THE THEORY AND PRACTICE OF VOLUNTARY INCOMES POLICIES WITH PARTICULAR REFERENCE TO THE BRITISH LABOUR GOVERNMENT'S SOCIAL CONTRACT 1974-79



A thesis submitted for the degree of
Doctor of Philosophy in the
University of Oxford

Jonathan Boston
Nuffield College
Michaelmas 1983

A B S T R A C T

THE THEORY AND PRACTICE OF VOLUNTARY INCOMES POLICIES WITH PARTICULAR REFERENCE TO THE BRITISH LABOUR GOVERNMENT'S SOCIAL CONTRACT 1974-79

D. Phil. thesis by J.G. Boston, Nuffield College, Oxford, submitted in Michaelmas Term, 1983.

This thesis explores the necessary conditions for voluntary wage restraint in advanced industrialized democracies. In particular, it addresses the question of how governments can get union movements to trade their labour market power for non-wage objectives, and how union peak organizations can secure near universal compliance with a voluntary wages policy, notwithstanding the pressures upon individual unions to free ride.

Rational choice theory furnishes the initial analytical framework. Within these terms it will be argued that the problem of securing voluntary restraint has the strategic structure of a prisoner's dilemma. In other words, the situation entails an inherent conflict between individual and collective interests. Moreover, this conflict is not merely between the short-term interests of individual unions and those of the whole labour movement, but also between labour (wages) and capital (profit). Given this situation, the thesis will investigate the conditions under which rational, self-interested unions, seeking to maximize some combination of real wage, relative wage and employment objectives, and operating in the context of uncertainty, decentralized bargaining and a significant degree of monopoly power in the labour market, will voluntarily be prepared to restrain their wage demands.

Following this exploration, the behavioural assumptions of rational choice theory will be modified to allow for the fact that economic agents are also motivated by various normative commitments, and that these can be sufficient in certain circumstances to overcome the free-rider problem. This new theoretical approach will then be employed in a detailed examination of the Social Contract between the British Labour Government (1974-79) and the Trades Union Congress. It will be concluded that certain moral, political and ideological commitments played a crucial role in the negotiation, implementation and eventual collapse of the Social Contract. It should be noted that this inquiry is based upon published sources and interview data.

ACKNOWLEDGEMENTS

This project would not have been possible without the kind assistance of many people. My special thanks to Jim Sharpe and David Soskice for their supervision and guidance. Many thanks also to those who offered comments and criticisms on earlier drafts of the thesis, particularly David Butler, Andrew Oswald, Don Schwerin, Charles Sutcliffe, Iain McLean, Dieter Helm, Dermot McAlesse, Bill Roche and David Miles. Similarly, I am very thankful to Peter Haywood and Phil Way for their encouragement and helpful suggestions, and to my many friends who proof read the text so diligently, especially Graeme McLean, Jill and Steve Ireland, Arabella Sawrey-Cookson, Sue and Bruce Gillingham, Sally Mercer, Iwan Russell-Jones, Cal Bailey, and Peter Morris. Thanks also to Sue Saunders for her splendid job of typing the thesis.

In addition, I am very grateful to the many busy politicians, civil servants and trade union leaders who patiently answered my questions regarding the Social Contract and who took pains to describe to me the inner workings of the Labour Government and the TUC. Needless to say, I accept full responsibility for all errors of fact and interpretation which appear in this thesis.

Last, but most important, my deepest thank you to my Lord for His 'amazing grace' and His constant love.

J.G.B.

September 1983

TABLE OF CONTENTS

		Page
	Abstract	i
	Acknowledgements	iii
	Abbreviations	v
	Tables and Diagrams	vii
	A Brief Chronology of the Social Contract, 1973-79	viii
Part I	THEORY	
Chapter 1	: Voluntary Incomes Policies : An Overview	1
Chapter 2	: Inflation, Unions and Rational Choice Theory	25
Chapter 3	: Institutional and Political Solutions to the Collective Action Problem	82
Chapter 4	: Normative Commitments, Ideological Conflicts and Pay Determination	108
Part II	CASE STUDY : THE SOCIAL CONTRACT	
Chapter 5	: Structural and Attitudinal Aspects of the British Labour Movement : A Brief Sketch	142
Chapter 6	: The Social Contract : Origins and Initial Development	167
Chapter 7	: The Economic Crisis of Mid 1975 and the Re-negotiation of the Social Contract	207
Chapter 8	: Implementing the £6 Policy : Mobilizing Consent and Maximizing Compliance	250
Chapter 9	: Phase Two : The Wage-Tax Deal and its Implementation	281
Chapter 10	: The Gradual Breakdown of Normative Commitment for Pay Restraint, 1977-79	322
Chapter 11	: Conclusions	368
Appendix I	: Research Methodology	386
Bibliography		391

ABBREVIATIONS

ACAS	Advisory, Conciliation and Arbitration Service
ACTT	Association of Cinematograph, Television and Allied Technicians
APEX	Association of Professional, Executive, Clerical and Computer Staff
ASB	Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths and Structural Workers
ASLEF	Associated Society of Locomotive Engineers and Fireman
ASTMS	Association of Scientific, Technical and Managerial Staffs
AUEW	Amalgamated Union of Engineering Workers
AUEW-TASS	AUEW-Technical, Administrative and Supervisory Section
BALPA	British Air Line Pilots' Association
BBC	British Broadcasting Corporation
BDC	Biennial Delegate Conference
BL	British Leyland
CAC	Central Arbitration Committee
CBI	Confederation of British Industry
COSHE	Confederation of Health Service Employees
CPSA	Civil and Public Services Association
CSEU	Confederation of Shipbuilding and Engineering Unions
EEC	European Economic Community
EETPU	Electrical, Electronic, Telecommunications and Plumbing Union
EMA	Engineers' and Managers' Association
FOL	Federation of Labour (New Zealand)
FBU	Fire Brigades' Union
GMWU	General and Municipal Workers' Union
IDS	Incomes Data Services
IMF	International Monetary Fund
IPCS	The Institution of Professional Civil Servants
IRSF	Inland Revenue Staff Association
ISTC	Iron and Steel Trades Confederation
LO	Landsorganisasjonen (National Federation of Trade Unions, Norway)
MNAOA	Merchant Navy and Air Line Officers' Association
NAF	Norges Arbeidsgiverforening (National Association of Employers, Norway)

NALGO	National Association of Local Government Officers
NATSOPA	National Society of Operative Printers, Graphical and Media Personnel
NBPI	National Board for Prices and Incomes (or PIB)
NCB	National Coal Board
NEB	National Enterprise Board
NEC	National Executive Committee
NEDC	National Economic Development Council
NGA	National Graphical Association
NIRC	National Industrial Relations Court
NUB	National Union of Blastfurnacemen, Ore Miners, Coke Workers and Kindred Trades
NUJ	National Union of Journalists
NUM	National Union of Mineworkers
NUPE	National Union of Public Employees
NUR	National Union of Railwaymen
NUS	National Union of Seamen
NUSMCHDE	National Union of Sheet Metal Workers, Coppersmiths, Heating and Domestic Engineers
NUT	National Union of Teachers
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petrolium Exporting Countries
PLP	Parliamentary Labour Party
POEU	Post Office Engineering Union
PRU	Pay Research Unit
PSBR	Public Sector Borrowing Requirement
RPI	Retail Price Index
SCPS	Society of Civil and Public Servants
SOGAT	Society of Graphical and Allied Trades
STUC	Scottish Trades Union Congress
TGWU	Transport and General Workers' Union
TUC	Trades Union Congress
UCATT	Union of Construction, Allied Trades and Technicians
UCP	Union of Communication Workers
UCW	Union of Post Office Workers
USDAW	Union of Shop, Distributive and Allied Workers
VAT	Valued Added Tax

TABLES AND DIAGRAMS

		Page
Matrix 1	Labour Versus Labour - One-Off Game	54
Matrix 2	Union A Versus Union B - Unequal Power	71
Figure 1	Labour Versus Capital - Zero-Sum Game	75
Figure 2	Labour Versus Capital - Prisoner's Dilemma	76
Figure 3	Normative Commitments, Short-Run Opportunity Costs and Free Riding	130
Table 3:1	Norway: Contractural Wage Increases and Wage Drift	91
Table 3:2	Solutions to Inflation as a Prisoner's Dilemma	107
Table 6:1	Prices, Wages, Unemployment, Differentials and Production: 1970-79	201
Table 8:1	Index of Average Earnings : 1976	267
Table 8:2	Annual Increase in Basic Hourly Rates: Manual Workers	268
Table 8:3	Compliance with the £6 Limit in Manufacturing Industry	271

A Brief Chronology of The Social Contract 1973-79

1973	February	Liaison Committee publishes 'Economic Policy and the Cost of Living'
Late 1973, early 1974		Miners' Dispute
1974	28 February	General Election
	4 March	Wilson takes office
	26 June	TUC agrees to 8-point plan on wages policy
	26 July	Pay Board and National Industrial Relations Court abolished
1975	17 May	Jack Jones calls for a new flat-rate pay policy
	5 June	EEC Referendum
	20 June	Strategy meeting of Cabinet at Chequers
	30 June	Sterling Crisis
	9 July	TUC General Council accepts the £6 policy
	1 August	£6 policy becomes effective
	3 September	TUC Conference approves £6 policy
1976	6 April	Budget: Healey offers tax concessions in return for tough Phase II pay deal
	5 May	Stage II accepted by General Council
	16 June	Special TUC Conference endorses Phase II
	22 July	Public expenditure cuts announced
	7 September	TUC Conference vote for an orderly return to free collective bargaining
	22 September	Seamen's strike averted
	28 September	Record fall in Sterling to US$1.64
	20 October	Sterling falls to US$1.59
	15 December	Letter of Intent to IMF - Government accepts major expenditure cuts
1977	29 March	Budget: Healey offers tax concessions in return for an acceptable Phase III pay deal
	5 July	NUM Conference rejects Phase III
	6 July	TGWU Conference rejects Phase III
	15 July	Government anounces 10% Phase III policy
	7 September	TUC Conference accepts twelve-month rule
1978	21 July	Government announces 5% Phase IV policy
	September/ October	Labour Party Conference and TUC Conference reject 5% policy.
	Late November	Ford grants manual workers pay increases averaging 17%
	13 December	House of Commons rejects Government's policy of selective economic sanctions
1979	14 February	Concordat between Government and TUC
	28 March	Government loses confidence vote in House of Commons by 311-310
	3 May	Conservatives win General Election.

Part I THEORY

CHAPTER 1

VOLUNTARY INCOMES POLICIES: AN OVERVIEW

For some three decades following the Second World War, governments in most advanced industrialized democracies sought to manage their economies in accordance, broadly speaking, with Keynesian principles. This, in brief, entailed a commitment to four main economic objectives, namely, price stability, full-employment, moderate growth and a balance of payments equilibrium. Various policy instruments were employed to achieve these objectives. In particular, aggregate demand was manipulated by means of monetary and fiscal policies in order to mitigate the negative effects of business cycles on output and employment, and incomes policies were implemented from time to time to restrain inflationary pressures in the labour market.

Until the late 1960s, most governments could claim a reasonable degree of success for these policies. With few exceptions the rate of inflation was kept to below 5% and the level of unemployment to under 2%. Moreover, most countries experienced historically high rates of growth (3-5% per annum), and low levels of industrial unrest. From the late 1960s, however, there was a steady decline in the effectiveness of the Keynesian formula. Growth rates slackened. There was a simultaneous rise in unemployment and inflation. And many Western countries encountered much higher levels of union militancy. Faced with these growing inflationary pressures and unwilling to tolerate a significant increase in unemployment, most governments responded, at least initially, by implementing some kind of incomes policy. Indeed, during

the early and mid 1970s incomes policies of either a statutory or voluntary nature came to have a central role in the stabilization strategies of a large number of OECD nations, including the United States, Britain, Canada, West Germany, Norway, Denmark, Holland, Finland, Austria, Ireland, Australia and New Zealand.

But before saying more about this widespread reliance upon incomes policies in the early to mid 1970s, and the changes in economic strategy which occurred in many countries during the latter part of the decade, it is imperative to tackle several definitional issues. What precisely is an incomes policy? How is it to be distinguished from other economic policies? And how is one to differentiate between voluntary and statutory policies?

It must be pointed out straightaway that there is no standard, universally accepted definition of an incomes policy; nor is there likely to be; and nor need there be. Not only have economists and other interested scholars offered an extraordinary range of competing and overlapping definitions, but their suggestions reveal a striking lack of unanimity on many fundamental issues. For example, some scholars take the view that an incomes policy must be a governmentally sponsored or directed measure.[1] In contrast, others consider that the term can be applied with equal

---

[1] John Burton, Wage Inflation (London: Macmillan, 1972), p.72; Peter J. Dawkins, 'Incomes Policy', in W.P.J. Maunder, ed., The British Economy in the 1970s (London: Heinemann Educational Books, 1980), p.62; Lord McCarthy, 'The Politics of Incomes Policy', in David Butler and A.H. Halsey, eds., Policy and Politics (London: Macmillan, 1978), p.182; and Derek Robinson, 'A European Perspective'; a paper presented to an International Management Seminar on Collective Bargaining and Inflation : New Relations Between Government, Labour and Management, OECD, Paris, November 1976, p.1.

legitimacy to those policies concerning wages and prices decided upon and implemented by business and labour in the absence of governmental involvement.[1] Or to take another example of the lack of definitional agreement: some scholars restrict their definition to governmental attempts to influence pay settlements,[2] while others wish to embrace pricing decisions and the determination of other forms of income within their definitions. But this is not all. Some economists take the view that a government always has an incomes policy of one form or another and that even a monetarist strategy can be regarded as a kind of incomes policy, albeit of a 'free market' variety.[3] Not surprisingly this approach is contested by other scholars who believe that it is analytically important to distinguish between direct and indirect attempts to influence the evolution of nominal wages and prices, and who wish to retain the term 'incomes policy' solely for direct governmental measures.[4] Finally, some have incorporated into their operating definitions certain labour market objectives and distributional aims (usually of an egalitarian nature),[5] while others contend that such policy goals are not a feature of all incomes policies and should thus be excluded from any rigorous, analytically useful definition.

---

[1] Anne Romanis Braun, 'The Role of Incomes Policies in Industrial Countries Since World War II', International Monetary Fund Staff Papers, 22 (March 1975), pp.1-2.

[2] Lord McCarthy, 'The Politics of Incomes Policy', p.182; and Brian Towers, 'A Return to Incomes Policy?', Industrial Relations Journal, 12 (March-April 1981), p.9.

[3] Alfred S. Eichner, 'Income Conflicts, Inflation and Controls: A Response', Journal of Post Keynesian Economics, 5 (Summer 1983), p.604.

[4] Peter J. Dawkins, 'Incomes Policy', p.62; and Derek Robinson, 'A European Perspective', p.1.

[5] ~~Brian Towers~~, 'A Return to Incomes Policy?', p.9.

How is one to proceed given this degree of conceptual ambiguity? First of all, there seems to be little sense in defending an essentialist position to the effect that the term 'incomes policy' has to embrace certain indispensable core elements. Rather, it must be acknowledged that all definitions are somewhat arbitrary in character and that they should be chosen on the basis that they are useful in answering a range of analytically important or relevant questions. Second, if a definition is required - as it is for the purposes of this thesis - it needs to be unambiguous, internally consistent, and as faithful as possible to academic as well as conventional usage. At a minimum it should enable one to distinguish between incomes policies and other policies such as fiscal policy, labour market policy and industrial relations policy. From this perspective one of the simplest and most straightforward definitions has been provided by John Burton. In Burton's view an incomes policy is

> a governmentally-sponsored attempt to directly influence the evolution of nominal goods and factor prices according to some set of objectives, by some form of moral suasion, political or public pressure and possibly by legal controls and sanctions.[1]

Several aspects of this definition deserve comment. Clearly, Burton has sided with those who maintain that an incomes policy must be a government policy, or at least that the government must be involved in some decisive way in the process of policy formation and implementation. While such an approach can certainly be defended, I have decided for the purposes of this thesis to adopt a somewhat broader view. In what follows, incomes policy will be taken to include both

---

[1] John Burton, Wage Inflation, p.72. Of course, we take it for granted here that the attempt is the result of some, more or less systematic, deliberation.

'governmentally-sponsored' measures - be they of a voluntary or statutory nature - as well as national wage agreements (cooperative solutions, coordinated solutions and so forth) reached between the labour market partners in the absence of direct governmental participation. There are three reasons for extending Burton's definition.

Firstly, the meaning of the term 'governmentally-sponsored' is not altogether clear. In Sweden, for example, policy makers argue that the national wage accords regularly negotiated between the unions and employers should not be regarded as a form of incomes policy because they are not government policies; yet government ministers and officials take an active behind-the-scenes role in the process of policy formation, and the government of the day usually gives the resulting policy its official endorsement. Whether or not such a policy should be termed 'governmentally-sponsored', it deserves to be treated for our purposes in the same way as a state policy which is legitimately called 'governmentally-sponsored' (and which, therefore, is normally referred to as an incomes policy) because it is similar in the following crucially important respects: it has much the same form; it may have similar economic aims; and it may well have a virtually identical impact on wage settlements. Surely, then, there is at least some justification in referring to such centrally-negotiated wage agreements as incomes policies.

Secondly, it would seem to me that the critical distinction for definitional purposes is not so much the level or extent of the government's involvement, but rather the context or framework within which pay bargaining occurs. That is to say, are pay negotiators operating under conditions of free (or uncoordinated) collective bargaining, or are they constrained by some form of national wage agreement, governmental guidelines or legal restrictions?

Thirdly, one of the principal questions addressed in this thesis is how to ensure that trade unions comply with voluntaristic arrangements. (We will discuss the meaning of 'voluntary' in a moment.) Now as will become evident in due course, cooperative wage policies arrived at by a trade union movement (or between labour and capital) and governmentally-initiated voluntary incomes policies encounter similar enforcement problems. It seems prudent, therefore, to embrace all such policies within the same definitional category and broaden our conception of an incomes policy accordingly.

Apart from this particular modification, however, I will follow Burton's approach closely. Consequently an incomes policy will be taken to include attempts to influence both the prices of goods and the prices of factors of production (labour and capital). In keeping with this, a prices policy can be regarded as a legitimate part of an incomes policy and there is no need to elongate the term to that of a 'prices and incomes policy' whenever measures are introduced to control prices.[1] At the same time it seems sensible to differentiate, where necessary, between those components of an incomes policy which are designed to influence or control retail prices directly and those aspects of the policy which are designed to influence retail prices indirectly by regulating profit margins or the growth of unit labour costs. Also, it is probably helpful to apply the term 'prices policy', rather than 'incomes policy', in those situations where the government has introduced measures to directly control prices, but has not taken action to influence the pace or level of wage settlements.

---

[1] For general purposes the terms 'pay policy' and 'wages policy' will be used interchangeably with 'incomes policy'.

A further aspect of Burton's approach which should be noted is that he does not attempt, unlike many scholars, to include any specific policy objectives within his definition; that is, other than the unavoidable aim of altering in some way (usually downwards) the growth of nominal incomes and prices. This procedure is entirely appropriate since an incomes policy may be introduced for a multiplicity of reasons and it would be cumbersome to include all of these within the definition. Of the many objectives which incomes policies have been designed to fulfil in the post-war period, the most important have been

1) to reduce the pace of wage inflation - usually in order to slow the rise in unit labour costs, lower inflationary expectations, and preserve (or restore) international competitiveness; and
2) to control, more or less permanently, the growth of nominal wages such that the government is able to improve the trade-off between inflation and unemployment (i.e. shift the Phillips curve downwards and to the left).

Supplementary goals have, from time to time, included the following:

3) a reduction in real wages (or real labour costs) - normally in response to a balance of payments crisis or a fall in real national disposable income;
4) the creation of a more egalitarian wage structure (usually by means of flat-rate pay policies);
5) the creation of a more efficient labour market (for example, by encouraging productivity bargaining or by bringing about changes in relative wages); and
6) the establishment of a more peaceful and stable industrial relations environment.

The rationale for relying mainly upon incomes policies, rather than monetary and fiscal policies, to slow the rate of increase of nominal wages, to cut real wages or to reduce the rate of growth of real wages will be explored in Chapter 2; save to say at this juncture that incomes policies do not always operate as intended. A policy to slow the pace of wage inflation, for instance, may prove totally ineffective because of union opposition, or alternatively it may cut real wages unintentionally because of unanticipated policy lags or unexpected economic developments (such as an adverse supply shock or a fall in the exchange rate). More will be said about these matters in due course.

The final point to notice about Burton's definition is that it permits a wide variety of forms and a wide range of enforcement mechanisms. As he puts it, an incomes policy may involve 'some form of moral suasion, political or public pressure', or 'legal controls and sanctions'.[1] Within this framework, therefore, incomes policies could include any of the following: comprehensive, mandatory wage and price controls; selective interventions by the government to control pay settlements in leading sectors; the selective use of financial rewards and sanctions; bilateral agreements between sectoral elites; bilateral or multi-lateral agreements involving the government and the peak organizations of labour and capital; the establishment of arbital bodies to determine maximum acceptable wage (and price) increases in accordance with certain criteria; and governmental exhortation for voluntary adherence to negotiated or unilaterally announced wage (and price) guidelines. While the range and scope of

---

[1] John Burton, Wage Inflation, p.72.

possible policy instruments is considerable, scholars have traditionally adopted a classification system delineating two broad categories of incomes policy.[1] On the one hand they have spoken of 'indicative', 'consensual' or 'voluntary' policies employing 'soft' measures such as moral suasion, political and public pressure, and private coercion by sectoral elites. On the other hand they have talked of 'imperative' or 'statutory' policies using 'hard' measures such as state coercion and legislative controls. Since the early 1970s a third category has frequently been added, namely that of tax-based incomes policies. As we shall see in Chapter 3, such policies rely neither upon moral suasion and private coercion, nor upon legal restrictions on wage increases, but rather upon selective financial sanctions or rewards.

Unfortunately, although a distinction between voluntary and statutory policies is commonly drawn, the terms are rarely applied in an analytically rigorous manner. Indeed, often they are left undefined. Given that the usage of such terms is unavoidable in a thesis of this kind, what criteria should be employed to distinguish between them? From the literature on incomes policy, three helpful criteria can be discerned.

First, as a general rule the terms are invoked to differentiate between the various means of policy enforcement. Thus, the crucial matter for definitional purposes is the nature of the policy's implementation, not the process of policy formation. This does not imply, of course, that the manner in which the policy is brought into being is unrelated to its mode of implementation. On the contrary, as we shall

---

[1] See, for example, Gerhard Lehmbruch, 'Corporatism, Labour and Public Policy'; a paper submitted for Symposium No. 11: Social Policies in Comparative Perspective, 9th World Congress of Sociology, Uppsala, 14-19 August, 1978, p.7.

argue, the method by which the policy is decided upon - whether, for example, by negotiations with the relevant peak organizations or by unilateral government decree - is of the utmost importance for the question of how it is to be enforced, and how successful this enforcement is likely to be.

Second, the terms 'voluntary' and 'statutory' are normally invoked to distinguish between alternative forms of wage control rather than the instruments of price control. In other words, the status of the policy depends not so much upon the form of price restraint (or for that matter the kind of restraints upon dividends, rents and profits) but instead upon the nature of the restraints applying to wage bargaining.

Finally, in seeking to determine whether the wage-related aspects of an incomes policy should be classified as voluntary or statutory, a helpful suggestion has been made recently by Bill Roche in an article on incomes policy in Ireland.[1] Roche draws a distinction here between what he calls the 'primary' and 'secondary' modes of enforcement. The term 'primary' in this context refers to the first rank, major or principal means of enforcement, while 'secondary' refers to the second rank, subordinate or less important means of enforcement. Accordingly, Roche regards a statutory incomes policy as one which relies primarily on state coercion and legal controls, whereas a voluntary policy is one which rests primarily on moral suasion and/or private coercion.

Although this approach has merit, it is not entirely satisfactory. After all, many incomes policies rely upon both

---

[1] Bill Roche, 'Social Partnership and Political Controls : State Strategy and Industrial Relations in Ireland', in Mary Kelly, Liam O'Dowd, and James Wickham, eds., Power, Conflict and Equality (Dublin: Turoe Press, 1982), p.45.

state and private coercion and the terms 'primary' and 'secondary' are not amenable to quantitative analysis. Hence, unless further distinctions are made the boundary between voluntary and statutory policies will remain somewhat blurred.[1] To ensure a greater measure of definitional precision, therefore, we will distinguish, for the purposes of this thesis, between two kinds of state coercion, namely legislative action which directly controls wages and salaries, and state policies which attempt to restrain the growth of money incomes without resort to legal restrictions on pay bargaining. The former category refers to a situation in which the government passes laws or regulations which prohibit wage increases above a specified level for a part or the whole of the labour force. Such legislative action is normally considered to be the paradigm case or the hallmark of a statutory incomes policy and we will follow this convention here. That is to say, a statutory policy will be defined as one which is enforced by either selective or comprehensive legal controls that apply directly to wages.

The other category of state coercion, in contrast, involves either legal restraints on prices, profits, rents and dividends, or financial penalties against employers of one kind or another: limitations on company borrowing, tax disincentives, the removal of government assistance (employment subsidies, regional development loans, industrial assistance etc.), the lowering of trade barriers, the reduction of state purchases and so forth. Incomes policies which are enforced partly, or even to a significant extent, by these forms of state coercion will be treated as essentially voluntary in character. Strictly speaking, therefore, a tax-based incomes policy can be subsumed within the

---

[1]While such ambiguity may be politically advantageous at times, it is not desirable here.

voluntary category; but since such policies have a distinctive form and rationale we will treat them here as a separate category.

Admittedly, the distinction we have drawn above between different forms of state coercion and our decision to call the first kind 'statutory' and the second 'voluntary' is somewhat arbitrary. Nevertheless, such an approach can be defended on a number of grounds. In the first place, while it is logically possible for direct legal controls on wages to be undergirded by private coercion, in practice the union movement invariably withdraws its support for an incomes policy as soon as the government passes laws prohibiting wage increase above a certain level. This is because union movements around the world are generally opposed to direct governmental interference in the process of pay determination and are especially antagonistic towards the use of laws to restrict the bargaining rights and freedom of workers. Once statutory controls on pay have been invoked, therefore, the policy will come to depend mainly on state coercion, rather than private coercion or moral suasion, for its enforcement. By contrast, unions often accept state measures, financial as well as legal, designed to restrain the growth of nominal incomes and prices but which do not directly control pay increases. Indeed, union leaders usually demand that action be taken to prevent price increases or to control profits. Because of this, incomes policies can frequently sustain a limited measure of state coercion of the second variety without forfeiting union support, and without therefore undermining the role played in the enforcement process by moral suasion and private coercion.

A further justification for the definitional approach which we have sketched above rests on what can be termed the 'argument from fact' or the 'argument from conventional usage'. In Britain - which is, of course, the case with which we will be most concerned in this thesis - the dividing line between voluntary and statutory policies during the 1970s was drawn, at least by the majority of policy makers and union leaders, at the point that we have chosen. In other words, a statutory incomes policy was defined narrowly as one incorporating legal controls on pay, whereas a voluntary policy was defined quite broadly, and negatively in this instance, as one which avoided legal controls applying directly to pay. Certainly this approach had its critics; but it remained the dominant view throughout the decade. Given this situation, together with the fact that such a demarcation point is analytically relevant, we will follow the conventional approach here.[1]

Before proceeding further several matters require clarification. To begin with, it could be argued that from the perspective of individual unions there may be little difference between a policy backed by legal sanctions and another resting upon other forms of state coercion, or, for that matter, coercion by a private sector organization; all such policies may appear to be almost compulsory in form even though the first is described as statutory and the others as voluntary.

---

[1]Obviously one could develop a complex set of sub-categories to distinguish between different kinds of voluntary incomes policy and to map the steps separating a voluntary policy resting entirely on moral suasion and one relying to a significant extent upon state coercion. As will be evident I have avoided this approach preferring instead to employ a simpler definitional schema. However, various analytically relevant distinctions have been drawn in Chapters 2 and 3, and wherever appropriate I have specified the enforcement mechanisms associated with the particular incomes policy under discussion.

Such an observation is perfectly valid. However, this does not diminish the relevance of making a distinction between various forms of state coercion, and between state coercion and private coercion.

Another point to notice about the approach we are adopting here is that voluntary policies do not require negotiations or agreements with unions and employers, and hence they do not automatically involve private coercion. Sometimes a government may introduce a wage norm or a set of pay guidelines without having first secured the agreement of the labour market partners. This has happened in a number of OECD countries from time to time, and, as we shall see presently, was basically the situation in Britain in 1977-78. Occasionally a government may even introduce or continue a voluntary incomes policy in the face of fierce union opposition and hope that a sufficient degree of compliance can be obtained by means of moral suasion, the force of public opinion, and the use of a limited range of financial penalties against employers. Usually such hopes have been misplaced; certainly they were in Britain in 1978-79.

While bearing in mind all that has been said above, we will take it that the 'normal' or 'typical' voluntary incomes policy is one which is negotiated with (or between) the peak organizations of labour and capital and which is enforced primarily by means of moral suasion and private coercion rather than state coercion.

As was mentioned at the beginning of this chapter, incomes policies of both a voluntary and statutory variety were introduced by a large number of governments of differing political persuasions in response to the worldwide wage and

price explosion of the late 1960s and early 1970s. The principal economic justification of this strategy lay in the assumption that by directly controlling the growth of money wages one could bring about a rapid fall in the rate of inflation without suffering the deleterious consequences - in terms of lower output and employment - associated with the main alternative approach, namely, a restrictive monetary and fiscal policy. However, as the 1970s wore on, the utility and effectiveness of this strategy came under increasing attack from economists and conservative politicians. In part, this reflected the rather disappointing record of incomes policies. Wage inflation was not reduced as rapidly as hoped. Many policies had to be abandoned in the face of union opposition. And governments were often forced to grant expensive side-payments in order to obtain union cooperation.

But the disenchantment with incomes policies was not merely the product of their apparent failure to solve the problems of stagflation. It also reflected the growing intellectual challenge to Keynesianism from a burgeoning school of neoclassical and new classical economists. According to these economists, governmental interference in the process of pay determination causes inefficiency, reduces economic growth and can do nothing in the long run to lower the so-called 'natural rate' of unemployment. The solution to stagflation, therefore, lies not in wage and price controls, but in resolute government action to cut public expenditure, control the money supply and reduce labour market rigidities. Since the late 1970s a number of governments of a conservative orientation have taken this advice and adopted deflationary policies. The result, in short, has been a sharp fall in output

and inflation, and a return to levels of unemployment not witnessed since the Great Depression of the 1930s.

It is still too early to know precisely how this return to mass unemployment will influence union bargaining behaviour in the longer term. Nevertheless, there are good reasons, as will be mentioned in Chapter 2, for doubting that the high levels of unemployment now prevalent in the West will be sufficient to prevent another bout of wage inflation if and when there is a significant upturn in the world economy. Moreover, there are also sound reasons for doubting that monetarist policies will bring a return to rapid or sustained economic growth and a major expansion of employment opportunities. Unless, therefore, one is to be resigned to permanent mass unemployment, an alternative economic strategy will have to be found.

Currently, two main options are being advanced, both of which entail an incomes policy. The first, which in Britain is advocated by the Social Democrats and Liberals, involves the expansion of aggregate demand and the use of selective economic sanctions against employers who breach a governmentally determined pay norm. The theoretical and practical aspects of such tax-based incomes policies, will be discussed briefly in Chapter 3.

The second option, which is favoured by socialist parties in Britain, Australia, Sweden, Spain and New Zealand, amongst others, involves an expansionary monetary and fiscal policy, together with a comprehensive incomes policy of a voluntary nature. Needless to say there is nothing new about this advocacy of voluntary as opposed to statutory measures. Such policies have been introduced in many countries during

the past few decades with varying degrees of success. To date the most effective policy has been the 'Social Partnership' in Austria. Remarkably enough, this has now been in continuous operation for over 25 years. Most voluntary incomes policies, however, have been relatively short-lived and very few have fulfilled the ambitious hopes of their originators. Indeed, some have been total failures.

The chequered history of voluntaristic stabilization programmes has not merely been due to badly designed policies, lower than expected levels of growth, or disputes over distributional issues, although all these factors have played their part. More important is the fact that the whole strategy contains a fundamental flaw. As Lester Thurow once remarked: 'No one wants to volunteer as a price fighter in the war on inflation'.[1] The reason for this is simple. Participation in a voluntary incomes policy normally requires a union to impose limitations on its bargaining behaviour. This implies the acceptance of certain short-term opportunity costs, most notably in the form of a lower level of real wages than could otherwise have been obtained. Yet the benefits of such restraint - lower inflation and unemployment, and higher real wages in the longer term - are problematic. In other words, there is no guarantee that the sacrifices of today will be rewarded in the future. Given this situation, it is in the interests of individual unions to opt out of a voluntary deal and trust that other groups will be prepared to bear the costs of achieving a lower rate of inflation. But of course, if

---

[1] Lester Thurow, The Zero-Sum Society: Distribution and the Possibilities for Economic Change (New York: Basic Books, 1980), p.69.

a large number of unions pursue a free-rider strategy of this kind, the wages policy will collapse. In short, all voluntary incomes policies suffer from a critical weakness (as indeed do many other forms of voluntary action), namely, that there is a conflict between the interests of individual unions on the one hand, and the interests of the collectivity on the other. Unless this conflict of interest can be resolved, a voluntary stabilization programme is doomed to failure. To quote Sander Meredeen:

> The dilemma facing all advanced interdependent mixed economies of the liberal democratic variety, is how to persuade groups of workers to give up some measure of their short-term selfish interests in favour of the longer-term and wider interest.[1]

This dilemma, and its resolution, provides the focal point of this thesis. I will begin my inquiry in Chapters 2 and 3 by exploring the necessary conditions for an effective voluntary incomes policy from the perspective of rational choice theory. It must be conceded immediately that the behavioural assumptions of the rational actor model are narrow and unrealistic. Nevertheless, the theory has a number of strengths which make it an ideal starting point for the thesis. Firstly, it provides an internally consistent and rigorous analytical tool which is extremely useful for identifying and clarifying conceptual problems. Secondly, it is a well-established and widely accepted framework for exploring social interactions, and is particularly helpful in this regard because it makes the strategic aspects of such interactions explicit. Finally, as Barry and Hardin have noted,

---

[1]Henry Friedman and Sander Meredeen, The Dynamics of Industrial Conflict: Lessons from Ford (London: Croom Helm, 1980), p.337.

it 'yields predictions that are most useful benchmarks against which to assess the extent and impact of other motivations'.[1] All in all, the rational choice approach provides an excellent vantage point from which to observe the dynamics of voluntary wage restraint.

But the approach also has limitations. In particular, its assumption that individuals are rational, self-interested, utility maximizers is unnecessarily restrictive. For man is not only self-interested: he is also motivated by duty, loyalty, hate, envy, sympathy, love and compassion. In Chapter 4, then, I shall undertake a critique of the rational actor model and argue the case for a broader, more pluralistic motivational theory. In so doing it will be contended that trade union negotiators are influenced by a host of moral, political and ideological commitments. These commitments either reinforce the tendency of unions to free ride, or strengthen their resolve to abide by a voluntary wages policy.

But if the adoption of a broader motivational theory furnishes a more realistic account of man's behaviour, it also raises a number of theoretical and methodological problems. For instance, how can one incorporate non-self-interested motivations into a theory of pay determination? How is one to distinguish between behaviour which is essentially selfish in origin and that which is prompted mainly by normative commitments? Or, to put it somewhat differently, how is one to assess the relative weight or salience of economic and normative factors in shaping union policy making? I will attempt to resolve these issues in Chapter 4, and then outline a research programme designed to investigate the role which

---

[1] Brian Barry and Russell Hardin, eds., Rational Man and Irrational Society? (Beverley Hills: Sage Publication, 1982). p.21.

normative commitments played in the negotiation, implementation and eventual collapse of one particular voluntary incomes policy. The case chosen here is that of the Social Contract between the British Labour Government (1974-79) and the Trades Union Congress (TUC).[1]

The Social Contract, which incidentally was not legally binding, lay at the heart of the Labour Party's political and economic strategy during the 1970s. Fashioned during Labour's years in opposition following its defeat to the Conservatives in 1970, the Contract involved a broad political understanding between the Parliamentary and industrial wings of the labour movement, whereby the Parliamentary leadership promised to implement a comprehensive set of economic, social and industrial policies backed by the trade unions in exchange for a commitment by leading trade unionists to cooperate with a future Labour Government, especially in the field of wage bargaining. In its original form the nature of this commitment remained vague and imprecise. No explicit guidelines were laid down and no principles for the determination of incomes were established. However, with Labour's return to office in March 1974, and in the midst of mounting economic difficulties, the trade unions came to endorse increasingly stringent limitations on wage bargaining. These culminated in two years of severe restraint between August 1975 and August 1977. While the policies adopted

---

[1]Obviously the notion of a 'Social Contract' was drawn from the Social Contract theorists of the 17th and 18th centuries such as Hobbes, Locke and Rousseau. It appears that the term first entered Labour Party parlance in 1970 when Thomas Balogh (now Lord), writing in a Fabian Tract after the June election, called for a new 'Contrat Social' between a future Labour Government and the trade union movement. See Thomas Balogh, Labour and Inflation, Fabian Tract 403 (London: Fabian Society, 1970), pp.11, 44 & 60.

during these years proved extremely effective in reducing the rate of wage inflation, they also provoked a strong reaction within the union movement. As a consequence, at the TUC conference in September 1977 the balance of opinion moved against the supporters of incomes policies and the TUC withdrew its support for the Social Contract. The Labour Government was thus left to devise and implement its own stabilization policies for the remainder of its term. Although this task was assisted initially by an acquiescent trade union stance, rank-and-file resistance grew in the latter months of 1978 and eventually forced the Government to abandon, or at least heavily modify, its wages strategy.

Theoretically, the Social Contract is interesting because the structure of industrial relations in Britain contains fundamental impediments to the effective implementation of all forms of incomes policy, let alone a voluntary one. Pay bargaining is highly decentralized, especially in the private sector. There are a large number of unions, many of which compete for members, and many of which are characterized by strong sectional or craft-based loyalties. Decision-making power is frequently concentrated at the shop-floor or workplace level. Indeed, the extent of workplace bargaining and the strength of the shop-steward movement is unrivalled in the West. On top of this, employer solidarity is low, and both the peak organizations of employers and employees are weak. Lastly, the union movement is ideologically divided with a substantial section opposed to incomes policies and antagonistic to state interference in wage determination.

Altogether, these features of British industrial relations would be expected to encourage free riding, to increase the tendency of negotiators to concentrate on narrow, short-term

objectives, and to reduce the willingness of unions to subordinate their wage claims for the common good. But despite all this, it proved possible for the Government and the TUC to negotiate and implement, at least for two years (1975-77), a highly successful programme of wage restraint. During these years, for example, nominal-wage inflation was reduced from over 30% to nearly 8%. Moreover, the union movement demonstrated a remarkable degree of unity and discipline. There was little free riding, there were few open challenges to the authority of the TUC, and, despite a sharp fall in real wages, there was surprisingly little industrial unrest. Thus, at first sight it seems plausible to suppose that normative commitments played a crucial role in securing union cooperation and consent during these years. But what were these commitments? Were they in fact important in preventing policy breaches? And why did support for the Social Contract decline in 1977-78? These and other questions relating to the implementation of a consensual wages policy will be explored in depth in Chapters 5 to 10.

A few brief remarks should be made at this juncture to clarify the focus of the thesis. First, I will not be directly concerned with the current debate about the extent, growth or desirability of union power in Britain and other advanced industrialized democracies. There is already a large literature on this subject and there is no need to contribute to it here.[1]

---

[1] For example see Brian Burkitt, 'Excessive Trade Union Power: Existing Reality or Contemporary Myth?' Industrial Relations Journal, 12 (May-June 1981), pp.65-71; S.E. Finer, 'The Power of Organized Labour', Government and Opposition, 8 (Autumn 1973), pp.391-406; David Marsh and Gareth Locksley,'Trade Union Power in Britain: The Recent Debate', West European Politics, 4 (January 1981), pp.19-37; and Patrick Minford, 'Trade Unions Destroy a Million Jobs', The Journal of Economic Affairs, 2 (January 1982), pp.73-79.

At the same time, I will naturally be assuming that British unions have a significant amount of political and labour market power and that this has major implications for economic policy making. My views in this regard will be elaborated more fully in Chapter 2.

Second, while drawing on the insights of corporatist scholars, I will not enter deeply into the debate about liberal or neo-corporatism. Nor will I consider the controversy surrounding the emergence or otherwise of corporatist practices and institutions in Britain.[1] This is partly because my central theoretical concerns diverge somewhat from those dominating the corporatist literature. It is also partly due to the fact that the subject is a huge one and there is simply not the space here to undertake an indepth review of all the relevant issues. However, I have sought to provide a brief analysis of the corporatist solution to stagflation in Chapter 3.

Third, my consideration of the Social Contract is necessarily selective. The subject matter is vast, covering as it does the entire economic, social and political strategy of the Labour Government. Any research project, therefore, which sought to examine in detail the policies which can be subsumed under the Social Contract - industrial law, industrial democracy, social policy, trade policy, industry policy and so on - would be a huge undertaking. Because of this, and because most of these policy areas have been well researched,

---

[1] See, for example, Colin Crouch, Class Conflict and the Industrial Relations Crisis (London: Humanities Press, 1977); Wyn Grant, 'Corporatism and Pressure Groups', in Dennis Kavanagh and Richard Rose, eds., New Trends in British Politics: Issues for Research (London: Sage Publications, 1977), pp.167-184; and Ross M. Martin, 'Pluralism and the New Corporatism', Political Studies, 31 (March 1983) pp.86-102.

I will focus almost exclusively on the wage related aspects of the Contract. Other matters will be mentioned only to the extent that they impinged upon the wage negotiations between the Labour Government and the TUC.

Finally, it should be noted that the following account is based largely on published sources and interview data. A description of my research methodology, together with a list of those interviewed, is provided in Appendix I.

CHAPTER 2

INFLATION, UNIONS AND RATIONAL CHOICE THEORY

2.0 Introduction

The purpose of this chapter is to investigate the conditions under which rational, self-interested trade union negotiators, seeking to maximize a combination of real wage, relative wage and employment objectives, and operating in the context of uncertainty, decentralized bargaining and a significant degree of monopoly power in the labour market, will be prepared to voluntarily restrain, moderate or limit their nominal (money) wage demands. It will be contended that the problem of securing such restraint has the strategic structure of an n-person prisoners' dilemma. That is to say, the situation entails an inherent conflict between individual and collective interests - between the short-term interests of an individual union on the one hand, and the interests of the whole labour movement on the other. Hence, although union negotiators and their constituents prefer price stability to high, accelerating inflation and wish to cooperate to achieve this objective, it is to their immediate advantage to engage in independent decision making rather than commit themselves to a coordinated programme of mutual restraint (a voluntary incomes policy). Yet, if every union pursues a strategy of individual maximization (unrestrained collective bargaining), the eventual outcome is universally injurious: higher inflation, higher unemployment and lower real-wage growth. Moreover, the task of securing restraint is further complicated by the fact that we are not dealing with a straightforward prisoner's dilemma involving a conflict between individual unions, but also a prisoner's

dilemma entailing competition between labour (wages) and capital (profit). Because of these twin conflicts of interest, the necessary conditions for a successful voluntary incomes policy are extremely exacting and rarely satisfied.

In the discussion which follows I will be assuming a post-Keynesian, as opposed to a monetarist or Marxist, diagnosis of the causes of inflation and unemployment.[1] Given the importance of this premise, as well as the significance of the monetarist-post-Keynesian debate for an understanding of contemporary political economy, it is necessary to examine briefly the central assumptions underlying a post-Keynesian approach and the options available to governments in advanced industrialized democracies as they grapple with the seemingly impossible task of maintaining low levels of inflation and high levels of employment. A detailed critique of monetarism or a lengthy elaboration of the post-Keynesian position would, however, be inappropriate.

2.1 The Post-Keynesian-Monetarist Controversy

There are at least three fundamental areas of dispute between monetarist and post-Keynesian economists. The first concerns the causes of inflation. According to monetarists, changes in the money supply are the dominant factor accounting

---

[1] The term 'post-Keynesian' refers to a broad grouping of non-Marxist economists who reject many of the assumptions of neoclassical and new classical economics and argue that the decline in the efficacy of market forces in labour and product markets during the 20th century means that a significant degree of government intervention is essential to ensure economic well-being. For details see Paul Davidson, 'Post-Keynesian Economics: Solving the Crisis in Economic Theory', The Public Interest, Special Issue, (1980), pp.151-173; Paul Davidson and Sidney Weintraub, 'A Statement of Purpose', Journal of Post Keynesian Economics, 1 (Fall 1978), pp.3-7; and John Kenneth Galbraith, 'On Post Keynesian Economics', Journal of Post Keynesian Economics, 1 (Fall 1978), pp.8-11.

for variations in output, employment and prices.[1] In the words of Milton Friedman, perhaps the leading exponent of monetarist theories:

> ...substantial inflation is always and everywhere a monetary phenomenon ... Inflation occurs when the quantity of money rises appreciably more rapidly than output, and the more rapid the rise in the quantity of money per unit of output the greater the rate of inflation. There is probably no other proposition in economics that is as well established as this one.[2]

Friedman goes on to contend that there has never been a long, continuous period of inflation which has not been accompanied by a more rapid increase in the quantity of money than in output. Within the monetarist framework, therefore, excessive increases in the money supply provide the key to explaining the contemporary experience of historically high levels of inflation. Alternative theories, such as the view that unions and firms, by the exercise of monopoly power, can significantly influence the rate of inflation are rejected as theoretically implausible and empirically false.[3] Unions are merely transmitters of inflation; they cannot initiate it. As Friedman puts it, wage rises 'in excess of increases in productivity are a result of inflation, rather than a cause'.[4]

---

[1] Allan H. Meltzer, 'Monetarism and the Crisis in Economics', The Public Interest, Special Issue, (1980), p.43.

[2] Milton Friedman and Rose Friedman, Free to Choose (Penguin, 1980), p.299.

[3] Milton Friedman, Free to Choose, p.307; and Michael Parkin, 'The Politics of Inflation', Government and Opposition, 10 (Spring 1975), pp.189-202.

[4] Milton Friedman, Free to Choose, p.307. It should be noted that some monetarists give a greater prominence to the role of unions in their analyses, but would agree with Friedman that unions cannot generate continuing inflation. See, for example Samuel Brittan, 'Inflation and Democracy', in Fred Hirsch and John Goldthorpe, eds., The Political Economy of Inflation (London: Martin Robertson, 1978), p.174; and F.A. Hayek, 1980s Unemployment and the Unions: The Distortion of Relative Prices by Monopoly in the Labour Market, Hobart Paper 87, (London: The Institute of Economic Affairs, 1980).

Such assertions are strongly challenged by post-Keynesian macro-economists. Whereas the monetarist contends that the money supply is the exogenous variable in the system and nominal wages are determined endogenously, the post-Keynesian generally holds the reverse: the growth rate of money wages is largely exogenous, and the money base is determined endogenously.[1] To put it another way, money wages are not only responsive to supply and demand pressures in the labour market, but are also influenced by non-economic forces such as the level of union militancy and autonomous shifts in relativity relationships.[2] An inflationary shock can occur, for example, if a key trend-setting union or a bargaining group with important relativity linkages with unions in other sectors of the economy acquires a wage rise well above the 'going rate'.[3] If other unions seek to restore their traditional relativity relationships, which is likely, the result will be an increase in nominal wages and prices.[4]

---

[1] Douglas Mitchell, 'Deficit and Inflation in a Post-Keynesian Model', Journal of Post Keynesian Economics, 3 (Summer 1981), pp.560-561; Douglas Vickers, Economics and Man (New Jersey: The Craig Press, 1976), p.273; and Sidney Weintraub, 'The Missing Theory of Money Wages', Journal of Post Keynesian Economics, 1 (Winter 1978-79), p.60.

[2] See, for example, Wynne Godley, 'Inflation in the United Kingdom', in L.B. Krause and W.S. Salant, eds., Worldwide Inflation: Theory and Recent Experience (Washington: Brookings Institution, 1977), p.469; John Hicks, The Crisis in Keynesian Economics (Oxford: Basil Blackwell, 1973), pp.62-65; and Arthur Okun, Prices and Quantities: A Macroeconomic Analysis (Oxford: Basil Blackwell, 1981), pp.122-129.

[3] The going rate refers to the average rise in basic rates of pay during a wage round.

[4] Clearly, the extent to which prices rise in these circumstances will depend on the process of price formation in the relevant economy. For the purposes of this discussion we will make the following assumptions: 1) prices are in part responsive to demand conditions, but are primarily determined by a mark-up on normal costs; 2) normal costs depend on trend changes in unit labour costs (which in turn depend on money wages and the labour-output ratio) and import prices; and 3) import prices depend on world prices and the exchange rate.

Although such shocks undoubtedly happen from time to time,[1] there is a much more common mechanism whereby the process of wage bargaining generates inflationary pressures. This mechanism, which has been variously described as the wage leadership hypothesis, the leading sector hypothesis and the wage contagion thesis, operates in the following manner.[2] Virtually all advanced industrialized countries have their so-called 'dynamic sectors' where the rate of productivity growth is well above the average rate for the economy as a whole. What has frequently happened in the past few decades is that these leading sectors have come to set the pace for the general level of wage settlements throughout the economy. The inflationary potential of this situation is obvious. For even if nominal wages in the leading sectors increase by less than the rate of productivity growth in those sectors, they may nevertheless rise significantly more than the national average rate of productivity growth. If in these circumstances nominal wages in the less dynamic sectors grow - as a result of relativity relationships - by as much, or nearly as much, as those in the leading sectors, the net result must either

---

[1] An example of such relativity leap-frogging occurred in New Zealand in 1973 when a group of 23 boilermakers secured a pay settlement of some 8.5% above the going-rate. Almost immediately other groups of boilermakers followed suit and within a few weeks a whole range of unions were demanding comparable wage increases. Eventually, the Labour Government, unable to stem the flood, decided that there was no alternative but to give all wage and salary earners in the country an extra 8.5%. For an account see Jonathan Boston, Incomes Policy In New Zealand 1970-1980 (Wellington: The Treasury, 1980), pp.76-96.

[2] See Robert Flanagan, 'Wage Interdependence in Unionized Labour Markets', Brookings Papers on Economic Activity, 3 (1976), pp.635-673; Aubrey Jones, The New Inflation: The Politics of Prices and Incomes (London: André Deutsch, 1973), pp.19-21; and Nicholas Kaldor, 'Inflation and Recession in the World Economy', Economic Journal, 86 (December 1976), pp.708-9.

be a fall in the profit rate or a rise in prices, or both.

Clearly, the importance of this mechanism for generating and transmitting inflation will vary over time and from country to country. Sometimes pace-setting wage settlements may be located in the less dynamic sectors of the economy, in which case the inflationary potential of the system will be much more limited. Another possibility is that wage relativities may be sufficiently flexible so that wage settlements in the dynamic sectors are not followed automatically by settlements elsewhere. But this is not always the case. On the contrary, wage relativities have been characterized by a remarkable degree of rigidity in many OECD countries. Because of this, wage leadership of one form or another has played a crucial role in the inflationary process. Certainly it was a significant factor in accounting for the pattern of wage inflation in Britain during the 1960s and 1970s, and was of major concern to economic policy makers.[1]

Yet, if one is to defend the view that the growth of money wages (and the rate of inflation) is influenced by non-economic forces and thereby reject the monetarist proposition that 'only money matters', one is not obliged to argue that 'money doesn't matter'. Quite the reverse: monetary policy undoubtedly impinges upon the level of wage settlements since in conjunction with fiscal policy it influences aggregate demand. This in turn affects the labour market power of trade unions and hence their capacity to obtain large money-wage increases. Furthermore, in the absence of an accommodating monetary policy, pressure by unions for real-wage gains in excess of productivity growth

---

[1]See, for example, Aubrey Jones, The New Inflation, pp.19-21.

will ultimately bring an increase in unemployment.[1] But, it must be emphasized, acknowledgement of this fact does not entail acceptance of the view that monetary expansion is the sole, or even the chief cause of inflation.[2]

A second major theoretical conflict concerns the responsiveness of a) nominal wages and prices, and b) real wages to changes in demand. The monetarist case, resting as it does on the neoclassical assumptions of flexible prices and market clearing, is that a government can effect a swift, significant and permanent fall in the rate of inflation by means of monetary contraction and do so relatively painlessly. That is to say, the negative side-effects, in terms of reduced output and employment, will be minor and temporary.[3] Post-Keynesians, in contrast, maintain that markets don't always clear and that nominal wages and prices are sticky downwards, though at possibly different rates. Because of this the inflationary process contains a basic asymmetry: whereas the short-term impact of an increase in aggregate demand falls mainly upon prices, a decrease in demand falls mainly upon output. In other words, an injection of demand into

---

[1] Robert J. Gordon, 'The Demand for and Supply of Inflation', The Journal of Law and Economics, 18 (December 1975), p.809.

[2] For an empirical and theoretical critique of monetarist assumptions see H. Sonmez Atesoglu, 'Inflation and its Acceleration: Evidence from the Post-War United States', Journal of Post Keynesian Economics, 3 (Fall 1980), pp.105-115; Henry Phelps Brown, 'A Non-Monetarist View of the Pay Explosion', The Three Banks Review, 105 (March 1975), pp.3-24; William D. Nordhaus, 'The Worldwide Wage Explosion', Brookings Papers on Economic Activity, 2 (1972), pp.431-465; George L. Perry, 'Determinants of Wage Inflation Around the World', Brookings Papers on Economic Activity, 2(1975) pp.403-447; and Jeffrey D. Sachs, 'Wages, Profits and Macroeconomic Adjustment: A Comparative Study', Brookings Papers on Economic Activity, 2 (1979), pp.269-319.

[3] D. Laidler, 'Monetarism: An Interpretation and an Assessment', The Economic Journal, 91 (March 1981), pp.1-28.

the economy will tend to generate a rise in inflation rather than an increase in output and employment, while a contraction of demand resulting from a tight monetary and fiscal policy will produce a substantial fall in output and employment, but only a small initial reduction in the rate of inflation.[1] An attempt to reduce inflation by resort to deflationary monetary and fiscal policies, therefore, will be costly and will take a long time to attain its objectives; a fact which the Thatcher Government's recent 'monetarist' experiment so clearly demonstrates.[2] Indeed, according the Layard, some two-thirds of the reduced growth of money gross national product (GNP) in Britain between 1979 and 1980 went into a slower growth in output rather than into a lower rate of price inflation.[3]

Just as it can prove very costly to reduce the rate of wage inflation by means of a monetarist strategy, so too governments can find it difficult to lower real wages when this is deemed necessary. The main reason for this is that, in the absence of state intervention, nominal wages often adjust more slowly than prices in a cyclical downturn - which may mean, of course, that real wages actually rise, at least in the short run.

---

[1] For an elaboration of this argument see Richard G. Lipsey, 'The Understanding and Control of Inflation: Is There a Crisis in Macroeconomics?' The Canadian Journal of Economics, 14 (November 1981), pp.545-576; David T. Llewellyn, 'Can Monetary Targets Influence Wage Bargaining?' The Banker, 130 (January 1980), pp.49-53; and Thomas Balogh, Labour and Inflation, p.43.

[2] For an examination of the monetarist experiment of the British Conservative Government (1979-), see Terry Ward, 'Thatcherism in Practice', Journal of Post Keynesian Economics, 4(Summer 1982), pp.516-530.

[3] Richard Layard, 'Is Incomes Policy The Answer to Unemployment?' Economica, 49 (August 1982), p.219.

Now if real wages (or real labour costs) display a significant degree of downward rigidity (or even rise) during a recession - as has been the case in Britain - the net result will be a fall in the rate of return on capital and a rise in unemployment.[1] Given that real wages are difficult to cut by means of a deflationary strategy, one possibility might be to try and reduce them by bringing about a rapid increase in prices (perhaps by devaluing the exchange rate or expanding aggregate demand). The problem with this approach, however, is that nominal wages tend to react quickly to an increase in the rate of inflation. Consequently, unless the growth of nominal wages can be constrained by means of an incomes policy, any fall in real wages will be short-lived.

