improvement, it appeared that further strengthening of the position of the pound would be slow. Since incomes policy was implemented as a means of bringing the balance of payments into equilibrium, speculators viewed the success of incomes policy as a key indicator of the future strength of the pound. By April, 1966, after the policy had been in effect for a full year, average hourly earnings (excluding overtime effects) were up 9.7 percent over the previous April (35, p. 21). Incomes policy had not, therefore, succeeded in keeping down incomes to the projected 3 1/2 percent. Thus if

> incomes policy was regarded as the key weapon in the

> fight for external solvency, it is not difficult to see a link between the apparent failure of that policy and speculative attack on the pound. (25, p. 287)

The second crisis Mr. Corina refers to is devaluation. Incomes policy was not successful in preventing devaluation. Since initially incomes policy was regarded as a preferable alternative to devaluation, the very fact devaluation occurred indicates the lack of success of incomes policy.

Voluntary incomes policy was in effect for well over a year prior to the first crisis. It appears that during this period, the type of incomes policy instituted was not workable because of the structural features of the British collective bargaining system and the lack of effective control of the central labor organization over its constituent members.

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