The above discussion naturally prompts a variety of questions. In particular, why are nominal wages relatively insensitive to falling demand and growing slack in the labour market? Okun argues that part of the answer lies in the existence of implicit contracts or 'invisible handshakes' as he calls them.[2] Put simply, given a world of imperfect information, high recruitment costs and moral hazard, firms may commit themselves to policies of long-term attachment to their employees and customers, and such policies are likely to involve a certain amount of wage inertia and mark-up pricing. Another familiar argument is that it is not just implicit contracts which generate wage rigidity, but also the explicit, long-term wage contracts which characterise large sections of the labour market, particularly in the United States. Even annual wage bargaining - which is now common in most advanced industrialized democracies - tends to reduce the

---

[1] OECD, Collective Bargaining and Economic Policies: Dialogue and Consensus, (Background working paper for experts' meeting, 18-20th July, 1983, pp.10-12. It should be noted that the degree of real-wage rigidity varies greatly among OECD countries.

[2] Arthur Okun, Prices and Quantities, p.89.

sensitivity of nominal wages to cyclical downturns.

But perhaps the best explanation of the downward rigidity of money wages, and one which will occupy a good part of this thesis, relates to the salience of relative wages. Keynes, writing in the 1930s, presents the difficulty as follows:

> ... any individual or group of individuals, who consent to a reduction of money-wages relative to others, will suffer a relative reduction in real wages, which is a sufficient justification for them to resist it.[1]

Moreover, as he points out later, since there is normally

> no means of securing a simultaneous and equal reduction of money wages in all industries ... it is in the interest of all workers to resist a reduction in their own particular case.[2]

Now it must be noted immediately that Keynes talks about the reduction of money wages rather than the reduction in the rate of increase of money wages because he was living in a non-inflationary environment. However, as Lipsey reminds us the logic of his argument applies equally to an inflationary world.[3] In this situation workers resist a reduction in their relative wages by opposing wage increases which fall below the expected rise in the general wage level or the wages of important reference groups. Needless to say, while workers vigorously resist a fall in their relative-wage position, they rarely mind if their position improves. Consequently, there is an unmistakable asymmetry between the raising and lowering of relative wages - a phenomenon which is of fundamental importance in understanding and explaining the asymmetrical response of wages and prices to changing demand conditions noted earlier.

---

[1] John Maynard Keynes, The General Theory of Employment, Interest and Money (London: Macmillan, 1973), p.14.

[2] Ibid., p.264.

[3] Richard G. Lipsey, 'The Understanding and Control of Inflation', p.555.

While much more will be said about the subject of relative wages presently, it is worth noting here that the line of reasoning developed by Keynes to explain the downward inflexibility of money wages has been accepted and applied by many other economists. Drawing upon Keynes' insights, James Tobin, for example, summarized the problem like this:

> Rigidities in the path of money-wage rates can be explained by workers' preoccupation with relative wages and the absence of any central economy-wide mechanism for altering all money wages together.[1]

It is the contention of this thesis that 'the absence of any central economy-wide mechanism' can be remedied by means of an incomes policy designed to reduce the rate of money wage inflation.

The third major issue dividing monetarists and post-Keynesians concerns the theoretical justification, practical utility and policy implications of the 'natural rate' hypothesis. In the view of monetarists there is no long-term trade-off between inflation and unemployment.[2] Instead, there is a constant inflation rate of unemployment, or what Friedman has termed the 'natural rate' of unemployment.[3] This natural

---

[1]James Tobin, 'Inflation and Unemployment', American Economic Review, 62 (March 1972), p.5.

[2]Milton Friedman, Inflation and Unemployment: The New Dimensions of Politics (London: Institute of Economic Affairs, 1977), pp.10-18.

[3]Ibid., p.15. For various views on the natural rate hypothesis see David Laidler and Michael Parkin, 'Inflation: A Survey', The Economic Journal, 85 (December 1975), pp.741-809; J.A. Trevithick, 'Inflation, the Natural Unemployment Rate and the Theory of Economic Policy', Scottish Journal of Political Economy, 23 (February 1976), pp.37-53; and Thomas Tuchscherer, 'The Unnatural Natural Rate of Unemployment', Journal of Post Keynesian Economics, 4 (Fall 1981), pp.25-31.

rate is the unique point to which the economy adjusts automatically, if unimpeded, and represents the level of employment at which there is a constant rate of price inflation. As Friedman explains, the natural rate

> ... is not a numerical constant but depends on 'real' as opposed to monetary factors - the effectiveness of the labour market, the extent of competition or monopoly, the barriers or encouragements to working in various occupations, and so on.[1]

According to this proposition, if governments attempt to operate the economy at a level of unemployment below its natural rate, the result, inevitably, will be a rise in the rate of increase in money wages and an acceleration in the rate of price inflation. It follows from this that the only way to reduce the level of unemployment in a non-inflationary manner is to lower the natural rate by policies designed to encourage mobility and competition in the labour market. In short, this means action to limit the power, privileges and rights of trade unions.[2]

Post-Keynesians are divided in their attitude towards the natural rate hypothesis. But even those who accept something of Friedman's case, point out that the combined effects of business cycles, supply shocks, and the asymmetry with respect to output and prices noted above will be to

---

[1]Milton Friedman, Inflation and Unemployment: The New Dimensions of Politics (London: Institute of Economic Affairs, 1977), p.15.

[2]For an account of monetarist proposals for reducing the natural rate, see Patrick Minford, et al., Is Monetarism Enough? (London: Institute of Economic Affairs, 1980); Patrick Minford, 'Trade Unions Destroy a Million Jobs', The Journal of Economic Affairs, 2 (January 1982), pp.73-79; Lord Robbins, et al., Trade Unions: Public Goods or Public 'Bads'? (London: Institute of Economic Affairs, 1978); and Derek Robinson, 'Indirect and Partial Measures', Oxford Bulletin of Economics and Statistics, 45 (February 1983), pp.105-125.

gradually lift the natural rate to higher and higher levels. What is more, since it is not merely the level of unemployment which curbs bargaining power (and so restrains the growth of wages and prices) but also the rate of increase in unemployment, there is little reason for supposing that money wages will be held back during an upswing in the business cycle, even though unemployment may be at very high levels indeed.[1] Surely at some point in this process, it is contended, one will be forced to question whether the assumed natural rate is economically and socially efficient, let alone morally acceptable. And if the rate is deemed to be too high, then the issue arises as to how it can be reduced.

Here again monetarists and post-Keynesians are deeply divided. As noted, the usual solution proposed by monetarists is to weaken union power in the labour market by means of legislation to curb the closed shop, picketing and strikes, action to strengthen employer solidarity, and efforts to reduce the minimum wage, unemployment benefits and union density. While such a strategy is bound to have some influence on bargaining behaviour, most post-Keynesians would argue that its overall impact is likely to be minimal. It will, for a start off, do nothing to reduce the influence of implicit contracts; nor will it overcome the problem posed by the salience of relative wages. Added to this, unless one is proposing action of a kind that would be politically untenable in a liberal democracy, such as the destruction of the union movement or the abolition of collective bargaining, one is going

---

[1] Arthur Okun, Prices and Quantities, pp.241-242; Henry Phelps Brown, 'Incomes Policy Revisited', Fiscal Studies 2 (November 1981), p.2; and Terry Ward, 'Thatcherism in Practice', p.528.

to be faced with the persistence of annual or biennial labour contracts. These will, of necessity, cause a degree of nominal-wage rigidity. Besides, any suggestion that one might somehow be able to create an atomistic, perfectly competitive and completely flexible labour market belies an extraordinary misunderstanding of the nature of man as well as the inherent structural rigidities fostered by advanced capitalism (oligopoly in product markets, a high degree of labour specialization, economic inter-dependence, and so forth).

For this reason, it is argued, a more effective way of combining price stability with relatively high levels of employment is to have some kind of incomes policy.[1] If successfully implemented, such a policy would prevent nominal wages from rising in an inflationary manner (or ensure that the rise in unit labour costs did not exceed that of the country's international competitors), and thereby enable a government to run the economy at a higher level of aggregate

---

[1]There has been an intense debate over many decades concerning the economic justification and actual effectiveness of incomes policies, and the literature is now vast. For some of the main contributions to this debate, especially in the British context, see Palle Schelde-Anderson and Philip Turner, 'Incomes Policy in Theory and Practice', OECD Economic Outlook: Occasional Studies (Paris: OECD, July 1980); Anne Romanis Braun, 'The Role of Incomes Policy in Industrial Countries Since World War II', International Monetary Fund Staff Papers, 22 (March 1975), pp.1-36; Samuel Brittan, and Peter Lilley, The Delusion of Incomes Policy (London: Temple Smith, 1977); Frank Blackaby, ed., An Incomes Policy for Britain : Policy Proposals and Research Needs (London: Heinemann Education Books, 1972); H.A. Clegg, How to Run an Incomes Policy and Why We Made Such a Mess of the Last One (London: Heinemann Educational Books, 1971); John Corina, Incomes Policy - Problems and Prospects (London: Institute of Personnel Management, 1966); Aubrey Jones, The New Inflation; Richard G. Lipsey and Michael Parkin, 'Incomes Policy: A Re-appraisal', Economica, 37 (May 1970) pp.115-138; Michael Parkin and Michael T. Sumner, eds., Incomes Policy and Inflation (Toronto: University of Toronto Press, 1973); and Sidney Weintraub, Capitalism's Inflation and Unemployment Crisis (Reading, Mass: Addison-Wesley, 1978).

demand, output and employment. It would also mean that a government could transfer much of the burden of economic adjustment, as a result of adverse supply shocks, balance of payments crises or a fall in real national disposable income, from output and employment to real wages. This could be brought about, for example, by allowing prices to increase - perhaps in response to a devaluation or an external supply shock - while at the same time controlling the growth of money wages.

The practical problem, of course, is how to get an incomes policy to work. Historical experience suggests that statutory controls provoke industrial unrest and may distort the structure of relative wages. Voluntary incomes policies, on the other hand, are very hard to negotiate and implement. The difficulties of securing trade union agreement for a voluntary programme of nominal-wage restraint, let alone getting the policy to stick, are graphically illustrated by a consideration of public choice theory and its application to the arena of wage bargaining.

2.2 Rational Choice Theory and the Problem of Collective Action

The past few decades have witnessed the emergence of a large school of rational choice theorists in various social science disciplines. This development has been especially marked in the field of political science with numerous scholars employing models of individual choice in order to analyse a wide range of political phenomena - the dynamics of interest groups, voting behaviour, political leadership, party competition, coalition formation, international relations,

and more recently, inflation and incomes policy.[1] These rational choice or public choice theories, as they have been termed, are characterised by a deductive methodological style and a common set of a priori behavioural assumptions. Specifically it is asserted that individuals (as well as collectivities[2]) are rational, that they maximize their utility (preferences or wants) subject to constraints, that their utility functions are stable over time, that they are economically self-interested, that they have a positive time preference, and act in conditions of perfect information (or at least that they use the information available, such as

---

[1] Applications of rational choice theory to the problems of wage inflation and operating an incomes policy include Samuel Beer, Britain Against Itself: The Political Contradictions of Collectivism (London: Faber and Faber, 1982), pp.48-50, 56-62; David Collard, Altruism and Economy: A Study in Non-Selfish Economics (Oxford: Martin Robertson, 1978), pp.73-78; Colin Crouch, Trade Unions: The Logic of Collective Action (Fontana, 1982), pp.40-44, 194-220; Michael Laver, 'The Great British Wage Game', New Society, 6 March 1980, pp.495-496; Shlomo Maital and Yael Benjamini, 'Inflation as Prisoner's Dilemma, Journal of Post Keynesian Economics, 2 (Summer 1980), pp.459-481; Don S. Schwerin, 'The Limits of Organization as a Response to Wage-Price Problems', in Richard Rose, ed., Challenge to Governance: Studies in Overloaded Politics (London: Sage Publications, 1980), pp.73-106; and Charles Sutcliffe, 'Inflation and Prisoner's Dilemmas', Journal of Post Keynesian Economics, 4 (Summer 1982), pp.574-585.

[2] Game theory has been applied to the decision-making of both individuals and collectivities. In the following analysis we will mainly be concerned about the motivations and decision making of trade union negotiators who act on behalf of and in the interests of a particular kind of collectivity, namely, a trade union. The terms trade union, union, and union negotiator will thus be used interchangeably.

it is, efficiently).[1] The assumption of self-interested maximization will be examined and contested in Chapter 4, but several points of clarification would be helpful at this juncture.

To start with, the notion of rational action refers to behaviour that is goal orientated and purposeful. The goal in this context is the maximization of utility. As Goodin expresses it, 'An individual is said to behave rationally if he selects means appropriate to the maximization of net goal satisfaction'.[2] Such goals, needless to say, will vary from individual to individual and may not be rational. All that is required is that the individual (or collectivity) has a well-ordered set of preferences and consistently chooses those actions which generate the highest value.

While accepting for the moment the assumptions of maximization, self-interest and positive time preference, it is necessary to discard forthwith the postulate of perfect information. For someone to be perfectly informed, they would require complete and accurate information about their decision-making environment, together with perfect foresight. In the

---

[1]For a discussion of the behavioural assumptions of rational choice theory see Michael Laver, The Politics of Private Desires (Penguin, 1981): 9-28; Terry Moe, The Organization of Interests: Incentives and the Internal Dynamics of Political Interest Groups (Chicago: Chicago University Press, 1980): pp.14-21. On the subject of time preferences and discount rates see Robert E. Goodin, 'Discounting Discounting', Journal of Public Policy, 2 (February 1982), pp.53-72; and Mancur Olson and Martin J. Bailey, 'Positive Time Preference', Journal of Political Economy, 89 (February 1981), pp.1-25.

[2]Robert E. Goodin, The Politics of Rational Man (London: John Wiley and Sons, 1976), p.12.

real world, of course, such a state of affairs does not exist. The future is far from certain. There is more than one possible outcome. The behaviour of other people is unpredictable. One's information is often inaccurate, and certainly incomplete; and one is confronted with uncertainty, risk, surprise and complexity.[1] Consequently, individuals will act in accordance with their perception of the situation, the attention or weight they given to particular pieces of information, the kinds of outcomes which can be imagined, and their assessment of the most likely course of events.[2] This implies that different individuals facing the same decision-making situation may arrive at quite different evaluations of their predicament and choose contrary courses of action.

---

[1] For an analysis of the problems of risk, uncertainty and ignorance, see Alan C. Garner, 'Uncertainty, Human Judgment and Economic Decisions', Journal of Post Keynesian Economics, 4 (Spring 1982), pp.413-424; G.L.S. Shackle, The Nature of Economic Thought (Cambridge University Press, 1966); and Douglas Vickers, 'Uncertainty, Choice and Marginal Efficiencies', Journal of Post Keynesian Economics, 2 (Winter 1979-80), pp.240-254. It should be noted that risk occurs when there is more than one outcome, and when a numerical probability can be assigned to the likelihoods of each of these outcomes occurring. Uncertainty, on the other hand, arises when no such probability can be assigned.

[2] G.L.S. Shackle, The Nature of Economic Thought, p.104.

For these reasons it will be assumed here that individuals (or, in this case, trade union negotiators) conduct their affairs in a world characterized by complexity, partial ignorance and uncertainty, and that at best they can only maximize their expected utility. Robert Goodin has defined this as the sum of a person's 'gain from all possible outcomes, each discounted by the improbability of that outcome occurring'.[1]

The other matter which requires clarification concerns the meaning of the term 'interests'. For the purpose of this discussion, interests will be taken to be an individual's or group's self-regarding wants.[2] Such wants may not be realizable; nor are they necessarily desirable or morally justifiable. Scholars often distinguish between an individual's (or group's) short-term or immediate interests, and his 'higher', 'real', or longer-term interests.[3] The former category includes those things which a person wants in the immediate future, perhaps a day, a week, or a year. In contrast, the individual's longer-term interests refer to those wants which are sought over a much longer time-scale, maybe up to ten years or more. Needless to say, there will often be a conflict between the two and in such situations the individual's choice will depend on his discount rate and the relative weight he attaches to his various wants.

---

[1] Robert E. Goodin, The Politics of Rational Man, pp.11-12.

[2] Malcolm Anderson, 'Power and Inflation', in Fred Hirsch and John Goldthorpe, eds., The Political Economy of Inflation, p.249.

[3] Ibid., p.249.

Immediately one adopts the assumption that individuals are rational, self-interested, utility maximizers, problems arise concerning the organization and welfare of a society. Put simply the issue is this: if everyone behaves in accordance with purely self-interested motives, how does a group or society undertake collective endeavours. More particularly, how does one ensure universal compliance with generally agreed norms or social objectives if it is not in the interests of certain individuals to cooperate? In fact, how does one even reach agreement on objectives? The problem is especially acute when it comes to the provision of public or collective goods; that is, goods which cannot be denied to any member of a group or society once they have been supplied to one or two individuals.[1] A public park or village common are classic examples: any restrictions on access to such facilities by certain individuals will automatically impose limitations on all.

Although collective goods differ greatly, they all encounter a common dilemma referred to by rational choice theorists as 'the collective goods problem' or the 'free rider problem'.[2] The free rider is an individual, who, for reasons of self-interest, decides not to contribute to the supply of a collective good, believing that other individuals will value the good sufficiently to furnish the resources necessary for its provision. Because of its collective nature he cannot be excluded from enjoying the good once it has been

---

[1]Norman Frohlick and Joe A. Oppenheimer, 'I Get By With A Little Help From My Friends', World Politics, 23 (October 1970), p.104.

[2]For a review of literature see John McMillan, 'The Free-Rider Problem: A Survey', The Economic Record, 55 (June 1979), pp.95-107.

provided. The difficulty is that if enough people free ride, the production of the good may cease. The successful provision of a collective good, therefore, requires some means of circumventing or restricting free riding.

Mancur Olson has summarized the problem in the following way:

> If the members of a large group rationally seek to maximize their personal welfare, they will not act to advance their common or group objectives unless there is coercion to force them to do so, or unless some separate incentive, distinct from the achievement of the common or group interest, is offered to the members of the group individually on the condition that they help to bear the cost or burdens involved in the achievement of the group objectives.[1]

According to Olson,this conclusion holds even when there is unanimous agreement in the group about the common good and the methods of securing it. Everyone in a village, for instance, may agree on the desirability of building a public swimming pool or extending the recreational grounds, but these collective goods will not be supplied unless the villagers are forced to make the necessary financial contributions, or are provided with sufficient incentives which are quite separate from the collective good. The only circumstance in which these conditions will not hold is when the group in question is composed of individuals who are either altruistic or irrational (or both).[2]

Most goods, of course, are neither strictly public nor private, and instead fall somewhere between these two polarities on what Laver has referred to as a 'continuum of publicness'.[3] Four factors influence the position of goods along this continuum, namely, jointness or divisibility of supply, excludability,

---

[1]Mancur Olson, The Logic of Collective Action (Cambridge, Mass: Harvard University Press, 1971), p.2.

[2]Ibid., p.2.

[3]Michael Laver, The Politics of Private Desires, p.30.

optionality, and susceptibility to crowding.[1] For instance, a good which is jointly supplied is one which is available in equal quantities to all the members of the collectivity. A good which is non-excludable is one which, once provided, cannot be withheld from any member of the group. If a good is non-optional it means no one can exclude themselves from consuming it once it has been made available. Finally, if a good is not susceptible to crowding it means that no matter how much is demanded there is always plenty available. The more a good is characterized by divisibility, excludability, optionality and crowdability, the more private it can be said to be. Conversely, an entirely public good would be one exhibiting jointness of supply, non-excludability, non-optionality and non-crowdability. By convention, however, it is customary to embrace within the term 'public good' all those consumption goods which are jointly supplied and essentially non-excludable.[2]

The distinctions drawn above concern the publicness of a good's consumption. Analytically distinct from this, but no less important, is the publicness of a good's production. Collective goods can be produced in a variety of ways. At one extreme there are consumption goods, such as food and clothing, which can be grown or made by individuals working in isolation. At the other extreme there are goods which require pure jointness of production; that is, they cannot be produced without the cooperation or participation of every member of the collectivity.[3]

---

[1] Michael Laver, The Politics of Private Desires, p.30.

[2] Ibid., p.32.

[3] Ibid., p.33.

Few goods possess this all-or-nothing quality and most have a continuous production function. Put differently, the good can be produced in variable amounts with the precise quantity dependent upon the number of people willing to contribute to its production and the size of their contributions. Collective security is one such example. Because public goods of this kind do not require universal participation for their provision, they invite a high level of free riding.[1] As we shall see, this conclusion is particularly relevant for the implementation of a voluntary incomes policy.

2.3 Wage Inflation as a Prisoner's Dilemma

Two of the principal economic objectives of Western governments since the Second World War have been full employment and sustained price stability. According to Schwerin, both these goods are characterized by a sufficiently high degree of indivisibility and non-excludability for them to resemble public goods.[2] However, because they are not entirely non-optional or indivisible , they should be regarded as 'weak' rather than full public goods.[3]

Consider, to begin with, the individual seeking employment in a tight labour market. Assuming that he satisfied the necessary conditions for employment (age, qualification, citizenship and so forth) and barring invidious discrimination, he could not be prevented from searching for and presumably finding work. Moreover, if the country is enjoying full employment it could hardly be claimed that the actions of a

---

[1] Michael Taylor and Hugh Ward, 'Chickens, Whales and Lumpy Goods: Alternative Models of Public-Goods Provision', Political Studies, 30 (September 1982), pp.352-3.

[2] Don S. Schwerin,'The Analytics of Corporate Incomes Policy'. (A paper prepared for delivery to the annual meeting of the Southern Political Science Association, Gatlinburg, Tennessee, November 1979), p.2.

[3] Ibid., p.2.

single individual in filling a job vacancy reduced the work opportunities available to other citizens. Thus, in an expanding, full-employment economy, work is to a significant extent (but not totally) jointly supplied, non-excludable and subject to only limited crowding. One may not be able to acquire exactly the kind of job preferred, and one may choose to avoid employment altogether (assuming this is financially feasible), but one can be fairly sure of procuring some sort of paid employment. On the other hand, as the economy moves into recession, work opportunities will decline and the available jobs will become increasingly susceptible to crowding. In these circumstances employment will not be available in anything like equal quantities to all consumers.

Likewise, it can be argued, changes in the aggregate price level exhibit a substantial degree of publicness. Individuals or collectivities cannot readily be excluded from sharing in the advantages or disadvantages of price movements. Nor can their appropriation of the 'good' be said to restrict the amount available to other consumers. Furthermore, no one can easily escape from, or choose to avoid a particular aggregate price level- although it is possible for some individuals and groups to partly insulate themselves from the deleterious consequences of rapid inflation. As with employment, therefore, prices are not totally non-optional.

But if price movements, be they rapid or slow, have the characteristics of a public good, is there anything necessarily desirable about a low rate of change in prices? Undoubtedly this remains one of the most vigorously contested

issues in the realm of economic debate.[1] It cannot be disputed, for example, that some individuals may reap a net gain from rampant inflation, at least in the short run. Thus, people with sufficient quantities of liquid assets can change their investment portfolio quickly and thereby take advantage of the uneven rise in the prices of different goods and services. Governments, too, stand to gain from fiscal drag if there is a non-indexed, progressive tax structure. Against this it can be contended that while some groups and individuals may improve their real and/or relative financial position, the economy, on the whole, is likely to suffer. Precisely how damaging inflation is remains debatable. Some have claimed that high inflation is not necessarily incompatible with growth, full employment or a balance of payments equilibrium. Brazil and Israel,for example, are often cited as countries which have achieved a relatively high rate of growth in spite of 'Latin' rates of inflation. Nevertheless, the general weight of scholarly opinion is that there is a relationship between the rate and the variability of inflation; the higher the rate, the greater its variability.[2] Further, it is generally accepted

---

[1] For a range of views on this issue see Roger Bootle, 'How Important is it to Defeat Inflation? - The Evidence', The Three Banks Review, 132 (December 1981), pp.23-47; Samuel Brittan, How to End the 'Monetarist' Controversy: A Journalist's Reflections on Output, Jobs, Prices and Money Hobart Paper 90 (London: The Institute of Economic Affairs, 1981), pp.45-48; Milton Friedman, Inflation and Unemployment, p.23; David Higham and Jim Tomlinson, 'Why Do Governments Worry About Inflation', National Westminster Bank Quarterly Review, (May 1982), pp.2-13; Arthur Okun, Prices and Quantities, pp.263-289; and James Tobin, 'Inflation and Unemployment', pp.15-17.

[2] For details see Denis E. Logue and Richard J. Sweeny, 'Inflation and Real Growth: Some Empirical Results', Journal of Money, Credit and Banking, 13 (November 1981), pp.497-501; and George M. Katsimbris and Stephen M. Miller, 'The Relation Between the Rate and Variability of Inflation: Further Comments', Kyklos, 35 (1982), pp.456-467.

that unanticipated, volatile rates of inflation are economically injurious. Here the usual argument is that inflation reduces business confidence, increases the level of uncertainty, militates against risk-taking investment, encourages the misallocation of resources, and hence reduces investment, growth and employment. Moreover, rapid inflation can cause havoc in the arena of industrial relations by continually reordering groups within the status and earnings hierarchy. This undermines traditional relativity relationships, provokes leap-frogging wage claims and increases industrial conflict.[1] Finally, unless the exchange rate is perfectly flexible, a rate of increase in unit costs in excess of that of the country's major competitors will reduce export competitiveness and thus have a further negative impact on output and employment. All in all, there are good reasons for rejecting the view that inflation is neutral and that it has no effect on real magnitudes. Rather, a high rate of inflation, say 10% or more, is economically inferior to a low rate, say 2-3%.

Yet the overall difference may not be great. Indeed, perhaps part of the problem with inflation lies in this very fact - that its effects are not of catastrophic proportions; nor, incidentally, is it regarded universally as a public 'bad'. As Maital and Benjamini have observed, 'there is a sense in which inflation becomes intractable ... precisely because (the) external costs generated by inflation-inducing behaviour are not so overwhelmingly large so as to be mutually destructive.[2]

---

[1] Richard Layard, 'Human Satisfactions and Public Policy', The Economic Journal, 90 (December 1980), pp.737 and 748; and Henry Phelps Brown, 'A Non-Monetarist View of the Pay Explosion', The Three Banks Review, 105 (March 1975), p.18.

[2] Shlomo Maital and Yael Benjamini, 'Inflation as Prisoner's Dilemma', p.467.

Yet there is another, even more fundamental problem here. Sustained price stability is characterized by some, but not total, jointness of production. It can be produced in varying amounts (the rate of inflation) according to the level and extent of individual contributions. Assuming that pay bargaining is decentralized, union negotiators will perceive that their own wage bargain is unlikely to have much influence on the aggregate price level, or for that matter on the level of unemployment. For this reason they will rightly judge that if they act independently to try and reduce the rate of inflation - by settling for a lower money-wage increase than that obtainable - they will bring neither a positive return to their own members, nor any discernible advantage to the nation. In fact, unless the vast majority of union negotiators also choose to exercise restraint, voluntary pay moderation will be 'rewarded' with a loss of real income and a fall in the position of the union's members in the wage hierarchy. Such action would be quite irrational for self-interested union negotiators and their constituents. Yet, at the same time, if every union fully exploits its labour market power, the outcome will be suboptimal for the economy. In other words, there will be a wage-cost spiral which will eventually prove damaging to most, if not all, the members of the collectivity.

This configuration of payoffs - where the cooperative solution yields the greatest aggregate payoff, but where there is an inherent conflict between the individual and the collective interest - has been referred to as 'market failure' or as a 'prisoner's dilemma'. The latter term derives its name from the following situation:

> Two suspects are taken into custody and separated. The district attorney is certain that they are guilty of a specific crime, but he does not have adequate evidence to convict them at a trial. He points out to each prisoner the alternatives: to confess to the crime the police are sure they have done, or not to confess. If they both do not confess, then the district attorney states he will book them on some very minor trumped-up charge ... and they will both receive minor punishment; if they both confess they will be prosecuted, but he will recommend less than the most severe sentence; but if one confesses and the other does not, then the confessor will receive lenient treatment ... whereas the latter will get 'the book' slapped at him.[1]

In this situation it is to the advantage of each prisoner, irrespective of what the other prisoner does, to confess. If, for the sake of argument, prisoner A confesses and prisoner B does not, B's sentence will be harsher than had he confessed. If, on the other hand, A decides not to confess while B does, then B receives less severe treatment. Consequently, regardless of whether or not A confesses, B's most advantageous strategy is to admit his guilt. The same reasoning is equally valid for A. But if both prisoners act in accordance with the dictates of individual maximization and confess, they will each receive the next-to-most severe punishment, which collectively is the worst outcome. What is more, even if the prisoners have an opportunity to coordinate their strategies and agree to remain silent, there will be a strong temptation for each prisoner to confess, thereby obtaining a more lenient sentence and externalizing the costs of his action on to his partner.

It will be evident that a prisoner's dilemma represents the polar extreme of Adam Smith's invisible hand. For instead of bringing collective gain, self-interested maximization produces collective ruin. There are two main ways of illustrating

---

[1] Duncan R. Luce and Howard Raiffa, Games and Decisions: Introduction and Critical Survey (New York: John Wiley and Sons, 1957), p.95.

the prisoner's dilemma with respect to the problem of wage inflation: as a labour versus labour conflict and as a labour versus capital conflict. It can also be depicted as a consumer versus consumer game, but we will not deal with this possibility here.[1]

2.4 Labour Versus Labour Conflict

To begin with, let us consider a simple one-off game in an economy characterized by uncertainty, fragmented bargaining and a large number of unions. That is to say, union negotiators can not accurately predict the rate of inflation during the currency of their awards. They don't know how other negotiators will behave. They are unsure about the rate of increase in labour productivity. They don't know precisely how any particular wage settlement will effect the employment of their members. They are unable to distinguish between temporary and permanent movements in key economic variables such as the public sector borrowing requirement (PSBR) and the money supply. And they are uncertain about what changes in fiscal policy may occur and what impact these will have on post-tax earnings. Let us also assume that union negotiators are concerned to maximize a combination of real wage, relative wage and employment objectives.[2] This does not mean that they have no other objectives, such as, improved fringe benefits and conditions of work, shorter hours, organizational survival, a fair share of national income and so forth, but these will be disregarded for the present. Lastly, let us suppose that negotiators have two

---

[1] For details see Shlomo Maital and Yael Benjamini, 'Inflation as Prisoner's Dilemma', pp.468-473; and Charles Sutcliffe, 'Inflation and Prisoner's Dilemmas', p.576.

[2] Unions are also interested in the distribution of national income between profits and wages, and the level of company profitability, but these concerns appear to be less important, on the whole, than relative wages.

choices: they can either seek a large pay rise or a small rise. Now, regardless of the strategies pursued by the rest of the trade union movement, it is to the advantage of each individual union to seek a large increase in money wages. This situation can be depicted in the payoff matrix shown below.

Matrix 1: Labour Versus Labour - One-Off Game

		All Other Unions: Small Wage Rise	All Other Unions: Large Wage Rise
Union A	Small Wage Rise	X, X	Z, Y
	Large Wage Rise	Y, Z	W, W

In each cell the value before the comma represents the payoff to union A (the row chooser), while that after the comma is the payoff to all the other unions in the economy (the column chooser). In this matrix $Y>X>W>Z$, and Y plus $Z<2X$. We need not be concerned with numerical values for the moment. From this it follows that it is A's first choice to go for a large pay rise while everyone else settles for a small increase. This will ensure a low rate of inflation and a significant improvement in both the real and relative earnings of the members of A. But, if all the other unions are rational, self-interested, utility maximizers they will all seek big pay rises, so that the dominant strategy is W,W. As a result, there will be a large average increase in nominal wages (and unit labour costs), and a subsequent acceleration in the rate of

inflation. Yet, as Laver and Oswald point out, such an outcome is 'Pareto inferior' in the sense that everyone prefers an alternative outcome (X,X) to the one they actually combine to achieve through independent decision making.[1] If, on the other hand, all the unions coordinate their strategies and agree to settle for small wage rises, each union will be strongly tempted to free ride and thereby secure both real and relative gains at the expense of everyone else.

This example is unquestionably somewhat unrealistic and is open to a variety of objections. It might be contended, for example, that unions are unconcerned about relative wages and instead seek only to maximize some real-wage-employment combination. The reply here must be that all the evidence in the fields of labour economics, industrial relations and sociology suggests the contrary.[2] People are deeply concerned

---

[1] Michael Laver, 'The Great British Wage Game', p.495; and Andrew J. Oswald, 'Wages, Trade Unions and the Welfare Economics of Incomes Policy', (Unpublished paper, Institute of Economics and Statistics, Oxford University, November 1980), p.12.

[2] See for instance John T. Addison and John Burton, 'Keynes's Analysis of Wages and Involuntary Unemployment Revisited'. (Discussion Paper, Faculty of Commerce and Social Science, University of Birmingham, 1981), esp. pp.18-34; William Brown and Keith Sisson, 'The Use of Comparisons in Workplace Wage Determination'. (Discussion Paper 10, Industrial Relations Research Unit of the Social Science Research Council, University of Warwick, Coventry, September 1974); W.W. Daniel, 'The PEP Survey on Inflation', PEP Broadsheet, 41, 553 (July 1975), esp. pp.18-29; Fred Hirsch, Social Limits to Growth (London: Routledge & Kegan Paul, 1977), esp. pp.111-113; William K. Roche, 'Convention and Change in Irish Industrial Relations', in Trends in Irish Industrial Relations (Dublin: College of Industrial Relations, 1981); W.E.J. McCarthy et al. Wage Inflation and Wage Leadership (Dublin: The Economic and Social Research Institute, 1975); and Arthur Ross, Trade Union Wage Policy (Berkeley: University of California Press, 1948).

with 'positional goods', as Hirsch calls them - their rank, status, position in the wage hierarchy and so on - and whether it is due to notions of envy or fairness, pay satisfaction is undoubtedly related to relative wages. To include such comparisons in a union's utility function, therefore, or to claim that a union's preferences are interdependent, rather than independent, is hardly unreasonable.

But, it might be objected, to do so transgresses the the behavioural assumptions underlying rational choice theory. Economic man is supposedly untouched by greed, envy or jealousy, and is certainly unmoved by questions of distributional justice.[1] Yet surely this is incorrect. What others do frequently affects my welfare or utility. Hence, there is nothing theoretically improper in asserting that pay satisfaction is dependent, not only on one's absolute income, but also on one's income relative to others. Against this, however, it must be conceded that to the extent that unions base their relative wage claims on moral arguments, such as fairness or justice, they are acting in breach of the behavioural specifications of rational choice theory. The question of how moral or normative commitments should be handled will be discussed in Chapter 4.

A more serious objection may take the following form. To be sure, unions are concerned with relative wages, but their orbits of comparison are local and limited, and for the most part they follow accepted norms, standards and rules.[2]

---

[1] Anthony Heath, Rational Choice and Social Exchange (Cambridge: Cambridge University Press, 1976), p.44.

[2] For an argument to the effect that rule-following behaviour offers a solution to a prisoner's dilemma, see Harvey Leibenstein, 'The Prisoner's Dilemma in the Invisible Hand: An Analysis of Intrafirm Productivity', The American Economic Review, 72 (May 1982), pp.92-97.

Relative wage claims are thus strongly influenced by the force of custom and tradition. In practice this means that unions are normally disinclined to seek improvements in their relative wages, and are content simply to preserve historic relationships and to accept wage increases in line with the going-rate. Because of this, competitive leap-frogging wage claims rarely occur in the real world and the prisoner's dilemma referred to above is far less common than one might imagine.

While this objection has some validity it is not entirely convincing. Although many unions are willing to accept pay settlements which merely preserve, rather than improve relative wages, rule-following behaviour of this kind is neither automatic nor universal. On the contrary, unions often exploit buoyant market conditions to secure a relative gain and do not usually feel bound to observe traditional relativity relationships if they believe that they can do better. Besides, it must be remembered that the prisoner's dilemma described above is not so far removed from the situation facing unions at the beginning of a new wage round. And, of course, it is the outcome of these early bargains made in the context of uncertainty and conflicting interests that sets the going-rate and thereby largely determines the rise in unit labour costs. There can be little doubt that in such circumstances union negotiators feel obliged to overbid so as to avoid any possible fall in their members' real and/or relative wages.[1] Such a situation is conducive neither to price stability, nor to full employment.

---

[1] Samuel Brittan and Peter Lilley, The Delusion of Incomes Policy, p.227; and William Brown and Peter Nolan, 'The Context of the Next Incomes Policy', Policy Studies, 1 (January 1981), p.143.

Another objection relates to the fact that the prisoner's dilemma with which we are dealing is only a prisoner's dilemma because unions are self-interested in a particular way. If, for example, unions gave greater weight to employment, as opposed to real or relative wages, the payoff structure would be radically different and the conflict between individual and collective rationality much less marked. It might even be non-existent. Consider a situation in which a voluntary incomes policy has been agreed and is operating successfully. If a private sector union decides to defect and manages to secure a large real-wage gain, company profitability will fall and/or the relative price of the good(s) produced will rise. Either way, employment prospects in this sector will decline. Only if there is a sufficiently large rise in productivity or if demand for the good(s) is highly inelastic will this condition not hold. Consequently, if every union prefers secure employment to higher wages they will not defect from a voluntary accord and universal restraint will be forthcoming.

At first sight all this seems quite plausible. Clearly, if the maximization of employment was the only or even the chief goal of trade unions, the payoffs from uncoordinated wage bargaining would not have the strategic structure of a prisoner's dilemma. Regrettably, perhaps, such a view of union objectives utterly lacks empirical foundation. No doubt preferences change from time to time and vary from one union to the next, but, on the whole, employment objectives appear to rank rather low in their utility functions. Even when employment is highly valued, the threat of redundancies does not always deter a union from pressing sizeable wage claims (though it certainly makes a difference). Why should this be?

To start with, it is not always obvious to union leaders and their constituents, particularly those in the public sector, that large money-wage increases (for a given productivity level) necessarily reduce the amount of labour sought by employers.[1] It may be that they neglect, or more likely underestimate, the elasticity of demand for labour. Another possibility is that they may suppose, often mistakenly, that higher wages will increase aggregate demand, thereby stimulating the consumption of domestic goods and services, and expanding employment. Alternatively, they may assume that the government will not risk a rise in unemployment and will thus adopt an accommodating monetary and fiscal policy. Even if they acknowledge that higher wages will entail certain costs, they may believe that these can be largely externalized, that is, passed on to others - perhaps those just entering the labour market.[2] Finally, union negotiators know from general experience that a big wage rise means an immediate increase in real disposable income, whereas any unemployment which may occur as a result, will not be felt for some time. Assuming positive time preferences, unions may well prefer higher real wages now, even at the expense of future unemployment.

Bearing all this in mind, it is nevertheless true that if a union defects from a voluntary pay accord it will normally incur certain costs, either in the form of redundancies or in terms of the pay lost through industrial action. In making a decision, therefore, union leaders (or the mass membership)

---

[1] Thorvaldur Gylfason and Assar Lindbeck, 'The Political Economy of Cost Inflation', Kyklos, 35 (1982), p.437; and M.C. Sawyer, 'Collective Bargaining, Oligopoly and Macro-Economics', Oxford Economic Papers, 34 (November 1982), p.434.

[2] See David T. Llewellyn, 'Can Monetary Targets Influence Wage Bargaining?' p.51; Arthur Okun, Prices and Quantities, esp. pp.339-341; and Paul McCracken, et al. Towards Full Employment and Price Stability (Paris: OECD, 1977), p.159.

will have to somehow weigh the expected costs against the expected gains. If the outcome is positive, then the rational self-interested union will free ride. Obviously, such action is not actually 'free' in the sense in which this term is normally employed. However, to avoid coining yet further jargon it seems sensible to continue to use this term here. Other terms widely used in rational choice theory to describe similar behaviour, namely, 'defecting', 'cheating', 'evasion', and 'ratting', will be employed interchangeably.

It should also be noted in the way of clarification that a free rider is someone who enjoys a public good without contributing to its production. He cannot be said to be free riding, technically at least, if there is no ascertainable and demonstrable public good. Hence, if a public good, such as price stability, has yet to be realized, a union which fails to contribute to its production is not, according to normal usage, free riding. For the purposes of the following discussion, however, the term 'free rider' will be used to describe any union which chooses, for reasons of individual maximization, not to abide by a voluntary incomes policy, even if the provision of the goods of price stability and full employment remains problematic. To this extent, therefore, we are dealing with a special case of the free rider problem.

2.5 The Necessary Conditions for Voluntary Wage Restraint

In the static one-off game depicted earlier it was assumed that bargaining decisions were made simultaneously, that each player was ignorant of the others' intentions, that there was no communication or interaction, and that there was no concern about future wage rounds. In the real world, of course, these conditions do not hold. Rather, there is a good deal of

interaction and consultation, and pay bargaining is a continuous process in which the outcomes of one wage round influence what happens in subsequent rounds. In short, this means that free collective bargaining has the features of a dynamic game in which the payoffs to individual unions are interdependent over time. That is to say, the strategies adopted at any given moment not only determine the immediate payoffs, but also influence future payoffs, and indeed the nature of tomorrow's game. These characteristics of pay bargaining raise the possibility that the collective action problem might be solved in certain circumstances by means of conditional promises.[1]

To illustrate this, imagine the simplified case of an economy with only two unions, both of which recognize the advantages of pay moderation and price stability. One union negotiator says to the other, 'Look here, I will limit my wage demands in this round on condition that you do the same. If you fail to cooperate it will be back to the jungle for the next round and you know what that means'. If the other union agrees to enter into such a pact, a voluntary incomes policy will have been fashioned which is self-policing, stable and effective, even in the absence of governmental enforcement. This is because, to quote Laver, each 'settlement acquires considerable significance since it could be the one which, if too generous, could break the policy open - but because each settlement has a make-or-break quality each is more likely to be moderate'.[2] In this way the free rider problem is overcome

---

[1]For other game-theoretic solutions to inflation as prisoner's dilemma, see Charles Sutcliffe, 'Inflation and Prisoner's Dilemmas', pp.577-583.

[2]Michael Laver, 'The Great British Wage Game', p.496. See also Iain McLean, 'The Social Contract in Leviathan and the Prisoner's Dilemma Supergame', Political Studies, 29 (September 1981), p.349.

because each union trusts the other to adhere to the agreement and watches carefully to make sure there are no defections.

Sen has referred to this situation as an 'assurance game'.[1] What this means is that, provided each union is assured that all the others will adopt a non-inflationary strategy, their preference ordering is changed and the game is no longer a prisoner's dilemma; instead of being Y>X>W>Z, the payoff structure is now X>Y>W>Z. Unlike a prisoner's dilemma,there is no dominant strategy, but there are two equilibrium points, X,X, and W,W.[2] Since X is of greater value than W, each union will prefer a non-inflationary strategy. But the crucial problem is that in order to change a prisoner's dilemma into an assurance game a number of highly restrictive conditions must be satisfied. In the real world of free collective bargaining this is most unlikely, as we shall see.

The necessary conditions for an assurance game (or a voluntary incomes policy) are as follows:

1) each union or bargaining group must be able to communicate with the other unions in the economy and trust them;
2) some general guidelines or a pay norm will have to be agreed;
3) all unions must agree to abide;
4) each union must be sure,during the currency of the agreement,that all the others, and particularly those with which it enjoys close relativity relationships, are adhering to the guidelines.

---

[1] Amartya Sen, 'Choice, Orderings and Morality', in Stephen Korner, ed., Practical Reason (Oxford: Basil Blackwell, 1974), p.59.

[2] For further elaboration see Amartya Sen, 'Choice, Orderings and Morality', pp.59-62; David Collard, Altruism and Economy , pp.12-15; and Charles Sutcliffe, 'Inflation and Prisoner's Dilemmas', pp.580-581.

5) there must be some mechanism for dealing with unexpected, destabilizing, exogenous shocks to the economy;

6) the expected payoffs arising from a decision to defect must be smaller than the expected benefits of longer-term mutual cooperation - this applies for every union;

7) there must be some mechanism for restraining the growth of non-union incomes, including profits and government revenues.[1]

1) The first condition for coordinated decision making is that there must be a high level of inter-union communication. This is essential because each union must know that all the other unions accept that they are facing a prisoner's dilemma payoff matrix and that there is a universal desire to avoid independent decision making and search instead for a policy of reciprocal restraint. Such communication and interaction is also vital because rational trade union negotiators will only make conditional promises if they trust their counterparts in other unions to adhere to any agreement.[2] For there to be

---

[1] These conditions are drawn from David Collard, Altruism and Economy, pp.12-14; Norman Frohlick, Joe A. Oppenheimer and Oran R. Young, Political Leadership and Collective Goods (Princeton: Princeton University Press, 1971), pp.24-25; Robert Goodin, The Politics of Rational Man, p.31; Ken Mayhew, 'Traditional Incomes Policies', Oxford Bulletin of Economics and Statistics, 45 (February 1983), p.21; Thomas Nagel, 'Comment', in Edmund S. Phelps, ed., Altruism, Morality and Economic Theory (New York: Russell Sage, 1975), pp.63-65; and Derek Parfit, 'Prudence, Morality and the Prisoner's Dilemma', Proceedings of the British Academy for 1979 (London: Oxford University Press, 1981), esp. pp. 543-544.

[2] The importance of trust and the way the concept can be handled analytically is discussed by David Collard, Altruism and Economy, pp.12-14, and 44; and William Riker, 'Political Trust as Rational Choice', in Leif Lewin and Evert Vedung, eds., Politics as Rational Action: Essays in Policy Choice and Policy Analysis (Dordrecht: D. Reidel, 1980), pp.1-22.

a sufficient level of trust union negotiators must know how each other has behaved in the past. If but one union negotiator has a reputation for double-crossing and is thought likely to lie and cheat in the future, the quest for a voluntary programme of restraint may be jeopardized. A high level of trust, on the other hand, will reduce any fear or apprehension about the possibility of free riding. Moreover, it will raise the perceived prospect of success and in so doing generate a greater willingness to comply with the agreed policy.[1]

It is worth stressing here that it is perfectly rational for a union to seek a reputation for trustworthiness and to base its decisions on its subjective estimate of the likelihood of cooperation. After all, if the union judges that it will ultimately gain from a coordinated policy of wage moderation, and if it believes that the chances of this occurring are a function of the overall level of trust, then it is to its advantage in trying to persuade other unions that it will adhere to the policy, if it can demonstrate on the basis of past behaviour that it can be trusted. There are of course several difficulties. If there have been no examples of collective action in the recent past, how will anyone know who to trust? More important, if there are lots of union negotiators, how can anyone judge the trustworthiness of everyone else. The larger the number of unions, union negotiators and pay settlements, the lower the frequency of interaction and the greater the chance of suspicion, mis-

---

[1] Brian Barry, Sociologists, Economists and Democracy (London: Collier-Macmillan, 1970), p.29.

understanding and miscalculation.[1] How can these problems of size and ignorance be overcome?

One answer lies in the creation of an inclusive, central union organization which can act as a mechanism for coordinating expectations and behaviour. We will consider the effectiveness of this kind of institutional solution in Chapter 3. A slightly different remedy which is often advocated by industrial relations specialists, most notably in the case of Britain, involves the restructuring of pay bargaining. Three changes are usually recommended: fewer unions; synchronized agreements; and greater centralization of wage negotiations. While scholars remain divided about the merits of such proposals,[2] theoretically, at any rate, they would seem likely to assist in the negotiation and implementation of a voluntary incomes policy.[3] If there were only a few unions, say 15-16 as in Austria and West Germany, the internal costs of free riding would be higher, non-cooperation would be more noticeable, strategic interaction would be easier, the transaction costs of negotiating a pay policy would be lower, and there would be a greater opportunity for union leaders to develop close, trusting relationships. On the other hand, as we shall see in Chapter 3, centralized systems can often suffer from a significant amount

---

[1] Robert Goodin, The Politics of Rational Man, p.41.

[2] For two different views see Frank Blackaby, 'The Reform of the Wage Bargaining System', National Institute Economic Review, 85 (August 1978), pp.49-54; and A.J.H. Dean, 'Roles of Governments and Institutions in OECD Countries', in Frank Blackaby, ed., The Future of Pay Bargaining (London: Heinemann, 1980), pp.163-190.

[3] See John W. Sweeny, 'Altruism, The Free-Rider Problem and Group Size', Theory and Decision, 4 (February-April 1974), esp. pp.259-261.

of decentralized free riding. This is evident in the high levels of wage drift recorded in countries like Norway and Sweden.

2) Let us assume for the moment that trade union negotiators accept that a voluntary programme of wage moderation is in their individual and collective interests, and that they trust each other sufficiently to make a conditional promise to exercise restraint. The next step will be to agree upon a wage guideline or norm. For, without a precise figure, it will be impossible to determine either what is an acceptable level of restraint or whether the policy is being observed. Two difficulties will have to be overcome before a guideline can be agreed upon. First, it will be necessary to arrive at some generally accepted estimates of the rate of inflation and the growth of labour productivity during the currency of the pay policy. If these estimates are too low, then union negotiators could find that their members experience a fall in real income. Alternatively, if negotiators are risk averse and take an unduly pessimistic approach, then the guideline may be set at a level which exacerbates inflation and reduces international competitiveness.

The second difficulty is that unions will have an incentive to try and 'beat the gun' or undertake a 'pre-emptive strike'. In other words, during the negotiations - which might be protracted - over a suitable guideline, each union will be tempted to seek a wage increase prior to the implementation of the pay policy. Unless a moratorium on pay bargaining was imposed at the beginning of negotiations, any endeavour to find a cooperative solution would be rapidly undermined. Yet,even a temporary cessation of bargaining may discriminate against particular groups. This would certainly be so in a country

without regular, easily distinguishable wage rounds. Hence, it may be impossible to agree upon the dates of a moratorium, let alone a new pay policy.

3) The third necessary condition for a voluntary incomes policy is universal participation. The failure of but one union to support the policy will automatically undermine cooperation since no rational union will exercise restraint if it knows that others intend to free ride. Clearly, this all-or-nothing rule gives considerable leverage to individual unions. A potential defector may, for example, demand additional benefits or special treatment before accepting a joint policy. How far the union will push its case will presumably depend on its assessment of how it will fare in conditions of unrestricted bargaining should its intransigence jeopardize a coordinated settlement. If it calculates that it has nothing to lose, then, in all likelihood, it will seek preferential treatment, even at the risk of prejudicing the accord.

An objection may be raised at this juncture. Ignoring for the moment the possibility of retaliatory action against defectors, or perhaps the application of sanctions by an enforcement agency, is it not conceivable that a voluntary incomes policy could work in circumstances of near-universal compliance? In other words, is a cooperative equilibrium possible at a level below that of full and complete participation so that there is some scope for 'carrying' defectors?[1] Surely, it might be contended, some free riding could occur without altering the payoffs for

---

[1] For an elaboration of this argument see Iain McLean, 'The Social Contract in Leviathan and the Prisoner's Dilemma Supergame', pp. 344-345; and Michael Laver, 'Political Solutions to the Collective Action Problem', Political Studies, 28 (June 1980), esp. pp.202-204.

cooperators sufficiently to make continued adherence to a guide-line irrational. Admittedly, defections would marginally increase the rate of inflation, thereby reducing everyone else's real wages; there would also be certain relative wage effects. Yet, for the vast majority, defection may still remain an unattractive option. To be sure, at some point a 'cooperative equilibrium' or 'critical mass' would be reached after which further defections would destroy the policy. However, such an equilibrium might be able to accommodate quite a number of free riders.

The major flaw in this argument is that if negotiators are equally rational and alert, if there is an absolute symmetry of payoffs, and if discount rates are identical, they will simultaneously perceive the advantages of immediate defection. In such a situation all will defect, no cooperative equilibrium will be secured and the policy will collapse. The only exception would be when carefully defined criteria for exceptions have been agreed beforehand so that certain types of defection are legitimized.[1] For example, if it is decided that 'X' should receive special treatment on the grounds of economic efficiency, then voluntarily cooperation will not be undermined. Needless to say, 'X' must not exceed the agreed amount, otherwise relativity relationships will be disrupted in a manner unacceptable to the losers.

4) The fourth condition which must be fulfilled if coordinated decision making is to be successful, is that each union must be satisfied that everyone is adhering to the policy. Once cheating and free riding are suspected, the level of trust will decline and the policy will eventually disintegrate. In order to maximize the chances of detecting covert free riding,

---

[1] William McCarthy, 'Socialism and Incomes Policy', in David Lipsey and Dick Leonard, eds., The Socialist Agenda: Crosland's Legacy (London: Jonathan Cape, 1981), p.114.

some kind of monitoring system will be required. Yet, in practice, not even the most comprehensive monitoring of pay settlements can guarantee that all infringements will be discovered. This is partly due to the size and complexity of advanced capitalist economies, and partly due to the wide range of devices available to a union which chooses to break the spirit and letter of a pay policy. A union may, for example, negotiate improvements in fringe benefits, holiday pay, overtime rates, incentive payments, and allowances for working in special conditions (dirt and danger money), or it may demand more rapid job promotion or the reclassification of existing jobs. If the pay policy includes provisions for wages to be increased as a result of changes in productivity, then phoney productivity deals may well become the order of the day. The list of free riding options is almost endless, or more accurately, is only limited by the imagination and tactical skill of union negotiators. Given the inadequacy of detection methods, it would not be surprising for union leaders to quickly lose faith in a coordinated settlement and seek to protect their members' interests by resorting to open or covert free riding. What is more, employers may offer little resistance, either because they are experiencing labour shortages, or because they are keen to avoid employee discontent.[1]

5) When discussing the second condition - the determination of a wage guideline - it was emphasized that risk-averse unions may have difficulty agreeing upon a realistic forecast of the rate of inflation. Amongst other things they will not wish to have their real wages undermined by an exogenous shock to the

---

[1] Andrew Tylecote, The Causes of the Present Inflation: An Interdisciplinary Explanation of Inflation in Britain, Germany and the United States (London: Macmillan, 1981), p.104.

economy, such as the dramatic rise in oil prices which occurred in 1973 and again in 1979. Supposing, however, that an inflation forecast is settled, that a guideline is set and the pay policy is put into operation, what happens if the rate of inflation suddenly increases, perhaps in response to a massive rise in import prices or indirect taxes? In all probability, unless a further rise in money wages can be negotiated centrally that at least partly offsets the decline in real wages, support for the policy will disintegrate. An added difficulty is that if employment is to be maintained, an external supply shock will necessitate a compensatory fall in real wages.[1] Whether union leaders will accept this and how the new situation will alter their perceived payoff matrix is uncertain.

6) Even supposing it has been possible to fulfill conditions 1-5, the sixth condition - that the expected payoffs for every union from free riding must be smaller than the expected benefits of longer-term mutual cooperation - will be extraordinarily hard to satisfy. There are two interrelated difficulties here: unequal bargaining power (which means that payoffs are asymmetrical), and the problem of finding a transfer mechanism to redistribute payoffs such that it is in every union's interests to cooperate.

To simplify, let us imagine an economy with two unions, A and B. A has more market power than B and is thus able to improve its real and relative position under conditions of free collective bargaining while incurring few costs. For this reason, it does not fear the 'jungle' and has no incentive to

---

[1] See Jeffrey Sachs, 'Stabilization Policies in the World Economy: Scope and Skepticism', (National Bureau of Economic Research, Working Paper Series No.862, February 1982), p.4.

seek a collective solution. We can present the preference orderings of A and B in an asymmetrical payoff matrix as shown below.

Matrix 2: Union A versus Union B - Unequal Power

		Union B: Small Wage Rise	Union B: Large Wage Rise
Union A	Small Wage Rise	P, P (5,5)	S, P (3,5)
	Large Wage Rise	Q,R (7,1)	P,T (5,2)

In this matrix Q>P>S>T>R, and Q plus R<2P. Accordingly, if A seeks a large wage rise while B exercises restraint it will increase its utility by 7 units while B gains virtually nothing. This is because of the impact of A's action on the rate of inflation (and hence B's real income) and also on B's relative wage. Conversely, if A moderates its pay demands while B negotiates a large rise, B's utility is increased by 5 units. Because of the inequality of bargaining strength, this is 2 units less than A achieved. Although collectively A and B are better off under a cooperative arrangement, it is to A's advantage to free ride. Even if B chooses to defect, A is no worse off. B, on the other hand, has nothing to gain by defecting and, indeed, has much to lose if a jointly-agreed policy fails.

One solution is for B to surrender some of the extra utility it gains from a cooperative venture so that A has no incentive to free ride. For example, B could give 2½ units to A and still be better off than under free collective bargaining. As long as P minus T is greater than Q minus P, some kind of satisfactory transaction is theoretically possible. If not, then a non-cooperative strategy will prevail.

How does this example correspond to the real world? It is absolutely clear that at any given moment unions do not possess equal bargaining strength. Some unions have a much greater capacity to secure improvements in their real as well as relative wage position, while others cannot keep up, no matter how hard they struggle. Such inequalities can be explained in a host of ways. For example, a union's strength will vary according to the degree of monopoly power in the product market which it serves, the availability of labour substitutes, the level of company profits, the inelasticity of demand for the company's (or industry's) product, the level of unemployment and social security benefits and their availability to those on strike, the size of the strike fund, the degree of unionization in the particular industry, the cost of strike action to the company, industry or nation, the level of support from other unions, and so forth. Thus, a union strategically placed within a growth sector where labour represents a relatively minor proportion of total costs will be in a much stronger negotiating position than a union in a declining, labour-intensive industry where capital substitution is relatively easy. This, of course, does not mean that powerful unions have unlimited resources, or that they can continually

secure large real-wage increases. After all, at some point the concession costs will be so high that employers will not grant further pay increases no matter how hard the union pushes. But it does imply that at the beginning of any new wage round some unions can rightly expect to do better than others. And if there is at least one union which calculates that its expected utility will be maximized in the Hobbesian jungle, regardless of the discount rate applied, then for that union the strategic setting will no longer correspond to an assurance game. Cooperation will not be an attractive option.

Further, given a large, complex dynamic economy with many unions, implementing a system of transfer payments or selective incentives so as to remove the temptation to free ride, would raise almost insuperable problems. How would labour market power, and hence foregone advantages, be measured? How would benefits be extracted from those in a weak market position to enable redistribution to the strong? And how would one take into account significant changes in market power during the course of a pay round? Further, even supposing, for the sake of argument, that all the powerful unions are future orientated, it might still be rational for them to defect. They may, for example, calculate that they can gain a once-and-for-all improvement in their real and relative pay position which will not be eroded, regardless of whether future bargaining occurs in conditions of joint or independent decision making. And in any case they may conclude that all the other unions will be just as much in favour of mutual restraint at the beginning of the next round as they are now. Consequently, any threats to 'return to the jungle' if defection occurs will

not be taken seriously.

To sum up, unequal bargaining power, coupled with the inherent difficulties of redistributing the benefits of voluntary restraint, make it most unlikely that a prisoner's dilemma could ever be transformed into an assurance game. Moreover, impediments to such a change will be accentuated when the aggregate gains from restraint are small and their realization uncertain.

7) There is a final hurdle which must be crossed before unions will, in accordance with the behavioural assumptions of rational choice theory, voluntarily agree to restrain their pay demands. As was mentioned earlier, the prisoner's dilemma game - as applied to the problem of controlling inflation in conditions of decentralized bargaining and uncertainty - can be represented in two ways: as a labour versus labour conflict and as a labour versus capital conflict. It is to the latter that we must now turn.

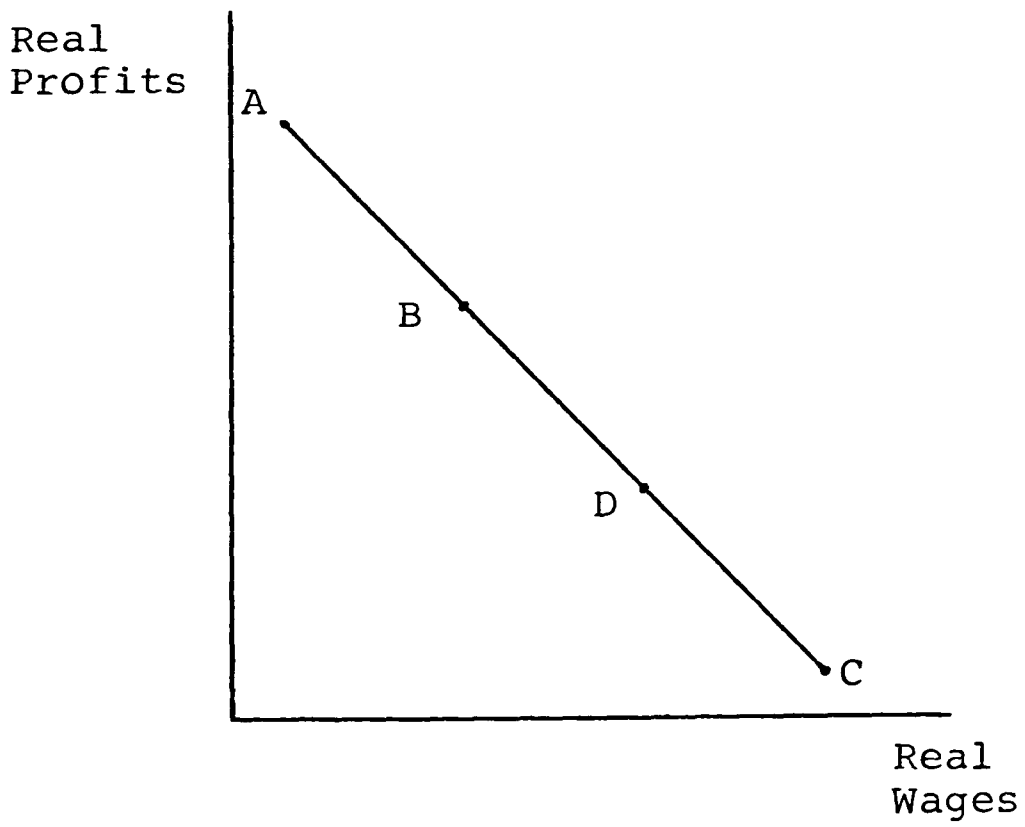
2.6 Labour Versus Capital Conflict

In considering the conflictual labour versus labour model, little attention was given to other actors in the economy: the non-unionized sector, the business sector, the self-employed and the government. Yet, in determining whether or not to exercise wage restraint, an individual union will not only be concerned about the behaviour of other unions, but will also need to consider the response of the non-union actors, particularly the business sector. This is because, amongst other things, unions are concerned above their relative share of national income, and the impact of firms' pricing decisions on the rate of inflation and hence their real wages. Not unexpectedly, therefore, unions will typically demand

price controls, profit controls and limits on the incomes of self-employed people as essential quid pro quos for voluntary wage restraint. A helpful analysis of the conflict between labour and capital within a game theoretic framework has been furnished by Maital and Benjamini.[1]

Let us start with a simplified model in which the economy contains two monolithic contestants, labour and business, each of which vies with the other for shares of the national income. Let us also assume that there is no third party, such as a government, that the business sector has the capacity to raise prices (and labour,wages), and that real national income is independent of the rate of inflation. Finally, let us assume that labour and business have two possible moves: they can go for a large or a small wage (or price) rise. Such a game, as illustrated in figure 1, is zero-sum since one player can only gain at the expense of the other.

Figure 1: Labour Versus Capital - Zero Sum Game

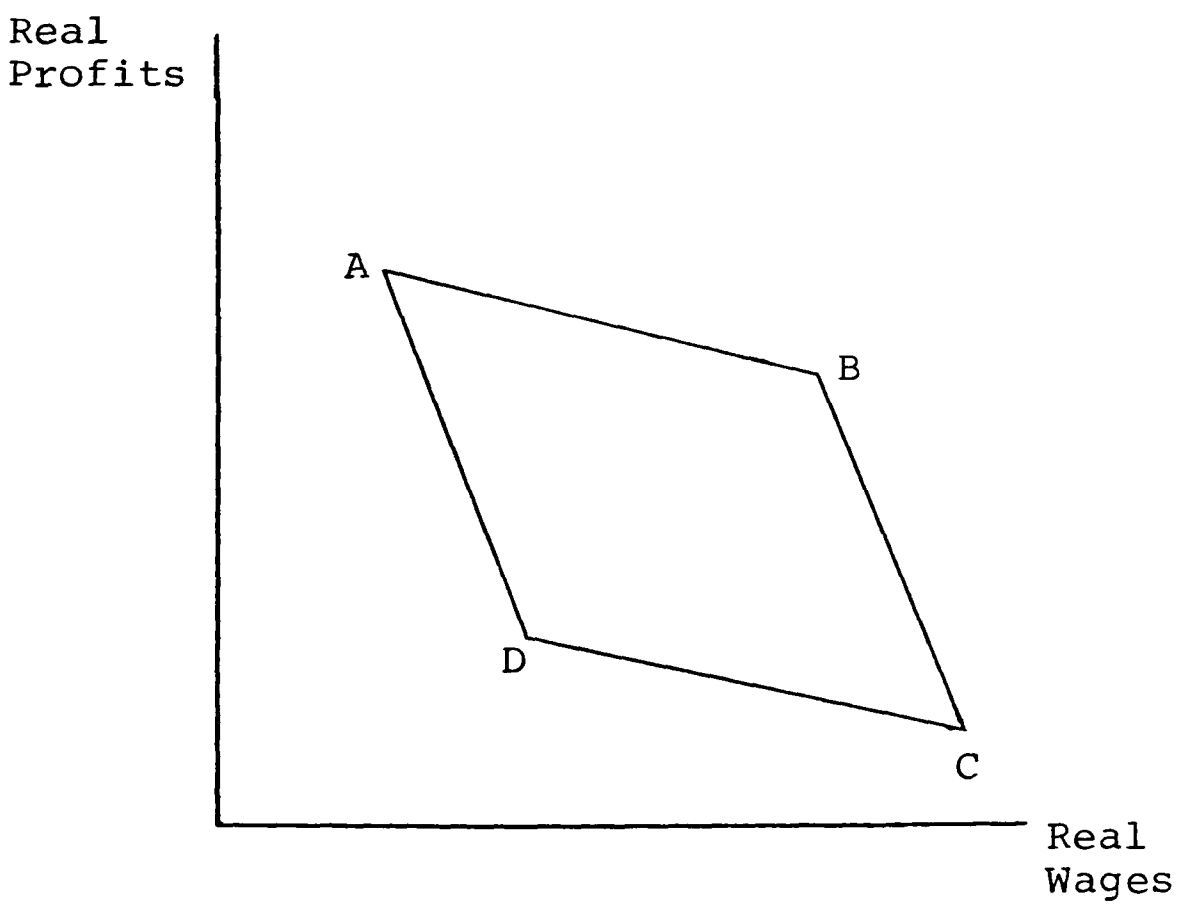


[1] Shlomo Maital and Yael Benjamini, 'Inflation as Prisoner's Dilemma', pp.463-467.

In this situation if labour seeks a small wage rise while business raises its prices substantially the outcome will be A. Conversely, if labour demands large wage increases while business increases its prices only a little, then the result will be C. Should both actors pursue a strategy of maximization the outcome will be somewhere between B and D. Such behaviour would naturally induce a high rate of inflation.

Next, let us suppose that inflation imposes real costs by reducing international competitiveness, investment and growth. This changes the strategic situation from a zero-sum game into a prisoner's dilemma. It is now mutually advantageous if both actors exercise restraint. But, in the absence of cooperation it is preferable to adopt a maximizing strategy. If we again assume that each actor has two possible moves, then there are four possible outcomes as depicted in figure 2.

Figure 2: Labour Versus Capital - Prisoner's Dilemma



In this example business concludes that the best result is obtained in circumstances of a large price increase and a small pay increase (point A). On the other hand, it fares worst when it moderates its pricing behaviour while labour secures a large wage increase (point C). Business also perceives that if both sides pursue immoderate, non-cooperative strategies, the result will be D. Yet such an outcome is Pareto inferior to B (the outcome of cooperative restraint) because inflation reduces the growth of real income. Labour reasons along similar lines and comes to the same conclusion. The problem, of course, is that in conditions of uncertainty and in the absence of joint decision making, neither actor will risk being exploited by the other. Consequently, point D will be the dominant outcome.

Clearly, the argument sketched above rests on many unrealistic assumptions.[1] There are not two contestants in an economy but thousands. Players are unsure about the macro-economic payoff matrix. Many firms, especially those in sectors exposed to international competition, are price takers rather than price setters. Wage and price decisions occur in sequence, not simultaneously, with firms altering their prices in response to changes in production costs. The phenomenon of profit-push inflation, although possible in certain situations, is not nearly so common as wage-push inflation.[2] For all these reasons, the real economy, in the absence of collective restraint, may tend more to point C rather than D.

---

[1] Shlomo Maital and Yael Benjamini, 'Inflation as Prisoner's Dilemma', p.467.

[2] Thorvaldur Gylafason and Assar Lindbeck, 'The Political Economy of Cost Inflation', p.435.

From the point of view of securing reciprocal restraint between labour and capital, the existence of a large number of independent firms raises all the difficulties noted so far with respect to conditional promises between unions: high decision-making costs; a low level of trust; agreeing upon guidelines; ensuring universal participation; guaranteeing the detection of free riders; accommodating external shocks and so forth. Even more important is the problem caused by the uncertain and asymmetrical nature of the payoffs arising from a labour versus capital agreement. Employers enjoy an immediate, positive externality from union wage restraint.[1] Indeed, assuming labour fulfills its commitments, employers cannot lose. The benefits accruing to workers from a voluntary restraint programme, on the other hand, are much more problematic, especially in the short term.[2]

To illustrate this, consider a situation in which unions agree to abide by certain pay guidelines and in return employers accept a form of price restraint, perhaps a constant factor cost-price relationship. Labour will only gain from such an arrangement to the extent that the extra surplus arising from the stabilization programme is reinvested in the domestic

---

[1] Don S. Schwerin, 'If Political Complexity is the Problem, Then Neo-Corporatism is the Solution: The Case of Norwegian Incomes Policy'. (A paper prepared for delivery to the ECPR-VW Conference on Overloaded Government, Paris, November 1977), p.8.

[2] As Lipsey points out, incomes policies can sometimes be more effective in redistributing incomes from labour to capital than in restraining price inflation. See Richard G. Lipsey, 'The Understanding and Control of Inflation', p.569.

economy.[1] If, instead, profits are invested abroad or shareholders are paid an extra dividend, the growth of real incomes may be jeopardized. Thus, without some investment guarantee, labour may deem it unwise to cooperate. To be sure,the likelihood of a capital 'strike' of this nature should not be exaggerated. If wage restraint has the desired effect of reducing the rate of growth in unit labour costs, thereby restoring international competitiveness, one would expect investment to recover. Moreover, investment levels are bound to rise during an upswing in the business cycle, particularly in sectors with new, profitable technologies. Also, as Hugh Ward points out, the suggestion that the business community might jeopardize a voluntary incomes policy by threatening to channel investment abroad is open to the objection that such a threat could only be carried out if firms were able to unite and so overcome their internal collective action problem.[2] Overall, therefore, a flight of capital is unlikely and investment is almost certain to pick up as competitiveness improves and demand recovers. Nevertheless, the asymmetry remains and this will doubtless pose a hurdle in the way of a wage-price stabilization agreement.

---

[1] For an elaboration of this argument see Colin Crouch, 'Varieties of Trade Union Weakness: Organized Labour and Capital Formation in Britain, Federal Germany and Sweden', West European Politics, 3 (January 1980), pp.89-90; and Roger Tarling and Frank Wilkinson, 'The Social Contract: Post-War Incomes Policies and Their Inflationary Impact', Cambridge Journal of Economics, 1 (December 1977), p.397.

[2] Hugh Ward, 'Theories of Economic and Political Crisis and the Problem of Collective Action'. (A paper presented at the Conference of the Political Studies Association, University of Kent, April 1982), p.19.

2.7 Conclusions

Let us summarize the argument so far as precisely as possible. If one accepts 1) the behavioural assumptions of rational choice theory, 2) a post-Keynesian analysis of the labour market and the causes of inflation, and 3) that high, variable rates of inflation tend to reduce economic growth, then, in the context of union rivalry and a conflict between labour and business for income shares, independent decision making will give rise to economic outcomes that are Pareto inferior. One suggested solution lies in turning the prisoner's dilemma faced by union negotiators in a situation of free collective bargaining into an assurance game by means of conditional promises to abide by certain agreed pay guidelines. Such a strategy, however, is only tenable if a number of extremely restrictive conditions are fulfilled.

From the evidence considered above it must be concluded that these conditions will rarely, if ever, be satisfied in a dynamic, highly unionized economy characterized by decentralized pay bargaining and the absence of powerful, inclusive, peak organizations representing labour and capital. There are four major reasons for this. First, the number of actors is simply too great for a conditional agreement of the kind in question to be negotiated and implemented. The decision-making costs would be astronomical and the level of trust too low for promises to be taken seriously. Second, unequal bargaining power means that, in the absence of universally agreed exceptions criteria, selective incentives or coercion, it will always be to the advantage of some unions to free ride.

Third, a cooperative solution requires the simultaneous resolution of two prisoner's dilemmas. This is unlikely, again because of the problems of size and asymmetrical payoffs. Lastly, the chances of reaching a voluntary restraint agreement are poor due to the uncertain nature of the macro-economic payoffs and the fact that the benefits of price stability, in terms of growth and employment, may be small. In other words, the gap between points B and D in figure 2 may be quite narrow.

But does this mean that the quest for an effective voluntary incomes policy is doomed? Is the free-rider problem insurmountable? In the following two chapters we will consider a number of possible solutions. These include the centralization of pay bargaining, the use of governmental threats and incentives, and modifications to the behavioural foundations of rational choice theory.

CHAPTER 3

INSTITUTIONAL AND POLITICAL SOLUTIONS TO THE COLLECTIVE ACTION PROBLEM

3.0 Introduction

Many scholars, having pondered the theoretical and practical problems associated with negotiating and implementing collective restraint agreements, have come to the conclusion that the goal of voluntary wage moderation is unobtainable. In the words of Lester Thurow:

> ... There is no such thing as a voluntary incomes policy. The incentives not to cooperate are simply too large.[1]

Given this verdict, unless we are to be condemned to protracted periods of high inflation or unemployment, or both, the only option is for the government to intervene and impose a coordinated solution in the form of mandatory wage and price controls. To invoke the graphic terminology of James O'Brien, the only remedy for the 'law of the jungle' is the 'jungle of the law'.[2] Galbraith, along with many other economists in the Keynesian tradition, has been a consistent advocate of a comprehensive incomes and prices policy.[3] It is fully acknowledged that legal controls tend to break down, that they provoke industrial unrest, that they impinge upon the freedoms of unions

---

[1] Lester Thurow, The Zero-Sum Society: Distribution and the Possibilities for Economic Change (New York: Basic Books, 1980), p.66.

[2] James F. O'Brien, A Study of National Wage Agreements in Ireland (Dublin: The Economic and Social Research Institute, 1981), p.3.

[3] John Kenneth Galbraith, Economics and the Public Purpose (Penguin Books, 1979), pp.330-335. See also Derek Robinson and Ken Mayhew, 'Conclusions', Oxford Bulletin of Economics and Statistics, 45 (February 1983), pp.127-139.

and employers, and that to date governmental coercion has not been particularly successful in restraining nominal wage growth for extended periods. But such drawbacks, it is argued, must be set against the much more harmful consequences of unrestrained free collective bargaining.

Other scholars, in contrast, remain more optimistic about the prospects of implementing a non-statutory incomes policy. Certainly they recognize the difficulties, but in their view these are surmountable. The quagmire of the law is not, therefore, the only alternative to the free play of 'market' forces. Broadly speaking, three solutions to the collective action problem have been suggested. The first is a corporatist solution and involves the organization of workers and employers into highly centralized, sector-wide groups with the authority to coordinate wage and price developments. Free riding in this instance is overcome by means of elite control, or more accurately, private coercion. A second proposal entails the use of general threats and incentives by the government so as to alter the payoff matrix in favour of a coordinated outcome. Finally, instead of general incentives, the government could employ selective incentives either of a positive or negative variety. To date, the proponents of this remedy have focussed upon the manipulation of direct taxes as the principal vehicle for limiting 'excessive' wage and price increases and hence curbing free riding. This chapter explores these three proposals and assesses the extent to which they supply a satisfactory resolution of the collective action problem.

3.1 Institutional Centralization and Elite Control

During the past decade many scholars have argued that wage inflation in advanced industrialized democracies can be largely

overcome by means of liberal or neo-corporatist institutions.[1] According to Schwerin, for example, the 'comprehensive organization of the labour and capital sectors into a few centralized units exercising hierarchic authority handles the free-rider problem.'[2] The argument here is two-fold: firstly, powerful peak organizations representing employers and workers have the incentive to negotiate bilateral (or tripartite) programmes of mutual restraint; and secondly, they possess the necessary authority or coercive force to guarantee rank-and-file compliance. Put simply, the peak organizations become their own game keepers, or in the words of Tarling and Wilkinson, 'the government's policeman'.[3]

Unfortunately, Schwerin nowhere specifies precisely what he means by authoritative sectoral elites. However, if they are indeed powerful enough to prevent free riding, then it is fair to presume that the following conditions must apply.[4]

---

[1]There is a large and growing literature on the subject of liberal or neo-corporatism. Amongst the recent important contributions are Gabriel A. Almond, 'Corporatism, Pluralism, and Professional Memory', World Politics, 35 (January 1983), pp.245-260; Suzanne Berger, ed., Organizing Interests in Western Europe: Pluralism, Corporatism and the Transformation of Politics (Cambridge: Cambridge University Press, 1981); Ross M. Martin, 'Pluralism and the New Corporatism', Political Studies, 31 (March 1983), pp.86-102; and Philippe C. Schmitter and Gerhard Lehmbruch, eds., Trends Towards Corporatist Intermediation (London: Sage Publications, 1979).

[2]Don S. Schwerin, 'The Limits of Organization as a Response to Wage-Price Problems', p.76.

[3]Roger Tarling and Frank Wilkinson, 'The Social Contract: Post-War Incomes Policies and their Inflationary Impact', p.412.

[4]For an examination of the indicators of trade union centralization and the power of sectoral elites see Bruce Headey, 'Trade Unions and National Wages Policy', Journal of Politics, 32 (May 1970), pp.407-439.

(1) The peak organizations representing labour and capital embrace a very high percentage of the workforce and private companies (obviously excluding the self-employed).

(2) Both peak organizations are well financed and staffed, and have the constitutional right to negotiate and enforce economy-wide wage and price agreements.

(3) Both organizations enjoy a significant degree of control over the internal affairs of their affiliated unions and companies. In the case of the union federation, for instance, this would imply the right to call or prevent strikes, the control of strike funds (and other benefits), and the right to veto wage claims and settlements which are deemed to be too high. Local autonomy, in other words, would be extremely limited. Similarly, the employers' federation would need to have control over the pay decisions, and also to some extent the pricing decisions of private companies.

Theoretically, the existence of peak organizations of this kind would solve many of the problems of securing voluntary pay restraint. In effect it would mean that the economy consisted of one union and one employer. As such this would automatically overcome the labour-versus-labour prisoner's dilemma. It would make more transparent the macro-economic costs of independent decision making. It would internalize many of the social

and economic costs of self-interested maximization. It would radically reduce the decision-making and transaction costs of a coordinated solution. And it would help supply the necessary conditions for an agreement based upon conditional promises. Yet, against this, several impediments to joint decision making would remain. The payoffs to labour and capital would still be asymmetrical in nature. Uncertainty concerning the macro-economic payoff matrix, the likelihood of exogenous shocks, the future rate of inflation and so forth, would remain. And conflict over the distribution of factor shares would still create difficulties.

On top of this there would be the problem of policy lags. Consider, for instance, a situation in which a bilateral agreement is being negotiated against a background of high, accelerating inflation. Union and employer leaders acknowledge that there is a need to reduce the rate of price increases and accept that this means that the pay norm for the next wage round must be below the existing rate of inflation. But the drawback is that even with an effective prices policy, the new wages deal will take some time to produce the intended results. In the meantime, union members may have to bear a decline in their real incomes. The extent of this will depend on the length of the policy lags, the rate of economic growth and the speed with which the achievement of a lower rate of inflation is desired. Clearly, the lower the rate of growth, the longer the lags, and the more rapid the deceleration of money wages, the greater the potential fall in real disposable incomes. According to economic models of the British economy used by the Treasury, the London Business School and the National Institute, it may take up to two years for workers to reap the

benefits, in terms of real-wage increases, of a wage restraint programme.[1] Thus, if union leaders are reluctant to impose short-term real-wage reductions upon their members, it may be impossible to secure an agreement which yields a significant fall in the rate of price inflation.

If, on the other hand, they do accept a policy entailing temporary sacrifices, they are bound to encounter rank-and-file resistance. Assuming that the institutions in question are democratic, such opposition may take a variety of forms: the rejection of the central agreement in membership ballots; demands by certain groups of workers for special treatment; unofficial strikes; the electoral defeat of union leaders; and perhaps, if opposition is very intense, the withdrawal of various groups from the peak organization and the establishment of breakaway unions. Even, therefore, when union leaders are able to exercise considerable control over their constituents, they will not be immune from membership disaffection. Indeed, some internal tensions seem almost inevitable. For, regardless of the immediate impact of a stabilization agreement on real wages, some decision will have to be made by the sectoral elites as to whether differentials should be altered; and whatever is decided is bound to arouse dissatisfaction. Bargaining groups representing those in low-paid occupations will doubtless favour a policy designed to narrow differentials and reduce margins for skill. In marked contrast, the more highly paid sections of the workforce will generally oppose moves to reduce their relative pay advantage. This does not imply that a compromise is out of the question. But it does

---

[1] Paul Ormerod, 'The Economic Record', in Nick Bosanquet and Peter Townsend, eds. Labour and Equality: A Fabian Study of Labour in Power (London: Heinemann, 1980), p.59.

remind one that contentious distributional issues of a zero-sum variety will remain, despite the existence of powerful peak organizations.

Quite apart from the tensions caused by distributional conflicts, peak organizations attempting to implement a voluntary incomes policy face another, even more serious difficulty, namely, how to deliver the necessary degree of mass compliance. Up to this juncture it has been assumed that the sectoral elites are in a position to control local wage bargaining such that free riding, by which is meant wage drift above the nationally agreed guidelines, would be impossible.[1] In practice, this is quite unrealistic. Even the most powerful union and employer confederations do not possess the authority, sanctions or coercive force required to prevent decentralized wage drift (or price rises in breach of the policy guidelines). The reasons for this are obvious enough. It is virtually impossible for any organization, be it governmental or private, to monitor all wage and price increases in a complex, dynamic, highly industrialized economy. And even if policy breaches could always be detected, the sanctions available to sectoral elites are usually limited, inadequate or even counter-productive. For instance, the union leadership could threaten free riders with the withdrawal of financial support or other forms of strike assistance. But such a deterrent may be totally

---

[1] Various definitions of wage drift have been offered by labour economists. Among the more widely accepted is that suggested by the British National Board for Prices and Incomes. According to the NBPI, wage drift refers to the 'persistent tendency for wages actually paid at the workplace to rise, on average, faster than would result from the increases arranged from time to time under national agreements,' in Payment by Results Systems (National Board for Prices and Incomes, Report No.65, Cmnd. 3627, 1968, p.10, paragraph 34. For the purposes of this thesis wage drift will refer to increases in average earnings in excess of the amount permitted by a pay policy.

ineffective against a bargaining group with independent financial resources or one representing workers in a high-growth sector of the economy.[1] Alternatively, a defector could be threatened with expulsion from the peak organization. But, again, this may be insufficient to ensure compliance. After all, the bargaining group may undertake a straight-forward cost-benefit analysis and conclude that it is better off free riding. What is more, should a recalcitrant union leave the confederation, the national union leadership will lose any influence they may have had over the determination of its bargaining policy. In some situations, therefore, the peak organization may actually consider it unwise to invoke an expulsion threat.[2]

The difficulties experienced by union and employer confederations in trying to curb wage drift are graphically illustrated in the case of Norway.[3] Here, each important sector

---

[1] It should be remembered that wage drift is not necessarily economically harmful. In some cases it may contribute to the efficient allocation of scarce resources. The danger, of course, is that wage drift above a universally-applied norm which is economically justifiable may trigger free riding by other groups which is not so justified.

[2] James F. O'Brien, A Study of National Wage Agreements in Ireland, p.161.

[3] For details of Norwegian wage fixing and incomes policies see J.T. Addison, Wage Policies and Collective Bargaining Developments in Finland, Ireland and Norway (Paris: OECD, 1979), pp.66-89; Robert Flanagan, David Soskice and Lloyd Ulman, Unionism, Stabilization and Incomes Policies (Washington, D.C. The Brookings Institution, 1983) forthcoming; Bjorn Gustavsen and Gerry Hunnins, 'Industrial Relations in Norway', New Zealand Journal of Industrial Relations, 6 (December 1981), pp.125-138; Bruce Headey, 'Trade Unions and National Wage Policies', p.424; John Inman, 'Wages Policy in Norway', British Journal of Industrial Relations, 17 (November 1979), pp.347-361; and Don S. Schwerin, 'The Limits of Organization as a Response to Wage-Price Problems', pp.73-106.

of the economy including labour, employers, finance, agriculture and fishing is represented by one, and in several instances two peak organizations, all of which exercise a significant amount of control over their members. For example, the central union body, Landsorganisasjonen (LO) is amongst the most powerful trade union confederations in the western world. Its 15 member Executive Board has the authority to approve or disapprove all strikes, bargaining demands and collective agreements. It has the right to order sympathy strikes or command that a stoppage be ended. It frequently takes the leading role in wage negotiations on behalf of individual unions. And it has some control over union strike funds. The employers' federation (NAF) is not as strong as this, but it nevertheless enjoys a fair measure of influence over the bargaining strategy and pay decisions of its constituents.

In spite of these favourable institutional arrangements, however, central economy-wide pay agreements - which have been a regular feature of pay determination in the 1970s - have encountered considerable free riding. As table 3.1 shows, there was a significant amount of wage drift during the 1970s and in two years, 1974 and 1978, the level of drift exceeded the nationally-agreed contractual pay increases. Although provision for local bargaining had been made under the terms of the national accords, the actual outcome was far worse than expected. Thus, with wage drift accelerating and with the sectoral elites unable to prevent local union negotiators from exploiting their labour market power, the Government concluded that it had no alternative but to intervene: in the autumn of 1978 it imposed a statutory incomes policy.

Table 3:1

Norway : Contractural Wage Increases and Wage Drift (% increase)

Year (Q1)	Hourly earnings[1]	Contributions from Contractual Increases	Wage Drift
1974	12.2	4.6	7.6
1975	24.8	16.2	8.6
1976	13.2	8.9	4.3
1977	15.2	9.4	5.8
1978	10.0	2.9	7.1

[1]Adult male workers in manufacturing, construction and transport.

Source: OECD, Economic Surveys: Norway (Paris: March 1981), p.12.

If cooperative solutions can be undermined by free riding in countries with strong peak organizations such as Norway and Sweden, surely there can be little hope of voluntary policies working in countries with much weaker central institutions like Britain, Ireland, Canada, Australia, New Zealand and the United States. Or is this so? Might it not be possible for a government to intervene, and without resorting to legal controls nonetheless ensure collective restraint?

3.2 Governmental Initiatives: The Use of General Incentives and Threats

Let us suppose that the sectoral elites are unable or unwilling to agree upon a policy of reciprocal restraint. There may be any number of reasons for this. It may be because of uncertainties surrounding the future rate of inflation and government policy, or because of their concern about policy lags and the asymmetrical nature of the payoffs to capital and labour, or because they fear that their constituents will reject the deal or breach its terms. What can a government do in these

circumstances? Since the main stumbling block is bound to be on the union side we will largely ignore the objections which employers may have to a restraint programme.

To start with, a government could endeavour to reduce the uncertainty and risks associated with a voluntary policy by offering guarantees concerning the future level of real wages. For instance, it could agree to reduce taxes if the rate of inflation exceeds expectations, thereby maintaining the real disposable incomes of union members. Alternatively, it could impose stringent price controls so as to reduce the policy lags and lessen the impact of the stabilization agreement on the distribution of sectoral shares. Another option would be for the government to alter the payoff matrix such that voluntary restraint became more attractive for individual bargaining groups. Again, fiscal changes could be used in this regard. Lastly, the government could attempt to change union preferences by persuasion and exhortation, or could threaten various dire consequences if a satisfactory agreement was not forthcoming.

Let us deal firstly with a situation in which the government decides to try and purchase union cooperation by offering general, as distinct from selective, incentives. For such a strategy to be effective, six conditions would have to be fulfilled.[1] Clearly the incentives must be sufficiently valuable. That is to say, each bargaining group would have to be convinced that the expected benefits of collective restraint, including the government's incentive payments,

---

[1] For a detailed account of the necessary conditions for incentives to operate effectively see Pamela Oliver, 'Selective Incentives in an Apex Game: An Experiment in Coalition Formation', Journal of Conflict Resolution, 24 (March 1980), pp.113-141.

exceeded the opportunity costs of compliance. Second, it would be imperative that a general consensus exist amongst union leaders and their members about the desirability of the incentives on offer. Otherwise, there would not only be problems in securing an agreement at the elite level, but the leadership would find it hard to sell the supposed concessions to the rank-and-file. Third, the incentives would have to be of a kind that the government could withhold, or defer distribution of, until after the unions had negotiated their pay settlements, or at least until they had committed themselves irrevocably to the policy. Fourth, the government would need to be satisfied that the price of supplying the incentives was lower than the costs (in terms of higher unemployment and/or inflation) of proceeding without union cooperation. Fifth, the unions would have to be convinced that the quid pro quos being offered were not going to be provided anyway; otherwise they would be gaining nothing. Finally, the unions would have to be assured that the government actually had the capacity to implement its promises. Guarantees coming from a minority administration might not be taken very seriously.

During the past few decades many governments around the world have offered incentives in exchange for commitments from central union organizations to exercise wage restraint. Such incentives have varied greatly and have been applied in all sorts of combinations and permutations, but broadly speaking two main categories can be identified: direct (or indirect) economic benefits and what might be termed 'alternative currencies'. Among the more prominent have been the following.

A. Economic incentives:

i) economic benefits to trade union members in the form of tax cuts, wealth redistribution, extra provisions

for low-paid workers, and subsidies;

ii) improved social security payments;

iii) the provision of threshold clauses enabling money wages to be increased automatically if inflation exceeds a specified target; and

B. Alternative currencies:

i) greater institutional protection for the union movement and the extension of union rights and privileges;

ii) changes in the ownership and control of industry, including schemes for worker participation, industrial democracy and economic democracy;

iii) undertakings to limit the rise in unemployment by means of demand management, trade protection, manpower planning, and job creation schemes;

iv) the control of non-union incomes by means of profit controls, price controls and limits on the fees charged by self-employed persons;

v) a willingness to allow union leaders to exercise a greater degree of influence over economic policy; and

vi) structural and financial reforms to encourage productive investment and thereby ensure higher growth and employment.

An inspection of these incentives indicates that few satisfy the criteria outlined above. Frequently, they will be provided anyway, either to fulfil a government's policy

commitments or in the interests of electoral gain. Indeed, a socialist or social democratic government would generally favour items A(i & ii) and B(i-iii & vi), regardless of its precise macro-economic strategy or stabilization objectives. In contrast, a conservative government would probably be unwilling to make policy changes of this kind and would thus have greater difficulty finding suitable incentives. Besides this, union leaders may not trust the government, or may doubt its capacity to deliver. Undertakings to limit the growth of unemployment or to control prices (B, iii & iv) may, with good reason, be disbelieved.

From the point of view of securing a voluntary restraint agreement, perhaps the most promising of the quid pro quos listed above are economic incentives in the form of tax cuts. These will be particularly welcome to unions that are primarily interested in material rewards, or where there is a progressive taxation system and a high marginal tax rate, or where union leaders, activists and members are divided in their attitude towards any or all of the alternative currencies. But while a stabilization package involving tax cuts and wage restraint may be an attractive option, both for a government and the sectoral elites, certain problems may nonetheless arise.[1] It may be, for example, that despite the offer of tax reductions a number of powerful unions will calculate that they will still be better off pursuing a non-cooperative strategy. Universal tax cuts, therefore, may not be sufficient to overcome the asymmetrical nature of the labour-versus-labour conflict and turn the strategic situation into an assurance game.

---

[1] OECD, The Role of Incomes Policy in Short-Term Economic Management (CPE/WP4 (78) 7), (Paris: December 1978), p.26.

Alternatively, there is the danger that a union might agree to abide by the policy and then, having obtained the tax concessions, apply pressure for a wage increase above the agreed norm. One way of avoiding this might be for the government to reduce taxes in stages or else withhold its concessions until the end of the round. But this could be unacceptable to the unions since one of the purposes of the tax cuts might be to prevent any short-term reduction in real wages following the introduction of an incomes policy.

The other major difficulty that is bound to arise concerns the reconciliation of union demands with resource constraints. Here the issue is essentially one of policy consistency. No doubt union leaders will seek substantial tax cuts in exchange for imposing wage restraint upon their members. The government; however, may be in no position to meet such demands, or may decide that beyond a certain point further concessions will be counter-productive. After all, there is a risk that if the tax cuts are too generous the intended benefits of money-wage moderation will be offset by excess demand and upward pressure on interest rates. That is to say, demand pressures in the labour market may be such that there is strong incentive for individual bargaining units to free ride. And the resulting wage drift will diminish, if not undermine entirely, the effectiveness of the counter-inflation programme. To avoid such an eventuality, therefore, the government will need to drive a hard bargain.

Now supposing for a moment that the incentives offered by a government are insufficient to buy union cooperation, how else might nominal wage restraint be achieved without resort either to a statutory policy, or to deflation and mass

unemployment? One possibility is for the government to threaten to impose sanctions upon the union movement if the leadership rejects a cooperative solution, or if breaches of the policy seem likely. As with a strategy based on incentives, various conditions would have to be satisfied if the threats are to influence union behaviour. For instance, the threats would have to be credible. The anticipated losses for individual unions would have to be greater than the expected gains of non-compliance. And each bargaining unit would have to know in advance how much free riding would be tolerated before sanctions were invoked.

Regrettably, perhaps, governments have relatively few sanctions in their armoury and even those which are available are often politically unacceptable, indiscriminate in their impact, ineffective or counter-productive. A threat to impose mandatory wage and price controls, for example, may fail either because the unions doubt the government's willingness to stand by its word, or because individual bargaining groups believe they can escape its impact. Thus, unless the controls are retrospective, a union might reason that it can settle outside the policy guidelines without incurring a penalty. Likewise, a threat by the government to deflate the economy and reduce union power by means of higher unemployment might not be taken seriously by union leaders. Or, alternatively, they may decide to take the risk and call the government's bluff.

It should not be concluded from all this that the judicious use of general threats and incentives will never yield a satisfactory result. Clearly, if the strategic situation is nearly an assurance game, but not quite (perhaps because of asymmetrical payoffs), the intervention of a government may be

sufficient to tip the balance and hence secure a cooperative outcome. Equally, however, it may not. The nub of the problem is that general incentives and disincentives do not necessarily have a direct impact upon individual decision makers. As James Tobin has remarked:

> It is like people who are watching some kind of spectacle in an arena and they are all standing up to see better. When everyone stands up they do not actually see better, but the question is who is going to sit down first. With a general threat, not everyone sits down.[1]

A brief example may help to demonstrate the weaknesses of an approach based upon the use of general, as opposed to selective, incentives.

New Zealand governments of both a social democratic and conservative persuasion have been striving to achieve a voluntary incomes policy since 1970. All attempts to date have been unsuccessful. The most recent failure occurred in May 1982.[2] Early in that year the National Government of Robert Muldoon proposed a simple formula whereby tax concessions would be made in the mid-year Budget in exchange for a guarantee from the central union organization, the Federation of Labour (FOL), to limit wage demands in the subsequent 1982-83 pay round in conformity with a negotiated norm. The rationale here was plain enough: the lower growth of money wages would reduce the rise in unit labour costs and this in turn would have a favourable impact on international competitiveness, the balance of payments, economic growth, employment and inflation. The tax cuts would ensure that there was no fall in average real wages or aggregate demand. Indeed,

---

[1] James Tobin, The Times, 14 October 1981.

[2] For details see Pat Walsh, 'Myth and Reality in Industrial Relations: Moderates, Militants and Social Contracts', New Zealand Journal of Industrial Relations, 7 (August 1982), pp.77-82.

real disposable incomes were expected to be higher in both the short and longer term than if the unions pursued a non-cooperative strategy. It was recognized that the proposed fiscal adjustment would have a deleterious affect on an already high PSBR and that this might have a negative impact on interest rates and the money supply. Nevertheless, according to the JOANNA model of the New Zealand economy, a wage-tax deal of this kind was expected, on balance, to benefit virtually everyone concerned.[1] In any case, quite apart from the economic rationale for such a deal, the Government was eager for electoral reasons to reform the tax system. If it could combine tax reform with pay restraint, it would achieve the best of all possible worlds.

Detailed negotiations subsequently took place between the Government, the FOL and the Employers' Federation. However, progress was slow. Union leaders were reluctant to give up their bargaining freedom and made numerous demands. Moreover, some of them remained sceptical about the benefits of mutual restraint, even if linked to tax concessions. Ministers countered by producing a variety of economic evidence showing the advantages of nominal-wage moderation. They also pointed out that if no agreement was reached, they would be forced to introduce statutory wage and price controls.

In the end, recognizing that no wage-tax deal could work without the approval of the rank-and-file, the FOL leaders decided to submit the Government's proposals to their annual conference in May. After a lengthy debate, the scheme was overwhelmingly rejected. Delegates gave five main reasons for

---

[1] National Business Review, (N.Z.) 29 June 1981, p.11.

their opposition: the net benefits of the deal were too small (presumably some union leaders thought they could do better under free collective bargaining); the proposed price controls were inadequate (which meant that prices might rise more rapidly than the Government expected); there were no controls in the stabilization package on unearned incomes and the incomes of the self-employed (which was discriminatory); the Government had given no guarantee to maintain social services (indeed, cuts seemed likely); and the proposed tax reforms were insufficiently egalitarian. This last objection was extraordinary because the Government had agreed to reduce taxes by an equal money amount for all tax payers - which would clearly have assisted the lower paid. Quite apart from the objections mentioned during the debate, delegates were also mindful of the internal tensions which acceptance of a restraint package would cause. Protests at the shop-floor level were highly likely, especially amongst the more militant sections of the workforce in the transport and engineering industries. And the idea of the FOL being used as a pay policeman if serious industrial conflicts arose, was not regarded as an attractive proposition. In any case, there was every reason to believe that the national union leadership would be unable to prevent infringements of the policy by powerful groups. Just how much free riding might have occurred is, of course, impossible to say. A good deal would have depended on whether the key trend-setting unions settled within the terms of the policy. If they had done so, then breaches of the guidelines could probably have been contained. If they had not, then the policy would doubtless have collapsed.

But what of the Government's threat to impose legal controls:

why didn't this make any difference to the outcome? Certainly the FOL leadership took the threat seriously. The Muldoon Administration had imposed controls several times before, so there was no reason to question the Government's will to do so again. The weakness of the threat lay in the fact that the previous controls had not been particularly successful and were in a sense preferable, as far as the union leadership was concerned, to the burden of imposing restraint themselves. Put simply, if non-acceptance of the wage-tax deal condemned them to purgatory, acceptance would condemn them to hell; or so it was argued.[1] In the event, they were delivered into purgatory. The following month the Government announced a year-long wage and price freeze. The promised tax cuts were introduced later in the August Budget.

It should be noted that ideological differences, as distinct from conflicts of interest, also contributed to the FOL's reluctance to negotiate a voluntary policy. Some union leaders, more particularly those on the left, were hostile to the idea of negotiating with a conservative Government, and especially one which had sought so vehemently over the years to reduce union rights and privileges. Left-wingers also challenged the view that wage restraint would be advantageous to workers in the long run, and dismissed the Government's economic forecasts. The role of ideological conflicts and normative commitments in resolving, or making more difficult the resolution of collective action problems, will be addressed in Chapter 4.

---

[1] Pat Walsh, 'Myth and Reality in Industrial Relations', p.80.

3.3 Selective Rewards and Penalties

From the foregoing it should be evident that within the analytical framework of the rational actor model neither the existence of powerful peak organizations, nor the use of general threats and incentives by governments necessarily solves the collective action problem. Certainly such devices will assist. But in the end, it may still be impossible to reach agreement on a voluntary policy, or to prevent a measure of wage drift once a policy has been negotiated. In view of this, is there any means of reducing the rate of growth of nominal wages (and unit labour costs) short of mandatory controls or deflation?

One possible solution favoured by a small, but growing number of scholars, is to employ selective incentives (or disincentives) such that the costs of pursuing a non-cooperative strategy are borne directly by the free rider. To put it another way, the externalities associated with the free riding option are internalized. In this way the payoff matrix would be altered such that it is in the interests of every union, including those with a significant amount of market power, to pursue a cooperative strategy. To date, most attention has been focussed on the manipulation of the tax system as the simplest and most convenient means of reducing the temptation to defect.[1] Such tax-based incomes policies, or TIPs, as they have been called, can take the form of rewards or penalties, and can be

---

[1] There is a large literature on tax-based incomes policies. Among the more important works are R. Jackman and R. Layard, 'An Inflation Tax', Fiscal Studies, 3 (March 1982), pp.47-59; R. Layard, 'Is Incomes Policy an Answer to Unemployment', Economica, 49 (August 1982), pp.219-239; Laurence S. Seidman, 'Tax-Based Incomes Policies', Brookings Papers on Economic Activity, 2 (1978), pp.301-348; Sidney Weintraub, 'An Incomes Policy to Stop Inflation', Lloyds Bank Review, 99 (January 1971), pp.1-12; and Sidney Weintraub, Capitalism's Inflation and Unemployment Crisis, esp. pp.121-163. An alternative strategy would be for the government to employ the kinds of legal and financial sanctions mentioned in Chapter 1. We will consider this approach further in Chapter 7.

applied to either unions or employers. Thus, there are four possibilities: a reward or penal TIP on employees, or a reward or penal TIP on employers. Which of these options is best has been much debated on both sides of the Atlantic, but most scholars have favoured a system which imposes penalties upon employers who breach the policy guidelines.

Regardless of the solution adopted, a variety of complex administrative, economic and industrial relations problems are bound to arise. To start with, it seems safe to say that the unions would oppose any policy which interfered with their bargaining rights, particularly if it involved the imposition of penalties against employees. Similarly, the business sector is unlikely to respond enthusiastically to the implementation of a system of tax penalties on employers. Clearly, then, a tax-based incomes policy might well encounter strong opposition, including strike action or the refusal to pay fines. Besides this, TIPs would pose innumberable administrative difficulties. How would the rewards or penalties be applied? Would there be a continuous, graded system of incentives, or a hurdle approach? How would the policy be monitored and enforced? How would the government prevent unions from bargaining for and receiving extra fringe benefits in compensation for lower nominal-wage increases? And, if the TIP was applied to employers, with the intention of encouraging them to resist union demands, is it not logical to expect that both the frequency and duration of strikes would rise?

Despite such problems, policy makers in a number of countries have seriously considered introducing a tax-based incomes policy. To date, the proposal which has come nearest to

implementation was that advocated in the United States by President Carter in 1978.[1] Carter's plan, referred to as the Real-Wage Insurance Scheme, involved a reward TIP in the form of tax rebates to be paid to all the members of bargaining units who complied with a pay standard announced by the Government in October 1978. The standard or norm was fixed at 7%. Since inflation at the time was running in excess of 7%, it was acknowledged that groups which conformed to the norm would suffer a temporary decline in real wages. To avoid this, and to prevent free riding, the Government promised to give a tax credit to all those who kept the guidelines equivalent to the amount by which the price inflation exceeded the 7%. In spite of its apparent simplicity, the scheme had three major drawbacks. First, those groups who received a pay rise of less than the 7% norm (for market reasons) would gain the tax credit regardless. Second, the scheme would not deter unions with the power to get wage increases well in excess of the anticipated rate of inflation. Third, if there was an exogenous shock to the economy which lifted the rate of inflation in the short-term, and if the vast majority of unions complied with the pay standard, as was hoped, the scheme would become very expensive to administer.

In the event, Congress rejected the scheme and the rate of inflation, under the impact of the second oil shock at the beginning of 1979, rose appreciably. Unions responded by bargaining for substantial pay increases, and within a short

---

[1] For details see John H. Pencavel, 'The American Experience with Incomes Policy', in J.L. Fallick and R.F. Elliott, eds., Incomes Policy, Inflation and Relative Pay (London: George Allen and Unwin, 1981), p.114.

space of time Carter's anti-inflation strategy was in tatters. Precisely what difference the Real-Wage Insurance Scheme would have made in these circumstances is impossible to determine. In theory, at any rate, it should have led to a lower rise in money wages. But in the absence of empirical evidence, final judgements about the merits of selective incentives as a solution to the collective action problem must wait.

3.4 Conclusion

In Chapter 2 it was concluded that if unions were assumed to be rational, self-interested maximizers of utility it would be extremely difficult to implement a policy of collective restraint. On the basis of the preceeding analysis there seems little reason to amend this judgement. Clearly, there is a greater chance of achieving a cooperative outcome when the autonomy of individual bargaining groups is severely curtailed by a central union confederation and when the government is involved as a risk-bearer, guarantor and supplier of incentives. But even in these circumstances, as table 3.2 shows, a host of problems may befall a voluntary policy. Such difficulties will be intensified to the extent that the aggregate payoffs of mutual restraint are small, the resources available to the state for use as incentive payments are limited, and powerful unions believe that compliance will entail significant short-run opportunity costs. Also, if a substantial number of union leaders reject the view that free collective bargaining is mutually damaging - as in the New Zealand example and as is common in the real world - then the prospects for a successful voluntary policy are very dim indeed.

Furthermore, even supposing for a moment that the necessary conditions for a cocperative solution are satisfied, and that a bilateral or multilateral agreement is forthcoming,

there is still the question of how to maintain voluntary restraint over an extended period of time. For, after all, unless there is a radical change in the structure of the economy, or a sharp fall in the relative power of trade unions, a post-Keynesian analysis suggests that long-term nominal-wage moderation is essential. Or, to put it differently, individual bargaining units will have to permanently under-utilize their short-run labour market power. Since there is no reason for believing that, once agreed, a voluntary incomes policy will be self-generating, it will be necessary for the sectoral elites to remain in constant dialogue with the government and for there to be a regular, perhaps annual, renegotiation of incentives and guidelines. Yet, if further restraint agreements are to be reached, the government may be forced to offer an ever expanding range of quid pro quos. Each year new incentives will have to be introduced and existing ones revised and upgraded. Logic suggests that at some point the whole structure might collapse, either because of resource constraints, or because one or other party no longer believes that it was in its interests to accept a cooperative outcome.

Alternatively, rank-and-file compliance may be undermined by a perceived short-fall in expected payoffs. This could occur, for example, if the introduction of the restraint agreement coincided with a downturn in the business cycle. With the growth rate falling and unemployment rising, many workers might be led to believe that they had little, if anything, to gain from pay moderation. And, regardless of the objective validity of such perceptions, an occurrence of this nature would doubtless provoke organizational resistance and mass dissent, thereby jeopardizing the possibility of the restraint agreement

Table 3:2

Solutions to Inflation as a Prisoner's Dilemma

Institutional and Bargaining Structure	Proposed Solution	Principal Weaknesses
Decentralized bargaining - weak peak organizations	Assurance game based on conditional promises	1) High decision-making costs 2) Problems of trust, uncertainty, monitoring, exogenous shocks etc. 3) Asymmetrical payoffs due to unequal bargaining power and lack of transfer mechanism 4) Asymmetrical payoffs (labour v capital) 5) Positive sum game, but low net advantages of mutual restraint
Centralized bargaining - powerful peak organizations	Bilateral, inter-elite bargaining based on conditional promises and private coercion	Most of the above, especially 2)-5) 6) Distributional conflicts 7) Organizational revolts 8) Decentralized free riding
	Multi-lateral bargaining including the use of general threats and incentives by government (private and public coercion)	Most of the above, especially 3)-8) Resource constraints and policy inconsistency
Either decentralized or centralized	Selective rewards and penalties	Union cooperation problematic Numerous administrative and enforcement problems Free riding may take other forms, e.g. fringe benefits

being extended if, in fact, it survived its original term. Altogether, then, it seems highly improbable that a voluntary incomes policy could be successfully operated over a period of many years. Indeed, if the arguments of the previous two chapters are accurate, a cooperative solution is unlikely to emerge at all.

CHAPTER 4

NORMATIVE COMMITMENTS, IDEOLOGICAL CONFLICTS AND PAY DETERMINATION

> ... the problems of Wage Determination have today become essentially political problems, and ... it is in the philosophy and science of politics that we must find the paradigm for the development of our own policy.
>
> Henry Phelps Brown[1]

4.0 Introduction

It might seem puzzling, given all the obstacles confronting a cooperative solution to the prisoner's dilemma of wage inflation, that voluntary incomes policies have actually been implemented in many countries in the post-war era and that some of these, as judged by almost any criteria (longevity, the rates of inflation, unemployment or economic growth, or the levels of organizational resistance and wage drift) have been reasonably successful. The Austrian example, as mentioned in Chapter 1, is perhaps the most remarkable. In this instance the union movement has accepted a policy of voluntary restraint for over 25 years, notwithstanding periods of slow, or even nil, economic growth. Equally surprising is the fact that voluntary incomes policies have been negotiated and successfully implemented in countries with relatively decentralized bargaining structures and fairly weak central union and employer organizations. Although such policies have rarely lasted for more than two or three years, there can be no doubt that in the short run they have achieved impressive

---

[1] Henry Phelps Brown, 'Final Refections on the Conference', in OECD, Wage Determination (Paris: 1974), p.360.

results in reducing the rate of wage inflation. The Social Contract in Britain in the years 1975-77 and the National Pay Agreements in Ireland during the mid 1970s are probably the best such examples.[1]

This, of course, is not to deny that many attempts to secure a cooperative outcome have been abandoned in the negotiating phase.[2] Nor is it to deny that free riding has been a perennial problem for those seeking to implement a programme of collective restraint. Indeed, even the most cursory glance at the evidence confirms the verdict of the rational actor model that voluntary incomes policies are inherently unstable and subject to powerful forces of disintegration. The question, therefore, is not whether rational choice theory is a helpful analytical tool for investigating the necessary conditions for voluntary restraint; for certainly it is. Rather, the issue is whether a theory based upon the highly restrictive motivational assumptions of economic self-interest and strategic maximization, and which denies the relevance of all other behavioural drives - political, social and moral - supplies a complete or adequate explanation of union bargaining behaviour or, more specifically, the variable degree of success which voluntary policies have enjoyed across time and between countries. It is the contention of this chapter that it does not. Instead, it will be argued that the behavioural

---

[1] For details of the Irish experience see J.T. Addison, Wage Policies and Collective Bargaining Developments in Finland, Ireland and Norway.

[2] Among the many occasions when sectoral elites and governments have failed to agree upon the terms of a collective restraint agreement are the following: Britain (1972); Canada (1975); Denmark (1967, 1975); Finland (1963, 1966); Italy (1981); and New Zealand (1971, 1981-82).

assumptions of rational choice theory need to be amended to allow for the fact that individuals have moral and ideological commitments and that these may, in certain circumstances, lead them to make what have been termed counter-preferential choices. If this view is accepted, it follows that a voluntary incomes policy will only be successful if those unions which have both the capacity and the incentive to free ride are committed to the policy. When this condition no longer holds, as for example when the leaders and members of powerful unions are ideologically opposed to any notion of wage restraint, then a cooperative solution will not be forthcoming. But before expanding this argument further let us explore some of the empirical evidence that leads one to cast doubt on the narrow motivational foundations of the rational actor model.

4.1 A Short Critique of the Assumption of Self-Interested Maximization

As one observes the operation of voluntary incomes policies in various countries, several striking features become evident. The first is this: not only does the effectiveness of such policies vary from one country to the next, as one would expect, but even countries with very similar institutional arrangements have sharply contrasting records. Nowhere perhaps is this contrast more apparent than in the case of Austria and Norway.[1]

---

[1] For details of Austria's 'social partnership' see Robert Flanagan, et al., Unionism, Stabilization and Incomes Policies (forthcoming); Joseph Mire, 'Incomes Policy in Austria Under a Voluntary Partnership', Monthly Labour Review, 100 (August 1977), pp.13-17; OECD, Collective Bargaining and Government Policies (Paris: 1979); OECD, Economic Surveys: Austria (Paris: February 1982), pp.22-30; Theodor Prager, 'Austria's Social Partnership' - A View From Within', Policy Studies, 1 (January 1981), pp.145-156; Derek Robinson, Incomes Policy and Capital Sharing in Western Europe (London: Croom Helm, 1973), pp.14-22; and Erich Spitäller, Incomes Policy in Austria (IMF Research Department, July 1972).

For example, both countries have a relatively small number of trade unions, a high level of union density, and comprehensive, authoritative peak organizations representing employers and employees.[1] Both have permanent tripartite institutions, which, although different in form, carry out essentially the same functions, namely, the negotiation and implementation of incomes policies from year to year. Apart from these institutional similarities, both are open economies with a large export sector, and both countries have been committed to full employment and a 'hard currency option'.[2] Necessarily this has entailed the maintenance of international competitiveness and hence the containment of unit labour costs. And this, in turn, has depended upon a good productivity performance and a degree of wage restraint.

In comparison with many other small democracies, such as Ireland, New Zealand, Denmark and Belgium, Austria and Norway have been reasonably successful in containing inflation and unemployment during the past decade, Austria more so than Norway. But their experiences with voluntary incomes policies have been quite different. As noted in Chapter 3, the Norwegian LO failed to deliver the required level of wage moderation during the late 1970s and the government was forced, despite huge oil reserves and revenues, to devalue

---

[1] According to Schmitter's ranking of societal corporatism, Austria has the most corporatist institutional arrangements in the West, with Norway following closely in second place. See Philippe C. Schmitter, 'Interest Intermediation and Regime Governability', in Suzanne Berger, ed., Organizing Interests in Western Europe, p.294.

[2] For details see OECD, Economic Surveys: Austria (Paris: February 1982), pp.26-27; and Don S. Schwerin, 'Norwegian and Danish Incomes Policy and European Monetary Integration', West European Politics, 3 (October 1980), pp.388-405.

the Krone, increase industrial assistance to companies exposed to foreign competition, and impose statutory wage and price controls. By contrast, the voluntary restraint arrangements in Austria, or the 'social partnership' as it is termed, have been extraordinarily effective. The government has been able to maintain its hard currency approach. There has been no need to resort to legal wage controls. And industrial assistance to the exposed sector of the economy has been limited. Without doubt the critical factor in making all this possible has been the absence of any rank-and-file revolt. For example, the country has witnessed relatively little strike activity, and wage drift has been reasonably controlled. Moreover, the unions have accepted real-wage restraint during periods of recession and have been prepared to tolerate lower real disposable incomes in exchange for improved social benefits.[1]

How these differences between Norway and Austria are to be explained remains something of a puzzle. It seems doubtful that it has anything to do with their economic performance since both countries have achieved comparable levels of economic growth. Nor can a simple institutional answer be invoked because the Austrian Trade Union Federation is not in a significantly better position to control the actions of its constituents than its Norwegian counterpart. And nor can the answer be related solely to the deployment of governmental incentives or sanctions. For, if anything, Norway's oil reserves should give Norwegian governments greater scope for offering economic incentives. Clearly, there is not the space

[1] For example, in 1976 the Federation of Trade Unions agreed to forego the tax cuts offered by the government (in exchange for wage moderation) on condition that an equivalent sum of money was spent on improving various social services.

here to examine all the possible reasons for the high level of mass compliance and the spirit of compromise and consensus which pervades Austria's economic and social institutions. Nevertheless, it should be pointed out that almost all those who have studied the Austrian experience have ultimately invoked non-institutional and non-economic explanations.[1] That is to say, they incorporate into their analyses such variables as the historical legacy of inter-war strife and Nazi rule, the absence of a strong Marxist or revolutionary tradition, the impact of religion and culture, and the persistence of a substantial element of inter-class solidarity. The creation of a lasting and generally successful social partnership founded upon the exercise of mutual restraint in economic affairs, is seen, therefore, not so much as the product of long-term rational self-interest, but rather as the result of certain powerful forces of social cohesion and moral responsibility. It is the persistence of such normative commitments that is thought to hold the key to the survival of Austria's voluntaristic stabilization arrangements.

If rational choice theory cannot readily account for the differences in the effectiveness of voluntary incomes policies between countries with roughly similar bargaining structures and institutions, neither does it supply a satisfactory explanation as to why organizations such as unions exist at all. Up till this juncture it has been assumed implicitly that it is rational for individuals to join unions and for them

---

[1] See especially Joseph Mire, 'Incomes Policy in Austria', pp. 16-17; Derek Robinson, Incomes Policy and Capital Sharing in Western Europe, pp.22-23; Theodor Prager, 'Austria's 'Social Partnership' - A View from Within', pp.151-155; and Gerhard Lehmbruch, 'Liberal Corporatism and Party Government', in Phillipe C. Schmitter and Gerhard Lehmbruch, eds., Trends Towards Corporatist Intermediation (London: Sage Publications, 1979), pp.158-160.

to bear the costs of strike action in the interests of obtaining higher real wages. But surely this is not so. Unless union membership is compulsory, or, as Olson points out, unless there are sufficiently potent selective incentives, the rational individual will free ride.[1] He will not join a union and he will not take part in a strike. Of course, if all his workmates are equally keen to minimize their costs, they too will free ride and the collective good of higher wages will not be produced. In short, union membership encounters exactly the same prisoner's dilemma or collective action problem as does the control of inflation.[2]

To be sure, someone might argue that people join unions because of the selective incentives they gain from so doing. But the problem with this contention is that it is false. As Barry notes, one can't account for the huge differences in union density between the United States and Britain by invoking selective incentives.[3] Nor can such an arguement explain the rise of mass unionism in Britain in the latter part of the 19th century or the sharp fall in union membership following the 1926 general strike. Rather, a satisfactory explanation would have to take into account changes in social and political attitudes, as well as changes in the perceived prospects of successful industrial action.[4] Yet such

---

[1] Mancur Olson, The Logic of Collective Action, p.2.

[2] Indeed, it is only because individuals are willing to sacrifice their immediate personal welfare for the benefit of a group or union that wage-push inflation is a major problem. If individuals were totally self-interested, unions would be weak or non-existent, and the process of wage determination would be quite different.

[3] Brian Barry, Sociologists, Economists and Democracy, p.29.

[4] Ibid., p.29.

considerations can't be readily accommodated within a rational choice framework.

Turning aside from the subject of unions and voluntary incomes policies for a moment, it should be noted that although the rational actor model has been applied to a host of social, economic and political phenomena, it has rarely proved to be an entirely satisfactory analytical tool.[1] Anthony Downs, for example, tried to account for the decision of people to vote at an election from a rational choice perspective.[2] But it quickly became apparent that no matter how hard one tugged and pulled at the theoretical cords it was extremely hard to explain voting behaviour solely in terms of a calculus of individual costs and benefits. The reason for this is simple. If the citizen is to vote, he or she must expend certain resources in going to the polling booth and filling out the ballot paper. Yet the reward for such activity is minimal. There is virtually no chance that a single vote will change the outcome of the election, so for all intents and purposes voting is a waste of time. More than that, from the standpoint of public choice theory, it is nothing but irrational. Only when one invokes non-economic behavioural motivations such as feelings of civic duty, class solidarity

---

[1] See for instance Charles P. Cell, 'Selective Incentives Versus Ideological Commitment: The Motivation for Membership in Wisconsin Farm Organizations', American Journal of Agricultural Economics, 62 (1980), pp.517-524; Norman Furniss, 'The Political Implications of the Public Choice-Property Rights School', American Political Science Review, 72 (June 1978), pp.399-410; P.R. Jones, 'Membership of Associations and Free Riders', Industrial Relations Journal, 12 (November/December 1981), pp.34-44; and David March, 'On Joining Interest Groups: An Empirical Consideration of the Work of Mancur Olson Jr.,' British Journal of Political Science, 6 (July 1976), pp.257-271.

[2] Anthony Downs, An Economic Theory of Democracy (New York: Harper and Row, 1957), pp.265-273.

or party loyalty, can one begin to understand why so many people bother to vote at a general election.[1] However, rational choice theory explicitly excludes such sociological and political concepts from consideration.

Quite apart from the voting example, one constantly finds people making voluntary contributions towards some cause or charity and receiving nothing in return, or at least no obvious benefit. People donate blood, give money to charity, save for future generations and often make significant sacrifices to assist a neighbour or support a cause.[2] And numerous voluntary associations of potential free riders are extremely durable and effective. Thus, in ordinary life people do not always pursue the strategy which gives them the greatest material benefit. This is also true, interestingly enough, even in controlled experiments under laboratory conditions. Marwell and Ames, for instance, undertook a series of experiments involving prisoner's dilemma situations.[3] Their aim was to discover how much different

---

[1] Brian Barry, Sociologists, Economists and Democracy, pp.19-23; and A.H. Birch, 'Economic Models in Political Science: The Case of Exit, Voice and Loyalty', British Journal of Political Science, 5 (January 1975), p.81.

[2] There is a growing literature on the subject of charitable giving and altruism. See amongst others Armen A. Alchian, et al. The Economics of Charity (London: Institute of Economic Affairs, 1973); David Collard, Altruism and Economy; Christopher M. Douty, 'Disasters and Charity: Some Aspects of Cooperative Economic Behaviour', American Economic Review, 62 (September 1972), pp.580-590; Howard Margolis, Selfishness, Altruism and Rationality: A Theory of Social Choice (Cambridge: Cambridge University Press, 1982); Gerald Dworkin, et al., eds., Markets and Morals (Washington:Hemisphere Pub., 1977); and Edmund S. Phelps, ed., Altruism, Morality and Economic Theory.

[3] Gerald Marwell and Ruth E. Ames, 'Economists Free Ride, Does Anyone Else?' Journal of Public Economics, 15 (June 1981), pp.295-310.

categories of people operating under varying conditions of knowledge, communication and feedback would give to the provision of a collective good. In spite of the fact that the experiments were designed to maximize the likelihood of self-interested behaviour, individuals, on average, voluntarily contributed a substantial part of their resources; between 40-60% in most cases.[1] The only exception was a group of economics graduate students who gave only 20% of their resources to the production of the collective good. While free riding was certainly a problem, therefore, it was not nearly as serious as had been expected. When those who participated in the experiment were asked why they had behaved as they did, most responded that they had wanted to be fair and that they reckoned that this meant giving about half of their resources to the collective good.[2] Again, the main exception to this was the group of economists who were, on the whole, much less concerned about fairness. Such experimental results reveal the deficiencies of the rational actor model and indicate that non-economic or non-self-interested motivations, such as the desire to be just or fair, often affect human behaviour.

Strictly speaking, of course, the assumption that individuals are self-interested utility maximizers is not open to empirical proof or falsification. The structure of the theory is such that there is always some means of explaining away behaviour which appears at first sight to be altruistic or satisficing in nature. Thus, if someone

---

[1] Gerald Marwell and Ruth E. Ames, 'Economists Free Ride, Does Anyone Else?' p. 307.

[2] Ibid., p.307.

undertakes a course of action which entails significant personal sacrifices, a rational choice theorist could always retort that the person was acting out of enlightened self-interest, or had a low discount rate, or was gaining a certain inner satisfaction out of behaving 'morally', or was simply being irrational. And in the final analysis there would be no way of disproving such claims. Two things can be said however. First, to apply rational choice theory in this manner is to render it empty of any predictive or evaluative content and to embark on a journey into the arid wastelands of tautology.[1] Second, simply because certain a priori assumptions are not open to empirical proof does not mean that we are under any obligation either to accept or to reject them.

4.2 Departures From the Model of Economic Man

The position to be adopted here is that a motivational theory which assumes that man is a pleasure-pain calculating machine is unrealistic, and greatly oversimplifies the value orientations of individuals. Indeed, as many scholars have pointed out, there is no such thing as an 'ideal, self-regarding, economic man' who lives, as it were, in a vacuum totally divorced from a moral-cum-political system.[2] Rather, human beings are simultaneously economic, political, cultural and moral creatures who inhabit an economic system which is, in turn, profoundly influenced by and in a sense dependent upon,

[1] For a more detailed discussion of this point see Brian Barry, Sociologists, Economists and Democracy, esp. pp.15-16.

[2] See amongst others Daniel Bell, 'Models and Reality in Economic Discourse', The Public Interest, Special Issue, (1980), pp.46-80; Irving Kristol, 'Rationalism in Economics', The Public Interest, Special Issue (1980), pp.201-218; and Amartya Sen, 'Rational Fools: A Critique of the Behavioural Foundations of Economic Theory', Philosophy and Public Affairs, 6 (1977), pp.317-344.

the attitudes, habits, beliefs, aspirations and ethical standards of its members. This is not to deny, of course, that economic self-interest is a primary motivation or that, other things being equal, people prefer more political, social and monetary advantage to less. Clearly, individuals are to a significant extent selfish, and the groups they form, especially those based on common economic interests, such as unions, are guided predominantly by considerations of economic advantage. Notwithstanding this, however, it seems perfectly reasonable to assert that man's value structure is complex and heterogeneous, and that people often act in accordance with non-self-interested motivations.

But once an 'impure' motivational theory has been accepted and one abandons the simplifying assumption of self-interest, all kinds of difficulties emerge. How, for instance, can one build an analytically useful model given the enormous complexities of the world and the wide range of motivations which influence human behaviour? Which of the many non-economic inducements might one wish to incorporate into the theory? How does one take account of the interaction of economic and non-economic incentives and their changing salience over time? And how does one apply a new theory, once formulated, to a complex organization such as a trade union in which one commonly finds individuals with radically opposed political commitments, divergent moral viewpoints and differing attitudes towards the state and the law? To answer such questions adequately would be a major undertaking and is beyond the scope of this thesis. Fortunately, though, these are not new issues and have already received the attention

of a number of scholars. It is not necessary, therefore, to begin from scratch. For the sake of simplicity we will focus our attention on a pluralistic behavioural model developed by Sen, and then apply this to the problem of securing a voluntary incomes policy.

According to Sen, once we depart from the rational actor model we need to distinguish between two powerful motivational drives, namely, sympathy and commitment.[1] The former concept embraces those situations where one's welfare or sense of well-being is directly influenced by the welfare of others. As Sen explains:

> If the knowledge of torture of others makes you feel sick, it is a case of sympathy; if it does not make you feel personally worse off, but you think it is wrong, and you are ready to do something to stop it, it is a case of commitment.[2]

Behaviour motivated by sympathy, therefore, may be egoistic in character, since one's utility may be significantly enhanced by sympathetic action. Consequently, such behaviour is quite compatible with the theory of utility maximization. The notion of commitment, on the other hand, cannot be accommodated within traditional economic theory since it may entail counter-preferential choices. As Sen defines it, commitment 'involves choosing an action that yields a lower expected welfare than an alternative available action'.[3] To be sure, it is possible to envisage a situation in which an individual's choice, based on moral principles or a sense of duty, may from time to time coincide with the maximization of his anticipated personal welfare. But in Sen's formulation the two central elements, personal choice and personal welfare, are not directly linked.[4] Such de-coupling, of course, marks a

---

[1] Amartya Sen, 'Rational Fools: A Critique of the Behavioural Foundations of Economic Theory', p.326.

[2] Ibid p.326 [3] Ibid., p.328. [4] Ibid., p.329.

radical break from a rational choice approach.

To illustrate, consider the instance of someone, say an ecologist, who is concerned about the level of air pollution in his neighbourhood. Now, according to the gains-maximizing model, the ecologist will only contribute to the production of the public good of clean air if he derives sufficient rewards from such action to compensate for the costs of pursuing his environmental concerns. If such rewards are inadequate, which seems highly likely, he will not involve himself in the expensive business of mobilizing public opinion in favour of a clean-air zone, or whatever. In contrast, from Sen's perspective the ecologist may be guided by his sense of moral obligation and not by a desire to maximize his utility, however defined. No doubt he will feel a degree of remorse or guilt if he fails to support the cause of clean air. But it is not the aim to avoid such guilt feelings which prompts his behaviour. No doubt the ecologist will also be aware that his health will improve should a campaign prove successful. But again this is not his primary motive. Rather, his main concern is for the welfare of the community. This is not to deny the argument put forward by Terry Moe that individuals may derive compensating 'purposive' benefits when they they act in accordance with their moral convictions.[1] All that is being asserted here is that such purposive incentives are not always sufficient to explain A's decision to do X, instead of Y,

---

[1] Moe defines purposive incentives as those intangible benefits that a person secures when he adheres to an ideology, a belief system or a set of moral principles. Terry Moe, The Organization of Interests, p.117.

when X is known to entail a much greater sacrifice of A's expected welfare. While such an approach seems perfectly plausible, it is not without serious objections.

To begin with, it might be contended that to incorporate the concept of commitment into a theory of human behaviour is to give up the struggle to build a simple analytic model which has both explanatory and predictive power. As Laver argues:

> ... we must insist that rational men do not bow to significant social pressure as a result of any intrinsic desire to do so, but as an instrumental means of furthering their individual self-interest. To do otherwise would be to assume a socially defined motivation which was irreducible to purely individualistic motivations, and thus to abandon the search for fundamental potential explanations of social norms. In other words, if we allow people to bow to social pressure 'because they want to,' we might as well allow them to cooperate with one another for the same reason.[1]

Obviously, if one abandons the single postulate of self-interest in favour of a more complex motivational theory one immediately loses a degree of analytical rigour. But the crucial question here concerns the proper uses of simplifying assumptions in theory construction and the extent to which one is prepared to maintain that realism is unimportant, so long as the theory supplies a satisfactory account of actual human choices.[2] For instance, although it

---

[1] Michael Laver, The Politics of Private Desires, p.63.

[2] For an examination of the proper uses of assumptions in theory construction see Daniel Bell, 'Models of Reality in Economic Discourse', pp.70-78; Dieter Helm, 'Explaining Actions: Maximizing and Satisficing Models of Rationality', (Oxford University M. Phil. thesis, 1981), pp.79-83; Harvey Leibenstein, 'Microeconomics and X-Efficiency Theory: If There is no Crisis - There Ought to be', The Public Interest, Special Issue, (1980), esp. pp.97-100; and Peter Wiles, 'Ideology, Methodology and Economics', Journal of Post Keynesian Economics', 2 (Winter 1979-80), pp.155-180.

is widely recognized that the principal axiom of much economic theory - that individuals are actuated solely by self-interest - is patently false and unrealistic, the premise has been largely accepted because it appears in practice to have considerable explanatory power. The alternative view, and the one adopted here, is that while all theorizing about political and economic activity necessarily requires the use of abstractions, approximations and simplifying assumptions, one should endeavour to employ assumptions that are as realistic as possible, even if this reduces the deductive potential or predictive value of the theory. On this score, the model of economic man is just too unrealistic. For, if everyone acted only to maximize their expected personal gain, the consequences would be horrendous. Sen provides a delightfully pertinent reminder of this:

> 'Where is the railway station?' he asks me. 'There,' I say, pointing to the post office, 'and would you please post this letter for me on the way?' 'Yes,' he says, determined to open the envelope and check whether it contains something valuable.[1]

The incorporation of moral and ideological commitments into our model, therefore, can be justified on the grounds that it furnishes a more plausible conception of human motivation. And this is true even when one is theorizing about behaviour in economic areas of life such as wage bargaining.

Another possible objection is that the notion of commitment is being employed rather like an ad hoc equation

---

[1] Amartya K. Sen, 'Rational Fools: A Critique of the Behavioural Foundations of Economic Theory', p.332.

filler.[1] Thus, when an agent fails to behave in accordance with the predicted outcome, one says, in effect, that it must have been for reasons of commitment. The value attributed to the commitment factor will be determined by the extent to which the result is at variance with the prediction. In other words, if a trade union does not free ride, despite the apparent advantages in doing so, one will simply respond by invoking some or other commitment factor. Within this schema, then, the concept of commitment can be conceived of as an internalized tax on free riding.[2] Theoretically, there is nothing wrong with this. The real question is whether one needs an equation filler or an error term, and if so, whether the notion of commitment is a good one. As already argued, a purely economic model is inadequate for the purposes of understanding why people vote, why they support charities and why they are often reluctant to free ride. Consequently, some additional variable is necessary to bridge the gap between theory and practice. In supplying this variable, one can only say that the notion of commitment is as good as any of the others on offer.

---

[1]Brian Barry, in his critique of Albert Hirschman's analysis of exit, voice and loyalty, makes the point that the notion of loyalty has been invoked by Hirschman as an ad hoc equation filler. Since commitment is being employed here rather like loyalty in Hirschman's model, a similar criticism could be made of the concept of commitment. See Brian Barry, 'Review Article: 'Exit, Voice and Loyalty'', British Journal of Political Science 4 (January 1974), p.95; and Albert O. Hirschman, Exit, Voice and Loyalty (Cambridge, Mass: Harvard University Press, 1980).

[2]Brian Barry, 'Review Article: 'Exit, Voice and Loyalty'', p.96.

Now of course someone might concede that both individual and collective behaviour can be influenced by moral and ideological commitments, but then respond that it is inconceivable that such commitments could ever be sufficiently powerful to prevent free riding in a prisoner's dilemma situation. Only if there was an element of coercion would the collective action problem be solved. Against this argument two things need to be said. First, while admitting that the salience of commitment factors will vary over time and from individual to individual, there is nothing inconceivable about moral commitments being sufficiently intense to overcome the incentive to free ride, even if the opportunity costs of cooperating are very high. Second, while commitment and coercion are analytically distinct concepts, they are not necessarily incompatible. An individual's motivations are frequently mixed. Someone may adopt a cooperative approach partly because he believes he ought to, and partly because he fears the consequences if he does not. The fact, therefore, that a government or a peak organization may threaten to employ sanctions against a union which seeks to break a voluntary incomes policy does not mean that moral or ideological commitments will cease to play a role in ensuring compliance. Precisely what difference such commitments will make, however, is extremely difficult to assess. Indeed, it is probably not open to quantification.

The final objection to the adoption of a new motivational theory is that non-self-interested behaviour is irrational. The main difficulty here is that the concept of rationality has so often been equated with 'economic man' that an individual who fails to pursue a gains-maximizing strategy

is automatically considered to be irrational.[1] But this identification of rationality with economic self-interest is misplaced, and as Sen concludes, produces 'an arbitrarily narrow definition'.[2] After all, in common parlance when one speaks of someone behaving rationally one means that he is guided by reason, as opposed to instinct or emotion, and that he makes consistent choices.[3] One does not mean that he is indifferent to the well-being of his neighbour. Accordingly, behaviour can be rational regardless of one's state of knowledge or one's motivations. Given this approach, there are no grounds for asserting that trade unionists who allow their bargaining behaviour to be influenced by ethical or ideological commitments are acting irrationally.

4.3 Commitment Factors in Wage Bargaining

Two extremely important ramifications follow from the inclusion of commitment factors in one's motivational theory. First, the introduction of new behavioural assumptions enables one to reassert the vital significance of politics, culture, morals and ideology for an understanding of collective action and the provision of public goods. Second, it supplies a possible solution to the dilemma of achieving voluntary wage restraint in advanced industrialized democracies.

---

[1] Terry Moe, The Organization of Interests, p.14.

[2] Amartya K. Sen, 'Rational Fools: A Critique of the Behavioural Foundations of Economic Theory', p.342.

[3] Ibid., p.342.

Let us explore these implications further.

As was argued in Chapter 3, traditional formulations of rational choice theory indicate that individual unions will not moderate their wage demands unless very exacting conditions are met. Specifically, they must be convinced that, after taking into account various threats and incentives, they will gain more by exercising restraint than by fully exploiting their labour market power. Once, however, one introduces such considerations as ideological commitments, moral obligations, party loyalty and trade union solidarity, policy outcomes may change. Broadly speaking, there are two possibilities: either these commitments will encourage free riding and organizational resistance, or they will deter it.

On the one hand, the members of a particular union may be ideologically opposed to the governing party. They may be mistrustful of its leaders, suspicious of their intentions and critical of their overall strategy. And they may be hostile to incomes policies, voluntary or otherwise, because they believe such policies to be prejudicial to their interests. For instance, their ideological perspectives may so colour their interpretation of economic reality that they believe that an incomes policy will harm the working class or the trade union movement, both in the short and longer term. That is to say, they may see an incomes policy primarily as a device for redistributing factor shares in favour of capital and for increasing the rate of exploitation of labour.[1]

---

[1] Another possibility is that they accept that uncoordinated free collective bargaining is economically injurious, but nonetheless support it as a means of destabilizing society and promoting the necessary conditions for a working class revolution.

Alternatively, they may identify themselves first and foremost with a particular occupation, trade, skill or craft (engineer, driver, miner, seaman, or whatever) rather than as a member of the working class or as a member of a region, state, racial group or religion.[1] In other words, they may have a narrow or sectional sense of identity. To the extent that a person's sense of identity influences how he perceives or defines his interests, one would expect those with a narrowly-based sense of identity to define their interests equally narrowly and hence to be less willing to cooperate in collective undertakings.

On the other hand, the members of another union may have a close relationship with the governing party and have a desire to help it implement its economic policies. They may have a strong sense of working class or trade union solidarity and may define their interests in much broader categories than the members of the first union. Further, they may have a wide range of social and political objectives and may be prepared to exercise voluntary wage restraint if it can be demonstrated that this will enable other groups within society, such as pensioners, to obtain benefits otherwise deemed to be beyond the government's capacity to provide. Finally, they may regard a voluntary incomes policy as being economically desirable in the long run, both for themselves and the nation as a whole. Consequently, once a stabilization policy has been

---

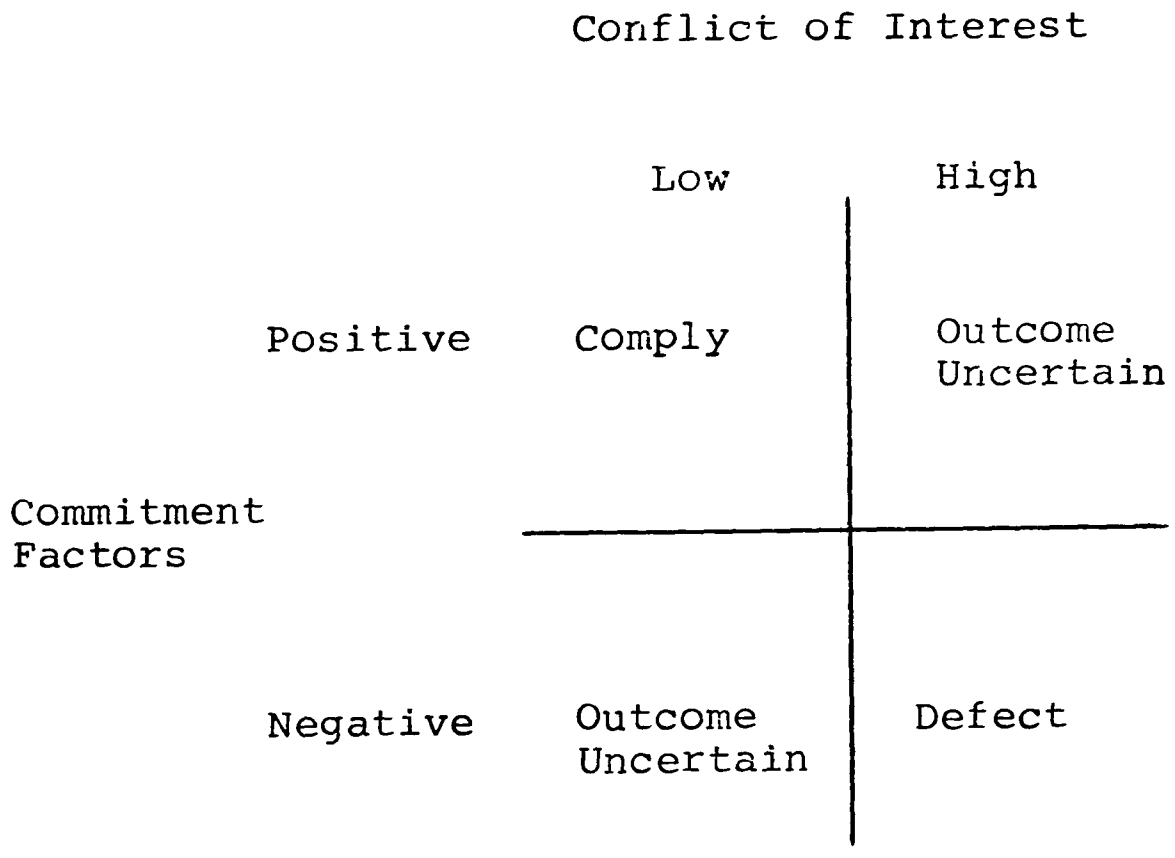
[1] For a discussion of the relationship between interests and identity see Alessandro Pizzorno, 'Political Exchange and Collective Identity in Industrial Conflict', in Colin Crouch and Alessandro Pizzorno, eds., The Resurgence of Class Conflict in Western Europe Since 1968 Vol. II (London: Macmillan, 1978), esp. p.280; and Suzanne Berger, 'Introduction', in Suzanne Berger, ed., Organizing Interests in Western Europe: Pluralism, Corporatism and The Transformation of Politics, esp. pp.12-13.

agreed, they will not attempt to free ride even though they believe they could make short-run real-wage gains if they did so.

Of course, in the real world things are much more complex than this. To begin with, a union is a dynamic and complicated organization containing members with different moral, economic and ideological perspectives. Only very rarely will there be a harmony of attitudes. Thus, to speak of a union as if it were a unified or single personality is quite misleading. Rather, in considering the role and impact of commitment factors on a union's bargaining strategy one needs to give attention to the decision-making rules within the union and to the various commitments of its leaders, activists and rank-and-file members. It must also be remembered that commitments will vary in their salience or intensity. One person, for example, may feel a very strong bond of loyalty to a political party or believe that it would be morally wrong to free ride once a cooperative solution has been agreed. Another individual, however, may have a much weaker sense of loyalty and may not be unduly concerned about the ethics of defection. Finally, and perhaps needless to say, an individual's commitments will not always lead him in the same direction. He may, for instance, accept the rationale for an incomes policy, but regard the proposed policy as being totally unfair or inequitable, or believe that he (and his fellow workers) are entitled to much better pay and conditions of employment. If this view is widely shared within the union, then, despite the overall advantages of collective restraint, the union may cast its vote against the policy.

From all this it should be evident that the level of free riding under a voluntary incomes policy will depend not only upon the state of the labour market and the opportunity costs of compliance, but also upon the nature, intensity and distribution of moral and ideological commitments within each union. Putting these two sets of factors together, we can illustrate the possible pressures on an individual union under a voluntary incomes policy in a simple typology as follows.

Figure 3 Normative Commitments, Short-Run Opportunity Costs and Free Riding



As figure 3 shows, a union can be expected to free ride when its members perceive that the short-run opportunity costs of abiding by the policy guidelines are high and when the vast majority of its members and leaders have what can be termed 'negative' commitments: that is, they are ideologically opposed to incomes policies, they are hostile to the current government, they have a strong sense of group loyalty (and a weak sense of class or national loyalty), they are little concerned by the

ethics of non-compliance, and they believe the proposed policy to be quite unjust. Conversely, one can expect a union to comply with a voluntary policy when its members perceive that the short-run opportunity costs of doing so are low and when their commitments are of a 'positive' kind: that is, they accept the rationale for an incomes policy, they consider that they ought to abide, they have a strong sense of working class loyalty, they support the current government, and they believe that the proposed policy is fair. It is less easy to predict how unions in the two remaining categories - those with negative commitments and low opportunity costs, and those with positive commitments and high opportunity costs - are likely to behave. Nevertheless, it seems reasonable to suppose that a union in a weak bargaining position will be unable to break the policy regardless of the intensity of the negative commitments of its members. Similarly, one would expect that a powerful union whose members have strong positive commitments to comply with the policy. If these assumptions are correct, it means that a voluntary incomes policy is most at risk when a union (or unions) in a strong market position is vehemently opposed to the implementation of collective restraint. Indeed, in such circumstances it seems doubtful whether a voluntary incomes policy could ever be agreed. And, even if it were, it could hardly be expected to last for long.

Given this analysis, it should be evident that a cooperative solution is most likely to be forthcoming when there is a chain of positive commitments from the leadership to the base in those unions or bargaining groups with the greatest capacity and incentive to defect. When this condition is not satisfied, alternative strategies will probably have to

be adopted. But there is something else which is crucial to observe here: union goals, preferences and commitments are not stable over time and are amenable to change. For example, a union's commitment to full employment may wax and wane. Working class solidarity may flourish or wither. Political passions may ebb and flow like the tide. And the balance of ideological forces within a union will rarely be stable for long. Consequently, a government confronted by a seemingly intransigent union movement is not necessarily powerless. Several strategies are avilable.

Firstly, to the extent that union leaders are hesitant to endorse wage moderation for economic reasons, the government can try, by means of persuasion and the judicious use of information, to demonstrate that restraint will be universally advantageous. That is to say, the government can seek to alter the perceptions of the trade union leadership and their members regarding the expected payoffs of moderation. The success of such an approach will probably depend upon the nature of the economic doctrines espoused by the sectoral elites and the capacity of ministers to convince. In other words, if the trade union leaders are monetarists or Marxists and distrust the government's economic forecasts, or if ministers and their advisers are poor advocates, then the union leadership is unlikely to be persuaded of the logic of collective action.

A second strategy available to the government arises out of the fact that it can now employ a broader range of quid pro quos. If unions are motivated solely by economic self-interest, then, as argued in Chapter 3, the government

may be restricted in the kinds of incentives it can offer. If, however, unions have wider social and political objectives, ministers will have more cards to play. For instance, should it be the case that the union movement is committed to a policy of enhancing the welfare of the poorer sections of the community, such as pensioners, the disabled or the unemployed, the government could announce a contingent grant which would be given to these groups, if, and only if, the unions agree to cooperate with an incomes policy.[1] Of course, there will be difficulties. Union members will doubtless be divided as to which group or groups should receive additional assistance, and some trade unionists may totally reject a trade-off of this nature. Moreover, if Daniel Bell's analysis of cultural changes in the West during the post-war period is accurate, then the prospects of successful exchanges between social objectives and income objectives must be called into question. According to Bell, as well as many other scholars, the past few decades has witnessed the waning of traditional values-such as self-restraint, discipline, collective responsibility, duty, self-sacrifice and so forth- and a rise in the values of individualism, hedonism, materialism and acquisitiveness.[2] To the extent that union leaders and

---

[1] This possibility has been explored by David Collard in Altruism and Economy, pp.73-78.

[2] See for example Daniel Bell, The Cultural Contradictions of Capitalism (London: Heinemann, 1976); John Goldthorpe, 'Inflation: Towards a Sociological Account', in Fred Hirsch and John Goldthorpe, The Political Economy of Inflation, pp.186-216; Henry Phelps Brown, 'Comments', in Frank Blackaby, ed., The Future of Pay Bargaining, pp.92-94; Hilde Behrend, 'Research into Public Attitudes and the Attitudes of the Public to Inflation', Managerial and Decision Economics, 2 (1981), pp.1-8; Samuel Beer, Britain Against Itself, esp. pp.107-148; and Charles E. Lindblom, Politics and Markets (New York: Basic Books, 1977), p.84.

their members have been influenced by such cultural changes, one would expect there to have been a decline in the salience of political and social goals and a corresponding rise in short-term maximizing behaviour.[1] From the standpoint of our model, this would suggest that commitment factors, be they of a positive or negative variety, have generally weakened. If this is so, it implies that governments may find it increasingly difficult to achieve voluntary wage restraint.

Yet, even if Bell's diagnosis is accurate, it may still be possible to mobilize support for a voluntary policy in certain circumstances. An economic crisis, or a war, will almost certainly reduce the salience of sectional interests and 'shock' union leaders into making sacrifices for the common good.[2] The drawbacks with this kind of strategy, however, are fairly obvious. Crises are difficult to engineer, even harder to control, and potentially very dangerous for all concerned! Besides, as Barry reminds us, mass altruism tends to evaporate quickly and, in contrast to self-interest, requires 'a succession of dramatic and well-publicised events to keep it going'.[3] Hence, while a deep economic crisis may be sufficient to evoke short-term restraint, it will rarely bring a lasting change in union attitudes or bargaining behaviour.

---

[1] One sign of this may be the growing tendency of unions in a number of countries to exploit inequitable comparisons more strategically and systematically for short-term advantage. See W.K. Roche, 'Ross on Comparisons: A Critical Examination of an Industrial Relations Classic'. Research Paper, Nuffield College, Oxford, November 1982, pp.19-20.

[2] L.J. Sharpe, 'Economic Performances and Distribution: Is the U.K. a Harbinger or Aberration?' Paper prepared for presentation at the E.C.P.R. Workshop on 'The Comparative Study of Distribution and Social Policy in Advanced Industrial Nations', Freiburg, 20-25 March 1983, p.10.

[3] Brian Barry, Sociologists, Economists and Democracy, p.37.

To sum up, the adoption of new behavioural assumptions does not automatically solve the collective action problem. Indeed, it may make the achievement of cooperative solutions even more problematic. What it does do, however, is to redirect the focus of our theoretical inquiry. Instead of being concerned solely with institutional variables, material incentives, payoff structures and resource constraints, other matters such as elite-mass relations, societal values, cultural norms, ideological commitments and leadership skills acquire significance. As a result, the quest for voluntary wage restraint takes on a new dimension. One is no longer locked within the confines of rigid behavioural assumptions. Rather, one is operating within a universe in which beliefs and values matter, in which the political entrepreneur can make a difference, in which the future is open, and in which, from time to time, moral commitments may transcend, in the words of Irving Kristol, 'the wants of our lower selves'.[1]

One final point: the argument above does not mean that our application of rational choice theory to the question of securing a voluntary pay deal has been misplaced. On the contrary, only by applying this model is one able to grasp the range and magnitude of the problems besetting a voluntary incomes policy and the conditions which must be fulfilled if a solution is to be forthcoming.

4.4 Methodology

The remainder of this thesis will explore, in the light of the preceding theoretical discussion, the case of the British Labour Government's Social Contract with the TUC.

---

[1] Irving Kirstol, 'Rationalism in Economics,' p.216.

As mentioned in Chapter 1, the British example is particularly interesting because, on the face of it, both institutional and commitment factors would seem to suggest that a voluntary incomes policy could never be agreed, let alone implemented with much success. For instance, wage bargaining is fragmented and decentralized. There are a large number of unions, many of which compete for members. And by continental standards, the peak organizations of employers (the CBI) and employees (the TUC) are relatively weak. Nor is the intellectual climate conducive to cooperative strategies. There is a substantial amount of ideological conflict within the union movement. Sectional interests and loyalties are strong. There is a tradition of legitimate protest. There have been regular challenges by trade unions to the authority of the state. And trade unionists have tended to place a high value on the free exercise of their bargaining rights and the non-interference of the state in the bargaining process. Because of this spirit of voluntarism, many union leaders have been reluctant to engage in high-level political bargaining over economic and social policy and have been unwilling to surrender their bargaining autonomy. Yet, notwithstanding this, the Labour Government managed for two years (1975-77) to implement a non-statutory incomes policy with remarkable success - as judged by almost any criteria. The puzzle, then, is to explain how this was accomplished and what role, if any, commitment factors played both in the implementation of the Social Contract and in its eventual demise.

But such an inquiry poses immediate theoretical problems. In particular, how is one to distinguish between behaviour based on commitment factors as opposed to self-interest, and how is one to assess the overall impact of moral and ideological commitments on policy decisions? Or, to put it another way, how is one to operationalize the concept of commitment and evaluate its role, either in deterring free riders or in encouraging union resistance to the policy? Admittedly, this task is not easy. Human motives are complex, difficult to discover, and impossible to quantify. Thus, any endeavour to evaluate the role of commitment factors in pay bargaining must begin by recognizing that analytical or statistical precision is unobtainable, and that such conclusions as emerge can only be partial, tentative and suggestive, rather than determinative or incontrovertible.

Bearing this qualification in mind, the procedure to be adopted here is as follows. There are two main requirements for voluntary restraint to be achieved: a sufficient number of unions (or unionists) must support the policy in principle,[1] and virtually all must comply with it in practice. This implies that we need to explore both the voting patterns of individual unions as well as their bargaining strategies. But if this exploration is to be theoretically fruitful, several distinctions must be made. First, we must delineate very roughly between powerful and weak unions, that is, between unions for which compliance may entail certain opportunity costs, and those which have little to lose in the short-run by commiting themselves to a voluntary incomes policy. Unfortunately there is no widely accepted measure of bargaining strength and no easy formula for determining the power of bargaining

[1] The exact number will depend on the decision-rule adopted by the union movement.

groups.[1] Nevertheless, for the purposes of this inquiry we will assume that a bargaining group is powerful if it is in a favourable market position and/or if it possesses substantial organizational resources.[2] That is to say, a powerful group must fulfil at least one of the following criteria: it is placed within a strategic sector of the economy and enjoys a fairly inelastic labour-demand curve; it is in a growth sector of the economy where product demand is bouyant and profitability high; or it possesses a significant organizational and strategic capability together with a preparedness to use this capability.[3] A weak union, on the other hand, falls outside such categories.

The second step is to distinguish between those unions which voted for the policy and those which voted against, and between those which complied with the policy and those which did not. The task here is much more straightforward since, on the whole, the voting decisions of unions during the Social Contract are well documented, and in the two years with which we are most concerned relatively little free riding was attempted, and even less was successful.

---

[1] Derek Robinson, 'Comments', in Richard E. Caves and Lawrence B. Krause, eds., Britain's Economic Performance (Washington: The Brookings Institution, 1980), p.128.

[2] It should be noted that we will be concerned here more with perceived power rather than actual power, although, of course, perceptions are usually well founded. Further, to the extent that the perceptions of outside observers and policy makers differ from those of union members, we will naturally be more interested in the former. Again, however, there is unlikely to be a marked variation between a union's perception of its own strength in the labour market and that strength as assessed by outside observers.

[3] Relevant considerations here would include union density, strike funds, picketing potential, the level of militancy, the likelihood of support from other unions and so on.

Next, having made these distinctions we can categorize unions into four main groupings: 1) weak unions which complied; 2) weak unions which did not comply; 3) powerful unions which complied; and 4) powerful unions which did not comply. Group 1 is of only minor interest since, assuming one's classification system is accurate, the unions in this category have little choice but to abide by the policy. On the other hand, their votes within the wider forums of the union movement may affect the final outcome of any TUC-Government negotiations; and their voting behaviour may well be influenced by commitment factors. But again there is a problem of identification. After all, a weak union may support a restraint programme, especially one biased towards the low paid, out of self-interest rather than on the basis of political, ideological or moral commitments. And it would be difficult to assess the relative weight of the various factors leading it to endorse a cooperative solution. Against this, of course, should a weak union reject a policy from which it could be expected to benefit, either in real or relative terms (or both), it suggests that negative commitment factors may have played a decisive role in shaping the union's approach.

Groups 2 and 4 can, for all intents and purposes, be ignored since there were virtually no defectors between 1975-77. Certainly there was some slippage above the guidelines during these years, but there was no overt free riding by any major union or bargaining group.

Group 3 is undoubtedly the most interesting category. For here we have relatively powerful unions which have chosen to comply with a voluntary policy despite pressures to free ride. Moreover, they may have voted in favour of the policy. If

positive commitments play any part in union decision making, it is amongst these unions where their role is likely to be most visible and also strategically most important. But how is the impact of such commitments to be assessed and evaluated? Again we need to examine two matters: how the union voted, and how it conducted its bargaining strategy. With respect to voting, the simplest solution is to analyse the speeches of union leaders and delegates at union conferences. What reasons did they give for voting as they did? Was it openly acknowledged that to support the proposed policy would entail a degree of self-limitation or even short-term real-wage sacrifices? And did union leaders believe that it was necessary and desirable that they should under-utilize their market power in the national interest? If they did, it is likely that we have an example of normative commitments overriding self-interest.

Second, we need to examine the bargaining strategy of the unions in group 3. If they voted in favour of a policy of nominal-wage restraint, their decision to conform to its terms is readily explicable. If, in contrast, they voted against the policy, they may have chosen to comply either because they felt morally obliged to respect the decisions of the trade union movement or, alternatively, because they calculated that the costs of defection, in terms of strike action and possible TUC or governmental sanctions, outweighed any likely gains. If they complied for the former reason we have a case of commitment; if for the latter, we are back in the realm of self-interest.

In applying this analytical approach to the operation of the Social Contract, some selection is clearly imperative. There are simply far too many unions and bargaining groups in

Britain to examine the bargaining strategies, internal politics, and decision-making processes of each one, even over a very limited time-span. Consequently, most attention will be focussed upon the largest unions and those unions which were believed, by policy makers at the time, to pose the greatest threat to the successful operation of the policy.

Part II CASE STUDY : THE SOCIAL CONTRACT

CHAPTER 5

STRUCTURAL AND ATTITUDINAL ASPECTS OF THE BRITISH LABOUR MOVEMENT: A BRIEF SKETCH

5.0 Introduction

The next six chapters provide a detailed analysis of the attempts of the Labour Government between 1974-79 to contain the growth of nominal wages by securing the consent of the union movement for voluntary pay moderation. Organizationally the material is divided in the following manner. This chapter outlines the industrial relations framework and the political environment in which the Social Contract was conceived and implemented. Chapter 6 examines the origins and early development of the Contract and analyses its failure to moderate nominal-wage growth. Chapter 7 discusses the economic crisis in the middle of 1975 and the subsequent negotiation of the £6 flat-rate policy. Chapter 8 describes how consent for this policy was mobilized within the union movement, the opposition it encountered, and the reasons for its remarkable success. Chapter 9 focusses upon the negotiation and implementation of the second stage of the Government's stabilization programme between August 1976 - August 1977. And finally, Chapter 10 analyses the collapse of consent for pay restraint and the efforts of Labour ministers during the last 20 months of their administration to curb the growth of money wages.

The evolution of the Labour movement and the changing pattern of industrial relations in Britain has attracted much scholarly research in the past few decades and it is neither necessary nor desirable for the argument of this thesis to

supply a comprehensive review of all the relevant literature.[1] However, in order to better understand the character and operation of the Social Contract, five subjects must be addressed briefly: the structure of pay bargaining; the role and function of employers' associations; the structure and authority of the TUC; the relationship between the unions and the Labour Party; and the principal strands of thought within the Labour movement on the question of incomes policies.

5.1 The Structure of Pay Bargaining

Prior to the Second World War, pay determination in the private sector was dominated by industry-wide multi-employer bargaining at either a national or regional level.[2] Although there was some work-place bargaining this was generally of

---

[1] Amongst the recent contributions to the study of British industrial relations and trade union politics are the following: Frank Blackaby, ed., The Future of Pay Bargaining; William Brown, ed., The Changing Contours of British Industrial Relations (Oxford: Basil Blackwell, 1981); Denis Barnes and Eileen Reid, Governments and Trade Unions: The British Experience 1964-79 (London: Heinemann Educational Books, 1980); H.A. Clegg, The Changing System of Industrial Relations in Britain (Oxford: Basil Blackwell, 1979); Ken Coates and Tony Topham, Trade Unions in Britain (Nottingham: Spokesman, 1980); Colin Crouch, Class Conflict and the Industrial Relations Crisis (London: Humanities Press, 1977); Colin Crouch, The Logic of Collective Action (Fontana, 1982); Leo Panitch, Social Democracy and Industrial Militancy: The Labour Party, the Trade Unions and Incomes Policy 1945-1974 (Cambridge: Cambridge University Press, 1976); John Purcell and Robin Smith, eds., The Control of Work (London: Macmillan, 1979); and Robert Taylor, The Fifth Estate: Britain's Unions in the Seventies (London: Routledge and Kegan Paul, 1978).

[2] For an account of pay bargaining in Britain and the major changes since the war, see William Brown, 'The Structure of Pay Bargaining in Britain', in Frank Blackaby, ed., The Future of Pay Bargaining, pp.129-147; William Brown, ed., The Changing Contours of British Industrial Relations, esp. Chapter 2; William Brown and Michael Terry, 'The Changing Nature of National Wage Agreements', Scottish Journal of Political Economy, 25 (June 1978), pp.119-133; William Brown and Keith Sisson, 'Industrial Relations in the Next Decade: Current Trends and Future Possibilities', Industrial Relations Journal, 14 (Spring 1983), pp.9-21; and W.W. Daniel, 'Wage Determination in Industry', PEP Broadsheet, 42, 563 (June 1976).

secondary importance. Instead, the most important negotiations were conducted by the representatives of employers' federations and the national officers of individual unions. During the post-war era, partly in response to the impact of full employment on union power, and partly as a consequence of limited employer solidarity, this system began to disintegrate. While wage rates continued to be negotiated at the industry level in many sectors of the economy, these were increasingly supplemented by work-place deals between plant managers and shop stewards. By the mid 1960s, pay determination had become highly fragmented and decentralized with actual earnings moving significantly in advance of industry agreements. This earnings drift was rendered easier by the prevalence of 'piece' rate payment systems in the manufacturing sector which gave local negotiators greater discretion over paid rates. It was also exacerbated by the growing readiness of shop stewards to organize unofficial industrial action in pursuit of their claims, and the corresponding decline in the control exercised by national union officials.

A further stage in the development of wage bargaining began in the late 1960s and continued during the 1970s. Against a background of rising industrial unrest and wage inflation, and in keeping with the recommendations of the Donovan Commission - which had been critical of the existing two-tier system of pay determination - employers sought to reassert their control over wage rates and earnings. Amongst other things this led to a move away from 'piece' rates and payment-by-results systems to measured-day-work, the increased use of group incentive schemes and job evaluation, and an endeavour to centralize wage negotiations at the company level.

This meant, in effect, that there was a decline in plant and workshop negotiations with the main arena for pay determination in the private sector becoming that of the company. The growing importance of single-employer company-wide bargaining did not, however, bring an end to industry agreements. In fact, in some sectors, such as building and construction, electrical contracting, hosiery, paper and printing, multi-employer industry-wide agreements have remained dominant.[1] In engineering and chemicals, on the other hand, although industry settlements have continued, they have not exerted much influence on actual earnings and have acted rather as 'safety nets' or minimum earnings guarantees for those employees in a weak bargaining position.[2]

Collectively, the changes in payment systems and bargaining levels meant that by the mid 1970s pay determination was less fragmented and managers were in a better position to control the growth of earnings.[3] This state of affairs undoubtedly assisted the TUC and the Government during the implementation of the Social Contract, especially the £6 and 5% policies.

Historically, pay determination in the public sector has been more centralized than in the private sector.[4] Bargaining has normally been concentrated at the industry or national level with senior union officials, rather than local shop stewards,

---

[1] William Brown, 'The Structure of Pay Bargaining in Britain', p.136.

[2] Ibid., p.136.

[3] Ibid., p.146

[4] For details see R.F. Elliott and J.L. Fallick, Pay in the Public Sector (London: Macmillan, 1981), esp. pp.31-62.

leading the negotiations on the union side. Within the nationalized sector, industry-wide single-employer bargaining has been the primary mode of wage fixing, and there has been only limited work-place bargaining. Moreover, for a large percentage of public employees, which incidentally number about 7 million or 30% of Britain's 24 million workforce, pay determination has been dominated by the principle of comparability. In other words, rates of pay for specific categories of workers have been based on an assessment of pay levels obtaining in related private sector occupations. The main problem, of course, has been to determine what is an appropriate or relevant comparison. This is a particularly acute difficulty for occupations such as firemen, policemen, and the armed services for which there are no obvious or substantial outside reference groups. Although comparability has been the pre-eminent principle for deciding the pay of public sector workers in recent decades, it has not been the only method or criterion. In fact, it is helpful to distinguish four different systems of wage fixing. The pay of manual workers, for instance, has generally been negotiated by means of industry-wide bargaining. This is the case in coal mining, the railways, steel production, gas supply, electricity generation, civil aviation, the post office and the health service. With one or two exceptions these are all examples of bilateral monopoly - there is one major industrial union and one main buyer of labour. Non-manual workers in central government, on the other hand, have had their pay set in a somewhat different way. Since 1956 a Pay Research Unit (PRU) has established rates in accordance with various comparability formulae. The operations of the PRU were suspended between

1975-78 and civil servants were simply awarded the relevant pay norm, be it determined by bargaining with the TUC or unilaterally by the Government. White-collar non-civil service workers, such as non-manual workers in the health service and white collar local government employees, have generally negotiated their rates of pay with their employers. Again, however, comparability has tended to be the main criterion with rates often being based indirectly on those established by the PRU.[1] Finally, a small category of public sector workers, namely, doctors and dentists and those on very high salaries, have had their pay set by government review bodies. During the Social Contract period these were supplemented at various times by special, ad hoc review bodies like the Houghton Committee, which investigated the pay of non-university teachers, and the Committee of Inquiry into Police Pay under Lord Edmund-Davies.

It should be clear from this brief overview that, despite the reforms of the late 1960s and 1970s, the structure of pay bargaining in Britain is not conducive to the implementation of a voluntary incomes policy. Two fundamental problems present themselves. First, there are a huge number of bargaining units. According to Brown's calculations, there are in the order of 30,000 bargaining units with 25 or more employees, and doubtless countless more of a smaller size.[2] Since there are often many bargaining units within a company,

---

[1] J.L. Fallick and R.F. Elliott, 'Incomes Policy and the Public Sector', in J.F. Fallick and R.F. Elliott, eds., Incomes Policy, Inflation and Relative Pay, p.105.

[2] William Brown, 'Central Co-ordination', Oxford Bulletin of Economics and Statistics, 45 (February 1983), p.57.

the number of managerial control points is fewer than this. Nevertheless, Brown estimates that there are probably about 10,000 managerial pay-control points covering 25 or more employees, and about 1000 pay-control points with 1000 or more employees.[1] Obviously, with such a large number of bargaining units, and with so many people involved in the process of pay determination, it is extremely difficult to maintain an effective system of central coordination or control. The other major factor inhibiting the development of a consensual policy of wage moderation is the fact that many strategic sectors of the British economy, namely, power generation, fuel supply and transportation, are characterized by a high level of union density and are dominated by one, and in some cases several, well organized and often militant unions. If a pay restraint programme is to be successfully implemented, therefore, one must somehow secure the support of most, if not all, of these unions.

5.2 Employers' Associations

Despite the diminished importance of industry-wide pay bargaining in the private sector and the corresponding rise of company bargaining, membership of employers' associations has remained relatively high. During the 1970s about 75% of firms were members of one or other of the many employers' associations.[2] At the national level some 11,000 companies were affiliated directly or indirectly to the Confederation of British Industry (CBI) in 1974, including 75% of Britain's 200 leading companies.[3]

---

[1] William Brown, 'Central Co-ordination', p.57.

[2] William Brown, ed., The Changing Contours of British Industrial Relations, p.19.

[3] Wyn Grant and David Marsh, 'The Politics of the CBI: 1974 and After', Government and Opposition, 10 (Winter 1975), pp.90-91.

But even this degree of representation compares unfavourably with many other western economies. What is more, membership does not automatically translate into power. In terms of resources and influence, both at the governmental level and with regard to control over the action of affiliates, British employers' associations are very weak.[1]

At the industry level, for instance, only four organizations, the Engineering Employers' Federation (EEF), the Chemical Industries Association, the British Printing Industries Federation and the British Textile Employers' Association, represent more than half the establishments in their respective industries.[2] Added to this, such associations have no direct control over the wages policies of industrial companies and have no authority to order lockouts or to veto pay increases. Not even the EEF, which is the largest industrial employers' association, was able to prevent the erosion of the 40 hour week when its members were confronted with serious strike action in pursuit of a 35 hour week claim during the summer of 1979.[3] Within individual industries, then, there is little employer solidarity and only limited coordination of bargaining strategies.

A similar picture presents itself at the national level. Although the CBI contains within its ranks most of the large

---

[1]For a detailed account, especially of the role and function of the CBI see Wyn Grant and David Marsh, The Confederation of British Industry (London: Hodder and Stoughton, 1977).

[2]William Brown, ed., The Changing Contours of British Industrial Relations, p.19.

[3]William Brown, 'The Structure of Pay Bargaining in Britain', p.140.

manufacturing and commercial enterprises, it enjoys the membership of only a tiny fraction of the country's 800,000 or so small businesses. More significantly, it has virtually no sanctions at its disposal against either the government or its own members. It has no constitutional right to interfere with, let alone determine, the pay, investment or planning policies of member companies, and is in no position to develop or implement a national wages strategy. The most it can do is to apply moral pressure for restraint, and supply its members with legal and economic advice. It cannot ensure that this advice is followed, or prevent a profitable company from breaching an agreed pay code. Such weaknesses made it inevitable that the CBI would play only a minor role in the formulation and execution of the Social Contract. The Labour Government kept CBI leaders informed about policy changes, and received delegations from time to time, but employers' leaders took no active part in the bargaining process and exercised little influence over the determination of pay norms and quid pro quos. Effectively, all the CBI did was to press the Government to adopt a more restrictive monetary and fiscal policy, encourage companies to adhere to the negotiated guidelines, and advocate reform of Britain's system of pay determination.

5.3 The Structure and Authority of the TUC

In terms of its representational monopoly, the TUC is in a somewhat stronger position than the CBI.[1] It is the sole

[1] For a detailed account of the constitution, role and functions of the TUC, see Ken Coates and Tony Topham, Trade Unions in Britain; Gerald A. Dorfman, Wage Politics in Britain 1945-67 (London: Charles Knight, 1974); Ross M. Martin, TUC: The Growth of a Pressure Group 1868-1976 (Oxford: Clarendon Press, 1980); and David Winchester, 'Power and Influence in the TUC: A Quest for Control', in John Purcell and Robin Smith, eds., The Control of Work, pp.100-132.

employee peak organization and represents not only 50% of the total U.K. workforce, but well over 90% of the 13 million or so trade union members, including about 100 of Britain's 488 unions. On the other hand, its authority in the realm of pay determination is weakened by a whole host of factors: its limited resources of staff and finance; the competitive bidding among rival unions for members and status; the high degree of sovereignty which individual unions possess over the determination of bargaining goals and the calling of industrial action; the absence of a centrally-controlled strike fund; the decentralization of decision-making power within individual unions, and the fact that shop stewards often owe only a loose allegiance to their union; the strength of sectional, craft-based loyalties; and the lack of effective sanctions to deter free riders. As a result, the TUC is not well placed to coordinate a national wages policy or guarantee compliance with centrally-agreed pay guidelines. In fact, it can only negotiate and assist in implementing an incomes policy if its affiliated members agree collectively to grant it the necessary powers. In practice, this means that the supporters of an incomes policy must secure a majority, and if possible a substantial majority, in two main decision-making forums, the General Council and the TUC Conference.

The General Council consists of 41 members elected by block votes at the annual conference, plus the General Secretary. For electoral purposes unions are divided into eighteen trade groups each of which represents an industry or a major sector of the economy.[1] Every group is allocated a certain number of seats on the General Council reflecting in broad terms

---

[1]There are two additional seats for women.

the number of union members in each sector. Nominations for candidates within each trade group can only be made by unions belonging to that group. Should more candidates be nominated than the seats available a ballot is held in which all TUC unions are eligible to vote. Those elected (or appointed unopposed) are almost always general secretaries or senior union officials, and once on the General Council they tend to enjoy a relatively long tenure.

During the 1970s there were usually about 30 unions represented on the General Council, six of which normally had more than one member: the Transport and General Workers' Union (TGWU), (5); the Amalgamated Union of Engineering Workers (AUEW), (4); the General and Municipal Workers' Union (GMWU), (3); the National and Local Government Officers' Association (NALGO), (2); the Union of Construction, Allied Trades and Technicians (UCATT), (2); and the National Union of Mineworkers (NUM), (2). These figures underestimate slightly the influence of the TGWU, AUEW and GMWU since these unions also play a crucial role in determining the outcome when elections take place in the other trade groups. Furthermore, with nearly 40% of the total card vote at the TUC Conference between them they are in a strong position, if acting collectively, to dictate TUC policy. The TGWU, with almost two million members (roughly 18% of the TUC's membership) is the country's largest union and undoubtedly the most influential.

Throughout the Social Contract, negotiations between the TUC and the Government were conducted by a small group of senior union leaders known as the 'Neddy-six' since all of them were members of the National Economic Development

Council (NEDC).[1] (Incidentally they also served on the TUC-Labour Party Liaison Committee.) The Neddy-six reported either to the Economic Committee of the General Council - which includes 14 of the most senior and respected union leaders - or directly to the General Council.[2] During the years of the Social Contract both the Neddy-six and the Economic Committee tended to be dominated by the more moderate members of the General Council. While all this assisted the Government in negotiating acceptable pay policies, the exclusion of many union leaders from the process of political bargaining generated a good deal of suspicion and dissatisfaction and was one of the many factors which contributed to the eventual demise of the Social Contract in 1977-78.

5.4 The Labour Party and the Unions

Since the creation of the Labour Party at the beginning of the 20th century by leading trade unionists, the party and the union movement have shared strong institutional, ideological and personal connections.[3] Organizationally the

---

[1] In the period 1973-75 the Neddy-six comprised of Len Murray (General Secretary of the TUC), Jack Jones (TGWU), Hugh Scanlon (AUEW), David Basnett (GMWU), Lord Allen (Union of Shop, Distributive and Allied Workers, USDAW); and Lord Greene (National Union of Railwaymen, NUR). Dan McGarvey (Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths and Structural Workers, ASB) subsequently replaced Lord Greene in October 1975, and McGarvey was in turn replaced, on his death, by Geoffrey Drain (NALGO). During 1978 Jack Jones and Hugh Scanlon were replaced by Moss Evans (TGWU) and Terry Duffy (AUEW).

[2] It should be noted that members of the Neddy-six are also members of the Economic Committee.

[3] The relationship between the Labour Party and the trade unions is examined by David Coates, Labour in Power? A Study of the Labour Government 1974-1979 (London: Longman, 1980); Colin Crouch, The Politics of Industrial Relations (Fontana 1979); Lewis Minkin, 'The British Labour Party and the Trade Unions: Crisis and Compact', Industrial and Labour Relations Review, 28 (October 1974), pp.7-37; and Leo Panitch, Social Democracy and Industrial Militancy.

relationship has been extremely close. Some 59 unions, including all the large manual unions and nearly 50% of all trade unionists, were affiliated to the Labour Party in 1977.[1] As such, union members represent about 90% of the total membership of the party and have played a major role in the determination of policy, the recruitment and selection of parliamentary candidates and, more recently, the election of the party leader and deputy leader.

Union influence within the party derives from four principal sources. First, by means of their block vote at the party conference the unions can, if they act in unison, control policy outcomes and the selection of party officers. Such unity is, of course, a rare phenomenon for the unions are deeply divided ideologically. Nevertheless, on matters directly related to union activities like trade union law, where there is a strong identity of interests, the unions can dominate the policy process. A second source of influence stems from the large number of seats which the unions hold on the National Executive Committee (NEC) of the party. The unions have 12 places as of right and also exercise a good deal of leverage over the election of six other members - the party Treasurer and the five women members - all of whom are chosen in a general conference ballot. Effectively this means that the unions can control 18 of the 28 places on the NEC.[2] In addition, the unions have tended to monopolize the five seats on the Conference Arrangements Committee. Through this they have enjoyed considerable control over the formulation of the conference agenda, as well as the compilation of composite motions.[3]

---

[1] Ken Coates and Tony Topham, Trade Unions in Britain, p.308.

[2] Ibid., p.316.

[3] Ibid., p.322.

Clearly this enables the unions involved, namely the TGWU, AUEW, GMWU, NUM and NUR, to exert a powerful influence upon conference debates and thereby, on occasions, to alter policy decisions. A third source of power derives from the fact that the unions contribute a sizeable proportion (generally between 40-70%) of the party's central funds.[1] Union leaders are consequently in a position, if they should so choose, to exert pressure on the Parliamentary leadership by refusing to increase party affiliation fees. Finally, trade unionists can exercise influence as members of their local branch of the party and through the sponsorship of Parliamentary candidates.

Notwithstanding all this, the unions' control of the Labour Party must not be exaggerated. During the post-war period the number of trade unionists serving in senior party posts or holding ministerial office has declined, and by the time of the Social Contract there were relatively few ministers in the Labour Cabinet with a trade union background. Also, as we shall see, the influence of the union movement on the policies of the Labour Government of the 1970s varied greatly over time. For the first year or two (1974-75) it was undoubtedly considerable. But as the years passed and the economic constraints became increasingly severe, the unions found themselves in a much weaker position. From early in 1976, few of the policy proposals and recommendations of union leaders were implemented by the Government. Indeed, in some cases not even the pressure of the party conference proved sufficient to alter ministerial decisions.

---

[1] David Coates, Labour in Power? p.53.

But regardless of the precise degree of influence exerted by union leaders over policy formulation within the party, the importance of the relationship between the two wings of the labour movement cannot be stressed too strongly when it comes to understanding the nature and operation of the Social Contract. Without the bonds of loyalty, friendship, sentiment and conviction which united the union and Parliamentary leaderships during the 1970s, the Social Contract would simply not have been a feasible proposition. For, as will be argued in this thesis, it was only because union leaders were willing to subordinate their immediate goals and aspirations (and those of their members) in the interests of keeping a Labour Government in power that enabled a voluntaristic incomes policy to be successfully implemented.

5.5 Attitudes Towards Incomes Policy within the Labour Movement

Of all the issues to provoke controversy within the Labour movement in the post-war period, few have caused more bitterness, dissension and conflict than that of incomes policy.[1] The reasons for such sharp divisions lie buried within the differing moral and ideological strands of opinion represented within the Labour Party. There are those who accept a wage-push hypothesis and those who do not. There are those who favour state intervention to control the growth and distribution of incomes and those who are vehemently opposed. There are those who see an incomes policy as a socialist device designed to ensure social justice, and those who contend that an

---

[1] For a fuller analysis of trade union attitudes to state intervention in the post-war period see Peter Haywood, 'The Political Development of Incomes Policy in Britain from 1945-75, with Special Reference to Relations Between Government and the Trade Union Movement', (Oxford University, D. Phil. Thesis, 1980), pp.148-191.

incomes policy is an instrument of capitalism aimed at preserving privilege and injustice. And then there are those who regard free collective bargaining as a basic human right and those who dispute such claims. To a very considerable extent the views adopted on these matters reflect fundamental ideological commitments. At the same time it would be too simplistic to suggest that opinions divide neatly along some classical left-right continuum. Often the exact lines of demarcation are impossible to delineate and map with precision. This was certainly true of the years in question.

During the Social Contract attitudes to wage restraint changed from time to time in response to shifts in fashion, mood and circumstance. Pragmatic compromises sometimes united traditional opponents. Coalitions formed and later disintegrated. And the period was characterized by subtle, though often important changes in emphasis. This was especially so when it came to the business of drafting reports, policy statements and manifestos which touched on the contentious issues of wage bargaining, income distribution and anti-inflation strategy. But although the division and range of opinion was subject to some changes during the 1970s, it is nevertheless possible to distinguish at least three major and fairly constant streams of thought within the Labour movement on the question of incomes policy.

To start with, there are those belonging to what is often referred to as the 'hard' left who are totally opposed to incomes policies, be they voluntary or otherwise, so long as Britain remains a capitalist society.[1] Rejecting the theory

[1] For a comprehensive statement of this position by one of its leading proponents see Ken Gill, 'Incomes Policy: The Trade Union View', in R.E.J. Chater, et al., eds. Incomes Policy (Oxford: Clarendon Press, 1981), pp.180-192.

that wage increases can cause inflation, the hard left regard an incomes policy as an attack on the fundamental right of unions to bargain for their members, as an instrument for redistributing factor shares in favour of profits, and as a device to stabilize and perpetuate an inherently unjust social and economic system. From this perspective the solution to inflation lies not in an assault on trade union rights and privileges, but in the reconstruction of the political and economic order along Marxian lines. This would entail widespread nationalization, a massive redistribution of wealth, worker control of industry, major improvements in social services, and state control of investment and capital flows. Once socialism has been achieved, and only then, can attention be directed to the question of the appropriate role of unions in the process of income determination. In the meantime there can be no pragmatic or tactical cooperation with capitalist institutions.

It is difficult to provide a precise assessment of the numerical strength and importance of the hard left during the years of the Social Contract. At the national level it was poorly represented within the main decision-making organs of the Labour Party or the TUC. Only a handful of those on the General Council or the NEC were associated with this ideological tradition and their influence was frequently undermined by intense personal and ideological conflicts.[1] Against this, it must be borne in mind that members of the Communist Party, the Socialist Workers' Party and various other radical left-wing

---

[1] Hard-left members of the General Council at the time of the Social Contract included Ray Buckton (ASLEF), Ken Gill (AUEW/TASS), Alan Sapper (Association of Cinematograph, Television and Allied Technicians, ACTT), and Reg Birch (AUEW).

parties held power in several small, but nonetheless significant unions including the Associated Society of Locomotive Engineers and Firemen (ASLEF) and the Technical, Administrative and Supervisory Section of the AUEW (AUEW/TASS). They were also well represented on the national executives of many other unions including the NUM, the NUR, the Civil and Public Services' Association (CPSA) and the National Union of Public Employees (NUPE). Moreover, according to some estimates, about 10% of union officials are communists (of one sort or another), and the hard left has tended to have a strong following at the shop-steward level, most notably in the vehicle assembly industry.[1] Thus, although relatively few in number, the radical left has presented a significant challenge to those favouring a voluntary incomes policy and, as will be mentioned in Chapter 10, played a leading role in mobilizing opposition to the Social Contract during 1977.

A second school of thought located to the right of the hard-left position can be identified comprising what is usually termed as the 'soft' left. Those belonging to this category - which probably included the majority of union leaders during the 1970s - generally support free collective bargaining and oppose, in varying degrees, the notion of nominal-wage restraint, especially if imposed by statutory means. It is usually asserted by such people that, while there may be a relationship between wage and price movements, the main responsibility for inflation lies with monopolies, cartels and the whole structure of contemporary capitalism. To base a counter-inflation programme solely on wage moderation,

---

[1] Robert Taylor, The Fifth Estate, p.83.

therefore, is regarded as both theoretically unsound and unfair. Rather, an effective stabilization policy, according to this view, requires firm governmental control of prices, rents and profits.

Despite their commitment to the tenets of unionism, including the right of unions to bargain with their employers unimpeded by the state, those identifying with this soft-left position are normally willing to compromise their principles, temporarily at least, in return for major policy concessions from the government. Political bargaining is thus acceptable. The central question is a pragmatic one: how much is the government willing to offer in exchange for union endorsement of its economic policies? Obviously, the answer here varies from one union leader to the next and is dependent on a host of factors - the shape and form of the proposed pay policy, the political balance of opinion within his union, his feeling of loyalty or otherwise to the government in power, his major policy preoccupations, his assessment of the state's readiness and ability to fulfill its side of the bargain, and so forth. As we shall see in subsequent chapters, some union leaders in this category justified their support for the Social Contract as a necessary transitional measure in the pursuit of socialism. Others supported it as a means of obtaining specific policy objectives, be they greater assistance for pensioners, a relative improvement in the position of the lower paid, or increased union leverage over the government's macro-economic strategy. Yet others spoke of their endorsement of pay restraint mainly in terms of the need to assist a government sympathetic to the union movement at a time of national crisis. Whatever the precise justification adopted, however, there was almost always

an element of reluctance and regret associated with the action. It was never a matter of embracing incomes policy with open arms. Rather, it was regarded as an evil, albeit a necessary one. The days when one could return to free collective bargaining or move nearer to the socialist utopia were awaited with hope and expectancy. These, then, are the hallmarks of the second position.

During the 1970s this broad approach was prevalent at all levels within the trade union movement, amongst a sizeable section of Labour MPs and, no doubt, within a significant section of the Labour Party's rank-and-file membership. Certainly the majority of those on the General Council took this stance, including the country's two most powerful trade unionists, Jack Jones, the General Secretary of the TGWU, and Hugh Scanlon, the President of the AUEW. Amongst those responsible for pay negotiations it was unquestionably the dominant view. According to Willman's case-study evidence, for instance, most shop stewards at the time of the Social Contract were deeply committed to free collective bargaining and tended to be somewhat to the left of their constituents.[1] That this should be so is not difficult to explain. After all, few shop stewards have a national economic perspective and few are well versed in the intricacies of macro-economics. The institutional logic of their position dictates that it is in their interests to preserve the maximum possible freedom to

---

[1] Paul Willman, Fairness, Collective Bargaining and Incomes Policy (Oxford: Clarendon Press, 1982), pp.126-131. See also W.W. Daniel, 'The Next Stage of Incomes Policy', PEP Broadsheet, 42, 568 (December 1976), p.12; Joe England and Brian Weeks, 'Trade Unions and the State: A Review of the Crisis', Industrial Relations Journal, 12 (January-February 1981), p.25; and Peter Haywood, 'The Political Development of Incomes Policy in Britain 1945-75', pp.227-242.

negotiate on behalf of their members. Added to this, local bargainers have little to gain in the way of status or rewards from deals which are made over the top of their heads between government ministers and senior union leaders. Given such considerations, the reluctance of shop stewards and other trade unionists directly involved in the bargaining process to support incomes policies is perfectly understandable.

The last major strand of opinion embraces those of a generally social-democratic persuasion. Such a view is characterized by a post-Keynesian analysis of the causes of inflation, together with an understanding (although rarely articulated in these terms) of the prisoner's dilemma associated with uncoordinated free collective bargaining. From this perspective it follows that some form of incomes policy, preferably voluntary, must be a fundamental and permanent element in any political strategy which has as its objectives the redistribution of income and wealth, the maximization of growth and welfare, and the minimization of unemployment and inflation.[1] Free collective bargaining, accordingly, cannot be allowed to prevail unchecked. Either trade unions must exercise a degree of self-restraint, or the state, however reluctantly, will be forced to regulate the growth of money wages. The main alternative strategy - the reliance on higher unemployment and market forces to check wage and price inflation - is considered to be morally unacceptable.

---

[1] Not all the union leaders on the centre-right of the Labour movement were supporters of incomes policies. Some, such as John Lyons, General Secretary of the Engineers' and Managers' Association, were persistent critics of the Social Contract during the mid 1970s, partly because of the adverse effects of egalitarian policies on skill differentials.

Naturally there are differences of opinion concerning the precise form which an incomes policy should take. Some are more reticent than others about the use of statutory controls. Some question the wisdom of employing incomes policy as an instrument for redistribution. And some are less enthusiastic than others about the process of political and economic bargaining which the realization of a voluntary agreement demands. But, notwithstanding these differences over details, those belonging to this school of thought believe that the central coordination of pay determination is both necessary and desirable. Indeed, for some it represents the main element of their economic programme.

During the 1970s this policy stance was most widely held within the Parliamentary wing of the Labour movement, with the majority of MPs, including most of Labour's front-bench, espousing such views. On the union side, voluntary incomes policies were endorsed by the research and administrative arm of the TUC (the General Secretary and Congress House staff), and by a significant minority of unions. Amongst these were the GMWU, USDAW, NUR, NALGO, the Union of Post Office Workers (UPW)[1], and the Electrical, Electronic, Telecommunication and Plumbing Union (EETPU). The support of these unions for incomes policies partly reflects the fact that in most cases they represent either the low paid or public sector employees. For low-paid workers in a weak bargaining position an incomes policy offers one of the very few means of obtaining improvements in their real and/or relative pay. Similarly, public sector workers stand to gain little from free collective

---

[1]Now known as the Union of Communication Workers (UCW).

bargaining since their pay will always be constrained to some extent by government policy. Thus, ideological commitments aside, self-interest certainly moves some unions to embrace incomes policy. In spite of this, the pro-incomes policy faction within the TUC has rarely exercised much leverage over policy outcomes. It has often been poorly led and has failed to develop an effective strategy. This was certainly true of the years of the Social Contract.

Besides the three main ideological positions outlined above there are, of course, various minority viewpoints. The Association of Scientific, Technical and Managerial Staffs (ASTMS) led by Clive Jenkins furnishes one such example. Here we have the case of a union which, although affiliated to the Labour Party and generally associated with the party's left wing (though not the hard left) adopted a policy of uncompromising opposition to wage restraint. The main reason given for taking this stance was openly declared to be self-interest. Representing as it does mainly skilled and professional workers, the ASTMS executive concluded that, regardless of the range and extent of the quid pro quos offered by a government, its members would always be better off under free collective bargaining than under an incomes policy. Moreover, having lost the argument within the TUC against voluntary restraint during the mid 1970s, the union encouraged its members to circumvent the guidelines laid down under the Social Contract. Hence, it provides a classic example of a free-rider union motivated principally by economic calculus rather than by ideology.

If the majority of union leaders, negotiators and activists have opposed the idea of pay moderation and state interference in the process of pay determination, the same cannot be said for the public as a whole. During the 1970s public opinion generally favoured measures to limit the growth of nominal wages, and regarded such policies as the most acceptable means of curbing inflation. According to the British Election Study, in October 1974 some 65% of voters believed that strict wage controls were preferable to other governmental action like cutting public expenditure, increasing taxes or creating more unemployment.[1] The following February a survey conducted by National Opinion Polls found that 69% of a representative sample of 1733 electors thought that the government should introduce laws to control wages and salaries.[2] Public support for incomes policies dipped somewhat in 1977, reflecting the high level of dissatisfaction with the Social Contract, but even then it never fell below 50%.

5.6 Conclusion

To sum up, the Labour movement harboured within its ranks many disparate strands of opinion on the fundamental issues of economic management. During the years under discussion the balance of power resided with those generally hostile to incomes policies, but willing to tolerate restrictions on

---

[1] James Alt, The Politics of Economic Decline: Economic Management and Political Behaviour in Britain Since 1964 (Cambridge: Cambridge University Press, 1979), p.205.

[2] Reported in A. Ian Glendon, D.P. Tweedie, and Hilde Behrend, 'Pay negotiations and incomes policy: a comparison of views of managers and trade union lay negotiators', Industrial Relations Journal, 6 (Autumn 1975), p.16.

collective bargaining in certain circumstances. For those favouring a voluntary pay policy, then, one of the critical problems was how to secure the support of a sufficient number of those unions occupying the middle ground, including those in a strong position to free ride. This required all the resources of persuasion and influence at the disposal of ministers and the TUC.

CHAPTER 6

THE SOCIAL CONTRACT: ORIGINS AND INITIAL DEVELOPMENT

> In a highly industrialized society, no one union can act in total isolation. What one union does has at some point repercussive effects upon another. The self-interested exercise of power without responsibility by its constituents does not make sense for a trade union movement determined to raise the standards of living of the whole of its membership and to create the establishment of a true democratic socialist society.
>
> Lord Allen, TUC Annual Report 1974, p.336.

6.0 Introduction

This chapter explores the origins of the Social Contract and the form it took in the first year or so of the Wilson Government. Theoretically the period is highly instructive and vividly illustrates the weaknesses of voluntary incomes policies. It reveals union leaders' limited capacity to deliver wage moderation in the context of escalating inflation, high real-wage expectations, and a significant degree of rank-and-file unrest. It demonstrates the difficulty of winning agreement for clear, consistent and workable policy guidelines when the whole rationale for an incomes policy is widely challenged on ideological and pragmatic grounds. It highlights the problem of identifying and controlling free riding in the absence of a wage norm and adequate monitoring and enforcement mechanisms. And it illustrates how a reformist government, which is opposed to statutory wage controls and deflationary policies can place itself in a weak bargaining position in its dealing with the union movement. This is particularly so if it commits itself to a programme of social, economic and industrial reforms before it has obtained firm assurances

from the relevant peak organizations that their members will comply with agreed wage guidelines. But before investigating these issues it is necessary first to examine the historical circumstances in which the Social Contract emerged.

6.1 The Heath Government

The Conservatives led by Edward Heath returned to the Treasury Benches in June 1970 strongly opposed to governmental intervention in the process of wage determination and committed to a programme of trade union reforms designed to prevent the irresponsible use of union power.[1] Various factors contributed to this policy stance. Ideological convictions dictated that the state's role in the labour market should be minimized. The recent failure of Labour's statutory pay policy of the late 1960s raised serious doubts about the economic utility of incomes policies. And practical political considerations indicated that after many years of continuous pay restraint it would be very difficult to embark on yet another round of wage controls. Given this situation, the Conservatives adopted an anti-inflation strategy consisting of the following elements: a tough public sector pay policy; legislation to curb union powers; and a reliance on market forces (which implied higher unemployment) to restrain the growth of money wages in the private sector.

As many expected this approach met with little success.

---

[1] For details of the Conservative Party's pay and industrial relations policies see Andrew Dean, 'Incomes Policy and the British Economy in the 1970s', in Robin E.J. Chater, Andrew Dean and Robert F. Elliott, eds., Incomes Policy, pp.13-17; Gerald Dorfman, Government versus Trade Unionism in British Politics since 1968 (London: Macmillan, 1979), pp.50-105; and Martin Holmes, Political Pressure and Economic Policy: British Government 1970-1974 (London: Butterworth Scientific, 1982).

Trade union opposition to the Industrial Relations Act of 1971 was trenchant and intense and rendered much of the legislation inoperative. The public sector pay policy (known as the 'N minus 1' policy because its aim was that each pay settlement should be slightly less than the one before) was abandoned in February 1972 when the miners secured a large 20% wage rise. And, notwithstanding the Government's mild deflationary policy and a rise in unemployment to nearly one million (3.9% of the workforce), private sector wage settlements remained high and real-wage growth accelerated. These developments confronted the Conservatives with an unpleasant choice. If the rate of wage inflation was to be reduced, the Government would either have to tolerate much higher levels of unemployment or introduce a comprehensive pay and prices policy.

Heath chose the latter option. Initially he sought a voluntary agreement with the TUC and the CBI. But, despite lengthy negotiations, no compromise deal was forthcoming. Having failed to secure a cooperative solution, the Government decided in early November 1972 to introduce a statutory counter-inflation programme. The policy was implemented in three stages. For the first five months there was a total freeze on wages, rents, prices and dividends. This was followed in April 1973 by a Stage II formula under which pay settlements were limited to a maximum of £1 a week plus 4%. A Price Commission and a Pay Board were established to administer the new controls. Stage III came into effect in November 1973 and would have run for about a year had it not been for the miners' strike and the general election in February 1974. According to the terms of the new package, rises in average pay were restricted to 7% or £2.25 a week, whichever was greater,

up to an individual maximum of £350 a year. Increases beyond this could be approved if certain conditions were fulfilled. These included unsocial hours, improved efficiency, a reform of pay structures and serious anomalies. As well as this, Stage III contained a significant innovation in the form of 'threshold agreements'. Essentially, this was a form of wage indexation designed to maintain real pre-tax incomes should prices escalate beyond their forecast rate. The mechanism worked in the following way. Unions were permitted to seek clauses in their pay awards whereby additional payments of up to 40 pence a week could be made for every 1% by which the retail price index (RPI) rose more than 6% above its October 1973 level. The rate of 40 pence corresponded roughly to 1% of average weekly earnings. Thus, an employee on average earnings would receive full pre-tax compensation for any unanticipated inflation.[1]

Had domestic and international circumstances been more favourable, Heath's pay policy may have run its course without major modification. In the event this proved impossible. Within weeks of the Cabinet agreeing to the new provisions, OPEC raised oil prices by a massive 400%. The repercussions of this for the world economy, combined with the boom in international commodity prices in 1972-73, served to guarantee that domestic inflation would exceed Treasury's original projections. Indeed, between October 1973 and October 1974 the RPI rose by more than 17%, 10% above initial expectations.

---

[1] Many economists considered this policy to be unwise. For a critique see Andrew Dean, 'Incomes Policy and the British Economy in the 1970s', p.16. For a comprehensive examination of the advantages and disadvantages of indexation see Anne Romaris Braun, 'Indexation of Wages and Salaries in Developed Economies', IMF Staff Papers, 23 (March 1976), pp.226-271.

As a result, 11 threshold payments were 'triggered' between April and November 1974, increasing weekly earnings for those covered by threshold agreements by as much as £4.40.

But it was not the system of threshold payments which brought the collapse of Stage III. Instead, the catalyst came in the form of the National Union of Mineworkers.[1] The miners were in a strong bargaining position. Their successful strike in 1972 had demonstrated that the union possessed both a high level of rank-and-file solidarity and a considerable measure of public sympathy. Moreover, the economic boom during the previous 18 months, combined with the recent oil price rise, had increased the demand for coal and given the coal industry renewed importance as an indigenous source of energy. On top of this, the NUM Executive included a sizeable group of Marxists and others on the hard left who were keen to make up for the union's losses during the 1960s and to destroy the Conservative Government. It was widely recognized that if the miners could break through the provisions of Stage III, as they had done previously with respect to the 'N minus 1' policy, then Heath's counter-inflation strategy would be seriously impaired and the Government's authority weakened. Consequently, in the autumn of 1973 the miners submitted a 25% pay claim to the National Coal Board (NCB).

Aware of the political and economic dangers posed by the miners' militant stance, ministers had taken pains to tailor Stage III to meet this kind of contingency. Thus, although

---

[1] For details of the miners' strike see Kevin Hawkins, 'The Miners and Incomes Policy 1972-75', Industrial Relations Journal, 6 (Summer 1975), pp.4-22; and Tony Hall, King Coal: Miners, Coal and Britain's Industrial Future (Penguin Books, 1981), pp.197-221.

an increase in basic rates of pay beyond 7% could not be tolerated, it was thought that additional payments which could be made for unsocial hours, improved productivity and so forth would provide sufficient room for manoeuvre. But this was not to be. The Coal Board, believing the miners would accept a deal within the limits of the Pay Code, made the most generous offer it could. This included an initial payment of 13%, plus indexation, plus an additional amount contingent upon the negotiation of an acceptable productivity deal. The miners, however, rejected the package and imposed a national overtime ban. Having nothing further to negotiate the Coal Board turned to the Government for assistance. Heath was keen to settle the dispute, but was unwilling to tolerate concessions which broke the pay code. And certainly an improvement in the basic rate, which the miners were seeking, was out of the question. Therefore, in spite of numerous attempts during the winter to find a face-saving formula, which included an assurance by the TUC that any agreement between the NUM and the NCB would not be used by other unions as a pretext for similar pay demands, no settlement was forthcoming. Finally, with the miners on strike and the country on a three-day working week, Heath decided to call an election. His defeat and the subsequent return of a Labour Government are now history.

6.2 The Liaison Committee and the Formulation of the Social Contract

While Heath failed to accomplish many of his objectives in the realm of industrial relations reform and inflation control, his efforts had at least one positive effect so far as the Labour Party was concerned: they supplied a major incentive for healing the party's deep internal wounds. The final years

of the Wilson Government of the 1960s and its unexpected defeat in 1970 had left the party bitterly divided. The Parliamentary leadership was isolated and thought to be out of touch with constituency opinion. Those of the left were highly critical of Wilson and condemned his failure to pursue more radical social and economic policies. And the unions, which had found themselves in conflict with important elements of Labour's economic and industrial relations strategy (graphically illustrated by their rejection in 1969 of the Government's White Paper, 'In Place of Strife') felt betrayed by their own party.[1] Clearly, then, the task of reconciling the divergent interests and ideological perspectives represented within the labour movement and reaching some consensus upon a policy programme for the next election would be daunting. In no area was this more true than the thorny subject of wage determination. For, as far as most union leaders were concerned, another incomes policy was simply out of the question.

Heath's decision to implement new industrial legislation in 1971, however, brought a rapid improvement of relations within the party. With the unions under attack as rarely before in the post-war period, the Parliamentary leadership rallied to their assistance. Thus, by the time of the TUC and Labour Party conferences in the autumn of 1971 various initiatives were under way to establish a closer liaison between the two wings of the movement and to formulate joint

---

[1] For an account of the conflict between the two wings of the Labour movement over 'In Place of Strife' see Gerald Dorfman, Government versus Trade Unionism, pp.23-49.

policies. Organizationally these moves found expression in the formation of the TUC-Labour Party Liaison Committee in late 1971. The membership of the committee was drawn from the TUC General Council, the Parliamentary Labour Party (PLP) and the party's National Executive Committee (NEC), and included most of the senior Parliamentary and union leaders.[1] The committee met regularly, usually on a monthly basis, and was serviced by secretarial and research staff drawn from Transport House (the Labour Party's headquarters) and Congress House (the TUC's headquarters).[2]

For the first six months or so the committee concentrated on two principal tasks: developing draft legislation to repeal the Industrial Relations Act, and formulating proposals to promote industrial democracy, to safeguard the rights and welfare of employees and to establish a new independent conciliation and arbitration service.[3] But by the middle of 1972 the scope of the committee's work had been extended to

---

[1]The membership of the TUC-Labour Party Liaison Committee during 1972-73 comprised: a) PLP representatives - H. Wilson, J. Callaghan, D. Healey, D. Houghton, R. Mellish, R. Prentice, and E. Short; b) NEC representatives - W. Simpson, A. Benn, B. Castle, J. Chalmers, R. Hayward, A. Kitson and I. Mikardo; and c) TUC representatives - Lord Cooper, Sir Sidney Greene, J. Jones, H. Scanlon, G. Smith and V. Feather. Office membership included T. Pitt and G. Bish of the Labour Party and L. Murray, K. Graham and D. Lea of the TUC.

[2]According to Callaghan, speaking at a news conference on 15 February 1974, the Liaison Committee met 19 times between January 1972 and February 1974. (Transcript of news conference). In March 1974 it was decided that the Committee should continue to meet regularly throughout Labour's term in office.

[3]TUC Annual Report 1972, pp.105-7.

encompass the whole economic, social and industrial strategy of the next Labour Government. Amongst the first fruits of these deliberations was the publication in February 1973 of a policy statement entitled Economic Policy and the Cost of Living.[1] Here the Liaison Committee set out its alternative economic strategy - a strategy which embodied what soon became known as the Social Compact, or Social Contract.[2] In essence, this declared that a future Labour Government would introduce a host of radical measures designed to control inflation, to improve housing and social services, to re-distribute wealth and incomes, to encourage investment, employment and economic growth, and to reduce managerial prerogatives. The unions, in return, would cooperate in the execution of these policies. It is abundantly clear from the tone and content of the statement that the union representatives on the committee, particularly Jones and Scanlon, had played a key role in the drafting process. In fact, interestingly enough, the statement conceded to the TUC leaders almost everything that they had been seeking in their bargaining with Heath in the summer of 1972 over a voluntary incomes policy. There were to be statutory price controls, the Housing Finance Act of 1972 would be repealed, and there was a commitment to maintain full employment and improve pensions.

---

[1] Economic Policy and the Cost of Living (London: Labour Party, Transport House, 1973).

[2] As mentioned in Chapter 1, it appears that the term 'Social Contract', or rather 'Contrat Social', was first used in 1970 by Lord Balogh, one of Harold Wilson's leading economic advisers during the late 1960s. Later, in May 1971, Wilson himself spoke of the need for a 'compact' with the unions in a speech on incomes policy in New York. See Harold Wilson, Final Term: The Labour Government 1974-76 (London: Weidenfeld and Nicolson Joseph, 1979), p.253. The following year James Callaghan, speaking at the Labour Party conference, called for a 'new social contract'. Report of the Annual Conference of the Labour Party 1971, p.115.

This latter objective was especially dear to the heart of Jack Jones.

Despite the comprehensive nature of the reform programme, the new unity within the labour movement which it symbolized, and the opportunities presented to the unions by the process of bilateral bargaining and accommodation which the Social Contract heralded, there were many who found little cause for celebration. Those on the left wing of the party remained dubious as to whether the Social Contract would, as promised, transform society in a socialist direction. According to this view, the measures outlined for redistributing wealth were extremely modest, there was an absence of radical policies to increase economic growth, and the proposed programme represented only a marginal challenge to the powers and privileges of capital. Those on the centre and right of the party were equally dissatisfied. Nowhere in the Liaison Committee's statement was there any mention of a policy to deal with the growth of wages. The statement spoke of the virtues of free collective bargaining and talked of a 'wide-ranging and permanent system of price controls' but said little about wage moderation, voluntary restraintor the need for a planned growth of incomes.[1] Certainly the document acknowledged that there must be a 'wide-ranging agreement ... to control inflation and achieve sustained growth in the standard of living', but the nature of such an agreement was left deliberately vague.[2]

Recognizing the need to undertake more detailed work on the party's anti-inflation policies, including food subsidies,

---

[1] Economic Policy and the Cost of Living, p.4.

[2] Ibid., p.8.

price controls and the control of rents, rates, land and house prices and so forth, the Liaison Committee formed a subcommittee in early 1973 known as the Inflation Working Group.[1] The original operating brief of this group was to put flesh on the bones of the Liaison Committee's joint statement and have this ready for incorporation in a revised version of Labour's Programme for Britain to be published in June 1973. Particular attention was to be given to the problem of low pay, the control of key food prices and a policy for the growth of real incomes. While some discussion papers were written for this group, no progress was made on the subject of pay policy. According to respondents, union leaders refused to discuss the matter.[2] Because of this no consideration was given during 1973 as to how a voluntary pay policy might work, of what it would consist, or how it might be administered.

Those hopeful of obtaining from the unions some explicit endorsement of a voluntary incomes policy suffered a further setback when, at the TUC conference at Blackpool in September 1973, a motion was passed condemning the Heath Government's statutory pay policy and calling for 'the restoration of voluntary collective bargaining'.[3] In his speech seconding the motion, Jack Jones gave the following interpretation of the Social Contract:

---

[1] Inflation Working Group, Suggested Programme of Work (Internal Labour Party Paper, January 1973). Other work on these issues was undertaken by the Finance and Economic Affairs Subcommittee and Industrial Policy Subcommittee of the PLP.

[2] Economic Policy and the Cost of Living, p.8

[3] TUC Annual Report 1973, p.510.

> The essence of the case is against wage restraint, for control of prices and rents and housing costs, an insistence on restoring collective bargaining and an end to the Industrial Relations Act... The document between the TUC and the Labour Party makes clear that inflation must be considered within the context of coherent economic and social strategy. It cannot be based on the idea that wages and unions are the cause of inflation. That lie, as the President said, has been exploded.[1]

Given the predominance of such attitudes within the TUC at this time, together with the obvious political difficulty of securing union support for anything which smacked of wage restraint during a period of statutory controls, no further clarification of what the unions' commitment to the Social Contract might entail was possible during the remainder of 1973.

The first opportunity to address the issue again came in early January 1974. Faced with the rapidly deepending crisis over the miners' pay claim and with the prospects of an early election, the Labour Party was forced to speed up the process of policy formulation and prepare its campaign manifesto. Clearly, it was imperative for the party to have a credible economic policy to deal with inflation and unemployment, all the more so in the light of the deteriorating international economic situation. Consequently, during the early part of January several attempts were made by party leaders to secure specific and clear-cut assurances from the TUC on wage restraint.[2] Needless to say, the difficulties were fully recognized by all concerned. It was not just a matter of finding the right combination of words, although this would have been a great help. Ultimately the issue was whether the TUC

---

[1] TUC Annual Report 1973, pp. 511-512.

[2] See Barbara Castle, The Castle Diaries 1974-76 (London: Weidenfeld and Nicholson, 1980), pp.18-20.

could deliver on its promises. And, regardless of how much some union leaders wished to assist their Parliamentary colleagues, they knew that they were in no position to commit the union movement to a strict pay policy.

Not unexpectedly, therefore, the party's election manifesto contained only vague references to the control of nominal incomes. In keeping with the Liaison Committee's original statement, the manifesto argued that by implementing its planned reforms a Labour Government would establish the kind of environment in which the unions would be bound to cooperate. As the manifesto put it:

> ... as it is proved that the Government is ready to act - against high prices, rents and other impositions falling most heavily on the low paid and on pensioners - so we believe that the trade unions <u>voluntarily</u> (which is the only way it can be done for any period in a free society) will cooperate to make the whole policy successful.[1]

The manifesto went on to add one new element not contained within the Liaison Committee's statement:

> We believe that the action we propose on prices, together with an understanding with the TUC on the lines which we have already agreed, will create the right economic climate for money incomes to grow in line with production. That is the essence of the new social contract...[2]

Precisely what was meant by the phrase 'for money incomes to grow in line with production' remains a mystery. It could have been interpreted to mean that money wage increases should not exceed the rate of economic growth, or that money wages should not rise by more than the growth in production (or productivity) in individual plants and companies. Either way, no indication was given as to how such objectives might be realized - that is, how wage settlements could actually be

---

[1] <u>The Labour Party Manifesto</u> (February 1974), p.9.

[2] <u>Ibid</u>. p.9.

kept within the prescribed targets. Moreover, in the short run, at least, such a policy would virtually guarantee a fall in real incomes since, it would appear, no allowance was to be made for either previous or anticipated price movements. It must be remembered that at the beginning of 1974 inflation was running in excess of 10% and accelerating. This was well above both the average rate of economic growth and the average rate of productivity growth. Naturally any policy which brought about a fall in real incomes would encounter stiff opposition from the trade unions and in the political and economic context of early 1974 would be totally unrealistic.

Quite apart from its lack of clarity with respect to the overall growth of money incomes, the manifesto gave no indication about how the Government intended to deal with public sector pay fixing, the anomalies caused by the Conservatives' statutory policy, and the problem of low pay. Finally, the manifesto implicitly assumed that production would in fact increase and that the economy would thus expand. Yet what if this assumption proved false (as it did)? Would wages be expected to fall 'in line with production'? These and many other important issues were left unresolved. It is hardly surprising, therefore, that the terms of the Social Contract came under severe criticism during the election campaign from political and economic commentators, not to mention Conservative ministers.

This did not prevent the Labour Party from giving great prominence to its new 'understanding' with the unions. Again and again in speeches up and down the country Wilson condemned Heath's statutory pay policy and claimed that by means of the Social Contract Labour would ensure industrial peace and curb

inflation. The unions, he asserted, would cooperate with a government sympathetic to their interests. For instance, in a speech delivered in Nottingham on 17 February he declared:

> We have an agreement with them. We believe they will honour it. In industrial relations, as in every walk of life, one volunteer is worth a hundred conscripts. We believe that with these volunteers we will have an incomes policy that will really work.[1]

Such claims drew a mixed response from trade union leaders. On the one hand, Len Murray, the TUC General Secretary, and other moderate union leaders made statements supporting Wilson's assertions.[2] Hugh Scanlon, on the other hand, openly admitted that, as far as wages were concerned, the Social Contract was ambiguous and indefinite. In an interview with Robin Day on 18 February, he pointed out: 'We have agreed on joint lines, but we are not agreed on any specific policy as of now'.[3] And four days later, while confirming that there was a 'Social Compact', as he termed it, he added that 'to call this an agreed incomes policy, with all that that name conjures up...would create misunderstanding which should be avoided'.[4] As one would expect, such remarks, coming as they did from someone of Scanlon's seniority, caused considerable embarrassment to the Labour leadership.

---

[1] Harold Wilson, text of an address at the Co-operative Rooftop Restaurant, Upper Parliament Street, Nottingham, 17 February 1974, p.8.

[2] Lionel (Len) Murray replaced Victor Feather as TUC General Secretary in October 1973.

[3] Transcript of an interview by Robin Day of Hugh Scanlon and Harold Lever, 18 February 1974, p.1.

[4] Hugh Scanlon, text of an address at Francis Berkeley School, Heath Park Road, Romford, 22 February 1974, p.8.

What is more, they graphically revealed the acute difficulties that a Labour Government would face in trying to get agreement on a workable policy to tackle inflation.

6.3 The Implementation of the Social Contract: The First Few Months

The outcome of the election on 28 February was initially uncertain. The Conservatives won more votes than Labour, but obtained four fewer seats. At first, Heath sought a coalition with the Liberals. However, after several days of fruitless negotiations he resigned and Wilson, unwilling to seek a coalition with other parties, formed a minority Government on 4 March. Everyone recognized that the new Government could not survive for long. In the event, Wilson called another election six months later in October. On this occasion Labour won 319 seats, giving it a small overall majority of 3 seats.

Several immediate and pressing problems confronted the new Government. To begin with, the miners were on strike and the rest of the country was working a three-day week. During the campaign Wilson had promised to remove all legal restraints on bargaining between the NUM and the Coal Board and had received an assurance from the TUC, similar to the one given to Heath, that a miners' settlement which went beyond the limits of Stage III would not be exploited by other unions as a bargaining lever. Amongst his first actions as Prime Minister, therefore, Wilson authorized new negotiations to take place. The miners immediately re-submitted their original claim and after brief negotiations accepted a compromise granting face workers the full amount claimed, but giving surface and underground workers somewhat less. Altogether the

settlement cost the Coal Board an additional £103 million and represented an average increase of about 30%.[1] Paradoxically, this was no more than the original Stage III offer, plus the increases proposed before the election by the Pay Board.[2]

The next task facing the Government was to reach an agreement with the TUC concerning the future of the Stage III controls. In its election manifesto Labour had committed itself to abolishing the Pay Board and the remaining elements of Heath's statutory pay policy. Immediate action to this effect, however, would create all kinds of difficulties. While the majority of unions had already settled under Stage III, quite a few, including several important unions such as the AUEW, had yet to do so. If the pay controls were abolished, such unions would henceforth be able to negotiate settlements above, and possibly well above, Stage III levels. Obviously this would discriminate against those unions which had kept to Heath's policy and might provoke widespread claims for the re-opening of negotiations. Another important consideration was the very real prospect that a Bill abolishing Stage III would not pass through the House of Commons. A defeat on such legislation could bring down the Government and prevent the implementation of Labour's reform programme. Recognizing this, the TUC, which was extremely keen to see the Industrial Relations Act repealed before another election was called, agreed with the new Secretary of State for

---

[1] The Economist, 9 March 1974, p.73.

[2] Kevin Hawkins, 'The Miners and Incomes Policy, 1972-75', p.18.

Employment, Michael Foot, that the pay controls should continue until the middle of 1974.[1] However, there was an informal understanding that the Pay Board's powers would remain in abeyance and that compliance would be on a voluntary basis.[2] It was hoped that the four months or so before the termination of Stage III would give sufficient time to formulate a new voluntary incomes policy for the 1974-75 pay round.

As regards the overall economic situation, the prospects could hardly have been worse for a reforming government intent upon improving social services, eliminating poverty, increasing economic equality and restoring full employment. The huge oil price rise of late 1973 had cut real national disposable income by more than 5% and in the course of 1974 added some £3 billion to the value of imports.[3] This, combined with the commodity price boom during 1973 and the relatively high level of domestic demand, led to a rapid and serious deterioration in the current external balance. Regardless of the Government's short-run macro-economic policies, it would be forced to embark on a major borrowing programme, and eventually to act to support sterling or devalue. The outlook for inflation was equally depressing with forecasts indicating a

---

[1] Michael Foot had for a long time been associated with the left of the Labour Party and was a close friend of Jack Jones. His appointment was thus widely welcomed within the union movement.

[2] William McCarthy, 'The Politics of Incomes Policy', in David Butler and A.H. Halsey, eds., Policy and Politics (London: Macmillan, 1978), p.191.

[3] Joel Barnett, Inside the Treasury (London: André Deutsch, 1982), p.23; and C.D. Cohen, 'The Social Contract and the Standard of Living', National Westminster Bank Quarterly Review, (August 1975), p.52.

probable rate of increase in prices or 18% by the end of the year. And, as if to compound matters, the world economy was moving into sharp recession. Altogether, then, the prospects for employment, investment, growth and international competitiveness were extremely bleak.

In attempting to grapple with this situation, the Government's room for manoeuvre was heavily constrained by electoral considerations, policy pledges and institutional factors. The probability of an election before the end of the year, not to mention the party's firm commitment to full employment, ruled out a deflationary monetary and fiscal policy. A reduction in living standards, let alone a strict pay policy, was politically impossible given the current mood and expectations of the trade union movement. Further, despite pressure from the Treasury to abolish or amend the threshold system, the Government concluded that such action was neither feasible nor sensible. By March a large number of unions in both the public and private sectors had negotiated threshold agreements.[1] Consequently, to embark on a significant change at this juncture would undermine the twelve-month rule and provoke a good deal of industrial unrest.

For the time being, therefore, the Government decided to implement what it could of the Social Contract and trust that its actions created the necessary atmosphere of goodwill

---

[1] Estimates of the number of workers fully or partially covered by the threshold system vary, but certainly it amounted to over half the workforce. According to Mayhew, the number was in the region of 14 million. See Ken Mayhew, 'Traditional Incomes Policies', Oxford Bulletin of Economics and Statistics, 45 (February 1983), p. 29.

within the trade union movement to enable appropriate action to be taken at a later date to restrain the growth of money wages. Symptomatic of this approach was the first Budget of the new Chancellor, Denis Healey, introduced on 26 March. Here, along with other steps taken during the subsequent six months, the Chancellor announced a range of policies which broadly conformed with TUC wishes.[1] Pensions and other social security benefits were increased. Extra expenditure of £500 million was allocated for subsidizing basic food items. Higher rates of income tax were imposed on those in the middle and upper end of the tax bracket and defence expenditure was cut by £55 million. In July Healey announced further measures aimed at maintaining domestic demand, fostering employment and moderating inflation. There was a reduction in value-added tax (VAT) from 10% to 8%. Food subsidies were increased. Tax relief was provided for domestic rate-payers and the Regional Employment Premium was doubled.[2]

Other ministers also took action to implement the Social Contract. Shirley Williams, the Secretary of State for Prices and Consumer Protection, a new post established by Wilson at the outset of his administration, introduced a Prices Bill in April. This proposed additional powers allowing the Government to set maximum prices on certain basic household products, extended the discretionary powers of the Price Commission, and authorised the Government to spend a total of £700 million on food subsidies. Similarly, in the vital area of industrial relations, Michael Foot introduced the

---

[1] For a detailed list of TUC demands see TUC Economic Review, March 1974.

[2] OECD, Economic Surveys: United Kingdom (Paris: March 1975), p.36.

Trade Union and Labour Relations Bill.[1] Amongst other things this abolished the National Industrial Relations Court and repealed those provisions in the Industrial Relations Act which the unions found objectionable, such as the restrictions on unfair practices and the prohibition on unofficial strikes. The legislation also enhanced the legality of the closed shop by allowing dismissals for non-membership of a union under 'union membership agreements', and it strengthened the position of employees by granting new rights of appeal against unfair dismissals. Further action was taken during 1975 to improve employment conditions, promote industrial democracy, encourage industrial rejuvenation and extend state ownership. Thus within a short space of time the Labour Goverment had fulfilled many of its obligations under the Social Contract, despite the difficult economic situation and its weak Parliamentary position.

6.4 The TUC Guidelines and the 1974-75 Wage Round

The picture on the wages front was, in contrast, much less promising. During the spring it became apparent that there was a fair degree of militancy at the shop-floor level and that pay expectations were high. Huge pay claims were ratified by union conferences up and down the country (e.g. teachers - 37%, farmworkers - 80%, and builders - 87-107%). Many groups of workers rejected their proposed Stage III agreements. All the indicators of industrial unrest (the number of stoppages, the number of workers involved in them, and the working days lost) registered increases on the levels recorded in 1973, even when the mining industry is excluded from the aggregate statistics. And many unions, including the AUEW, declared

---

[1] For details of the legislative changes undertaken by the Labour Government in the area of industrial relations see H.A. Clegg, The Changing System of Industrial Relations in Britain, pp. 383-443.

their opposition to wage restraint and governmental interference in wage determination. All in all such developments did not augur well for the forthcoming round.

In the midst of this situation perhaps the only promising sign was the acceptance by senior TUC leaders of the need for a degree of pay moderation when the statutory controls were removed in July. Thus, working in close consultation with the Government, the TUC developed a set of wage guidelines to assist negotiators during the new era of voluntary restraint. The guidelines were endorsed unanimously by the General Council in June and ratified by the TUC conference in September.[1]

Unfortunately the new policy suffered from three crucial weaknesses: first, the guidelines were vague, far too flexible, and satisfied few of the necessary conditions for a successful voluntary incomes policy; second there was a widespread expectation that many groups would free ride; and third, a number of important settlements early in the round exceeded even the most liberal interpretation of the guidelines. To begin with, the 'guidelines', as they were called, were just that and nothing more. They were not instructions or directives and, apart from any moral force which they carried, they contained no disincentives to free riding. There was no mechanism for monitoring the progress of the policy, and the TUC gave no indication of what sanctions, if any, it might impose against unions which openly defied its recommendations. In any case, given the existing political and economic environment, there would not have been sufficient support within the General Council for disciplinary action to

---

[1] Collective Bargaining and the Social Contract, Trade Union Congress, 1974.

have been taken against those who breached the guidelines.

Equally important, the TUC's principal recommendation- namely, that unions should, in general, restrict themselves to the objective of maintaining rather than improving real incomes - was extraordinarily vague. Did it mean pre-tax or post-tax real income? The document was worded to imply pre-tax income, or, in other words, pay increases commensurate with movements in the RPI. But the numerous references to 'real incomes' and 'real consumption' certainly gave unions grounds for seeking wage rises which preserved real post-tax incomes. Matters were further complicated by the fact that the guidelines explicitly allowed unions either to claim compensation for changes in the cost of living since their previous settlement (offset against any threshold payments), or, alternatively, to negotiate arrangements to keep abreast of the cost of living during the term of their new award. With inflation already at an annual rate of 16% and likely to accelerate, such provisions gave unions the right to lodge large, anticipatory wage claims and yet still remain within the bounds of the policy.[1] And if many unions based their claims on expected future increases in prices, and if their expectations were high and employer resistance low, then the outcome would be high, accelerating inflation.[2] In short, on this interpretation, the guidelines were compatible with almost any future inflation rate. What is more, it would be

---

[1] National Institute Economic Review, 70 (November 1974), p.4.

[2] There can be little doubt that pay claims during the 1974-75 round were often based on expected future increases in prices. See Christopher Saunders, et al., 'Winners and Losers: Pay Patterns in the 1970s', PEP Broadsheet, 43, 570 (September 1977), p.10.

impossible in many instances to determine whether or not a union had complied with the guidelines.

But it was not only the ambiguous nature of the guidelines which caused concern. It was also the fact that the whole strategy assumed that it was possible to preserve real incomes, despite the deteriorating international economic situation and the large fall in real national disposable incomes. Part of the problem here was that policy makers had taken a long time to grasp the full implications of the oil shock and had been slow to realize that if full employment was to be preserved there would have to be a temporary reduction in real wages. Of course, even if this realization had dawned earlier it is extremely doubtful whether union leaders would have accepted the argument and been prepared to advocate a cut in living standards. As it was, the acceptance of a temporary halt in the quest for higher real wages was a minor miracle. Yet, even this achievement must not be exaggerated, for the guidelines were drafted in such a way as to enable virtually every group to obtain, legitimately, improvements in their real wages. For example, low-paid workers could claim increases above the cost of living in order to bring their incomes in to line with the TUC's recommended minimum weekly rate of £30.[1] In fact, this target was relatively high and necessitated a substantial narrowing of differentials if higher-paid workers were not to reap similar improvements in their real take-home pay. Unions could also justify extra amounts by negotiating productivity deals or by securing a reform of existing pay structures. And, of course, further

---

[1] The TUC's low pay target was originally £25 a week, but this was raised to £30 at the TUC conference in September.

gains could probably be obtained by upgrading non-wage benefits. So not only was the strategy to preserve real income inappropriate, but there were plenty of opportunities within the guidelines for unions in a good bargaining position to secure real-wage gains.

Reactions to the new policy were mixed. A few ministers, it seems, took quite an optimistic view. According to Barbara Castle's account of a Liaison Committee meeting on 24 June, two days before the publication of the guidelines, Michael Foot described the document as 'a very fine response', while James Callaghan (the Foreign Secretary and Chairman of the Party) declared that it fulfilled all that the Government had expected.[1] Healey was apparently more cautious and indicated that he didn't expect the unions to abide by the guidelines unswervingly. Indeed,at the time, Treasury anticipated that money incomes would exceed the guidelines by as much as 3%.[2] Healey's scepticism was widely shared amongst trade union leaders, economic commentators and the general public.[3] An Opinion Research Centre poll conducted just prior to the October election found that 45% of voters thought the unions would not keep the Social Contract if

---

[1] Barbara Castle, The Castle Diaries, p.120.

[2] Ibid., p.372. It is not known how these calculations were made. One possibility is as follows. Inflation during the twelve months to July 1975 was expected to be in the vicinity of 20%. Assuming that the guidelines were designed to preserve real pre-tax incomes, money wages should likewise have increased by 20%. Allowing for drift of 3%, Treasury would have estimated wage inflation to be 23%. In fact, of course, it exceeded 30%.

[3] See for instance The Economist, 29 June 1974, pp.79-83; The Guardian, 27 June 1974; and IDS, Report No. 188, July 1974, p.1.

Labour won the election compared with only 31% who thought they would.[1] Moreover, 46% considered that Labour had given in to the TUC by agreeing to the Social Contract and that it had gained no real concessions in return. Those directly responsible for pay negotiations were equally sceptical. According to a study undertaken by Glendon, Tweedie and Behrend in Scotland in early 1975, the vast majority of managers (71%) and a small plurality of trade union negotiators (41%) considered the Social Contract to be unworkable.[2] In view of the expectation of widespread free riding, together with the absence of effective sanctions to prevent unions from pressing excessive claims, it was obviously rational for self-interested union negotiators to demand substantial pay increases. The likelihood, therefore, of the guidelines achieving their objective of nominal wage restraint was extremely poor.

It did not take long for the flaws in the new policy to be made manifest. The ending of the Stage III controls and the abolition of the Pay Board on 26 July was marked by a substantial surge in the size of both wage claims and settlements. Indeed, even before this the pace of wage inflation had been accelerating. Basic weekly wage rates rose 3% between May and June, bringing the annual rate to a level of 16.2%.[3] This was up on the May figure of 15.2% and

---

[1] David Butler and Dennis Kavanagh, The British General Election of October 1974 (London: Macmillan, 1975), p.79.

[2] A. Ian Glendon, D.P. Tweedie, and Hilde Behrend, 'Pay negotiations and incomes policy: a comparison of views of managers and trade union lay negotiators', Industrial Relations Journal, 6 (Autumn 1975), p.17.

[3] The Financial Times, 18 July 1974.

significantly above the annual rate recorded in April of 12.9%. The rate climbed steadily from June, aggravated to the triggering of threshold payments, to reach 23% by October and over 30% by the spring of 1975. Similarly, the annual rate of price inflation continued to accelerate, and, although the pace moderated a little in the autumn as a result of the reduction in VAT and a slower rise in import prices, it picked up again later in the year and by the summer of 1975 had reached over 25%.

As far as individual settlements were concerned, almost all the early agreements exceeded the going rate of inflation (17%). Many also broke the twelve-month rule. According to one survey, 27 of the 39 major wage deals negotiated in the first three months of the new policy (August-October) broke the twelve-month rule.[1] Amongst the first to settle in the private sector was the large industrial firm ICI. This deal ignored the twelve-month rule and gave ICI's 60,000 manual workers a pay increase of between 20-28%. Equally large settlements were later secured by oil tanker drivers, electrical contractors, lorry drivers, clothing workers, seamen and even farm workers. Perhaps the most damaging of all, however, was the huge pay deal at Ford. After sporadic industrial action, much of which occurred during the October election campaign, the management conceded defeat and gave its 52,000 manual workers pay increases averaging 41.4% to be paid over two years. This settlement was important for at least two reasons. First, the strikes received considerable publicity and the subsequent pay deal was generally considered by commentators to be in breach of both the spirit and the letter of the Social Contract.[2]

---

[1] The Economist, 2 November 1974, p.86.

[2] For details see The Observer, 20 October 1974.

Although this was firmly denied by Jones, whose union had played a prominent role in the negotiations, the credibility of the TUC's guidelines had unquestionably been undermined. Secondly, it showed that there was a fair amount of militancy on the shop floor and that neither the future of the Labour Government nor the moral authority of the TUC had much influence upon the decisions of union negotiators in the field. The level of rank-and-file commitment to the Social Contract in certain sections of industry was thus demonstrated to be low.

While private sector pay settlements were running well above the rate of inflation, the pattern emerging in the public sector was similar, if not worse. The reasons for this are quite straightforward. After its election, the Labour Government came under intense pressure from a number of public sector groups to grant them special treatment under the Stage III provisions. Such groups, which included the nurses and midwives, teachers and postmen, argued that their relative pay position had fallen during the early 1970s and that they had been unfairly treated by the incomes policies of the Heath Government. Recognising the validity of these claims and unwilling to risk further industrial confrontation, the Government offered little resistance and instead established a number of independent pay review bodies. These reported during the latter part of 1974 and in each case awarded very substantial increases. The nurses and midwives received 30%, the postmen 38% and non-university teachers about 30%. Other public sector groups also secured large increases under existing pay-fixing arrangements. Railway workers, for example, gained pay rises ranging between 30-50%, while the Top Salaries Review Body under the Chairmanship of

Lord Boyle recommended increases of between 25-50% for State Corporation Chairmen and 20-50% for higher civil servants, senior military personnel and members of the judiciary.[1] Thus, with only a few exceptions, such as local authority white collar staff, public sector workers gained pay rises well beyond the prevailing rate of inflation.

In the face of the rapid escalation of nominal wages the TUC adopted a number of tactics. It sought to clarify the meaning of the guidelines so as to prevent unions negotiating large lump-sum deals based on anticipated rates of inflation. Meetings were arranged with the leaders of a number of important groups during the autumn and the winter, including the miners, gas workers, electricity supply workers and building employees, in an endeavour to point out their responsibilities under the Social Contract.[2] And the General Council issued regular statements calling for restraint. But all this was to little avail. Without a substantial change in the policy or else a radical deterioration of the economic situation, a fall in the rate of increase of nominal wages was most unlikely. Yet it was simply out of the question to change the guidelines in the middle of the pay round. Any new initative, therefore, would have to wait until the summer of 1975.

Meanwhile, employers were becoming deeply concerned by

---

[1] The Government was acutely embarrassed by the size of the pay increases recommended by Lord Boyle and eventually decided to defer the rises for those earning above £13,000 per annum for a year. The debate within Cabinet on this issue is recorded at length by Barbara Castle, The Castle Diaries, pp.250-252.

[2] TUC Annual Report 1975, p.270.

the rapid growth of money wages and unit labour costs. On the one hand most companies were finding it extremely difficult, if not impossible, to withstand the pressure from their employees for large, inflationary pay deals. On the other hand their capacity to recoup such costs by increasing prices was restricted by the price controls and the desire to remain internationally competitive. Caught between these two conflicting forces the only option for many companies was to cut profits. The net effect was a marked fall in profitability during 1974 with the share of gross pre-tax profits after stock appreciation falling from 12.3% in 1973 to 8%. The pre-tax rate of return also fell sharply from 9.1% to 6.0%.[1] (The post-tax decline in the rate of profit was somewhat less). Thereafter, both the share of profits in national income and the rate of profit remained at historically low levels for the rest of the decade.

At the national level the CBI put increasing pressure on the Government to intervene to prevent a major economic catastrophe. But the Government felt virtually powerless to act. At the beginning of 1975 there was still insufficient support within the General Council for a change of policy and several senior union leaders, including Scanlon, had yet to be convinced that the seriousness of the economic situation required a fundamental policy re-think. Further, it was considered unwise to alter course before the end of the round, particularly since the miners, power workers and engineers were not due to settle until the spring. Equally important, Labour's firm stand against a statutory pay policy in both

---

[1] Bank of England Quarterly Bulletin, 22 (June 1982), p.243.

the February and October elections made unilateral action politically impossible. Instead, the Government seems to have adopted the following strategy.

Initially senior ministers, such as Wilson, Healey and Foot, sought to save face by claiming that the Social Contract was designed to be flexible and that some maverick settlements had been expected and could be accommodated. Ministers also tried to assure union negotiators and the public that, despite all the evidence to the contrary, the vast majority of settlements were within the guidelines.[1] But as the rate of wage inflation continued to accelerate and the number and scale of infringements became increasingly apparent, ministers began to change their tune. Their pleadings for restraint became more passionate and urgent, and their denunciations of large, inflationary wage rises became more vehement. Time and again ministers argued that wage restraint was in everyone's long-term interests. Repeatedly they urged union negotiators to consider the common good and not merely the short-term interests of their constituents. Healey also warned union leaders that if they refused to cooperate he would be forced to cut public expenditure and allow unemployment to rise. But such appeals and threats went largely unheeded. With virtually every group seeking substantial pay increases and with settlements averaging 30-35% union negotiators could hardly be expected, even if deeply committed to the aims of the Social Contract and the preservation of the Labour Government, to accept pay deals well below the going rate.[2]

---

[1] Foot, for instance, claimed in January 1975 that 75% of settlements were within the Social Contract guidelines. In April the figure was reduced to 70%. See Hansard, 21 January 1975, vol. 884, col. 1209; and The Guardian, 18 April 1975.

[2] For a review of settlements during the 1974-75 round see IDS, Report No. 208, May 1975, p.2.

The incentives to maximise their short-term labour market power were simply too great.

Healey's threats, of course, were no mere bluff. By the spring of 1975 with inflation accelerating, with the trade deficit remaining serious, and with a large and growing public sector deficit, the Government concluded that it had little choice but to adopt a more restrictive demand-management policy. In keeping with this the April Budget raised the rate of VAT from 8% to 25% on a range of less essential goods and services and increased all rates of incomes tax, apart from the highest, by 2%.[1] Cuts in public expenditure of over £900 million were also announced and the Public Sector Borrowing Requirement (PSBR) was to be reduced by £1 billion in the financial year 1975/76 and by £3 billion the year after. While social security provisions remained untouched, there were substantial reductions in subsidies on food, housing and to nationalised industries, thereby reversing the policy stance adopted in 1974. Overall, these measures were expected to raise the level of unemployment by 20,000 by the end of 1975, and increase retail prices by almost 3%.[2] By so doing the Labour Government declared openly to the trade union movement that it would not and could not preserve high levels of employment if cooperation was not forthcoming on the wages side. Whether or not even

---

[1] For details see OECD, Economic Surveys: United Kingdom (Paris: February 1976), p.38.

[2] For an analysis and critique of this policy change see Paul Ormerod, 'Economic Record', in Nick Bosanquet and Peter Townsend, eds., Labour and Equality: A Fabian Study of Labour in Power (London: Heinemann, 1980), p.50.

more restrictive measures would have to be taken would depend largely upon the response of the TUC to the Government's plans for a much stricter but still essentially voluntary pay policy.

6.5 Conclusions

As a counter-inflation policy, the Social Contract was poorly conceived, both with respect to its original design and early implementation. Structurally, the effective enforcement of such a policy required, at least in the economic circumstances of 1974, a high level of union commitment for pay moderation, a reasonable degree of employer solidarity, and a central union confederation with the authority and coercive resources to deter free riders. Yet none of these conditions prevailed in 1974. The TUC lacked both the ability and willingness to prevent breaches of the policy. The CBI had little control over its members and was in no position to enforce a restrictive pay policy. And trade union leaders were at the time either hostile to the notion of wage restraint or simply unable to stop local bargainers from pressing inflationary claims.

Nor were the circumstances surrounding the introduction of the Social Contract conducive to the achievement of pay moderation. The statutory policy imposed by Heath had held down real wages and had left a legacy of anomalies. Union negotiators were keen to regain their bargaining rights. The rank-and-file were in a militant mood, especially in the public sector. Although unemployment was rising and profitability falling, most unions were still in a relatively strong bargaining position. The oil shock had given a powerful boost to the rate of inflation, and the commodity price boom of 1972-73 had taken longer to unwind than expected. And all these inflationary pressures were aggravated by the threshold

system. This not only complicated the process of wage determination, but also provided an automatic transmission mechanism for wage rates to increase in line with price inflation.

The policy adopted to cope with these strains and uncertainties was flawed in at least two respects. First, the TUC guidelines contained serious weaknesses. They granted too much flexibility to negotiators, were open to a number of conflicting interpretations and contained too many exceptions. There were no procedures for monitoring and no penalties to secure compliance. In fact, as we have noted, it was exceedingly difficult to determine what constituted an infringement. Not surprisingly, therefore, both managers and trade unionists considered the policy unworkable and expected a high level of free riding. Lacking any assurance that their fellow negotiators would abide by the spirit of the Social Contract, the only restraint upon union leaders and shop stewards, apart, that is, from employer resistance and the threat of redundancies, was the moral obligation to follow TUC and Government policy. In the event, this proved totally inadequate and reminds us of the limitations upon moral suasion in a situation characterized by high pay expectations, accelerating inflation and the expectation (later confirmed) of widespread free riding.

The second fundamental flaw in the Social Contract, as implemented in 1974, was that it committed the Government to increase the social wage, improve the relative position of low-paid workers, and maintain the real incomes of everyone else, all at a time when there was little if any growth in output or productivity and when the terms of trade had declined sharply. The only way to square the circle was by

Table 6.1 Prices, Wages, Unemployment, Differentials and Production, 1970-79

	Retail Price Inflation (a)	Weekly Earnings All Industries and Services (b) % change	Real Earnings % change	Basic Weekly Wage Rates % change (a)	Unemployment Rate Seasonally Adjusted
	(1)	(2)	(3)	(4)	(5)
1970-73 av.p.a.	8.0	12.5	4.5	-	3.2
1974	16.1	17.8	1.7	19.7	2.6
1975	24.2	26.5	2.3	29.5	3.9
1976	16.5	15.8	-0.7	19.3	5.3
1977	15.8	10.2	-5.6	6.6	5.7
1978	8.2	14.4	6.2	14.1	5.7
1979	12.2	15.6	3.4	14.7	5.4

	Private/ Public Pay Ratio Manual Men (c)	Skill Differentials in Engineering (d)		Index of Industrial Production (e) All Industries
		Time-Workers	Payment-by-Results Workers	1975 = 100 seasonally Adjusted
	(6)	(7)		(8)
1970-73 av.p.a.	98.2	142	147	102.3
1974	96.0	137	138	105.1
1975	87.9	132	132	100.0
1976	89.4	128	131	102.0
1977	91.2	128	133	105.9
1978	92.8	129	133	109.8
1979	93.4	130	131	112.6

Notes: col.(3) Annual rate of change in real earnings equals the annual rate of change in average weekly earnings minus the annual rate of change in the RPI.
col.(4) Manual workers only, not seasonally adjusted.
col.(5) Excludes school leavers.

Sources: (a) OECD, Economic Surveys: United Kingdom, various issues.
(b) Department of Employment Gazette, 88 (June 1980),p.701.
(c) J.L. Fallick and R.F. Elliott, eds., Incomes Policies, Inflation and Relative Pay, p.47.
(d) Ibid., p.87.
(e) Central Statistical Office, Economic Trends, 326 (December 1980), p.26.

heavy foreign borrowing. But there were limits to this. Sooner or later, perhaps under the prompting of a run on the pound, a new economic policy would have to be devised. As this chapter has sought to show, the Government's dilemma was intensified by the extensive non-observance of the guidelines. The net result was a significant escalation in the rate of wage and price inflation and an increase in pre-tax real wages. Overall, real earnings rose by 1.7% in 1974 and 2.3% in 1975 (see table 6.1, col. 3).

These aggregate statistics, of course, conceal a great deal of variation between different sectors and occupations. Two of the most notable changes in this respect were the relative improvement in public sector earnings and the narrowing of skill differentials. According to Dean, the ratio of private to public sector earnings for manual men moved in favour of the public sector by 8.1 points (from 96.0 to 87.9) between April 1974 and April 1975 (see table 6.1, col. 6).[1] The magnitude of this relative advance was unparalleled in the post-war period and affected all categories of employees, manual and non-manual, women and men. (These observations hold true regardless of the measures or indices employed.) Further, according to OECD figures, those working in public corporations appear to have gained the most.[2] During 1975 average earnings rose by 29.9% in the private sector, 31.7% in the Government sector excluding the public corporations, and 33.5% in public corporations.

---

[1] Andrew Dean, 'Public and Private Sector Pay and the Economy', in J.L. Fallick and R.F. Elliott, eds., Incomes Policies, Inflation and Relative Pay, p.47.

[2] OECD, Economic Surveys: United Kingdom (Paris: February 1980), p.16.

How can these relative changes be accounted for? Two main explanations can be offered. First, there was a considerable upsurge in union militancy in the public sector during the early 1970s. The new Labour Government was committed to improving public sector investment and social services and was unwilling to have a re-run of the confrontations which had marred the Heath Government. Hence, during the first year of the Social Contract it allowed exceptionally large increases to be paid to five 'special cases', namely, the mineworkers, railwaymen, teachers, postmen and nurses. Second, employer resistance in the private sector appears to have grown during 1974-75 under the impact of a deepening recession and falling profit margins. Consequently, several large private sector groups including the engineering workers and builders received relatively small pay rises.[1]

The other notable feature of pay movements during the first year of the Social Contract was a continuation of a trend, which had begun in 1972, towards a narrowing in the dispersion of earnings. Evidence for this is considerable in the forms both of aggregate and case study data, and the trend was particularly marked in the engineering industry [2] (see table 6.1, col. 7). There has been a good deal of

---

[1] Andrew Dean, 'Public and Private Sector Pay and the Economy', p.51.

[2] See William Brown, 'Incomes Policy and Pay Differentials', Oxford Bulletin of Economics and Statistics, 38 (February 1976), 27-49, William Brown, 'Engineering Wages and the Social Contract, 1975-77', Oxford Bulletin of Economics and Statistics, 41 (February 1979), 51-61; Robin E.J. Chater, 'The Differentials Dilemma', in Robin E.J. Chater, et al., eds., Incomes Policy, pp.104-127; Ken Mayhew, 'Incomes Policy and the Private Sector', in J.L. Fallick and R.F. Elliott, Incomes Policies, Inflation and Relative Pay, pp.72-99; and C.T. Saunders, 'Changes in Relative Pay in the 1970s', in Frank Blackaby, ed., The Future of Pay Bargaining, pp.191-211.

debate amongst labour economists concerning the nature, extent and causes of this phenomenon. While there is not the space here to examine the issue in depth, several possible explanations should at least be noted. To start with, the threshold system was designed in such a way that all employees, regardless of income, received equal increments in line with movements in the RPI. Those groups covered by thresholds during 1974 would consequently have experienced some narrowing in differentials. Next, there seems to have been a change in bargaining priorities in a number of large unions including the AUEW and the TGWU. Why this happened remains a subject for speculation, but it could have been inspired by the emphasis in the guidelines given to the low-pay target, or the pressure on bargainers from their unskilled constituents, or the egalitarian objectives of union leaders like Jones.[1]

Another plausible hypothesis, which has been suggested by William Brown, is that the exceptionally high rate of inflation altered attitudes to pay compensation. Bargainers may have felt, for example, that since everyone was suffering more or less equally from inflation, all should receive exactly the same monetary compensation. Brown has referred to this as the 'charity' effect.[2]

Two obvious questions remain. Did the guidelines, as inadequate as they were, actually make any difference? Len Murray, for one, certainly believed so and claimed repeatedly that there would have been much bigger wage increases had it not been for the guidelines.[3] But there is very little

---

[1]Ken Mayhew, 'Incomes Policies and the Private Sector', p.93.

[2]William Brown, 'Engineering Wages and the Social Contract, 1975-77', p.60.

[3]The Daily Telegraph, 27 February 1975.

evidence to support this contention. Indeed, since relevant statistical data does not exist, it is difficult to make a sound judgement. The most that can be said is that the guidelines may have made a marginal difference in particular cases and that they were probably better than nothing.

Second, could the Labour Government, given its electoral pledges, and the adverse structural, organizational and attitudinal conditions which it faced, have prevented a rapid escalation in rates of pay during 1974-75? The answer here must be negative. Assuming ministers had pursued broadly the same macro-economic strategy there were few options available. They could perhaps have adopted a tougher public sector pay policy and modified the threshold system. Yet it is doubtful whether this would have brought significant gains.[1] It may even have made the situation worse by provoking industrial confrontations. Another possibility would have been for the Government to have applied more pressure on the TUC in June in order to obtain a clearer, stricter set of guidelines. But there was insufficient support amongst union leaders for a more rigid policy, and an explicit norm, which was an essential first step towards a successful policy, was definitely out of the question.

The only other option would have been for the Government to slow the pace of implementation of its side of the Social Contract unless or until the TUC took more effective action to control wage growth. Yet it is extremely doubtful whether this would have had the desired effect. By the time the range and scale of the policy infringements was recognized and publicly

---

[1] See Ken Mayhew, 'Traditional Incomes Policies', p.29.

acknowledged the damage had been done and there was little the TUC could do to rectify the situation. Moreover, such action would have generated a lot of opposition within the party and would probably have strengthened the position of those in the union movement who were opposed to the idea of wage restraint and who doubted the Government's capacity and willingness to deliver, especially on the sensitive issues of public ownership, worker control and wealth redistribution. The Government's decision to implement what it could of its programme and thereby, in a sense, to buy the goodwill of union leaders was probably the best strategy. For until the economic situation demanded a radical shift in policy, the Labour Cabinet had little choice but to acknowledge that it was in a weak bargaining position and that in the short run there would be quids without quos.

CHAPTER 7

THE ECONOMIC CRISIS OF MID 1975 AND THE RE-NEGOTIATION OF THE SOCIAL CONTRACT

> Here are men who 'sound of mind and in full possession of their faculties', as all the best wills have it, are prepared to risk their credibility and freeze their memories in order to give the Labour Government one last chance. That is back-breaking loyalty.
>
> Neil Kinnock (MP) [1]

7.0 Introduction

The summer of 1975 witnessed a decisive shift in the content and form of the Social Contract. From being a rather curious one-sided arrangement under which the Government granted numerous policy concessions to the unions in exchange for vague assurances of nominal-wage moderation - which in any case were not fulfilled - the Social Contract became, for all intents and purposes, a rigid incomes policy, and little else. The original guidelines were replaced with an egalitarian flat-rate norm of £6 and the TUC mobilized its forces to ensure the maximum level of compliance. That the TUC should have come to endorse stringent wage controls involving real-wage cuts, and that it should have done so despite its previous opposition to firmer guidelines and in the absence of additional governmental concessions, remains something of a puzzle. Plainly, such significant changes in policy could not have occurred without a prior shift in the views of many union leaders, negotiators and rank-and-file members. It is the endeavour to trace the causes of this shift in attitudes that

---

[1] 'The Crisis', Labour Monthly, 57 (August 1975), p.347.

forms the basis of this chapter. The implementation of the new policy and its acceptance by the vast majority of negotiators will be examined in Chapter 8.

7.1 The Economic Context and the Policy Options

By the time of the spring Budget it was obvious that a major refashioning of economic policy would be required before long. The reasons for this were manifold. The international recession was continuing and although it had been initially hoped that there would be a significant recovery of activity during 1975, this now seemed doubtful. Domestic demand had begun to weaken towards the end of 1974 and real GDP was expected to fall sharply during 1975. Unemployment had risen steadily since November 1974 at a monthly rate of about 40,000 and there were indications that it would reach a post-war high by the end of the year, regardless of governmental programmes to create new jobs.[1] And on top of this, the rates of price and wage inflation were continuing to accelerate. All told these developments were undermining international confidence in the economy. Virtually any day the Government could be faced with a decision by one or other large OPEC country to reduce its sterling balances. Given Britain's low foreign reserves and its massive short-term liabilities, the capacity of the Bank of England to defend the pound in these circumstances was very limited. Thus, there was every prospect of a sharp fall in the exchange rate. While this would be desirable from the point of view of restoring international competitiveness, it would exacerbate the problem of bringing inflation under control.[2]

---

[1] OECD, Economic Surveys: United Kingdom (Paris: February 1976), p.14.

[2] Broadly speaking, for every 5% fall in the exchange rate there would be a rise of 1% in the RPI.

Ministers were in general agreement about short-run economic goals. Obviously it was desirable to achieve a lower rate of inflation, to restore international confidence in the economy, to improve profitability and competitiveness, to restrain the rise in unit labour costs, and to lay the foundations for future economic growth, higher levels of employment and improved social services. But how could such ends be achieved? Four major options presented themselves.

The first option was to impose statutory wage controls. This was favoured by many senior Treasury officials and was advocated within Cabinet at various times during the economic crisis of the summer by several ministers on the right of the party, including Reg Prentice (the Education Secretary) and Roy Jenkins (The Home Secretary).[1] But the problem was that the party had repeatedly declared its opposition to mandatory wage controls. To reverse such a categorical and uncompromising policy pledge, even in a difficult economic situation, would be acutely embarrassing, to say the least. More important, it was probable that several left-wing ministers would resign, including Michael Foot, Tony Benn (the Industry Secretary), and Barbara Castle (the Social Services Secretary).[2] What impact this would have on the Government was impossible to predict. But the loss of Foot would certainly be a major blow, partly because of his close relationship to the unions and partly because of the widespread following he enjoyed amongst left-wingers in the party. Quite apart from this, it was

---

[1]Joe Haines, The Politics of Power (London: Jonathan Cape, 1977), p.43; and Barbara Castle, The Castle Diaries, p.425.

[2]Barbara Castle, The Castle Diaries, p.447.

improbable that a statutory policy would receive Parliamentary endorsement.[1] By May 1975 Labour had an overall Parliamentary majority of one, and even this was likely to be lost soon as a result of by-election defeats.[2] Should a significant number of backbench MP's refuse to follow the Party Whip, the policy might be rejected by the Commons and the Government forced to resign. Besides these political difficulties, a statutory policy had the further disadvantage that it would destroy the Social Contract and might provoke a major industrial confrontation.

A second option was to deflate the economy. Some reduction in public expenditure was considered necessary by the Treasury and many ministers, regardless of any action on wages and prices, so the question was not about whether there would be cuts, but rather how large they would be and where they would occur.[3] In this respect the majority of Cabinet members wanted to keep reductions in expenditure to a minimum, and totally rejected a monetarist solution as advocated by the then recently elected leader of the Conservative Party, Margaret Thatcher.[4] A monetarist strategy, it was feared, would not only be terribly costly in terms of lost output and employment, but would also be a slow method of reducing inflation.

---

[1] As it was, some 36 left-wing back-bench MPs voted against the Labour Government's White Paper, The Attack on Inflation Cmnd. 6151, July 1975.

[2] Labour lost its overall majority on 26 June following its defeat in the Woolwich West by-election.

[3] Joel Barnett, Inside the Treasury, pp.64-71.

[4] Mrs. Thatcher replaced Edward Heath as Tory leader on 11 February 1975.

The third option, known as the 'Alternative Economic Strategy', entailed the expansion of aggregate demand, the imposition of import controls and the introduction of tougher price controls.[1] But there was little support for this approach within the Cabinet and throughout the period senior ministers, such as Wilson, Callaghan, Healey and Jenkins, remained opposed to protectionism. It was contended, for example, that import controls would spark retaliatory action by other industrialized nations, that they would be in breach of Britain's EEC commitments, and that they would promote economic inefficiency. Moreover, there was no guarantee that a strategy designed to protect domestic industry would slow the pace of wage inflation.

If the first three options were deemed to be politically impossible, morally untenable or economically unsound, this left but one choice, namely, a new voluntary pay deal with the TUC. Yet this too raised problems. Would a policy designed to cut real wages receive TUC endorsement? Could it be enforced? What would the Government do if powerful industrial groups chose to free ride? And would a policy based on consent rather than legal sanctions be considered credible by the business community and Britain's overseas creditors?

By the end of the spring it was still doubtful whether the unions were ready to negotiate a new policy. Many union leaders regarded the April Budget as a betrayal of the Social Contract and attacked the Government's passive acceptance of higher unemployment. For such leaders another pay policy was

---

[1] There is a large literature on the alternative economic strategy. For a recent review see David Currie and Malcolm Sawyer, eds., Socialist Economic Review 1982 (London: The Merlin Press, 1982).

unthinkable, especially if the Government reneged on its side of the bargain. The union conference season was well under way and as with the previous year huge wage claims were being endorsed by the rank-and-file. Further, at a meeting of the Liaison Committee on 21 April, Jack Jones had declared that there was 'no prospect of strengthening the guidelines', while Len Murray had alerted ministers to the possibility that there might be a coalition at the TUC conference in September against the Social Contract.[1] To make matters worse, there was the added complication of the national referendum on EEC membership on 5 June. The prospect of making progress on a new pay policy before this date was extremely poor since the referendum issue had split the Labour movement and diverted attention away from economic issues. The majority of the Cabinet and at least half of the Parliamentary Labour Party (PLP) supported the continuation of Britain's membership of the European Community, while the TUC, the NEC and the remainder of the PLP were opposed.

Against this there were one or two positive signs. In February Hugh Scanlon disclosed publicly for the first time - and it seems the only occasion prior to the autumn - something of his growing private anxieties about the economic situation and the weaknesses of the existing guidelines. As he put it:

> there are a number of us who believe the time has come for the TUC to make a whole appraisal of our side of the Social Contract ... In my view, the Social Contract needs clarifying. It needs agreed standards on which to judge it.[2]

Scanlon's views were echoed later by a number of moderates, such as Tom Jackson, Sid Weighell and Frank Chapple. Further, as the union conference season wore on, more and more union leaders

---

[1] Barbara Castle, Castle Diaries, p.372.

[2] The Times, 28 February 1975.

were making known their concern about the economic situation to Len Murray and Congress House staff. According to respondents, there was mounting anxiety about the pay and prices explosion and about the consequences for employment. It was widely felt that something had to be done and that the TUC should take the lead in designing a new policy.

Senior ministers perceived, however, that if progress was to be made the support of two unions, the TGWU and the NUM would be vital.[1] The backing of Jack Jones and his union was an obvious necessity. Without it there was little hope of a voluntary policy receiving sufficient votes at the TUC conference in September. The backing of the miners was considered equally crucial. Of all the major unions, the NUM was assumed to be the one most capable of breaking an incomes policy. For the new policy to be credible, therefore, it had to receive the miners' endorsement. Also, it was assumed that the NUM's acceptance would undermine the resistance of other unions, thereby minimizing the likelihood of free riding.

Whether these assumptions were accurate remains questionable. In the judgement of some respondents, the bargaining power of the miners was constantly over-estimated during the years of the Social Contract. According to this view, the miners were only able to defeat Heath in 1972 and 1974 because of unique events, like the oil crisis, and the support of other unions in the transport and energy fields. Without this assistance their strikes may well have collapsed. In 1975 there was little prospect of the miners receiving similar support, partly because they would be fighting a Labour Government and partly because, having made major gains in their

---

[1] Harold Wilson, Final Term, p.113; and Barbara Castle, The Castle Diaries, p.440.

real and relative pay position since 1972, they would enjoy much less public sympathy. In any case, with oil prices having stabilized and with the recession deepening, the miners were in a much weaker bargaining position. Hence there were good reasons for supposing that, if it came to the crunch, they would be unable to break a new policy.

The accuracy of this assessment will always remain unknown. What can be said with confidence, however, is that economic policy makers saw the NUM as a potential free rider and that this had a significant bearing upon the development of the new pay policy. Amongst other things it meant that there could be no agreement with the TUC until after the NUM annual conference in early July. The major drawback here was that it meant several months of delay during which it might appear to domestic and international observers that the Government was doing nothing to resolve the economic crisis. And again, this posed the central question: could sterling survive the wait?

7.2 Jack Jones and the Flat-Rate Policy

The fact that no agreement could be reached until mid-summer, that is, if one was possible at all, did not prevent a good deal of preparatory work from being undertaken in the intervening months. During May and June senior ministers, union leaders, TUC staff and officials from the Treasury, No.10 and the Department of Employment were actively engaged in formulating ideas, in drafting tentative plans and in trying to put together an acceptable pay policy for the next wage round.[1] High-level discussions took place informally between key ministers and union leaders and by the time of the sterling

---

[1] Joe Haines, The Politics of Power, p.45.

crisis on 30 June there were the beginnings of a consensus on the broad outlines of a new policy. Much work, however, remained to be done.

The first attempt to test the water and secure the backing of TUC leaders for a change in direction was unsuccessful. At a meeting of the Economic Committee of the TUC on 14 May, a paper was submitted by Congress House staff calling on the unions to show a much greater commitment to the Social Contract and proposing, as one option, the introduction of procedures for the TUC to vet wage claims.[1] But the plan received little support. It was argued that a similar scheme had been tried in 1965-66 and had failed, and that it would be beyond the resources of the TUC to examine all pay claims or even a significant proportion of them.[2] On the other hand, it was agreed a week later by the General Council to send out yet another circular to unions reminding them of the need to observe the existing guidelines 'closely and carefully' and urging negotiators to recognise that settlements should not exceed the rise in the RPI.[3] Interestingly, the circular also declared that it should be the goal of economic policy to reduce the rate of inflation substantially below 20% by the close of 1975.[4] This was the first time any reference to an inflation target had been made by the TUC. At this stage no indication was given how such a target might be achieved, but the implication was clear: a change in the guidelines was essential.

---

[1] The Guardian, 13 May 1975.

[2] IDS, Report No. 209, May 1975, p.25.

[3] TUC Annual Report 1975, p.271.

[4] Ibid., p.271.

Undoubtedly the most important development during May was the proposal put forward by Jack Jones at a union rally in Poole, Dorset, for a universal, flat-rate pay norm for the coming round.[1] Jones' scheme had all the advantages of simplicity and clarity. Every employee would receive a flat-rate pay increase which would be negotiated with the Government and the CBI and determined in accordance with cost-of-living criteria. That is to say, if prices were rising by 20%,then there would be wage increases of about £10-£12.[2] Exceptional cases would be dealt with by arbitration. Broadly speaking, the plan was designed to stem the rise in nominal wages and prices, preserve real wages, at least for most employees, and redistribute income in the direction of the lower paid. The bare bones of the plan were gradually fleshed out and elaborated by Jones in subsequent weeks.

The sudden announcement of this proposal took most union leaders, ministers and officials by surprise. According to respondents,there had been little, if any, discussion of such a scheme beforehand, and the idea had certainly not come from either Labour ministers or their civil service advisers. Why then did Jones put forward his plan at this juncture? To start with,he had been in regular contact with Healey and had been persuaded of the gravity of the economic situation. He realized that without decisive action there could be an economic collapse with much greater unemployment and even the fall of the Government. Apart from this he feared that, under

---

[1] The Sunday Times, 18 May 1975

[2] The average wage in mid 1975 was about £57 a week. IDS Report No. 233, May 1976, p.2.

pressure from the Treasury, Wilson might seek to impose a statutory pay policy. By declaring himself publicly in favour of a new, much tougher voluntary policy, Jones hoped to pre-empt such a move and so preserve the influence of the unions over the determination of wages. Lastly, he was aware that the Treasury, the CBI, Healey and many other ministers favoured a percentage norm rather than the flat-rate alternative. His early advocacy of a flat-rate policy thus had two aims: to ensure that it received official attention, and to mobilize public support for a redistributive policy.

As expected some craft union leaders reacted negatively to the proposals. John Lyons of the Power Engineers' Association, for example, denounced the flat-rate norm as 'simply another device for clobbering the skilled worker and all those above him', and referred to the plan as a 'divisive and quite unacceptable formula'.[1] Likewise, some left-wing leaders expressed criticism of the proposal and said that their unions would be pressing large pay claims regardless. In contrast, the scheme received a generally positive response from senior ministers as well as from the leaders of several unions representing low-paid workers, such as Alan Fisher of NUPE. As far as those on the centre-right of the TUC were concerned, Jones' proposal seemed an excellent idea politically and economically.[2] From their perspective the unions had to face reality: the June guidelines had failed. If further inflation and unemployment was to be prevented, the TUC would

---

[1] The Financial Times, 19 May 1975. The Power Engineers' Association became the Engineers' and Managers' Association (EMA) in 1976.

[2] See Gerald Dorfman, Government versus Trade Unionism, p.118.

have to accept another pay deal. Having crossed this intellectual hurdle, logic dictated that it would be in the interests of union leaders to design and implement a policy themselves, rather than to have one forced upon them by the Government.

The first opportunity for union leaders to consider Jones' plan formally came at a meeting of the General Council on 21 May. However, debate on this occasion was fairly limited and in accordance with normal procedures the proposal was referred to the Economic Committee for more detailed scrutiny. In the weeks before the next meeting of the committee on 11 June, TUC staff drew up a lengthy discussion paper entitled 'The Development of the Social Contract'.[1] This surveyed the economic situation and argued that the country needed to reduce inflation to at least 15% if industry was to remain internationally competitive. As the paper expressed it:

> This means that a major effort has to be made to get the wage and price figures below 20% early in the next wage round. This will be very difficult to achieve, and indeed impossible in the short run if the present rate of rise in prices is taken as the basis of a wage guideline figure for the whole of the next pay round.[2]

In fact, if this happened, according to the paper it would be 'impossible to avoid an even more dangerous inflationary spiral.'[3] From this it followed that the only way to get lower pay settlements was for the General Council, in consultation with the Government, to set an inflation target for the next 12 months or so which was significantly below the current rate, and then try to ensure that settlements did not exceed this target when the new round began in August.

---

[1] The Times, 10 June 1975. Copies of this paper were leaked to the press.

[2] Ibid.

[3]

But this meant, regardless of the actual inflation target, accepting pay increases in the short run which were below the current rate of price increases. And this implied a fall in real wages, albeit temporarily.

As to the practical details, the paper listed four options. There could be a flat-rate norm along the lines advocated by Jones, or a percentage norm as favoured by some craft union leaders, or a combination of a minimum cash amount plus a percentage norm, or the introduction of a system of indexation. While making no firm recommendations, and acknowledging that the actual formula was less important than its acceptability to union members and negotiators, the paper argued against the first proposal. It was felt that a flat-rate norm would 'be divisive and lead to opposition' and that there would be a tendency for the pay increases received by lower-paid workers' to be generalized in percentage terms to other groups'.[1] Jones, of course, was well aware of such objections, but contended that a clear, simple cash formula would draw more support and be easier to enforce than a percentage norm or a more sophisticated scheme. In this respect he was probably right. Research conducted in 1973 and 1974 had revealed that about half of the employees questioned were willing to hold back their own pay increases in favour of low-paid workers.[2] Moreover, a study undertaken in early 1975 on the psychological aspects of inflation had indicated that the majority of people evaluate the worth of their pay rises in absolute, rather than percentage terms. In

---

[1] The Times, 10 June 1975.

[2] For details see William Brown and Keith Sisson, A Positive Incomes Policy, Fabian Tract 442 (May 1976), p.2.

other words, it is the absolute size of a pay increase which is the key factor in determining the level of satisfaction with such an increase.[1] Thus, there was evidence to suggest that a flat-rate norm would be well received by most workers.

As matters transpired, Jones' plan received a favourable hearing at the meeting of the Economic Committee. Union leaders representing low-paid workers, public sector workers and employees in depressed sectors of the economy, such as Tom Jackson, David Basnett, George Smith and Lord Allen, all backed the idea of a flat-rate pay norm for the forthcoming wage round.[2] Such action, it was felt, was necessary in order to stem the inflationary spiral, to protect the living standards of the low paid, and to preserve the Labour Government in power. But Jones did not receive universal support. Some left-wingers on the committee, like Dan McGarvey and Lawrence Daly, questioned the whole rationale for abandoning the existing guidelines, and others, most notably Frank Chapple, doubted whether the TUC could ensure compliance with a new, more strictly defined policy.[3] Nevertheless, the general weight of opinion was in favour of decisive action to stabilize the economic situation, and in keeping with this the committee decided to support the flat-rate policy proposal. No decisions were taken at this stage, however, on the sensitive issues of an inflation target, the size of the pay norm, the provision for exceptions and the form of monitoring (if any).

One senior union leader who missed the meeting of the Economic Committee was Hugh Scanlon. Whether his absence was deliberate is not clear, but it is known that his

---

[1] W.W. Daniel, 'The PEP Survey on Inflation', PEP Broadsheet, 41, 553 (July 1975), p.35.

[2] The Times, 12 June 1975.

[3] Id. Daly appears to have changed his mind during the subsequent weeks.

attitude towards a new pay policy was in a state of flux.[1] In public forums he steadfastly opposed Jones' plan. For example, at the Annual Conference of the AUEW in Hastings, only five days after the meeting of the Economic Committee, he fiercely attacked his fellow union leaders who wanted changes to the Social Contract; he criticized those within the Cabinet who favoured what he called 'traditional Tory policies'; and he totally rejected the charge that the AUEW was led by 'mindless militants determined to destroy the economy'.[2] As he remarked in his Presidential address to the conference about the existing pay guidelines:

> I see no reason to change that policy, either by further discussions at the TUC or because the Chancellor or Treasury may feel there should be further cuts in living standards.[3]

The majority of delegates at the conference seem to have taken an even more radical stance, rejecting not only the idea of a new pay deal with the government, but also the continuation of the existing one. Following a lively, politically-charged debate, delegates voted by 39 to 29 to oppose the Social Contract and any form of wage restraint.[4] Shortly afterwards a motion calling for the union to support the Labour Government and to abide by the guidelines of June 1974 was defeated by nine votes (39:30). These decisions effectively tied Scanlon's hands and made it impossible for him to publicly endorse a radical policy rethink. Throughout the crisis in

---

[1] Curiously, Scanlon missed at least three important meetings at which the flat-rate policy was discussed during June and early July, including those of the Economic Committee (11 June), the Liaison Committee (23 June) and the General Council (9 July). He was present, however, for the crucial meetings with ministers in the first week of July.

[2] The Financial Times, 17 June 1975.

[3] Ibid.

[4] The Guardian, 18 June 1975.

early July, therefore, he maintained his stance of opposition to the £6 policy, and it was only sometime later that he softened his public statements and began to campaign within his union for acceptance of the new policy.

Despite his repeated denunciations of Jones' plan during the summer of 1975, in private Scanlon was gradually adopting a markedly different view. By June he had become very concerned about the economic situation. He feared - as did most of his fellow trade union leaders - that unless prompt action was forthcoming, the Labour Government might fall and be replaced by a government of the hard right. In fact, Scanlon even feared the possibility of a semi-fascist administration coming to power - with all that this implied for the future of the union movement. Given these anxieties, he believed that something had to be done to reduce the level of wage inflation. Since he could not publicly condone changes to the Social Contract because of the militant stance of his union and pressure from the National Committee, he adopted a pragmatic, and judged by outward appearance, inconsistent strategy. On the one hand, as we have seen, he spoke out against a tougher incomes policy. On the other hand, he demonstrated a willingness to negotiate with ministers and to do his best to reach an acceptable agreement on wages before the start of the next round.

While union leaders debated the options and Jones lobbied to get the General Council to back his plan at its meeting on 25 June, ministers gathered at Chequers, the Prime Minister's country residence, on 20 June to review the economic situation and formulate the Government's strategy. The meeting took place against the background of a significant defeat for the party's left-wing over EEC membership and in the midst of rising

anxiety about the economy.[1] In the preceding weeks the pound had come under growing pressure on foreign exchange markets and the Bank of England had publicly urged the Government to curb public expenditure and impose a statutory pay policy, or at least a much stricter voluntary one.[2] Ministers were thus fully aware that time was running out.

The Chequers meeting considered various papers including, in the words of Barbara Castle, 'a massive document' prepared by officials outlining all the options available to the Government and the advantages and disadvantages of each option.[3] Ministers were generally agreed on the desirability of reaching a new understanding with the TUC on wages, but few thought that the prospects for this were good. Healey argued that if inflation was to be brought down to single figures, then a pay norm of 10% or less would be necessary. However, Foot and Williams questioned whether the TUC would accept anything below 15%, or its single figure equivalent of about £8. Others doubted whether the TUC could prevent free riding. To ensure that the policy was credible and enforceable, Harold Lever, the Chancellor of the Duchy of Lancaster and a close adviser to Wilson on economic policy, suggested that employers who broke the guidelines should be penalized. This idea sparked fierce debate. Barbara Castle, Peter Shore (the Trade Secretary) and Lord Elwyn-Jones (the Lord Chancellor), amongst

---

[1] On 5 June 1975 the referendum on EEC membership was decided by a two-to-one majority in favour of Britain continuing within the European Community. The magnitude of the pro-EEC vote represented a major defeat for the left and consequently for the alternative economic strategy, which had been promoted by many anti-EEC campaigners as the alternative to membership.

[2] Anon, 'Economic Commentary', Bank of England Quarterly Bulletin, 15 (June 1975), pp.137-138.

[3] Barbara Castle, The Castle Diaries, pp.425-430.

others, attacked the proposal claiming that it would be impossible to enforce sanctions against employers without also penalizing employees. And if this was so, then the policy would, in effect, be a statutory one and would provoke uproar within the party and the unions. The long debate was concluded by the Prime Minister who said that there should be no statutory controls, but that some sort of monitoring body would be essential, together with a public relations unit to sell the policy.[1] The aim, he said, should be to get TUC agreement for a 10% norm. Foot, Healey and Williams would be responsible for negotiating the deal: the deadline would be the end of July.

The weeks following the Chequers' meeting witnessed a great amount of activity on the part of ministers, officials and union leaders. On 24 June representatives of the TUC met with CBI leaders, and the next day there was a meeting of the General Council and one between the Prime Minister and TUC leaders. The General Council meeting proved to be highly significant. Before the Council was a revised version of the paper considered two weeks earlier by the Economic Committee. In keeping with the 'general disposition' of the committee, this now recommended a flat-rate policy. It also acknowledged that many groups would experience a reduction in living standards during the coming year, no matter what policies were finally approved. Left-wingers challenged this assumption and urged the TUC to retain the existing Social Contract guidelines, but they were heavily defeated. According to press reports, only five members of the General Council supported

---

[1] Barbara Castle, The Castle Diaries, p.430.

the retention of the 1974 guidelines.[1] Instead the Council backed Jones' proposal by an overwhelming majority.[2]

The plan at this juncture consisted of the following elements:

i) a price target to be achieved by the middle of 1976;

ii) a figure for pay, related to the achievement of this target in the form of a flat-rate money increase universally applied;

iii) limits on very high incomes;

iv) radical action to limit price increases involving the application of the Price Code, subsidies and action at High Street level;

v) a major reduction in the level of unemployment in 1976; and

vi) the maintenance and development of the Social Contract as the fundamental basis of continuing unity between the trade union movement and the Labour Government.[3]

The General Council's acceptance of these 'guiding principles', as they became known, marked an important victory for Jones and the pro-income policy faction within the TUC. The main hurdle now was to achieve a successful outcome at the conferences of the TGWU and NUM due to be held within the next two weeks.

---

[1] The Financial Times, 26 June 1975. Those in favour of retaining the existing Social Contract guidelines were reported to be Hugh Scanlon, Ken Gill, Clive Jenkins, Lawrence Daly (NUM) and Alan Sapper.

[2] The vote was 26:6, with Scanlon, Gill, Daly, Sapper, Ray Buckton and Les Buck reported to have voted against. See The Financial Times, 26 June 1975, and The Economist, 28 June 1975, p.71.

[3] TUC Annual Report 1975, p.272.

7.3 The Economic Crisis

The crisis finally broke on Monday 30 June. After several months of pressure on the pound, international confidence finally collapsed producing a sharp fall in the value of sterling against all major currencies. By the end of the day, the pound had depreciated from 27.6% to 28.9% against the 'currency-basket' as measured by the Smithsonian parities, and from US$ 2.2245-2.2255 to US$ 2.1910-2.1930.[1] This represented the largest fall ever recorded in a single day of trading. More significantly, the fall brought the pound below the sterling-dollar rate of US$ 2.20, the level at which it was believed that certain OPEC countries would start withdrawing their holdings of sterling. Kuwait, for instance, was reported to have set a floor at US$ 2.20, and Nigeria and Saudi Arabia at US$ 2.17.[2]

Under strong pressure from the Treasury to impose statutory controls, Wilson called emergency meetings with senior ministers and TUC leaders, and later arranged for a special Cabinet meeting on Tuesday morning 1 July.[3] It transpired in the course of these talks that the TUC would be willing to link wage increases to an inflation target of 10%, to be achieved by September 1976.[4] This implied a wage limit of 10% or at most £6, but TUC leaders refused to endorse

---

[1] Harold Wilson, Final Term, p.115.

[2] Barbara Castle, The Castle Diaries, p.439, and Joe Haines, The Politics of Power, p.55.

[3] For an account of the efforts of the Treasury to secure a statutory policy see Joe Haines, The Politics of Power, pp.53-61.

[4] Barbara Castle, The Castle Diaries, p.439.

such a low figure at this juncture. Indeed, they doubted that the union movement would tolerate anything less than £8.

The immediate issue, however, was not the size of the pay norm, but rather the need for Healey to make a public statement that would restore confidence in sterling. Such a statement had to indicate what the Government proposed to do to tackle inflation and had to carry conviction. And this posed the question as to whether any policy announcement which lacked reference to the means by which a new pay policy would be enforced would be sufficient. Debate on this matter within Cabinet was intense.[1] Healey contended that while public sector pay could hopefully be kept in line by means of cash limits, financial sanctions and other instruments, the difficulty would be to ensure compliance in the private sector. Price controls would assist, but would be inadequate for dealing with monopolies and capital intensive industries. Consequently, this left only one option, namely, to impose legal sanctions on employers who broke the norm. Healey's position was challenged by left-wingers on the grounds that it would jeopardize TUC cooperation and might lead eventually to workers being charged with criminal conspiracy. Nevertheless, the majority of Cabinet favoured taking a tough stance, and it was agreed that the statement should include a reference to legal sanctions against employers as well as other government action. The meeting ended with Healey, Williams, Foot and Shore being given the task of drafting a speech for Healey to deliver in the Commons.

Healey's statement on 1 July contained several important elements. First, he declared that it was the Government's aim to reduce domestic inflation to 10% by the end of the next

---

[1] For details see Barbara Castle, The Castle Diaries, pp.439-443.

pay round (August 1976), and to single figures by the close of the year.[1] To this end, the rise in wages, salaries and dividends would be limited to 10%. Healey left open the matter of how this amount was to be expressed - whether in percentage or flat-rate terms, or some combination of the two. But his decision to mention a precise figure angered Murray, Jones and other union leaders. They had not been told that the statement would mention a pay norm, let alone such a low one. Now they were faced with a virtual fait accompli.

Second, with respect to the sensitive issue of legal sanctions, the Chancellor made the following remarks:

> We should much prefer to proceed on the basis of a voluntary policy with the CBI and the TUC. But a voluntary policy will not be acceptable to the Government unless it satisfies the targets they have set for reducing inflation and includes convincing arrangements for ensuring compliance. If, however, no agreement can be reached which meets these conditions, the Government will be obliged to legislate to impose a legal requirement on both public and private sector employers to comply with the 10% limit. The Government will announce their decisions in a White Paper to be published before the end of next week.[2]

The wording here was carefully chosen. Plainly, ministers wanted to keep the unions at the bargaining table and to reserve their position on legal controls until it was known what measures to guarantee compliance the TUC might accept. Both during and after his statement, therefore, Healey refused to be drawn on exactly what the Government would do, save to say that there would be no criminal sanctions against workers under any circumstances.[3]

But while the question of legal controls remained in

---

[1] Hansard, 1 July 1975, Vol. 894, Col.1189.

[2] Ibid., Col.1190.

[3] The Daily Telegraph, 5 July 1975.

abeyance, Healey was determined to employ all the coercive resources available to the Government - short of a fully-fledged statutory approach - to get the new policy to stick. Recognizing that a policy relying purely on moral suasion, political pressure and private coercion would lack credibility, he announced in his Commons' statement that the Government would introduce a series of measures, or a 'battery of weapons' as he called them, to reinforce any new deal with the TUC.[1] These measures, which were amplified and extended in subsequent statements, would be applied to employers in both the public and private sectors.[2] As far as its own employees were concerned, (civil servants, health service employees, and members of the armed services) the Government would naturally adopt a firm bargaining posture: excessive wage increases would not be tolerated.[3] Nationalized industries and services would also be expected to take a tough line. If they did not, they would be penalized. They would be unable to increase their prices and charges to recoup any losses arising from the excessive pay increases; they would not be permitted to engage in extra borrowing; and government loans and subsidies would be reduced. All this, of course, would mean that if unions pressed for large wage increases they would be placing their members' jobs at risk.

---

[1] Hansard, 1 July 1975, Vol. 894, Col. 1189-1190. In spite of the introduction of this 'battery of weapons', it is still quite appropriate - in accordance with the definition of a 'voluntary incomes policy' outlined in Chapter 1 - to speak of Phase I as being a voluntary policy. Obviously, though, it differed in significant respects from the voluntary policy which it replaced.

[2] See Hansard, 11 July 1975, Vol. 895, Col. 902-904; and Hansard, 21 July 1975, Vol. 896, Col. 54-65.

[3] The Chancellor also announced that a new system of cash limits would be introduced to assist the Government in controlling public expenditure. Subsequently it was announced that the Civil Service Pay Research Unit would be suspended for the duration of the new policy.

Equally stringent controls would be imposed on the local authorities and public transport authorities.[1] Legislation would be brought before Parliament enabling the Government to limit the payment of rate support grants to individual local authorities if they broke the pay limit. Should this sanction prove to be inadequate, then additional measures would be taken to control local authority borrowing and thereby restrict the capacity of individual authorities to finance excess expenditure on pay settlements. By these means, Healey felt reasonably confident that, barring an all out attack by groups like the miners, he would be able to prevent policy breaches in the public sector.

As far as the private sector was concerned the Government's coercive resources - in the absence of statutory wage controls or a tax-based incomes policy - were clearly much more confined. Nevertheless, Healey indicated in his speech on 1 July that action would be taken by means of the Price Code to penalize employers who broke the new policy.[2] Ten days later, on 11 July, the Prime Minister announced that private sector employers who violated the policy would face the loss of government orders and contracts, as well as the loss of any assistance under the Industry Act to which they might otherwise have been entitled.[3] How much of a deterrent these measures represented remained to be seen.

Fortunately for the Government, both domestic and international reaction to Healey's statement was reasonably favourable. As expected, Tory leaders were unimpressed; but the City took a more positive approach. Pressure on the pound

---

[1] Hansard, 21 July 1975, Vol. 896, Col. 55.

[2] The Price Code was amended so that where the pay policy was breached by an employer, the whole of the pay increase would be disallowed for price increases.

[3] Hansard, 11 July 1975, Vol. 895, Col. 904.

eased and union leaders, notwithstanding their anxieties about the threatened legal sanctions, agreed to begin serious negotiations and to do their best to reach a satisfactory conclusion within the ten days specified.

At the very hour on Tuesday morning when the the Cabinet was agonizing over Healey's proposed Common's statement, the TGWU was debating the future of the Social Contract at its Biennial Delegate Conference (BDC) in Blackpool. Prior to the conference, Jack Jones had lobbied hard on behalf of his flat-rate proposal and had met with some success. The standing orders committee, for instance, had removed from the conference agenda several motions criticizing the Social Contract. More significantly, the union's executive had voted to support a number of motions which opposed statutory controls, endorsed the Social Contract, the twelve-month rule and the principle of flat-rate norm, and demanded a wide range of quid pro quos in return for wage restraint.[1] However, there was still uncertainty about how the conference delegates would react.

Their decision, when it came, proved decisive. During the morning of 1 July, some 35 speakers, including Jones, addressed the conference on the future of the Social Contract. Jones' speech was passionate, persuasive and cogent. The thrust of his message was that the trade union movement and the Labour Government must stand together to meet the challenge of the economic crisis. Unless they did so, there was a real possibility that the Government would collapse and that either the right-wing of the party or a new Conservative Government would impose harsh cuts in

---

[1] The Financial Times, 1 July 1975.

public expenditure and permit much higher unemployment. And any significant rise in unemployment, quite apart from its severe social and psychological consequences, would automatically weaken the bargaining position of unions. As he put it:

> All this talk about free negotiations would be meaningless if we allow unemployment to grow. We all know that you cannot have free collective bargaining in a situation of massive unemployment.[1]

Conceptually, his speech involved a twin appeal to delegates. First, he sought to invoke certain normative commitments: a commitment to the unity of the labour movement; a commitment to social justice, redistribution and fair play; and a commitment to the survival of the Labour Government. Second, he made a direct appeal to their self-interest. If the Labour Government collapsed, the implications for jobs, real wages and a whole host of other social and industrial benefits would be serious. A temporary period of wage restraint, on the other hand, and particularly an egalitarian policy of the kind proposed, offered the working class the best hope.

The end result was a major victory for Jones. Following the morning's debate, delegates voted by some 1000-to-100 to endorse the twelve-month rule and a flat-rate norm for the forthcoming round.[2] Moreover, a motion rejecting the Social Contract, which had survived all attempts to have it removed from the agenda, received fewer than 20 votes.[3] Thus, Jones

---

[1]Jack Jones, Test of Speech to the Biennial Delegate Conference of the TGWU, 1 July 1975, p.3.

[2]The Financial Times, 2 July 1975.

[3]Ibid.

was able to return to London to continue negotiations with senior ministers and trade union colleagues knowing that he had the full backing of his conference. The question now was to secure a similar result at the NUM conference the following week in Scarborough.

This was not so straightforward. In the week before the conference there was a tremendous amount of manoeuvring, bickering and internal feuding on the question of the NUM's attitude towards a new pay deal.[1] Matters first came to a head at a lengthy meeting of the National Executive Committee (NEC) on 4 July called, in part, to make a decision about which of three resolutions dealing with wages policy it would recommend for conference endorsement. These included one from Yorkshire demanding £100 a week for faceworkers to be achieved by 1 November,[2] a milder one from Nottinghamshire seeking 'substantial increases', and a third from the North-Western area demanding £100 a week like the Yorkshire motion, but without a fixed target date for its attainment. Obviously, if the executive and conference supported the Yorkshire resolution, it might jeopardize a new pay deal. Joe Gormley, the miners' President, wanted the Social Contract to continue and disliked being bound to a specific negotiating figure. Hence, he opposed the Yorkshire motion and gave his backing to Nottinghamshire. But, despite his efforts, the NEC couldn't agree about which of the resolutions to support. In the end, the conference standing orders committee was given the task of trying to hammer out a compromise resolution to put before the conference on Tuesday, 8 July.

---

[1] For further details see Tony Hall, King Coal, pp.228-229; Harold Wilson, Final Term, pp.116-119; and Socialist Worker, 19 July 1975.

[2] The existing award was not due to expire until 1 April 1976, so the new settlement date was a direct challenge to the twelve-month rule.

Over the weekend and throughout Monday intense pressure was brought to bear on Arthur Scargill, the leader of the Yorkshire delegation, to make concessions. Scargill, however, was in a strong position. He enjoyed the support (or so he thought) of the other traditionally militant regions, Scotland, South Wales and Kent and, in addition, the 14 Midlands' delegates had been mandated to vote for the Yorkshire resolution. Altogether this gave him 127 conference votes, only 7 short of a majority. If he could secure the backing of North Derbyshire with 14 votes, or of the cokemen and the Scottish engineers, both with 6 votes, he would win the conference vote.[1] Thus, he refused to withdraw the motion or drop its principal element, namely, the 'demand' for £100 for faceworkers.

The conference began with two powerful speeches in favour of wage moderation: one by Joe Gormley, and the other by the Prime Minister. Describing Yorkshire's resolution as 'dangerous', and emphasizing the gravity of the economic emergency confronting Britain, Gormley called on Yorkshire to withdraw its motion and to support the Labour Government.[2] He also appealed to delegates to recognise their wider responsibilities and show solidarity with their fellow workers in other industries. The Prime Minister spoke in similar terms. In a carefully prepared speech, Wilson reminded delegates of all that the Labour Government had done and was continuing to do to rebuild the mining industry.[3] He explained the nature of the

---

[1] The Guardian, 5 July 1975.

[2] Report of the Annual Conference of the NUM, 1975, p.315.

[3] According to Wilson, this was one of the most important speeches of his career and was written with great care. See Harold Wilson, Final Term, p.116; and Harold Wilson, The Governance of Britain. (London: Weidenfeld and Nicolson and Michael Joseph, 1976), p.90.

economic difficulties afflicting the nation and called on the miners to show loyalty to their Government and to the principles of social democracy by supporting the Social Contract. In ending his address he made the following appeal:

> The issue now is not whether this or any other democratic socialist Government can survive and lead the nation to full employment and a greater measure of social justice. It is whether any Government so constituted, so dedicated to the principles of consent and consensus within our democracy, can lead this nation. What the Government is asking for the year ahead, what the Government has the right to ask, the duty to ask, is not a year for self, but a Year for Britain.[1]

Whether or not these speeches had much impact on delegates, the fact remains that the next day, only hours before the debate on wages policy was due to commence, support for Yorkshire's resolution collapsed. There were several reasons for this. To begin with, the backing of the Midlands and North Derbyshire remained uncertain and without this the motion would be defeated.[2] Equally important, Mick McGahey, the leader of the Scottish mineworkers and a member of the executive of the Communist Party, along with other Communist Party members came to doubt that there was sufficient support, either within the NUM or outside, for a head-on clash with the Labour Government.[3] If this assessment was accurate, then the immediate demand for £100 a week for faceworkers was doomed, regardless of how the conference voted. Assuming this to be so, McGahey and the leaders of the delegations from South Wales and Kent urged Scargill to endorse a compromise formula. Scargill had little choice but to accept. After a good deal of to-ing and fro-ing a new motion was finally drafted

---

[1] Harold Wilson, Final Term, p.118.

[2] The Times, 9 July 1975.

[3] Socialist Worker, 19 July 1975; and The Times, 19 July 1975.

and put before the conference under the sponsorship of Yorkshire, North Western, Kent and Nottinghamshire.[1] This instructed the miners' executive to 'seek', rather than 'demand', £100 a week, and made it a long-term objective instead of an immediate one. The motion was carried unanimously. Several weeks later the NEC voted by a majority of 14 to 10 to support the by then newly agreed £6 policy. It also voted, this time unanimously, to hold a pit-head ballot.[2]

7.4 The Negotiations between the Labour Government and the TUC

Psychologically, the decisions of the conferences of the TGWU and the NUM had a significant bearing upon the negotiations which had been going on in London between senior ministers and a small group of leading trade unionists.[3] It now seemed certain that the TUC conference in September would support a new wages policy and that, notwithstanding the continued opposition of the AUEW, a major frontal assault on the policy by a powerful union could be avoided. As a result, both sides were more confident that a voluntary policy could be made to stick. But there was much yet to be decided.

The first issue was whether the new policy should be expressed in percentage terms or as a flat-rate norm. Jones, together with a majority of the union side argued strongly for the latter, while Healey, backed by his Treasury officials, wanted the former. Scanlon, who as noted earlier had come to accept, albeit reluctantly, the need for a new pay deal, strongly favoured a percentage

---

[1] The Times, 9 July 1975.

[2] The Guardian, 18 July 1975.

[3] The Ministerial team was led by Healey and included Foot, Williams and, at times, Varley. The union representatives were Jones, Scanlon, Basnett, Allen, Murray and Jackson. Healey chaired the meetings and was, according to all respondents, the dominant participant.

norm since this would be more advantageous for skilled workers and would also avoid wrangles over the compression of wage differentials when the time came to restore free collective bargaining. However, he received no support from the other TUC negotiators and was obliged, in the end, to accept the majority view. Healey, likewise, quickly realized that Jones and many of his colleagues were deeply committed to the flat-rate concept. Thus, after some debate he decided that it would be prudent to concede this point and move on to the equally critical question of an actual figure.

The union negotiations were, not surprisingly, divided about the size of the pay norm. Nevertheless, quite early in the proceedings (3 July) they declared that £6 would be the absolute minimum which they could tolerate. The Treasury, in contrast, having lost the battle for a percentage norm, suggested a figure of £4, or at the most £5. However, the union side contended that they couldn't possibly sell such a low figure, either to the General Council or to their own unions. Finally, after much haggling, ministers accepted a £6 norm.[1] It was decided that this should be paid as a supplement to earnings and should not be incorporated into basic rates, or overtime and bonus calculations.[2] This, it was hoped, would assist with the process of monitoring, reduce the level of non-compliance, and produce a lower rate of increase in average earnings. It was also agreed, after a good deal of pressure from the union side, that there should be a cut-off point beyond which workers would not be entitled to any increase. Jones originally wanted the cut-off to be at £7000. The Treasury, however, argued that this would wreck havoc with the

---

[1] For those on the average wage of £57 this represented a percentage increase of 10½%, ½% more than Healey's original target.

[2] For further details of the £6 policy see 'The Development of the Social Contract' in TUC Annual Report 1975, pp.346-364; and Attack on Inflation Cmnd. 6151, July 1975.

pay scales of middle managers and that if a bar was to be imposed at all it should be £10,000. The outcome was a classic example of a bargaining compromise: the parties split the difference and settled for a figure of £8500.

Just how the £6 limit would affect real disposable incomes was hard to determine. Nevertheless, on the assumption that the policy held and that the rate of inflation fell to about 10% by the close of 1976, the Treasury calculated that, after the deduction of tax, insurance and superannuation contributions, real take-home pay over the whole period would rise for people receiving two thirds of average earnings or less; that it would fall, perhaps by as much as 2½%, for those on average earnings; and that it would decline sharply for all those on higher incomes.[1] Someone, for instance, on a salary of £8500 would take a drop in real post-tax income of at least 9%.[2] Union leaders were thus fully aware that in agreeing to the £6 policy they were endorsing an economic strategy that would reduce the living standards of the majority of their members. But, of course, they only did so on the basis of two assumptions: firstly, that such cuts in real disposable income would be less than might otherwise have occurred if the economic situation had been allowed to deteriorate, or if Healey had imposed statutory controls (assuming this had been politically possible); and secondly, that short-term sacrifices would assist the process of recovery and enable the economy to grow faster in the medium-to-long-term.

As negotiations drew to a close, two issues remained outstanding: how the policy would be monitored, and the means by which compliance would be secured. The CBI favoured the compulsory

[1] Hansard, 1 July 1975, Vol. 894, Col. 1193.

[2] The Sunday Times, 13 July 1975.

notification of pay increases and the rigorous vetting of settlements, either by the Government or by a special, independent agency like the former Pay Board.[1] Both ideas were strenuously resisted by the TUC. Instead, the TUC suggested a more informal system of monitoring using the resources of the Department of Employment, the CBI and Congress House. In addition, it was proposed that should a situation arise where an employer and a union were in conflict, they could make a joint submission to the TUC and the CBI who could, in turn, examine the issues and decide whether the case should be submitted to the Advisory, Conciliation and Arbitration Service (ACAS) for arbitration. This proposal, it seems, met with little support and the Government decided in the meantime to monitor the policy as best it could through the Department of Employment.[2] Later, the TUC agreed to establish their own independent system of monitoring.

Without question the most controversial issue was whether the Government required reserve powers against employers to enforce the £6 limit and, if so, whether these should be introduced immediately, or only at such time as they were deemed essential to prevent a serious policy breach. The TUC's position was uncompromising: reserve powers were unnecessary and undesirable. They were unnecessary because there was sufficient support for the £6 policy within the union movement to prevent free riding, or at least to guarantee that any slippage would be minor. They were undesirable because they would reduce union cooperation and would make the policy that much more difficult to sell to the TUC

---

[1] Hansard, 21 July 1975, Vol. 896, Col. 57.

[2] The Department of Employment at the time collected information on all public sector settlements, together with the major private sector ones. Altogether, this gave the Department details of the pay settlements of about 60% of the working population. See Hansard, 21 July 1975, Vol. 896, Col. 57.

conference. In any case, union leaders believed that the Government's battery of weapons would be quite adequate without additional threats and sanctions.

Senior Treasury officials, along with the Chancellor, were of the opposite opinion. While acknowledging that the proposed financial penalties, modifications to the Price Code, and the threat to withdraw government contracts might strengthen employer resistance somewhat, they doubted whether these measures would be sufficient to stop a determined free rider, particularly one in the private sector. And, as everyone was aware, it would only take one significant breach for the whole policy to be seriously undermined. Furthermore, the Treasury had a low regard for TUC assurances. No one needed to be reminded of its failure to prevent massive evasion of the June guidelines, and since then there had been little change in the potency of the TUC's internal sanctions. If private coercion and moral suasion could not be relied upon to guarantee universal compliance with Phase I, and if the Government's battery of weapons lacked bite - or at least remained unproven - there was no alternative but to limit the negotiating freedom of unions and employers by means of direct legal controls.

As matters transpired, the main debate on the issue of legal sanctions occurred, not in the context of the Government - TUC negotiations, but in Cabinet on 10 July, the day before the White Paper setting out the new policy was due to be introduced into Parliament.[1] Healey, supported by Williams, Crosland, Jenkins, Prentice and several other ministers argued strongly in favour of the immediate introduction of a Reserve Powers Bill.[2] This, they

---

[1] For details of the debate see Barbara Castle, The Castle Diaries, pp. 454-457; Joe Haines, The Politics of Power, p.64; and Harold Wilson, Final Term, p.119.

[2] The legislation would contain four main elements: the compulsory notification of all wage settlements; powers to enable the Government to reduce any settlement above the policy limits; powers enforceable against individual employers who exceeded the pay maxima; and measures to prevent the prosecution of working people for criminal conspiracy. Hansard, 21 July 1975, Vol.896, Cols. 58-60.

claimed, was imperative if the policy was to be credible and carry conviction with Britain's overseas creditors. Foot, Castle, Benn and about seven other ministers, on the other hand, asserted that such a Bill might do grave damage to the Government's relations with the trade unions and that in all probability it would be rejected by Parliament. Finally, after a long debate, a compromise was reached. This involved the Government announcing that it had a Bill prepared which it would introduce if the policy suffered, or seemed likely to suffer, a serious breach. There would be no immediate legislative action unless there was a run on sterling.[1] Instead, the TUC would be given a chance to deliver on its promises.

What concessions did the TUC seek in return for its acceptance of the £6 policy? Overall, union leaders made relatively few demands. They continued to seek their long-standing objectives of higher social-wage expenditure, greater public direction of private sector investment, more industrial democracy, and protectionism, but they did not press these vigorously during the negotiations. Their main new demands were the following: 1) a short-term price freeze, either of a general nature or upon key household items; 2) controls on incomes derived from rents, property, and investments; 3) the retention of food subsidies and council rent support grants; and 4) the setting of an unemployment target of 500,000 to be achieved by the end of 1976, together with temporary employment subsidies. On the whole, the Government conceded little: ministers accepted 2), took some action on 3) and 4), and rejected 1).

---

[1] In the event, the draft Bill never saw the light of day.

The most contentious issue in the short run was the question of a price freeze. Both Jones and Basnett pressed firmly for a temporary freeze. Amongst other things they thought that this would be a useful weapon in selling the pay policy and in giving credence to the Government's claims that it was determined to reduce inflation. Healey and Williams, however, rejected any notion of a freeze. They claimed that many companies were in a weak trading position, that profitability and investment were low, and that a price freeze, coming after three years of price controls, would further reduce profits and increase unemployment.[1] This argument, incidentally, was accepted by some union leaders, most notably Lord Allen. Nevertheless, ministers did decide to make a number of minor changes to the Price Code in the interests of increasing compliance with the pay policy.

As to the matter of reducing unemployment, the Cabinet found themselves caught between two stools. On the one hand, they recognized that there would be advantages from the point of view of implementing a tight pay policy in having a slack labour market. Such a strategy would also help to lower the trade deficit. On the other hand, high levels of unemployment would be an acute political embarrassment. In the end, ministers settled for a policy mix. They maintained a tight monetary and fiscal policy, thereby declaring their intention - if not publicly - to let unemployment rise, while simultaneously introducing temporary employment subsidies and providing additional training assistance.

---

[1] For details of the Labour Government's prices policy see Richard Evely, 'The Effects of the Price Code', National Institute Economic Review, 77 (August 1976), pp.50-59.

This didn't satisfy union leaders, but they decided to accept the verdict in the meantime, and to continue to apply pressure on the Government to alter its economic strategy.

In the event, apart from introducing controls on non-wage incomes, the Government's only significant concession to the TUC was the decision to delay the phasing out of food subsidies and to temporarily limit the rise in council rents. Collectively, these measures were expected to cost £150m.[1] However, it must be emphasized that these were only delays in the implementation of already announced Government policies; policies which, especially in the case of the ending of food subsidies, ran directly counter to the original thrust of the Social Contract. Overall, then, as TUC leaders readily admitted, the unions gained little extra in the course of the negotiations. Jones explained the outcome in the following way:

> No one is claiming that this is the ideal solution ... Nor is anyone saying that we have always got all we wanted ... but if we want to keep this Government in office - and the alternative is too appalling to contemplate - we have just got to go along with these measures, and to urge improvements when possible.[2]

7.5 Final Details

The day before the Cabinet met to discuss and ratify the White Paper on pay policy, the TUC General Council convened to assess the outcome of the negotiations. Although the Economic Committee, which had debated the matter two days previously, had given the new policy its full backing, many General Council members were much less enthusiastic.

---

[1] Hansard, 11 July 1975, Vol. 895, Col. 905.

[2] The Record, August 1975, p.1.

Opposition came from those on both the left and the right, and included trade union leaders representing manual and white-collar workers, low and high-paid workers, and workers in both the public and private sectors. The reasons for challenging the £6 policy varied. Those on the hard left, such as Alan Sapper, Ken Gill and Ray Buckton, opposed the policy on ideological grounds. The representatives of the AUEW such as John Boyd and Len Edmundson had no alternative, given the decision of their conference, but to vote against. More puzzling was the rejection of the policy, at least initially, by Geoffrey Drain and Audrey Prime of NALGO, Fred Jarvis of the National Union of Teachers (NUT) and Lord Allen. Their decision, it appears, reflected a variety of pressures. There was concern that the £6 policy would be unacceptable to their members. There were reservations about the impact of a flat-rate policy on the real incomes of middle income earners and about the Government's plans to reduce public expenditure. In the case of Lord Allen, there was the added fear that, should a price freeze be introduced - which it seems had not been categorically ruled out at this stage - it could have an adverse impact on employment within the retail sector and, therefore, upon the job security of his members.[1]

As a result of all these pressures, 13 of those at the General Council meeting on 9 July voted to oppose the £6 policy.[2]

---

[1] Lord Allen subsequently changed his position when it became clear that there would be no price freeze.

[2] According to The Times (10 July 1975) those who voted against the policy were: Lord Allen (USDAW), Edmundson and Boyd (AUEW), Buckton (ASLEF), Daly (NUM), Fisher (NUPE), Gill (AUEW-TASS), Jarvis (NUT), Jenkins (ASTMS), Sapper (ACTT), Drain and Prime (NALGO), and Parry (FBU). Similar reports were published in The Economist, 12 July 1975, p.75 and Tribune, 18 July 1975.

This gave the proponents of the policy a majority of only 6. Indeed, the majority would have been even smaller if there had been a larger attendance. At least four of those absent from the meeting, Scanlon, McGarvey (ASB), Slater (NUS), and Buck (NUSMCHDE), would probably have voted against the policy. Altogether, then, it was a disappointing outcome for Murray, Jones, and the Government. At the same time, there was little doubt that the policy would be endorsed two months later at the TUC conference, and none of those who voted against the policy at the General Council meeting said that they would challenge a majority decision.

The Prime Minister announced the new policy in the Commons on 11 July and the White Paper, The Attack on Inflation was debated in Parliament on 21 and 22 July. The policy was carried by 327 votes to 269, and in spite of attempts during the Second Reading of the Bill and the Committee Stage by the Conservatives and also by left-wingers in the Labour Party to amend various clauses, the Bill passed its Third Reading unchanged. It received the Royal Assent on 1 August.[1] As well as this, Parliament passed the Remuneration, Charges and Grants Act at the end of July. This removed any contractural obligation on employers to make payments in excess of the pay policy limits. Initially it was to remain in force until July 1976, but in fact was extended twice. It eventually expired at the end of Phase III (July 1978).

7.6 Conclusions

Politically the introduction of the £6 policy represented a remarkable achievement for Wilson and his senior ministerial colleagues. Despite major obstacles they had managed to obtain

[1] Harold Wilson, Final Term, p.121.

trade union support for a thorough overhaul of the Social Contract and had been able to reach agreement upon a tough new stabilization package. In so doing they had escaped the necessity of implementing statutory wage controls and had thereby retained the backing of the TUC as well as avoiding serious divisions within the party and resignations from the Cabinet. At the same time, as we have emphasized, the new policy did not rely solely upon political pressure, moral suasion and private coercion. To reinforce these mechanisms of enforcement, the Government had put in place a range of financial sanctions against employers, and had threatened to impose even harsher measures should the need arise. Fortunately for all concerned it did not.

If the £6 policy can be characterized as voluntary - at least within the definitional framework set out in Chapter 1 - it was clearly quite different to the guidelines of June 1974 which it replaced.[1] Undeniably it was a very much stricter policy. There was a fixed limit on pay increases for twelve months. There were few provisions for exceptions. All improvements in fringe benefits and productivity deals had to be offset against the £6 limit. And companies which infringed the guidelines would be dealt with severely. What is more, the policy entailed a cut in both real wages and real disposable income for a sizeable section of the workforce, and contained no provisions for re-negotiating the norm in the event that the rate of inflation didn't fall as rapidly as planned. There was every possibility, therefore, that if the exchange rate continued to weaken and if the pace of inflation decelerated only slowly, the vast majority of union members would experience a significant reduction in their living standards.

---

[1] It should be emphasized here that despite the fact that Phase I (and Phase II) incorporated a degree of state coercion - including various legal elements - it was described (and defended) as a voluntary policy by both Labour ministers and the bulk of union leaders.

As we have seen, the TUC gained few new concessions in exchange for its acceptance of the pay deal. There were three main reasons for this. First, the very nature of the economic crisis and the severe time constraints within which the negotiations were conducted gave the Government considerable bargaining leverage. The TUC realized that ministers were in no position to offer large financial incentives and consequently chose not to press their demands with the vigour adopted in previous years. Second, the Government could legitimately claim to have implemented a substantial proportion of their original Social Contract commitments. Certainly much remained to be done, especially in the areas of industrial planning and investment, wealth re-distribution and industrial democracy, but there had been major advances with respect to industrial law and the social wage. It was now the trade unions' turn to respond. Finally, those involved in the negotiations were often divided on policy matters, they tended to be associated with the moderate wing of the union movement, and they lacked a mechanism for ordering priorities. This weakened their bargaining position, and led them to focus on wage-related issues, rather than on the non-wage aspects of the stabilization programme.

Given that union leaders won few additional concessions, how are we to account for their preparedness to endorse the £6 policy? Part of the answer lies in the fact that many of them were genuinely afraid of the alternatives. The economic crisis had provided convincing evidence of the weaknesses of free collective bargaining and had led them to recognize that if no new policy was agreed the Government would be forced to impose statutory wage controls. Should such a policy meet with defeat in Parliament, Wilson might be forced to resign. The net result would probably be a return to Conservative rule with all

that this implied: a very tight monetary and fiscal policy, higher unemployment, anti-union legislation, a cut in the social wage, a fall in living standards for many workers, and a reduction in union bargaining power, especially in the private sector. Fearing such an eventuality and having been persuaded that a new voluntary pay deal with the Government offered the best hope of curbing inflation and avoiding mass unemployment, they reluctantly accepted the £6 policy.

Aside from these essentially negative reasons, most union leaders were also motivated by a positive desire to preserve 'their Government' in power. This was particularly true of Jones, Basnett and Scanlon. For these men, loyalty to the party and to all that it stood for was of critical importance. They didn't want to let their Parliamentary colleagues down in their hour of need. Their decision, therefore, was not based on some self-interested cost-benefit analysis. It was fundamentally a matter of moral imperatives; they felt they ought to respond. This meant taking a lead, placing their reputations on the line and striving to find a formula which would be both fair and effective. Had this sense of loyalty and commitment to the goals of the Labour movement been lacking, an agreement would not have been reached. Certainly Heath had been unable to secure a voluntary pay deal three years before, even though he had been in a position to offer considerable material enticements. Hence, the commitment of senior union leaders to the preservation of a sympathetic Government was one of the necessary conditions for the successful negotiation of the £6 policy.

But having reached an accommodation at the elite level, many questions remained. Would local bargainers feel as equally constrained by normative commitments as their national officials? Would the moral suasion and coercive resources of the TUC, together

with the threats and sanctions invoked by the Government, prove sufficient to prevent a serious challenge to the policy? And for how long would the commitment to exercise wage moderation survive the pull of economic self-interest and the attacks on those ideologically opposed to the policies of the Wilson Government? These issues will be addressed in the following chapters.

CHAPTER 8

IMPLEMENTING THE £6 POLICY: MOBILIZING CONSENT AND MAXIMIZING COMPLIANCE

> ... The union I lead and myself personally have never supported the idea that trade unionism is a licence for any group to look after themselves and to hell with the rest ... surely our policy is to use our general strength and influence to promote social justice, to bring about economic circumstances which will give all workers protection and the opportunities for advancement. Not a free for all, but a fair for all ...
>
> Jack Jones, TUC Annual Report 1975 p.460.

8.0 Introduction

In certain respects, the £6 policy,or Phase I as it became known, was remarkably successful. During the latter part of 1975 and for much of 1976 there was a steady deceleration in the rate of growth of average earnings, basic weekly wages and unit labour costs, and a significant fall in the pace of price inflation. The annual growth of average earnings, for example, declined from 28% in the year to July 1975, to about 14% in the year July 1976.[1] Likewise, the upward movement in the RPI slowed from an annual rate in the first half of 1975 of nearly 29% to about 15% in the first six months of 1976[2]. Although this was above the Government's original target, the reduction in the rates of price and wage inflation during Phase I was nonetheless impressive. Unfortunately this performance was not matched in the critical areas of output, investment and employment. Overall, industrial output fell by 5% in 1975 (and as much as

---

[1] OECD, Economic Surveys: United Kingdom, (Paris: March 1977), p.6.

[2] Ibid., p.6; and OECD, Economic Surveys: United Kingdom, (Paris February 1976), p.6.

6½% in the manufacturing sector) and rose only fractionally during 1976.[1] Total investment expenditure fell in both 1975 and 1976, and unemployment rose steadily during 1975 to reach 5.3% of the workforce (excluding school leavers) by the middle of 1976.[2] This generated much critical comment within the labour movement and led the TUC to make repeated appeals to the Government for action to reflate the economy and expand its job creation programmes. Yet, notwithstanding the Government's failure to contain unemployment, the TUC continued to support the pay policy and almost a year later accept an even tougher Phase II policy. Those who had feared, therefore, that a rapid growth in unemployment would destroy the Social Contract were proved wrong.

This chapter examines four broad issues. First, how did the Government and the TUC sell the pay policy to the rank-and-file and mobilize public support for wage moderation? Second, what problems arose in the implementation of the policy, and how did the Government and the TUC cope with the challenge posed by free riders? Third, what does the survey and case study evidence, such as it is, reveal about the level of compliance with the policy? And finally, how are we to account for the high degree of cooperation with Phase I.

8.1 Selling Phase I

Senior ministers were conscious of their failure to mount an effective publicity campaign to sell the wage guidelines of June 1974 and did not want to repeat this mistake. Consequently,

---

[1] OECD, Economic Surveys: United Kingdom, (Paris: March 1977), p.8.

[2] OECD, Economic Surveys: United Kingdom, (Paris: March 1978), p.13.

in early August ministers and sympathetic trade unionists took part in a concerted campaign of speeches and public broadcasts to advocate compliance with the policy. Such speeches focussed upon a number of common themes: the gravity of the economic crisis; the need to face harsh realities and accept a temporary fall in living standards; the requirement for all to set aside self-interest and play their part in restoring economic stability; the need to challenge those who sought to oppose or break the policy; and the grim prospects for employment and living standards should the Government's policies fail. Ministerial speeches were particularly firm and incisive. There was no attempt to hide the fact that real incomes would fall or that the restraints on collective bargaining might have to last for two years or more. Nor was the prisoner's dilemma faced by some groups of workers under the policy disguised. As Wilson pointed out in a television broadcast to the nation on 20 August 1975:

> There may be those who, by the use of their own industrial muscle, feel that they could get for themselves such a pay increase as to enable them to escape the rigours of inflation. In the short term, yes - at the expense of more unemployment, at the expense of millions weaker than themselves. In the long run, they delude themselves, for they and their families have to face the lash-back of the inflation they generated by their own actions.[1]

Similar speeches were made by many moderate union leaders.

To bolster this publicity campaign the Government decided- on the initiative it seems of Barbara Castle and Joe Haines, the Prime Minister's Press Secretary- to establish a special Counter-Inflation Unit.[2] This Unit was initially headed by

---

[1] The Financial Times, 21 August 1975.

[2] Barbara Castle, The Castle Diaries, pp.428-429; and Joe Haines, Politics of Power, p.63.

Geoffrey Goodman, the Industrial Editor of the Daily Mirror and subsequently, for a short period in the latter part of 1976, by Lord Cudlipp, a prominent editor and publisher. Goodman was assisted by Lord Jacobson, a former Chairman and Editorial Director of the Mirror Newspaper Group, and a small team of about ten advisers and clerical staff. He was directly responsible to Wilson and reported to the special Cabinet Committee which had been established to monitor the implementation of the £6 policy. This Committee was chaired by Wilson and included Healey, Williams, Foot and Varley, among others.

The task of the Counter-Inflation Unit was to inform the public about the Government's economic policies and to mobilize consent for the pay policy. To this end it was granted a budget of some £2.5 million and authorized to consult with and seek the support of trade union leaders, businessmen, industrialists and even opposition politicians. The bulk of the money was spent on two projects. First, the Unit prepared a simplified booklet explaining the nature of the ecnonomic crisis afflicting the country, what the Government and TUC were doing, and how everyone could assist. The booklet was produced in several different languages and distributed to every household in the country.[1] Second, during the autumn and winter months the Unit mounted a sustained publicity campaign in national and local newspapers urging cooperation with the £6 policy. All respondents questioned on the work of the unit regarded it as a successful

---

[1] The Attack on Inflation: A Policy for Survival (HMSO: August 1975), 16 pp.

operation. Few, however, thought that in the final analysis it had made much difference. Public support for resolute Government action existed long before the unit's establishment.[1] The efforts of the unit, therefore, were perhaps more important in sustaining this support rather than in creating it.

The first decisive indication of the views of rank-and-file union members came with the results of a ballot held by the NUM in late August.[2] The ballot, which had been called by the NEC to test the opinion of its members regarding the new pay deal, produced a 77% turnout and a firm endorsement of the policy. Overall, some 60.5% voted to back the Government's anti-inflation strategy, and despite an intensive publicity campaign by left-wingers urging miners to reject the £6 limit, only two regions, Scotland and South Wales, voted against.[3] All remaining 23 sections, including the traditionally militant areas of Yorkshire and Kent, backed the policy. Indeed, amongst the 20,000 colliery staff the proportion in favour exceeded 91%.[4] Naturally these results were welcomed by ministers and senior trade union leaders alike. As Jack Jones put it:

> If the miners are so much in favour it indicates massive support in the community generally. It is a very encouraging decision.[5]

---

[1] For example, in early June a public opinion poll revealed that 70% of adults (and 63% of union members) favoured a statutory pay policy. See The Guardian, 8 June 1975.

[2] Of all the major unions the miners were the only group to hold a membership ballot.

[3] The Economist, 30 August 1975, p.11.

[4] The Times, 29 August 1975.

[5] Ibid.

Psychologically, the result had several immediate consequences. It undermined the confidence and moral authority of the hard left, and made it virtually certain that no major industrial union would be able to secure the support of its members for an all-out strike against the £6 limit. At the same time, the vote greatly strengthened the moral position of those within the union movement who favoured cooperation with the Government and gave the outcome of the wages debate at the TUC conference in Blackpool in September an added sense of inevitability.

But the widespread expectation that there would be a large majority in favour of the £6 limit did not prevent those ideologically opposed to the economic strategy enunciated in the White Paper from organising a powerful challenge. Under the leadership of the main left-wing unions, the AUEW, ASLEF, ASTMS, CPSA and NUPE, various motions critical of the policy were placed before the conference. These condemned the failure of the TUC to negotiate a more comprehensive and meaningful range of quid pro quos, rejected the TUC's acceptance of cuts in the standard of living, and called for the introduction of a radical socialist economic policy. What was needed was not restrictions on free collective bargaining but import controls, more public investment, lower interest rates, higher minimum wages and an expansion of social services.[1] As it stood, there was no guarantee that the sacrifice made by workers would result in higher levels of investment and thereby secure future economic growth. Nor was there any

---

[1] These policy proposals formed the basis of composite motion 9 which was moved at the TUC conference by Ken Gill of AUEW-TASS and seconded by Alan Fisher of NUPE. See TUC Annual Report 1975, p.462.

assurance that adequate measures would be taken to contain the growth in unemployment.

From the perspective of the theory outlined in Chapter 2, the cases for and against the £6 policy can be viewed in the following manner. Those in favour emphasized the prisoner's dilemma arising from the competition between unions in the context of uncoordinated bargaining, and argued that any solution must entail universal nominal-wage moderation. If this meant a small, temporary sacrifice of real earnings and a shift of factor shares to profits, then this would have to be tolerated. For the time being, that is to say until the rate of inflation had been substantially reduced, the union movement would simply have to trust the Government and the controllers of capital to pursue the appropriate macro-economic and investment strategies that would bring, in time, a recovery of economic growth and an improvement in employment prospects. Until this happened, loyalty to the Labour Government and to the principles of trade unionism would have to provide the necessary exist-tax on free riding.

In contrast, those opposed to the policy either disputed the claim that free collective bargaining is economically harmful, or stressed the asymmetrical nature of the benefits of pay restraint for labour and capital. Consequently, they doubted the wisdom of any form of wage moderation, especially in the absence of firm governmental assurances concerning trade policy and investment strategy. The notion that this amounted to disloyalty to the Labour Government was rejected on the grounds that without more radical policies in other fields the Labour Government would fail to achieve its objectives and lose the

confidence of the electorate. Be that as it may, it was also recognized that if trade union solidarity was to mean anything, individual unions were obliged to abide by the majority decision of the TUC conference. For most of the unions on the left, therefore, free riding was not considered a legitimate option. It is interesting to note here that had the decision-rule been different or had the commitment to union solidarity been weaker the outcome may not have been the same. In other words, it was a great advantage to the moderates that a majority vote at conference was sufficient to impose cost-sharing arrangements like the £6 policy. Had unanimity been required, a voluntary incomes policy would never have got off the ground.

As already noted, the conference vote on wages policy was a foregone conclusion long before the actual event. Most of the big unions, including the TGWU, GMWU, NALGO, NUM, NUR, NUT, EETPU, APEX, UPW and USDAW had decided to back the £6 policy well in advance of the conference, and collectively this gave the supporters a majority regardless of the decisions of the other unions. It thus came as no surprise that the composite motion supporting the £6 policy was carried by a margin of two-to-one and the composite motion opposing it was lost by a similar majority. Likewise, on a card vote the relevant paragraphs of the General Council's Report (paragraphs 300-317) and the Supplementary Report, The Development of the Social Contract, were passed by a comfortable margin of three and a half million votes.[1] Lastly, a motion put to the conference by Clive Jenkins of ASTMS was also lost, on this occasion by

---

[1]The vote was 6,945,000 in favour, and 3,375,000 against.

nearly two and a half million votes.[1] This motion called on Congress to oppose 'the use of law in collective bargaining, whether by curbs on pay, protection of employers who break contracts or the creation of reserved powers for intervention by Government'.[2] It would be misleading to regard this result as an endorsement of statutory controls. Rather, the supporters of the £6 limit thought that the motion could be interpreted as a direct challenge to TUC policy. For, amongst other things, it rejected the TUC's decision to allow the Government to pass legislation relieving employers of any contractual obligations which might require them to grant pay increases above the £6 limit.

On the whole, the decisions of Congress were considered very satisfactory by ministers and TUC leaders. One major difficulty remained, however. Although Hugh Scanlon supported the £6 policy, his union was officially still opposed. Indeed, left-wingers within the union were calling for selective strike action against the £6 policy in areas where there was sufficient rank-and-file militancy and where there was a good chance of success.[3] The seriousness of this threat was accentuated by three factors.

To start with, there was the problem of forward commitments. In accordance with the engineering industry national pay agreement of March 1975, national minimum time-rates for skilled workers were due to be increased in two stages during the period

---

[1] The vote was 6,418,000 against, and 4,052,000 in favour.

[2] TUC Annual Report 1975, p.465.

[3] The Times, 10 September 1975.

covered by the Phase I: by £4 in November 1975, and £2 in February 1976; £6 in all. Yet, under the new policy all such forward commitments had to be offset against the £6 limit. Effectively this meant there could be no increase in minimum rates until August 1976, some four months after the union's new claim was due to be negotiated in May. This delay would doubtless cause problems within the union, particularly since the engineering section's national committee had specifically voted earlier in the year to press for substantial pay increases in 1976. Against this it must be remembered that only a relatively small percentage of engineering workers were paid in accordance with national minimum rates, so few workers would be directly affected. Nevertheless, there were still many questions concerning precisely how the new pay policy should be interpreted. Thus, following a meeting of the executive of the Confederation of Shipbuilding and Engineering Unions in York in mid September, it was decided to ask the TUC to assess the matter and pass its verdict on the meaning of the £6 limit and its implications for the engineering industry.[1]

Secondly, because of the decentralized pattern of pay fixing within the industry, together with the lack of leadership control over plant bargaining, it would be difficult for the national executive to prevent breaches of the policy, even if it was inclined to do so. And at this juncture it was not.

The third complicating factor concerned the forthcoming elections for the national executive of the engineering section of the AUEW. Three of the seven seats were to be contested in October. Should the moderates win, it would radically alter

---

[1] Financial Times, 12 September 1975. In the event, the TUC gave little guidance and simply urged the AUEW to abide by the policy.

the political complexion of the executive giving it a generally pro-incomes policy bias. As matters transpired, the moderates did remarkably well with Terry Duffy and Gavin Laird beating their left-wing rivals by a margin of two-to-one.[1] The outcome of the third contest was inconclusive and a second ballot was called. The immediate impact of the elections was to give the moderates a four-to-three majority on the executive. This would rise to a five-to-two lead when Terry Duffy took up his seat on the retirement of Bob Wright ten months later.

The decisive nature of the moderates' victory indicated plainly to the union leadership that the rank-and-file were unwilling to challenge the £6 policy.[2] This was officially recognised a few weeks later when the engineering section's national committee, at a special meeting called to review the union's position on wages policy, passed a resolution by a wide margin of 32 votes to 20 instructing the national executive 'to comply with the policy on wages adopted by the 1975 Trades Union Congress'.[3] Undoubtedly this was a major victory for the centre-right, and was all the more remarkable

---

[1] The actual voting was as follows. In Scotland the moderate candidate, Gavin Laird, received 24,838 votes against 12,112 votes for his Communist opponent, Jimmy Reid. There was a 37.4% turnout. In the West Midlands and Manchester area the moderate candidate, Terry Duffy, beat his left-wing opponent Bob Wright by 45,469 votes to 20,685. There was a 38.7% turnout. See The Times, 19 November 1975.

[2] The magnitude of the swing to the right may also have reflected the growing frustration of skilled workers with the squeezing of skill differentials since 1972. Duffy and Laird, although sympathetic to incomes policies, were expected to take a much tougher stance against further egalitarian policies than their counterparts on the left.

[3] The Financial Times, 9 December 1975.

because the balance between left and right within the national committee was normally very fine indeed. As Scanlon commented after the day-long debate, there had been an unmistakeable 'change in the atmosphere and mood of our members'.[1] In practical terms the vote meant that the AUEW now acknowledged that there could be no new national agreement until August 1976, that the next agreement would have to comply with the pay policy in force at that time, and that the previous demands for a shorter working week would have to be shelved. The decision also meant that the country's three largest unions were now united in their support for Phase I. For a while, at least, political opposition to the policy would be subdued.

8.2 Problems of Implementation

Many of those involved in the formulation of Phase I had envisaged that the implementation of the new policy would generate a plethora of problems and even, perhaps, one or two major challenges to the £6 ceiling. Of special concern was the disruptive effect which it was expected the flat-rate principle would have upon skill differentials and plant payment systems. In the event, most of these expectations went unfulfilled. There were no serious breaches of the policy, and according to one comprehensive survey of the manufacturing industry conducted late in 1975, both managers and union negotiators reported that the policy had caused surprisingly few difficulties.[2] Nonetheless, there were some.

---

[1] The Financial Times, 9 December 1975.

[2] W.W. Daniel, 'Wage Determination in Industry', pp.42-45.

One source of tension, which as we shall see in Chapter 9 became particularly acute during Phase II, was the question of establishing relevant operative dates for future pay settlements. The problem here was caused largely by the chaotic bargaining round which had preceded the new policy. The twelve-month rule had frequently been breached and many workers had received supplementary increments in the form of staged increases and threshold payments. With the twelve-month rule now being rigorously enforced, the difficulty was to determine the date of the previous 'principal' increase.[1] Various solutions were adopted. For example, Hull dock workers had received a pay rise in October 1974 of £8.20 and a further increase seven months later in April of £5.95.[2] In theory, therefore, they were not due for another increase until April 1976. But this was disputed by the dockers who claimed that the April settlement had simply been a topping up of their 'principal' October settlement. After some argument it was decided to resolve the matter by splitting the difference between the two settlement dates.[3] The Department of Employment eventually sanctioned this procedure and it was adopted elsewhere in subsequent months.

Predictably, the timing of the policy's introduction, and its consequent impact upon differentials, provoked a number of industrial conflicts. One such instance occurred at the Thames Case Packaging factory in Warrington.[4] Under the national agreement between SOGAT and the Fibre Board Packing Case Employers' Association signed earlier in 1975, process

---

[1] IDS, Report No. 220, November 1975, p.1.

[2] Ibid., p.4.

[3] Ibid., p.5.

[4] IDS, Report No. 219, October 1975, p.2.

workers received pay increases of £8-£12 a week according to grade and working system from 1 September, a date within the transitional arrangements provided for under the White Paper. Maintenance men, in contrast, although having their pay directly linked to process workers under their 1972 agreement, would only be eligible for £6 when their factory-level agreement was re-negotiated in early November. Effectively this meant that they would either have to accept a temporary fall in their relative pay or else press the company to break the policy. In the event they chose the latter option. The result was an unsuccessful eight-week strike. Similar problems occurred in other industries and sectors of the economy, including the BBC.[1]

Finally, there were a number of relatively minor, but well publicized breaches of the pay code. Perhaps the most celebrated example was that at three plants in Northern Ireland belonging to Standard Telephones and Cables (STC).[2] Altogether this involved about 2,700 workers and three unions, the AUEW, EETPU and UCATT. On 20 June 1975 the unions put in a claim for a pay rise to take effect from 1 July, two and a half months before a new pay deal was due. For various reasons the company rejected the claim, and the workforce went on strike. However, the day before the White Paper was published, the management, aware that a new pay policy was about to be introduced and knowing that this would complicate the process of finding a settlement to the dispute, decided to act unilaterally and increased rates of pay by between £7-£9, backdated to 1 July. Union officials returned from holiday some while later to discover what had happened and on 29 July reluctantly

---

[1] IDS, Report No. 219, October 1975, p.2.

[2] IDS, Report No. 220, November 1975, p.2

agreed to accept the decision. The actions of the company received much publicity and led to an investigation by the Department of Employment. In due course the Department declared that the company had breached both the twelve-month rule and the £6 limit, and Michael Foot warned that unless it complied fully with the policy the Government would impose sanctions.[1] Assistance under the Industry Act would be reduced, temporary employment subsidies would be withheld, and the Government would boycott the company's products and invoke the sanctions in the Price Code. Given the company's weak financial situation, the management had little choice but to comply with the Government's edict: the pay increases were reduced forthwith.

8.3 Assessing the Level of Compliance

It has become commonplace to assume that the £6 policy achieved almost universal compliance in both the private and public sectors. Certainly this has been the view espoused by most of those who have investigated the period.[2] It was also, incidentally, the view of most respondents. Thus, it has been repeatedly stated that following the policy's introduction there was a steep and steady decline in the upward movement of average earnings and hourly rates, that there was a sharp fall in the level of industrial unrest, that there were surprisingly few breaches reported, and that although the Government's target of a 10½% rise in average earnings in the year to July 1976

---

[1] IDS, Report No. 220, November 1975, p.2.

[2] See for instance Andrew Dean, 'Incomes Policy and the British Economy in the 1970s', p.20; W.W. Daniel, 'Wage Determination in Industry', p.39; Ken Mayhew, 'Incomes Policy and the Private Sector', pp.91-93; William McCarthy, 'The Politics of Incomes Policy', p.192; and Christopher Saunders, et al. 'Winners and Losers', p.12.

was exceeded by about 3½%, the magnitude of the overshooting was not substantial and little higher than had been widely predicted.[1] Broadly speaking, therefore, the evidence seems to point to a remarkably successful policy, all the more so when it is remembered that there was no compulsory vetting of settlements and relatively few effective sanctions.

But this optimistic assessment is not universally shared. Several respondents, for example, noted that the monitoring of pay settlements undertaken by the TUC and the Department of Employment was neither complete, nor effective. The TUC may well have committed itself to the collection of 'relevant information about pay settlements'[2] and may well have asked affiliated unions to supply it with details of all the wage increases negotiated on behalf of their members, but the system was a voluntary one and some unions failed to comply or simply didn't forward all the necessary information.[3] In short, the

---

[1] According to Healey, the £6 policy was expected to produce a rise in average earnings, excluding exceptions, of 10½%. Hansard, 5 May 1976, vol. 910, col. 1305.

[2] IDS, Report No. 215, August 1976, p.1.

[3] Nonetheless, a great deal of information about pay settlements was collected. Between 1975 and 1977 the Economic Department of the TUC dealt with more than 1500 requests for advice concerning the pay policy. See David Winchester, 'Power and Influence in the TUC', p.124. Similarly, the officials of the Department of Employment maintained an active monitoring, briefing and information service. From the outset of Phase I until early 1978 they held more than 5,500 meetings with unions and employees, examined 32,000 settlements, dealt with 25,000 letters and answered 87,000 phone calls relating to pay policy. During this period only 385 breaches of various pay codes were discovered and in 87% of these cases companies were persuaded by the Department to renegotiate the settlements in conformity with the guidelines. See The Financial Times, 11 February 1978.

machinery was incapable of detecting infringements, especially those in sectors of the economy with fragmented bargaining. Similarly, the Price Commission, although enjoying much wider powers than the TUC, was also in no position to guarantee universal compliance or detect free riders. For example, a company which was under pressure from its workforce or experiencing labour shortages could break the policy and then avoid detection by making a nominal adjustment to its pay roll. This would give the appearance that the increase in the company's pay bill had arisen through an expansion of employment rather than a breach in the pay code. Plainly, it was beyond the resources of the Price Commission to uncover all such infringements.

Second, it was pointed out that a number of unions like ASTMS and AUEW-TASS actively encouraged their local negotiators to exceed the £6 ceiling wherever possible and also publicized the fact that breaches were occurring. ASTMS even published a document showing negotiators ways in which the pay code could be circumvented. Moreover, according to the engineering staff salary census - which covers the whole range of technical, clerical, and supervisory occupations in the engineering industry- average salaries increased by more than the limits laid down in Phases I and II, most notably in the case of highly-paid groups such as section leaders. Between January 1976 and January 1977, a period which embraces the final seven months of the £6 limit and the first five months of the £4 limit, the average weekly earnings of section leaders rose by £6.32, roughly 20% above the amount permitted.[1]

---

[1] AUEW-TASS, Engineering Staff 1982 Salary Census, p.7.

How widespread, then, was such evasion. To begin with, let us examine the available aggregate data and see what tentative conclusions can be drawn. Following that we will review the evidence obtained from two case studies, one by Daniel investigating the level of compliance in a representative sample of manufacturing establishments, and another by Brown of the engineering industry in the West Midlands,

At the aggregate level there are a number of statistical sources which are of assistance: firstly, the national earnings survey data collected and collated by the Department of Employment which covers some 7 million employees in production industries, transport and communications, and certain miscellaneous services; and secondly, the New Earnings Survey (NES). The NES is based on a 1% random sample of members of PAYE schemes and covers all categories of workers. In some respects it is more reliable than the older series, but unfortunately the sample is undertaken every April. Hence it does not provide an accurate guide for measuring the levels of compliance during Phase I which ran from 1 August 1975 to 1 August 1976.

Table 8.1

Index of Average Earnings: 1976

Percentage increase in the seasonally adjusted index compared with the corresponding month in the previous year.

	Manufacturing Industry	All Industries and Services
February 1976	19.6	19.1
April	19.6	18.1
June	18.8	17.0
August	14.8	14.1
October	13.4	12.5
December	12.0	11.5

Source: Annual Abstract of Statistics (1979), p.179.

Table 8.2

Annual Increase in Basic Hourly Rates:

Manual Workers (%)

	Manufacturing Industry			All Industries and Services		
	Men	Women	All	Men	Women	All
August 1975 - August 1976	16.5	22.7	17.7	16.5	23.6	18.2
October 1975 - October 1976	15.5	22.8	16.8	15.8	23.2	17.0

Source: Department of Labour Gazette, 84 (December 1976), p.1401.

As tables 8:1 and 8:2 show, there was a steady decline in the rate of increase in earnings and hourly rates in 1976. During the period covered by Phase I the average increase in earnings for employees in all industries was 14.1% and for those in manufacturing 14.8%. The rise in basic hourly rates for manual workers was 18.2%. Interestingly, women faired much better than men, their hourly rates rising on average some 6-7% more than their male counterparts. But this is as one might expect given that the policy allowed increases above the £6 ceiling so that firms could comply with the requirements of the Equal Pay Act (1970).

If one uses the August 1976 figures as a basis for judging the overall level of compliance, and if one also makes allowance for the impact on average earnings of the equalization of women's pay - which probably added 1% to the average earnings index[1] - then it would mean that earnings rose by about 2½% above the target of 10½%. Yet the August figures may be misleading. Saunders argues that one should instead allow a two month lag.[2]

[1] See Christopher Saunders, et al. 'Winners and Losers', p.12; and Denis Healey, Hansard, 5 May 1976, Vol. 910, Col. 1305.

[2] Christopher Saunders, et al. 'Winners and Losers', p.12.

This would remove from the index the impact of settlements made just prior to the introduction of the pay policy but which were only paid out during the late summer and early autumn of 1975, and also take into account the effects of the transitional arrangements from 1 August to 1 September 1975. If this procedure is adopted, then the appropriate figures for measuring the level of compliance are those for October 1976, not August. As table 8:1 shows, average earnings rose by 12.5% between October 1975 and October 1976, 1.6% less than the August figure. This would imply a much lower degree of evasion, even allowing for the fact that many workers, often low-paid ones at that, received increases below the policy limits.[1]

But if the overshooting of the pay target amounted to perhaps no more than 1%, there was still obviously some slippage. Where did this occur? Evidently it was not in the public sector since Government enforcement of the policy was stringent; so most of the free riders must have been in the private sector. In this respect there appears to have been three main kinds of circumvention: straightforward breaches of the £6 ceiling; an increase in overtime rates, shift premium rates and productivity payments in contravention of the pay code; and breaches of the cut-off level of £8500. Evidence for the second and third of these categories can be gleaned from the NES. To be sure, the NES data cannot be regarded as definitive because of the non-correspondence of dates. Nevertheless, it shows clearly that overtime rates rose more than permitted and that higher-paid workers did not adhere to the policy. Under the terms of Phase I, the £6 per week

---

[1] Chris Pond, 'Low Pay', in Nick Bosanquet and Peter Townsend, eds., Labour and Equality, p.97.

maximum was to be paid as a straightforward supplement to earnings with no increases in overtime rates or other premium payments. However, according to NES data, although both the number of people working overtime between April 1975 and April 1976 and the hours worked remained the same as in the previous twelve months, overtime earnings rose by £2 per week or 17% in the case of men, and £1 per week or 20% in the case of women.[1] These increases were only marginally less than the rise in average gross earnings, excluding overtime, during the equivalent period which suggests that the restrictions on increases in overtime rates were evaded.

Similarly, the NES data indicates that top-income earners failed to observe the pay code. For example, the increase in average gross weekly earnings for the highest decile of full-time male workers was 18.9%, higher, as it transpires, than the rise for the median worker of 17.7%, and also slightly above the increase achieved by the lowest decile of 18.7%.[2] In money terms the rise amounted to an extra £16.7 a week which, needless to say, was well in excess of the £6 limit. Even bearing in mind that the NES figures include pay rises in the period before Phase I came into force, it is hard to reconcile such large increases with the egalitarian bias of the policy, let alone the actual pay limit.

Turning to the evidence supplied by case studies, a broadly similar pattern emerges. There were indeed breaches of the policy, most notably in the engineering industry, but usually they were only of a minor nature. According to Daniel, who undertook a comprehensive survey of the manufacturing industry

[1] Department of Employment, New Earnings Survey 1976, Part A: Report and Key Results (London: HMSO, 1976), p.A5.

[2] Ibid., p.A23. See also David Kitchen and Barry Curnow, 'Incomes Policy and the Higher Paid', in Chater, et al. eds., Incomes Policy p.87.

in late 1975, in the 64 enterprises that had completed their pay negotiations the vast majority of groups had settled within the pay limits.[1] As table 8:3 reveals, at least 90% of the establishments with over 500 employees complied with the policy and 82% of the smaller plants, an average of 85%. In fact, it seems that only 4 firms (6% of the total) granted increases above the £6 ceiling. Yet none of these cases necessarily involved non-compliance since the groups in question may have qualified for pay rises above the ceiling by virtue of one or other of the exceptions permitted under the policy.[2]

Table 8:3

Compliance with the £6 Limit in Manufacturing Industry

Proportion of plants where employees had received the flat £6, less than £6, and more than £6 according to the number employed at the establishment.

	All Plants	500 or less	Over 500
	%	%	%
All groups received flat £6.00	48	35	66
Some group(s) less than £6.00	37	47	24
Some group(s) more than £6.00	6	12	-
Can't say	9	6	10
Number of establishments	64	34	30

Source: W.W. Daniel, 'Wage Determination in Industry', p.40.

Apart from the high degree of conformity indicated by this survey, Daniel's investigation also reveals that many plants, more especially the smaller ones, did not grant all their employees the full £6. In 37% of the 64 establishments examined some bargaining group or groups received less than £6, and in

[1] W.W. Daniel, 'Wage Determination in Industry', p.40.

[2] Ibid., p.41.

the case of the 34 plants with no more than 500 employees, the proportion was 47%. Evidently, therefore, the £6 ceiling was not regarded as an automatic entitlement. Indeed, some bargaining groups received less than £5 and in a few cases as little as £2.[1]

The second case study, this time of the engineering industry, reveals a somewhat lower level of compliance.[2] But this is not entirely unexpected. As we have seen, the AUEW, which represents a high proportion of engineering workers, was among the unions most hostile to the pay policy. What is more, pay bargaining in this sector of the economy is often fragmented and thus extremely difficult to control. The surprising thing, therefore, is not that Brown should have discovered policy infringements, but that he didn't find more.

Brown's evidence was collected from 40 factories in the West Midlands. The plants varied in size form 70 to 17,000 employees and included a large number of motor vehicle component and assembly firms. Altogether the survey covered 80,000 people. For the purposes of his inquiry, Brown focussed upon the pay of adult male manual workers and chose, as a representative sample, four occupational groups: skilled electricians, semi-skilled storekeepers, unskilled labourers (all of whom were paid time-rates), and skilled machinists (a substantial proportion of whom were on a payment-by-results system). As with Daniel's survey, Brown did not obtain details of non-wage benefits or overtime earnings. This omission naturally yields results which overstate the level of compliance, but not by much.

---

[1] W.W. Daniel, 'Wage Determination in Industry', p.40.

[2] William Brown, 'Engineering Wages and the Social Contract, 1975-1977', pp.51-61.

As Brown points out, a common improvement in non-wage benefits such as an extra day's holiday would have generated an under-estimation of the average wage increase paid to a skilled machinist of roughly 0.4% or 0.7p per hour.[1]

Overall, the survey reveals that a significant number of firms exceeded the £6 maximum. In fact, on average, standard earnings rose 2 pence per hour above the pay ceiling.[2] This represented in money terms an extra 80 pence a week, or an increase of about 15% more than permitted. Nonetheless, the degree of free-riding must not be exaggerated. In keeping with Daniel's survey data there was a tendency for larger plants to conform more closely to the policy than smaller ones. As a consequence the weighted average is much nearer than the unweighted average to the pay limit. According to Brown, when the differences between occupations are taken into account, the weighted average exceeds the 15 pence ceiling by only one penny, which is less than 1% of the total wage.[3] If this is a true and accurate reflection of the general pattern of settlements in the engineering industry, then it must be concluded that Phase I enjoyed a marked degree of success.

As a final point, it should be noted that many negotiators did not fully observe the redistributive spirit of the policy. Put bluntly, they bent the rules: unskilled workers generally settled below the limit while skilled workers settled slightly above. Because of this, differentials within plants were not compressed by as much as a strict conformity to the flat-rate principle would have implied.[4]

---

[1] William Brown, 'Engineering Wages and the Social Contract, 1975-77', p.52.

[2] Ibid., p.53. 'Standard earnings' excludes overtime earnings.

[3] Ibid., p.54.

[4] Ibid., p.59.

8.4 Explaining the High Level of Compliance

Numerous explanations have been put forward to account for the success of the £6 policy. One essentially institutional or structural argument has been advanced by Brown and Hyman.[1] This view is founded upon the following assumptions: that during the late 1960s and early 1970s the organization of shop stewards became more hierarchical and centralized; that senior shop stewards and convenors became more fully integrated into the formal decision-making processes of their respective unions; that shop steward leaders acquired the power, influence and status to control disaffected groups and sectional stewards; that these changes placed national union leaders in a better position to coordinate bargaining strategies and to secure cooperation for wage moderation; and that the incorporation of local negotiators into the external union hierarchies, together with the decline in the importance of workplace and plant negotiations and the rise of company bargaining, enabled unions to exert greater control over shop-floor demands. To quote Brown:

> In the three largest unions, with some prompting from the leadership of Jones, Scanlon and Basnett, it has proved possible to involve shop stewards in all levels of union government. Because of this, trade union leaders generally had a surer political touch in the 1970s and were able to deliver a degree of compliance to the Social Contract incomes policy, for instance, that would have been unthinkable a decade earlier.[2]

Clearly, as already mentioned in Chapter 5, there were significant changes in wage-fixing arrangements during the late 1960s and early 1970s which contributed to the successful

---

[1] See William Brown, 'The Structure of Pay Bargaining in Britain', esp. pp.144-146; and Richard Hyman, 'The Policies of Workplace Unionism: Recent Tendencies and Some Problems for Theory', Capital and Class, 8 (Summer 1979), esp. pp.57-58.

[2] William Brown, 'The Structure of Pay Bargaining in Britain', p.144.

implementation of the Social Contract. Nevertheless, as Joe England argues, the 'incorporation' thesis, as it has become known, is not entirely convincing. For example, it tends to ignore the range and diversity of union constitutions and the fact that in several important unions workplace activists were immersed in the upper reaches of union policy-making long before the 1970s. It ignores the difficulties encountered by moderate union leaders in 1974-75 and 1977-79 in securing shop-floor support for incomes policies. It underestimates the impact of the process of democratization in unions like the TGWU in the 1960s which, rather than increasing the power and authority of the General Secretary, actually reduced it. It also runs counter to the empirical evidence which shows that of all union members, shop stewards are, on average, the group most hostile to incomes policies. Lastly, although there may have been instances of shop stewards becoming more deeply involved in the decision-making forums of their individual unions, no shop stewards took part in the negotiations with ministers and very few were consulted before the £6 policy was initially accepted by the General Council.

In any case, even if the incorporation thesis was completely valid, such changes in the structure of union decision making would not constitute a sufficient condition, nor even a necessary condition, for the success of a temporary pay policy (though they may be a necessary condition for a longer-term one).

---

[1] Joe England, 'Shop Stewards in Transport House: A Comment upon the Incorporation of the Rank and File', Industrial Relations Journal, 12 (September-October 1981), pp.16-29.

After all, if union leaders and shop stewards are ideologically opposed to incomes policies, no amount of 'incorporation' will make any difference to the final outcome. Normative commitments are thus of paramount importance, regardless of the system of pay determination or the structure of union decision making.[1]

If institutional factors fail to supply a satisfactory explanation for the high level of compliance with Phase I, we must search elsewhere. In so doing it is essential to acknowledge the extraordinary complexity of the situation. No one factor dominated the bargaining goals and tactics of every union during the 1975-76 round. Nor can any simple, all-embracing formula be found which will adequately account for the success of the £6 policy. Rather, we must recognise that negotiators were influenced by a host of constraints and commitments. These varied in salience from one bargaining group to another, from one sector of the economy to another and, indeed, from one negotiator to the next. Amongst the more important such considerations were the following: the economic recession; the Government's 'battery of weapons', including its threatened sanctions and price controls; the expectation that the policy would succeed and that the vast majority of unions would comply; and the commitment of a sufficient number of trade union leaders and members to the preservation of a Labour Government and to the principles of egalitarianism, fair play and trade union solidarity. Let us explore this argument further.

---

[1] A similar argument was put by Hugh Clegg over a decade ago and by Paul Willman more recently. See Hugh Clegg, How to Run An Incomes Policy and Why We Made Such a Mess of the Last One (London: Heinemann Educational Books, 1971), pp.81-82; and Paul Willman, Fairness, Collective Bargaining and Incomes Policy, pp.149-156.

First, with regard to the private sector the gravity of the recession meant that relatively few companies were in a position to grant increases above the pay limit. In fact, in many sectors, such as building and construction, textiles, clothing and footwear, profitability was very low and companies couldn't afford anything like a £6 increase for all their employees. Thus, with unemployment rising and with investment and output falling, the balance of power within the labour market had significantly altered. Unions were now in a much weaker bargaining position, while managerial resistance to large pay claims had undoubtedly increased. Quite apart from purely market considerations, of course, managerial resistance was also fortified by the realization that if they broke the pay code, and if their action was detected, they would have to face the full onslaught of governmental sanctions (tougher price controls, the loss of assistance through the Industry Act, and the loss of potential orders and contracts). Whilst such penalties may not have represented a major deterrent for capital intensive, highly efficient and non-state reliant firms, they could obviously not be ignored by a large section of industry. Just how important Healey's 'battery of weapons' was in explaining the high level of compliance with Phase I (and Phase II) cannot be determined with precision; but they were not insignificant. If nothing else, they provided managers with a strong additional argument in their negotiations with union leaders for rejecting claims which went beyond the policy guidelines.

In addition to the constraints imposed by the recession and the threat of state coercion, compliance was also fostered by non-economic factors. Of these, the high level of rank-and-file

support for Phase I was unquestionably of vital importance. As we have seen there is much evidence to suggest that a tough incomes policy was endorsed by the vast majority of trade unionists. Amongst other things we have the verdict of public opinion polls, the miners' ballot and union elections. Moreover, according to one survey, 73% of plant negotiators said that they thought the £6 policy would benefit the national economy.[1] Obviously the depth of the economic crisis and the fear of hyper-inflation was the major reason for the widespread acceptance of the need for firm action. Without such a serious economic predicament it is doubtful that the £6 policy would have received anything like the same support, and equally doubtful that workers would have so willingly tolerated cuts in their real disposable incomes.

But how did the rank-and-file backing for Phase I influence bargaining goals and tactics and why, to pose the question raised in Chapter 4, didn't those unions and bargaining groups opposed to the pay policy actively and openly seek to defy the Government and the TUC? Part of the answer, surely, is that even those union leaders most hostile to Phase I realized that it would be extremely difficult to mount effective industrial action against the pay code. Indeed, only in the rare case where there was a combination of significant shop-floor militancy, legitimate grievances and low managerial resistance is it possible to conceive of a scenario in which a bargaining group would have had the necessary power and willingness to organize a successful strike in defiance of the £6 limit. Yet, even in this instance, industrial action would have been costly for the union. It would no doubt have meant substantial losses in pay, a likely fall in employment

---

[1] W.W. Daniel, 'Wage Determination in Industry', p.47.

opportunities and possible expulsion from the TUC. What this means, in short, is that the net payoff from overt free riding would have been small, or, to put it differently, the opportunity costs of compliance were low. Hence,from the perspective of the theory outlined at the end of Chapter 4, there were relatively few groups of workers who experienced a significant conflict of interest during the 1975-76 wage round. And those which did so were either committed to Phase I for moral or ideological reasons - and so chose not to exploit their labour market power - or else they engaged in covert free riding with the connivance of their employers.

As far as the public sector is concerned, given the structure of rank-and-file attitudes, together with the determination of the Government to take a firm line, it is unlikely that there were any unions which could have launched a successful strike against Phase I. All the powerful groups such as the miners, railwaymen, power engineers and water workers, and in fact the large majority of union members in the public sector, supported the TUC position. Of those which remained opposed, ASLEF concluded that it had little choice for a combination of reasons (likely managerial resistance, trade union solidarity, and rank-and-file moderation) to comply with Phase I, and the CPSA and NUPE, representing as they do mainly low-paid workers - who stood to gain from a flat-rate policy - simply lacked the bargaining muscle to free ride. In any case, they would almost certainly have found themselves outvoted on most joint negotiating committees had they tried to press excessive claims.

In summary, there were a multitude of forces at work ensuring that Phase I received both the formal endorsement of the TUC and the subsequent support of local plant negotiators. Without the economic crisis there would have been no catalyst of sufficient

strength to shift the balance of opinion within the TUC in favour of an incomes policy. Without the low level of company profitability, the steady rise in unemployment, and the threat of financial sanctions there would have been much greater difficulty in securing compliance for the policy in the private sector. If a Labour Government had not been in power, the ideological motivation necessary for union leaders to abandon temporarily their cherished principle of free collective bargaining would have been absent. If the policy had not been so simple in form, or egalitarian in its distributional bias, it would not have received the same measure of support and would have proved more difficult to monitor and enforce. Finally, if the economic and political circumstances had been different, negotiators would have had less confidence that the incomes policy guidelines would be observed. As a consequence, the rationale for compliance would have been seriously undermined. Instead, as has been noted, there was a high expectation that the £6 policy would stick (confirmed in practice as the wage round progressed). Such an expectation created a general atmosphere of trust and assurance and hence supplied the necessary conditions for a policy based on reciprocal restraint

CHAPTER 9

PHASE TWO: THE WAGE-TAX DEAL AND ITS IMPLEMENTATION

> I shall not ask you to do the impossible. I shall not ask you to be soft-headed because you support a Labour Government. On the contrary, I ask you to be hard-headed about your members' real interests... You and I both desire to see the true interests of your members prosper.
>
> James Callaghan[1]

9.0 Introduction

By the spring of 1976 the economic situation had improved somewhat from the crisis months of the previous summer.[2] The rates of price and wage inflation were falling steadily. The foreign deficit had declined from nearly £3.7 billion in 1974 to a more sustainable £1.7 billion. The rate of increase in unemployment had begun to slacken and there had been a mild improvement in output. Yet serious problems remained. Investment and profitability were low. The PSBR, which stood at some £11 billion, was thought by many to be too high. The domestic rate of inflation was still well above the OECD average and international confidence in sterling was very low. Indeed, between April 1975 and April 1976 the exchange rate had fallen from US$2.37 to US$1.87 and a further decline seemed probable. Although a devaluation of this magnitude would be advantageous from the point of view of restoring competitiveness, it would also jeopardize the Government's anti-inflation strategy.[3]

---

[1] Speech to USDAW Annual Conference. Quoted in The Financial Times, 26 April 1976.

[2] For a comprehensive analysis of the economic situation see OECD, Economic Surveys: United Kingdom (Paris: March 1977), pp.5-17.

[3] A 1% rise in import prices increased retail price inflation by 0.18%. See Rudiger Dornbusch and Stanley Fischer, 'Sterling and the External Balance', in Richard E. Caves and Lawrence B. Krause, eds. Britain's Economic Performance (Washington: Brookings, 1980), pp.62-63.

If international confidence in sterling was to be restored and if further progress as to be made in reducing the pace of price and wage inflation a tough Phase II pay policy was imperative. The purpose of this chapter is to examine the negotiation and implementation of this new policy. In so doing we will address many of the questions and issues that arose in our consideration of Phase I, namely: the policy options; the political bargaining between ministers and senior trade union leaders; the strategies employed by the Government, the TUC and individual trade union leaders to mobilize consent for the new deal; the opposition encountered; the difficulties experienced in identifying and preventing free riding, especially in the private sector; and the overall level of compliance.

9.1 The Political Background

In order to understand the political context in which the negotiation and execution of Phase II took place, several important developments need to be borne in mind. On 26 March, some ten days before the 1976 Budget, Harold Wilson resigned as Prime Minister. For most observers the decision came as a surprise. There had been little warning, and certainly no hint of scandal or illness. According to Wilson the reason was simple: he had decided long in advance to retire at 60 and now having reached this age and having spent eight years as Prime Minister it was time to resign gracefully and let another person take the helm.[1] As matters transpired, James Callaghan, the Foreign Secretary, was elected to succeed Wilson, beating his main rival, Michael Foot, by 176 votes to 137.[2]

---

[1] Harold Wilson, Final Term, pp.226-234.

[2] For details of the voting in the PLP see David Butler and Dennis Kavanagh, The British General Election of 1979 (London: Macmillan, 1980), p.30.

Ideologically, Callaghan was a moderate. He strongly favoured a mixed economy, opposed the alternative economic strategy, and responded unenthusiastically to suggestions from Counter-Inflation Unit and others to broaden the scope of the Social Contract by establishing permanent tripartite institutions to negotiate incomes policy, public sector policy, industry policy, manpower policy and so forth. At the same time,he was a firm believer in incomes policies and was determined to bring inflation down to single figures. In view of this there was an obvious possibility of conflict with the union movement. Fortunately, however, he enjoyed a close personal relationship with many trade union leaders and, having spent time as a union official earlier in his career, was sympathetic to the principles and aims of trade unionism. Consequently,he was in as good a position as virtually any of the available Parliamentary leaders, particularly given the support of Foot, to hold the labour movement together during the difficult months which lay ahead.

The change in leadership brought several alterations to the membership of the Cabinet and to the allocation of portfolios. Tony Crosland was moved from the Department of the Environment and replaced Callaghan as Foreign Secretary. Michael Foot was appointed Leader of the House and relinquished his position as Employment Secretary to Albert Booth, the previous Minister of State for Employment. Amongst other significant changes, Barbara Castle and Robert Mellish were dropped from the Cabinet and two moderates, Edmund Dell and David Ennals, were promoted to full Cabinet rank. Apart from the addition of Booth,there was no major alteration in the short-term to the ministerial team responsible for negotiating

with the TUC. Healey remained as Chancellor and thus continued to chair the meetings. Foot retained his position on the relevant Cabinet Committees and attended some of the negotiating sessions. Eric Varley likewise continued to participate, as did Shirley Williams until her appointment later in the year as Education Secretary. Her position was then filled by Roy Hattersley.

During 1976 Callaghan rapidly established a pre-eminence, both within Cabinet and within the party as a whole. In part this was due to his calm, relaxed, avuncular manner which won him a considerable public following. But he was also assisted by the party's precarious Parliamentary position. By early 1976 Labour had lost its overall majority and, after further by-election defeats in the subsequent twelve months, held only 310 of the 635 seats in the Commons by March 1977. Consequently, when Mrs. Thatcher sought a vote of no-confidence in the Government in the spring of 1977, Callaghan was obliged to turn to the small Liberal Party for Parliamentary support. The resulting negotiations led to what became known as the 'Lib-Lab Pact'.[1] Under this the Liberals offered to vote with the Government on any issue of confidence until the end of the summer. In exchange, Callaghan agreed to consult the Liberals on all major policy initiatives, and effectively granted them a right to veto legislation to which they were strongly opposed. Despite criticisms of the pact by several Liberal MPs, the agreement was extended in July for a further year.

Labour's weak Parliamentary position, their growing dependence upon the Liberals and the widespread public disenchantment with their policies - reflected in public opinion polls and by-election results - seriously undermined the influence of the left upon the party leadership. With few MPs willing to face the prospect of an early election, which meant inevitable defeat, those favouring more radical social and economic policies were in no position to challenge the moderate approach of the Cabinet. Instead, left-wingers were forced into a meek acceptance of expenditure cuts, restrictive monetary and fiscal policies, and the abandonment of a number of pledges in the 1974 policy programme, including a wealth tax, planning agreements, and legislation to promote industrial democracy. The final three years of the Labour Government were not, therefore, the cause of much rejoicing for those who desired a major restructuring of the British economy and society.

9.2 Towards Phase II: Early Proposals and the 1976 Budget

Long before the end of 1975, Healey had indicated that the Government was hoping to negotiate a new pay deal with the TUC in the first half of 1976. As he remarked in a Radio 4 interview on 23 October 1975: 'It's vital that we continue with some such policy beyond the end of the present pay round, because otherwise we shall lose the war just after winning the battle'.[1] Healey's comments were followed during the winter and early spring by a host of suggestions from economists, business groups and union leaders. The Institute of Personnel Management proposed a 5% ceiling, plus £3 a week up to a maximum of £500 per annum.[2] The National Institute of

---

[1] IDS, Report No. 221, November 1975, p.27.

[2] IDS, Report No. 222, December 1975, p.22.

Economic and Social Research recommended a 3% limit.[1] The CBI, likewise, favoured a percentage norm and also proposed the establishment of an independent institution to monitor the new policy and to deal with anomalies and special cases.[2] In addition, CBI leaders suggested that there should be provision for productivity payments, and opposed any consolidation of the £6 limit into basic rates. To do so, they claimed, would add up to another 3% to average earnings.[3]

Union leaders were initially reluctant to commit themselves to a further year of pay restraint, let alone to advocate the form which any such policy should take. Such reticence was perfectly understandable: until the major settlements of the 1975-76 round had been agreed, union leaders were naturally cautious about openly endorsing a second stage. One of the first indications of the way union leaders were thinking came in late January when Jack Jones declared his support for another flat-rate deal.[4] While not stating a precise figure, he was known privately to favour a £6 limit implemented along much the same lines as before. His suggestion drew immediate criticism from other members of the General Council. Hugh Scanlon, Clive Jenkins, Frank Chapple and Joe Gormley all attacked the idea of another flat-rate policy, and even Len Murray expressed opposition to the proposal.[5]

---

[1] IDS, Report No. 222, December 1975, p.21.

[2] The Economist, 15 November 1975, p.93.

[3] Ibid.

[4] The Evening Standard, 23 January 1976.

[5] Ibid.

In the face of such criticism, Jones reluctantly backed down and acknowledged the need for a more flexible approach. Speaking in West Bromwich on 3 April, he made the following comments:

> In any policy for next year it would seem essential to maintain an element of flat-rate increase to ensure social justice. But to maintain the necessary unity of the unions it seems there is now a need for some flexibility in the policy. Provision should be made for a margin to allow for incentives to be attached to improvements in productivity and for some movement of differential payments against proper evaluation of work performed.[1]

Whilst trade union leaders were debating amongst themselves the respective virtues of flat-rate and percentage norms and the desirability or otherwise of a restoration of traditional differentials, Healey announced his intention of negotiating some kind of tax-wage deal. The strategy underlying such a proposal was plain enough. Assuming that the goal of economic policy was to reduce the rate of increase in unit labour costs as rapidly as possible, while also preserving real disposable incomes, the most sensible method was to allow only a small increase in nominal wages and for the Government to compensate workers for the decline in real incomes that they would otherwise experience by reducing the rate of direct taxation. Given the high level of the PSBR, the Government's room for manoeuvre was limited. Nevertheless, in Healey's estimation, there was sufficient scope to make a tax-wage trade-off worthwhile for almost everyone concerned. When he originally announced the idea of linking fiscal policy and incomes policy in the middle of February, the Chancellor gave no indication of the range of figures that he was likely to put to the TUC. Two weeks later, however, in a BBC interview, he hinted that he was

---

[1] The Sunday Times, 4 April 1976.

aiming for a limit of no more than 3%. He pointed out that he wanted the ceiling on pay increases to be as low as possible and, since productivity was rising at about 3%, if wages were to make no contribution to inflation in the forthcoming round, 'a 3% limit would be appropriate'.[1]

The immediate reactions of union leaders to Healey's suggestion of a tax-wage deal were generally cautious, but favourable. It seems that most wanted to reserve their judgement until the Budget, which was due on 6 April, when the Chancellor would give details of his proposals. Strangely enough, Healey's mention of a 3% wage norm passed virtually unnoticed. Certainly it drew little adverse comment. Perhaps few union leaders envisaged that he would have the audacity to propose such a miniscule increase. If so, they were mistaken.

As had become customary, the TUC published its annual Economic Review several weeks before the Budget.[2] The basic strategy outlined was in keeping with previous reviews. The TUC recommended the introduction of selective, but wide ranging import controls to protect domestic industry and to reduce the restraint on growth posed by the balance of payments deficit. It also called for an unemployment target of 600,000 to be reached by 1978, and advocated that the Government should seek to achieve an average annual growth rate of 3.3%. To this end the TUC recommended boosting aggregate demand by £1.9 billion (at 1976 prices), greater assistance to pensioners, families and manufacturing industry, and an expansion of the Government's job creation and training programmes.

---

[1] The Financial Times, 28 February 1976.

[2] See TUC Economic Review, 1976.

Only a few of the TUC's recommendations were included in the Budget. There was no move towards protectionism. Nor did Healey accept the case for a substantial easing of the Government's fairly tight monetary and fiscal stance. On the other hand, the temporary employment subsidy was doubled, the 25% rate of VAT on certain luxury goods was halved, and various unconditional tax cuts were introduced. These included an increase in the age allowance, and a rise in the child taxable allowance. Altogether these tax cuts amounted to £370 million.[1]

But it was the Chancellor's proposals for a Phase II pay policy which generated the greatest interest and comment. Beginning from the assumption that it was in the national interest to halve the current rate of price inflation of roughly 15% by the end of 1977 - thereby bringing Britain's inflation rate into line with that of its major competitors - Healey argued that the nation's money-wage bill should be permitted to rise by only 3% in the forthcoming round. Accordingly he proposed that, in return for TUC acceptance of a 3% ceiling on wage rises, he would implement two tax cuts.[2] Firstly, he would raise the single person's allowance and the allowance for wives' earnings by £60 to £735, and the married persons' allowance by £130 to £1085. The additional personal allowance would also be increased by £70 to £350. Secondly, he would reduce the tax rate on middle income earners by raising the level at which tax payers entered the tax rate of 40% from £4500 to £5000. Further adjustments were to be made higher up the scale. In total, these conditional tax reductions would cost some £930 million.

---

[1] Hansard, 6 April 1976, vol. 909, col. 277.

[2] Ibid., col. 275.

The amounts received by individuals and families would, of course, vary considerably. According to Treasury's calculations, if the unions accepted the 3% limit and the tax cuts were implemented in full, the outcome would be as follows: a single person on average earnings would receive an increase in his or her gross take-home pay of 6½% or £4.50; a married person an increase of 8¼% or £5.40; and a couple or a single parent with two children a rise of 10½% or an extra £7 a week.[1] Healey was at pains to point out that most people would be better off by accepting a low wage increase and tax cuts rather than the alternative of a higher money-wage increase. For example, supposing a limit of £3 or 7½% was agreed, then inflation would be 2% higher and real disposable incomes would actually be less at the end of the pay round than under the Budget proposal. Moreover, a package involving tax relief would be advantageous to most wage and salary earners since the tax cuts would take effect immediately, whereas the vast majority of workers would have to wait many months before their next pay settlement.

As to the matter of the actual pay maximum, Healey emphasised that he was not wanting to dictate any particular figure and that it would be up to TUC leaders to judge the level of pay increases which would find acceptance amongst their affiliated members. But he stressed that the amount of tax relief which he could give would be conditional on TUC endorsement of a pay limit in the region of 3%. To quote from his Budget statement:

---

[1] Hansard, 6 April 1976, vol. 909, col. 278.

> If in the end the TUC found that it was unable to agree to a figure as low as that on which these tax reliefs are based, I would, of course, have to reduce the amount of the reliefs accordingly.[1]

Naturally, Healey gave no indication of the extent to which the tax cuts would be reduced if the unions refused to accept a 3% ceiling, but it was evident that he was going to drive a hard bargain.

There is one other aspect of the Government's economic strategy which deserves mention here. By the time the Budget was under preparation it was becoming apparent that several measures which would arouse the wrath of the TUC would have to be taken in the near future. Sterling's weak position, together with the high PSBR, meant that cuts in public expenditure were almost inevitable. Added to this, ministers were under heavy pressure from the CBI to amend the Price Code. The problem, of course, was how to modify the price controls and reduce the PSBR without endangering a new pay deal. In the event, it was considered that the best approach was to exclude such matters from the agenda of the pay negotiations and to avoid taking any final decisions until Phase II had been ratified by the union movement. As to be expected, such tactics caused frustration and resentment amongst union leaders; this resentment was to grow as the year wore on and the magnitude of the expenditure cuts became apparent.

While most union leaders reacted favourably to the idea of a tax-wage deal, the Budget figures were the source of almost universal condemnation. Understandably the 3% limit drew the harshest criticism. Few union leaders thought that their members would accept such a low figure and besides this it offered no scope for the restoration of differentials in sectors

---

[1] Hansard, 6 April 1976, vol. 909, col. 273.

of the economy, like the automobile industry, where skilled workers were in revolt against the recent decline in their relative pay. Not surprisingly, therefore, the Budget pay limit was rejected outright, not only by left-wing leaders, but also by Jones, Murray and Basnett.

Quite apart from the pay maximum, trade union leaders were also critical of the size and distributional implications of the proposed tax cuts. Although families, pensioners and the lower paid would benefit from the rise in allowances, relatively few would be eligible for the reduction in standard tax rates on incomes above £4500. Healey, however, refused to modify his proposals, justifying the structure of his tax cuts on the grounds that middle and high income earners had suffered the most under Phase I.

The other major criticism of the Budget was that it did too little to stimulate demand and boost domestic investment and consumption. Again, Healey countered by asserting that the weak external position, together with the dangers of refuelling inflation, imposed severe restraints on his room for manoeuvre. If, for example, he was to reflate the economy, the result would be a substantial increase in imports, a rise in the foreign deficit, a further fall in the exchange rate, and a consequent acceleration of price inflation. His concern about the low level of confidence in sterling received dramatic confirmation in the weeks following the Budget when the pound again came under pressure on international currency markets. Thus, for a second time in a row, pay negotiations between the TUC and the Government were conducted in an atmosphere of tension and anxiety. Needless to say this provoked some suspicion on the union side that the authorities were deliberately

manipulating the exchange rate in order to secure a tough pay deal.[1] Although such fears were understandable, no hard evidence has been produced to confirm this view.

If the Budget received a hostile reception from the TUC leadership, the same cannot be said of the reaction of the CBI or the public at large. Indeed, judging by opinion poll data, the response of most people, including union members, was highly favourable. In a poll undertaken by Louis Harris International just after the Budget, 65% declared their support for the tax-wage deal, and when the 550 trade unionists in the sample were further questioned, 77% expressed their willingness to accept the package if the TUC agreed.[2] Similarly, a Sunday Times poll revealed that of three options put to respondents, 60% favoured Healey's scheme, 20% preferred a straight £5 wage increase, and only 8% wanted a return to free collective bargaining.[3] Almost three weeks later, a National Opinion Poll undertaken between 24-26 April found that 69% of those interviewed thought that the TUC should accept the 3% limit and tax cut.[4] Of the trade unionists questioned, 64% supported Healey's original scheme. Broadly speaking, therefore, the evidence suggested that the majority of respondents grasped the basic concept of a wage-tax trade-off and approved the idea. What is more, they were willing to accept a pay rise of only 3%, this notwithstanding the fact that the current annual rate of price inflation was in excess of 14%. Unquestionably this was good news for the Government and indicated that, even if it was

---

[1] The Chancellor denied this. See Hansard, 5 May 1976, vol. 910, col. 1313.

[2] The Sunday Times, 11 April 1976.

[3] Ibid.

[4] The Daily Mirror, 29 April 1976.

forced to concede to TUC demands for a higher wage ceiling, there was considerable rank-and-file support for a second year of wage restraint.

The prospect of a satisfactory Phase II deal being reached was reinforced some two weeks after the Budget as a result of several votes at the annual conference of the Scottish TUC (STUC) in Perth. In spite of criticism of the Budget from many left-wing leaders, and in spite of the passage of an emergency resolution denouncing the 3% offer as 'inadequate' and 'unacceptable', the conference rejected a motion calling for an 'end to incomes policy measures like the £6 wage limit and any similar scheme'.[1] The voting was decisive: the motion was lost by a margin of almost two to one - 1187 against versus 632 in favour.[2] And, if only to add to the dismay of left-wing delegates, the next day the conference rejected a miners' resolution opposing any form of wage restraint and demanding an immediate return to free collective bargaining. Again the majority against was substantial. The implication was clear: if so many delegates to the STUC were willing to endorse a new pay policy there could be little doubt about the outcome of any subsequent TUC vote.

9.3 The Pay Negotiations

When negotiations began towards the end of April, ministers were in a powerful bargaining position. Healey's plan had won widespread public support. Rank-and-file union members appeared ready to accept another year of wage restraint. And the precarious position of the pound made it imperative

---

[1] Scottish TUC Annual Report 1976, p. 644.

[2] The Financial Times, 21 April 1976.

to reach a quick settlement. On the other hand, it was also plain that the 3% offer was too low. The STUC had rejected it, as had the USDAW conference in Blackpool, the Economic Committee of the General Council, and finally the General Council at a meeting on 28 April.[1] So, if another pay agreement was to be forthcoming, the Government would have to make some concessions. How great these would be remained to be seen.

As far as the distributional bias of the policy was concerned, the majority of TUC leaders supported the idea of a percentage limit with both a cash floor and a cash ceiling. This had the advantages of simplicity and clarity, would provide scope for local bargaining, would be relatively easy to monitor, and would appeal to those wanting a basically egalitarian policy. As matters transpired, this approach was to prove dominant, but it was only after long and often heated debates. Healey adopted a tough bargaining stance and made it clear that only a very small increase above the 3% figure could be countenanced. Otherwise, he would have to reduce the amount of the tax concessions. He also stressed that any easing of the rules concerning exceptions would have to be offset against the pay norm. Unable to reach an acceptable agreement with the Chancellor, the TUC team eventually appealed to the Prime Minister. According to respondents the union leaders put up a noble fight, but Callaghan refused to make any significant concessions, either with respect to the overall pay figure or on the other matters of concern to the TUC-macro-economic strategy, social policy, trade policy and so forth. In the end, having made only limited progress on the

---

[1] 'The Social Contract 1976-77', in TUC Annual Report 1976, p.406.

original Budget proposals, the union leaders conceded in the early hours of 5 May. The new policy was endorsed that morning by the General Council and announced in the Commons later in the day by a weary, but elated Denis Healey.

As to the details, Phase II provided for a 5% pay limit with a cash ceiling of £4 and a minimum entitlement of £2.50. Apart from this, few of the conditions or enforcement procedures of Phase I were changed. In straight money terms the policy meant that, excluding the tax cuts, all those earning between £50 and £80 a week, or roughly 43% of the workforce, could receive up to 5% extra; those earning less than £50 a week, or about 23% of the workforce, would receive £2.50; and those earning in excess of £80, which amounted to some 34% of the workforce could receive no more than £4 a week.[1] To avoid the risk of excess payments, it was decided that the 5% should apply to an individual's total weekly earnings rather than being added to his basic rate. For a second time in a row, therefore, workers were to receive their pay increase in the form of a supplement to their weekly earnings. Whatever the advantages of such a procedure for maximizing compliance, it meant a lot of extra work for wage and salary administrators, as well as the prospect of a significant leap in earnings when the supplements were eventually consolidated into basic rates, probably during the 1977-78 wage round.[2] In short, the Government was storing up trouble.

On the matter of exceptions and non-wage benefits, ministers and union leaders were agreed that it would be prudent to retain the Phase I restrictions. Hence it was

---

[1] IDS, Report No. 233, May 1976, p.2.

[2] Ibid., p.1.

decided that there should be no exceptions for productivity bargaining and no loopholes for rectifying any anomalies which might have been caused by the £6 policy. Moreover, there were to be no transitional arrangements, and because the Equal Pay Act was meant to have been fully in force by the end of 1975, further large gains in the relative pay of women were not anticipated. The only significant change in the Phase I guidelines, therefore, was a provision under which unions could negotiate improvements in occupational pension schemes up to the minimum contracting-out level established by the Social Security Pensions Act.[1]

Overall, the 5% limit was expected to add about 4½% to the nation's total wage bill - which was less than half the amount permitted under the previous policy.[2] This, of course, would be the minimum direct impact and most observers anticipated some slippage. Obviously the scale of this would depend on the magnitude of the expected upturn in the economy, the degree of free riding, and the extent to which union negotiators chose to exploit legitimate exceptions, such as new work deals and settlements under the Fair Wages Resolution. Initially, the Treasury assumed that wage drift above the limit would be around 2%, meaning that nominal incomes would grow by 6½% for the year to August 1977.[3] Assuming productivity growth of 3%, wages were expected to add only 2% to the RPI by the end of 1977. Some months later, however, the Treasury revised its estimate of wage growth upwards by 1% to 7½%.[4] In the event,

---

[1] 'The Social Contract 1976-77', in TUC Annual Report 1976, p.407.

[2] Hansard, 5 May 1976, vol. 910, col. 1306.

[3] IDS, Report No. 240, September 1976, p.1.

[4] Ibid.

this forecast was not far wrong. Average earnings rose by about 8% during Phase II, somewhat less than the more pessimistic forecasts of the National Institute, but nonetheless indicating a drift factor of about 3½%. This was 1½% more than under the £6 policy.

How the new policy would affect living standards was hard to predict. Ministers readily acknowledged that the real incomes of most workers would fall, but the exact amount would depend on the exchange rate, the rate of inflation and the degree of wage drift. Assuming that the exchange rate held constant and that the Government's inflation target for the end of 1977 of 7-8% was met, real disposable incomes were expected to fall on average by about 1-2%.[1] Single persons and those on high incomes would experience the greatest cut in living standards.[2] Of course, if the inflation target was exceeded, as it was, then real incomes would fall much more substantially. It is thus surprising, given the precarious position of sterling, that union leaders did not seek any real-income guarantees from the Government. As it was, they were forced to watch, almost helplessly, as the pound plummetted to record lows against the dollar and living standards declined by an amount unprecedented since the war.

On the whole, union leaders gained relatively little in return for their acceptance of Phase II. Perhaps the main concession was Healey's decision to implement the tax reliefs in full. Yet even this could hardly be regarded as a major victory, since ministers had made allowance for a minor tactical retreat. Apart from the tax cuts, the only other explicit quid

---

[1] Hansard, 3 May 1976, vol. 910, col. 845.

[2] For details see The Attack on Inflation: The Second Year, Cmnd. 6507, June 1976, p.13.

pro quos were the Government's decisions to delay the proposed 5 pence increase in school meal charges - at the cost of £35 million - and to provide an extra £15 million for job creation and training.[1] There was no change in the Government's broad macro-economic strategy, nor any adjustment to its trade, industrial or social policies. Not unexpectedly, few union leaders were happy with the outcome. This was particularly true of Jack Jones. As he freely acknowledged afterwards, it was only his sense of loyalty to Callaghan and Foot, along with his desire to ensure the survival of the Labour Government which enabled him to accept the final terms. But this would be the last time. There would be no Phase III of a similar kind. A return to a freer regime of pay determination would be essential.

9.4 Selling the Policy

The same day as the Prime Minister and the TUC negotiating team reached agreement on Phase II, the General Council convened to ratify the deal. Predictably there was dissatisfaction with the low level of the pay ceiling, and criticism of the lack of quid pro quos and the planned fall in living standards. Nevertheless, after a two-hour debate, the Council voted by an overwhelming majority of 25 to 5 to endorse the new deal. The five opponents were mostly associated with the hard left and included Clive Jenkins, Alan Sapper, Ken Gill, Charles Grieve of the Tobacco Workers' Union, and Reg Birch, a Maoist member of the AUEW.[2] The size of the majority in favour, together with the fact that so many of those on the soft left, including Hugh Scanlon, supported a second year of real-wage cuts,

---

[1] 'The Social Contract 1976-77', in TUC Annual Report 1976, p.409.

[2] The Guardian, 6 May 1976.

demonstrated unequivocably that in the meantime,at any rate, the TUC leadership had won the economic and political argument. Union leaders were clearly impressed by the success of Phase I. They recognized that there was adequate rank-and-file support for a Phase II deal. And they acknowledged, albeit reluctantly, that because of the country's economic plight, a further period of wage restraint would be necessary to avoid higher unemployment, another damaging run on sterling and the possible defeat of the Government. But they also stressed that the new agreement did not imply that there could be a Phase III. Most in fact wanted a return to free collective bargaining in 1977.

For the present, of course, it was a matter of accepting some short-term sacrifices and ensuring that the policy stuck. To this end it was decided that, instead of waiting until the September Congress for the policy to be debated and voted upon, it would be preferable to arrange an early Special Congress. Tactically such a manoeuvre had the advantage of getting a vote out of the way before there was any deterioration in the economic situation. Added to this,it was considered desirable to give union activists an opportunity to discuss the new deal and authorize its implementation prior to its commencement on 1 August. Hence,a Special Congress was called for 16 June.

In the weeks leading up to the conference many unions met to decide their policy stance. Of these the most important were the TGWU, the NUM and the AUEW. Within the TGWU there was more opposition to the Phase II deal than for the previous policy. The normally militant London and South-East regional committee rejected the new policy,and when the matter was put to a special meeting of the General Executive Council on

10 May there was, to quote one researcher, 'a long and heated discussion'.[1] Ultimately Jones carried the day: the vote dealing with Phase II produced a majority in favour of 25 to 12, while a vote on a motion endorsing the action of the General Council was passed unanimously.[2] Yet, some of this support was contingent upon Jones' commitment to continue to apply pressure on the Government to introduce selective import controls, to improve pensions and to preserve the existing price and dividend controls. Thus, although Jones managed to win the backing of his executive for Phase II, it was evident that a further year of restraint would not be tolerated.

Not unexpectedly, there was a fair measure of opposition within the NUM. Gormley, for one, was not at all enthusiastic about the new policy. He had missed the crucial General Council meeting on 5 May and initially refused to say how he would have voted.[3] On the other hand, he was unwilling to let Callaghan down. Consequently, even though, as he was to put it several years later, 'it may have been against my better judgement', he decided to support the policy.[4]

Aware of the strength of left-wing opposition to Phase II, Gormley concluded that the only way to avoid being defeated at the union's annual conference in July was to hold a membership ballot on the issue as soon as possible. Fortunately the moderate dominated NEC supported his view and a pithead ballot was called for early June.[5] The weeks preceding the vote witnessed a major propaganda campaign by those against wage

---

[1] Joe England, 'Shop Stewards in Transport House', p.26.

[2] The Guardian, 11 May 1976.

[3] The Times, 10 May 1976.

[4] Joe Gormley, Battered Cherub (London: Hamish Hamilton, 1982) p.166.

[5] The Guardian, 14 May 1976.

restraint. Union leaders in Yorkshire, Scotland, South Wales and Kent argued vigorously that the miners should reject another year of pay cuts. Arthur Scargill, for instance, castigated the new policy, claiming that it would mean a drastic cut in living standards and that the wage-tax deal was both immoral and contrary to accepted trade union principles.[1] In contrast, Gormley and the leaders in moderate areas pleaded for the miners to vote in favour. The arguments employed differed little from those adopted in the previous year. It was emphasized that the policy was a voluntary rather than a statutory one, that it was a necessary instrument for controlling inflation and creating the conditions for an improvement in real wages, that the NUM could not and should not go it alone in 1976, and that it was in the miners' interests to ensure that the Labour Government remained in office. As Lawrence Daly, the union's General Secretary put it:

> ... I am not arguing that this Labour Government should have our blind loyalty... We will kick hell out of the Labour Government where we think it's wrong. But is a Government which has embraced the Plan for Coal and sunk millions of pounds of investment in the mining industry wrong for British miners?[2]

With a number of traditionally moderate area executives having narrowly rejected the policy in the weeks prior to the ballot, a close result was predicted. And, in the event, the outcome was less favourable than in 1975: some 53.4% voted in favour and 46.6% against. Nevertheless, the result was a great encouragement to the Government and the TUC. For a second year, the prospect of conflict with the miners had been averted. Moreover, with the miners in favour it was likely that most other unions would support the new policy. Such was the case.

---

[1] The Miner, May-June 1976, p.8.

[2] Ibid., p.5.

At the annual conference of the GMWU in Bournemouth, only 6 of the 400 delegates voted against the pay policy.[1] The NALGO conference voted two-to-one in favour, as did the annual conference of the sheet metal workers (NUSMCHDE). Even more decisive were the results of votes in two traditionally militant unions, the NUPE and the CPSA: NUPE branches voted three-to-one to back the policy, while a ballot of the 215,000 members of the CPSA produced a remarkable 74% vote in favour.[2]

But it would be wrong to exaggerate the level of support. Although many unions voted solidly to accept the 5% (£4) limit, others like the NUM, NUR, UCATT and the AUEW were much more evenly balanced. The AUEW is an interesting case in point. As noted in Chapter 8, the elections for the national executive council in the autumn of 1975 had yielded a moderate majority. Against this, however, the members of the national committee - the main policy-making body of the union's engineering section - were sharply divided in their attitude to Phase II.[3] As a result, Scanlon had to employ almost every argument and device he could muster to win a majority at the May conference. He even threatened to resign from the TUC negotiating team if the committee rejected the new policy. As it happened, his tactics proved successful and the committee voted by 29 to 22 to accept a further year of restraint.[4] The majority was less than the vote of the previous December, but was sufficient for Scanlon's purposes.

---

[1] The Guardian, 10 June 1976.

[2] Ibid.

[3] The Economist, 29 May 1976, p.77.

[4] The Times, 19 May 1976.

By early June the outcome of the Special Congress was a foregone conclusion. The Congress took place on 16 June in Central Hall, Westminster, and was attended by 1044 delegates from 100 unions.[1] After several hours of debate, delegates voted overwhelmingly to approve the General Council's report 'The Social Contract 1976-77', which set out the terms of the pay policy, along with a host of broader economic, social and political aims. Over 9 million votes were cast in favour of the policy, with a mere 531,000 against: a majority of 17 to 1. Indeed, only 9 unions voted against: the ACTT, ASTMS, ASLEF, EMA, the Tobacco Workers' Union, the British Airline Pilots' Association (BALPA), the Merchant Navy and Air Line Officers' Association (MNAOA), the National Union of Blastfurnacemen (NUB) and the National Union of Journalists (NUJ). Excluding the ASTMS, all these were small unions of only 20,000 - 30,000 members. Most represented white collar and generally well-paid workers, who would tend to suffer disproportionately as a result of the £4 maximum. With the exception of the EMA, BALPA and MNAOA, each union was opposed to incomes policies on ideological grounds.

Partly in order to placate those opposed to Phase II, Jones, Basnett, Scanlon and other senior union leaders began to speak of the need for a return to free collective bargaining in 1977. Jones gave this matter considerable prominence, and in speeches before, during and after the Congress, he argued against a Phase III deal.[2] Indeed, three months later he co-sponsored a motion at the annual TUC conference in Brighton which called

---

[1] See Report of the Special Trades Union Congress on the Social Contract 1976-77 (TUC: 1976).

[2] See The Guardian, 10 June 1976; and The Financial Times, 18 June 1976.

for a 'planned return to free collective bargaining' in 1977.[1] Not surprisingly, the motion was carried by a huge majority. Yet this was not an invitation for a free-for-all. Union leaders were still mindful of the wage explosion of 1974-75 and recognized the dangers that a return to a more flexible system would bring. Consequently, the motion stressed that priority should be given, not to an immediate restoration of real wages, but to five other matters, namely: the correction of anomalies; the need to give adequate rewards for skill, effort and responsibility; the protection of the low paid; the phased incorporation of the flat-rate supplements into basic rates; and the negotiation of genuine productivity deals and incentive schemes.[2] In introducing the motion, Lord Allen emphasized that he was not seeking to attack either the Government or the Social Contract. Nor did he want a return to the pattern of unplanned and uncoordinated bargaining which had characterized many previous periods. Some form of wage restraint would have to continue. As he put it:

> It is not an invitation, come next July, for those in our Movement who find themselves again in an unfettered situation to force through wage demands without regard to the social and economic consequences to their fellow trade unionists and the country generally.[3]

Similar remarks were made by other speakers. The unresolved problem, of course, was how one could ensure a measure of coordination and restraint in the absence of a fixed norm or generally accepted criteria for dealing with special cases. During the subsequent ten months or so numerous schemes were put forward. Few of these received much attention or support. Even fewer were likely to work.

---

[1] TUC Annual Report 1976, p.523.

[2] Ibid.

[3] Ibid., p.524.

Having secured the TUC's backing for Phase II, ministers were free to embark on a number of important, politically sensitive policy changes. The first of these concerned prices policy. Modifications to the Price Code had been strongly urged by the CBI during 1975 and early 1976, and the Government's unwillingness to act had led to a marked deterioration in its relations with the leaders of industry. Nevertheless, aware that the Price Code was having an adverse impact on company profitability, and hence investment, and with the Special Congress safely out of the way, ministers agreed to ease the price restrictions. The new proposals were published in the White Paper on pay policy on 30 June and implemented some three weeks later.[1] The main changes included an increase in the rate of investment relief from 20% to 35%, provisions to offset the impact of inflation on assets and stocks, the removal of the disincentive upon the issue of new share capital, and the abolition of the productivity deduction preventing companies from passing on into prices more than 50% of their increased labour costs. In keeping with TUC demands, the controls on dividends remained intact. It was estimated that the changes to the Price Code would raise prices by 1% in the year to July 1977 and add as much as £1 billion to company profits.[2] And this meant, for all practical purposes, a further slight fall in real disposable incomes and a small shift in factor shares from wages to capital.

Predictably, union leaders were not enthusiastic about the relaxation of prices policy. But their reaction was muted in comparison with their denunciation of the Chancellor's

---

[1] The Attack on Inflation: The Second Year, Cmnd. 6507, June 1976.

[2] The Attack on Inflation: The Second Year, p.11; and TUC Annual Report 1976, p.311.

proposal in mid July to cut public expenditure. In brief, the Government argued that, unless it could reduce the PSBR, there would be further pressure on sterling and, as the economy began to expand, the private sector would be forced to compete with the public sector for loan finance. This would either mean higher interest rates or an expansion of credit, neither of which were considered desirable. Since it was politically impossible to increase direct taxes (having just lowered them), and since a substantial increase in indirect taxes would automatically raise prices and reduce real incomes, the only alternative, if Government borrowing was to be reduced, was to cut public expenditure. Consequently, Healey proposed to lower public spending by about £1 billion in the 1977-78 financial year and impose a 2% employment tax on employers through the National Insurance contribution. These measures were expected to raise unemployment by 70,000 and lower the PSBR by £1.5 billion.[1]

Union leaders, particularly those in the public sector, were harshly critical of the proposals.[2] They were also incensed by the lack of adequate consultation and the tactics used by Callaghan and Healey to win their support. As one angry union leader remarked, they again 'drew out their grubby ace';[3] that is to say, they warned that a failure to agree to

---

[1] The Times, 23 July 1976.

[2] The Government's measures prompted the establishment of the National Steering Committee Against the Cuts. This included representatives of some 11 unions and was chaired by John Daly, the Deputy General Secretary of NALGO.

[3] The Guardian, 15 July 1976.

the cuts could bring a return to Conservative rule and even stiffer medicine. Not surprisingly, many union leaders felt they had been deceived into accepting a second year of pay restraint, and that ministers had lied when they had contended earlier in the year that wage moderation was an alternative to reductions in social expenditure. While there was no question of the TUC reneging on the wages deal, relations with the Government deteriorated sharply. They declined still further during the autumn of 1976 when it became clear that, despite all the previous sacrifices, the lack of international confidence in sterling would necessitate even deeper cuts in social expenditure. On this occasion, in keeping with IMF requirements, public expenditure was reduced by an extra £1 billion (over and above the July cuts) in 1977-78, and by £1.5 billion in 1978-79 (at 1976 survey prices).[1] Naturally the TUC objected, but there was little it could do.

Fortunately for the Labour Government these latter measures proved sufficient to meet the requirements of the situation and there was a marked improvement in the economy during 1977. Output expanded. The balance of payments moved from a deficit to a surplus of £483 million in the third quarter of 1977. The pound rose from its low of US$1.56 in October 1976 to US$1.86 a year later, and unemployment, which had reached 1.6 million in August 1977, began to fall slowly.

9.5 Problems of Implementation

From all accounts the implementation of Phase II caused only minor problems. As with Phase I, there were difficulties relating to interpretation and timing, and the occasional

---

[1] OECD, Economic Surveys: United Kingdom (Paris: March 1977), p.57. For details of the IMF crisis see Joel Barnett, Inside the Treasury, pp.87-111; and William Keegan and Rupert Pennant-Rae, Who Runs the Economy? (London: Maurice Temple Smith, 1979), pp.162-168.

reported breach. These tended to involve fringe benefits rather than payments in excess of the 5% limit. There was also continuing unrest amongst skilled workers in the car industry, the product largely of an erosion of skill differentials and a variety of complicated pay anomalies. Further, as expected, union negotiators placed greater emphasis on the exceptions contained in the Pay Code. The two most popular avenues to be exploited in the regard centred upon new work clauses[1] and applications to the Central Arbitration Committee (CAC) under Schedule II of the Employment Protection Act (1975).[2] In accordance with this section of the Act, unions could claim better pay, conditions, holidays and bonuses in order to obtain parity with similar kinds of workers in similar industries in the same district. The Schedule became operative on 1 January 1977 and applied to all private sector and most public sector employees. Thus, by the early spring the CAC was inundated with applications. While employers soon became concerned about the inflationary potential of this escape-hatch, the TUC took a much more positive view. It was pointed out that most of the claims involved only small groups of workers, and that the procedure was ideal for ending pockets of low pay without the danger of raising the overall level of settlements.

The most serious threat to pay policy came in September when the National Union of Seamen (NUS), having failed to reach agreement with the General Council of British Shipping on a

---

[1] See IDS, Report No.243, October 1976, p.1; IDS Report No. 246, December 1976, pp.1-2; and Paul Willman, Fairness, Collective Bargaining and Incomes Policy, pp.135-136.

[2] For details see Ceri Thomas, 'Low Pay and Incomes Policy', in Chater, et al. eds., Incomes Policy, pp.74-75.

pay claim - which was generally considered to be in breach of the Phase II limits - called a strike. By so doing it presented TUC leaders with the most formidable challenge to their authority during the entire period of the Social Contract. And there was indeed real cause for concern. The NUS had a notorious record of breaking ranks. It had been expelled from the TUC twice in the past fifty years, in 1926 and again in 1972, on both occasions for failing to abide by the policies of the union movement. Nor had it shown much allegiance to a Labour Government. In 1966, for example, during Labour's previous term in office, it had undertaken a lengthy and economically damaging strike. Now, in the autumn of 1976, merely the threat to halt British trade had sent the pound plummetting. It was thus vital for the TUC to find a solution.

The background to the dispute is as follows.[1] In early July 1975, just prior to the introduction of Phase I, the seamen had been awarded a 37% increase. The arbitrated award was to be paid in three stages during the next year. Almost immediately a difficulty arose: when would the seamen be eligible for another pay rise and how much would they be entitled to receive? Jim Slater, the union's General Secretary, assuming that his members could receive the £6 supplement of Phase I, submitted a claim to this effect in March 1976. But the shipping employers, with the backing of the TUC secretariat, insisted that the seamen could only be paid 5% in conformity with the newly announced Phase II. The date of payment would be January 1977 - in accordance with the twelve-month rule.

---

[1] For a discussion of the background to this dispute see The Guardian 10 September 1976; Jim Slater, 'Pay Issue Poses Problems', The Seaman, August 1976, pp.131-132; and The Observer, 12 September 1976.

This was firmly rejected by the NUS executive who appealed unsuccessfully to the TUC Economic Committee and later to the Employment Secretary, Albert Booth, arguing that the principal date of the last settlement was 2 July 1975. Hence the seamen were entitled to a £6 increase from 1 August 1976.

Because of the strength of feeling on the issue it was decided to call a strike ballot. The outcome, which was announced on 6 September (the first day of the TUC conference in Brighton), produced a slight majority in favour of a strike, 7721 votes to 7412. Given that only 38% of the union's 44,000 members had taken part in the ballot, few expected the union's executive to go ahead with its plans for industrial action. But they were quickly proved wrong. Two days later the executive voted unanimously for a nationwide strike beginning at midnight on Saturday 11 September. Both the TUC and the Government were astonished. Callaghan hastily cancelled a planned trip to Canada. The pound fell heavily. And the TUC Economic Committee convened to explore the options and to try and persuade the NUS to call off, or at least postpone the strike.

There was little sympathy for the seamen's case within the TUC. It was contended that they had received an excellent settlement prior to the imposition of Phase I, considerably more than the average in fact. In any case, other unions had accepted the ruling of the TUC and the Department of Employment that, for the purposes of the twelve-month rule, the date of the principal pay increase should be regarded as either the date of the largest single pay increment or a mid point between the main increases. To allow the NUS to circumvent this ruling would be discriminatory and unfair. Besides this,

few TUC leaders thought that the seamen could win their case by industrial action. The employers were adopting a tough stance and the ballot indicated that there was a lack of rank-and-file support for a protracted strike. But, however comforting a victory for the employers might be in these circumstances, it would not lessen the fact that in the short run a strike against the pay policy would be acutely embarrassing and serve to further weaken international confidence in sterling.

Initially the Economic Committee applied maximum pressure upon the NUS executive to withdraw their strike threat. But their arguments went unheeded. Slater refused to cooperate. Finally, after several days of haggling, and with less than a day to go before industrial action was due to begin, progress was made. The TUC leaders agreed to examine the pay code to see whether additional non-wage benefits could be paid to compensate for the union's acceptance of the later settlement date. At the same time, the NUS leadership were told bluntly that if they refused to cooperate the union would face expulsion from the TUC. With this threat in mind, and realizing that there was little prospect of achieving their original target date of 1 August, the NUS executive decided to defer industrial action for 15 days.[1] In the meantime, consideration would be given to the TUC proposal to improve fringe benefits. The vote, however, was extremely close. Left-wing members of the executive were not at all perturbed by the expulsion threat and believed that a short, sharp stoppage would bring the Cabinet and the Economic Committee

---

[1] For an account of the events of this period by one of the leading participants see Jim Slater, 'Pay Settlement Brings Much Needed Improvements', The Seaman, September-October 1976, pp.147-150.

around to see the merits of their case. Nor were they unduly concerned about the implications of such action for the British economy. Thus the initial vote produced a tied result, 7 in favour of accepting the TUC offer and 7 against. It was only Slater's casting vote which saved the day.

The following week the NUS negotiating committee met with a TUC team at Congress House to decide what extra payments were permissible under the Phase II rules. Since there could be no additional payments for hours worked, attention was focussed upon the frequent periods of temporary unemployment which characterize a seaman's life. The result was a set of proposals to raise unemployment and sickness benefits, improve travelling, lodging and subsistence allowances, upgrade pensions, and revise redundancy and medical severance provisions. There was also to be some clarification of the sensitive issue of 'captive-time' payments, that is, payments for the time spent by seamen on board ship in port waiting just in case the vessel has to be moved. The new proposals, which both the Government and the TUC accepted as being within the terms of the pay code, were put to General Council of British Shipping and with minor modifications were agreed to on 22 September. The threatened strike was duly called off.

Despite repeated assurances that the pay code had not been breached, many observers were suspicious of the manner in which the TUC had conspired with the NUS, and by the range and magnitude of the improvements in non-wage benefits.[1] While it was acknowledged that neither the twelve-month rule nor the pay ceiling had been broken, the fringe benefits seemed excessive. Some feared that other unions would now attempt

---

[1] The Financial Times, 23 September 1976; and The Economist, 25 September 1976, p.98.

to free ride on the seamen's success. But, in fact, according to at least one authoritative source, all the improvements gained by the NUS could be justified under the job security and sick pay provisions contained in the pay guidelines or by means of the clause which allowed various expenses to be raised in line with changes in the cost of living.[1] Hence, the seamen had not received special treatment. Rather they has simply drawn attention to the flexibility inherent in the pay code for certain categories of workers - a fact which others had not been slow to discover. Any suggestion, then, that the seamen's award would spark similar crises could be dismissed.

Yet, if the final outcome was generally satisfactory, it also revealed rather starkly the weaknesses of the TUC. For here was a small, albeit strategically placed, union prepared to disregard the TUC's verdict and going to the brink of a nationwide strike to achieve its objective. Had the seamen been more decisively behind industrial action and had the political balance within the NUS executive been slightly different, a stoppage would have taken place; and not even the extra fringe benefits or the threat of expulsion would have proved sufficient to stop it in the short run. After all, the explusion threat had failed before in the case of the NUS, twice in fact. Thus, even supposing the union had eventually been unable to break the resistance of employers, the resulting industrial action would have been not only economically injurious to the nation, but also a telling reminder of the TUC's lack of power. If nothing else, this highlights yet again the necessary prerequisites for the survival of a voluntary pay policy in an

---

[1] IDS, Report no. 241, September 1976, pp.2-3.

institutional setting with relatively weak peak organizations. The policy must enjoy a substantial measure of public support. It must have won the general consent of the union movement. And there must be no militant bargaining group possessing a considerable degree of disruptive potential which is harbouring a major grievance over pay. Fortunately for the TUC, on this occasion the seamen were insufficiently militant and a method for resolving their alleged anomaly was discovered in time.

9.6 Assessing the Level of Compliance with Phase II

Most respondents agreed that the level of compliance during Phase II was less than under Phase I. As noted earlier, average earnings during the period August 1976 to August 1977 rose by about 8%, meaning that drift above the pay limit was about 3½%. Undoubtedly some of this was legitimate. The gradual upturn in the economy during 1977 led to an increase in average hours worked and this would have yielded a rise in average earnings, even in the absence of higher rates of pay. Besides this, some slippage occurred as a result of the exception clauses such as equal pay, new work and Schedule II.[1]

But much of the wage drift involved evasion of the guidelines. First, according to NES data, overtime rates increased by about 5.3% in the year April 1977 for full-time men and 5.1% for full-time women.[2] Since neither Phase I nor Phase II permitted such increases one can only conclude that the pay code was breached. Second, there were infringements of the £4

---

[1] The ratio of male to female earnings fell from 163.9 in 1975 to 155.2 in 1976, and to 154.2 in 1977. This indicates that while women continued to make relative gains, they were less than during Phase I. See Andrew Dean, 'Incomes Policies and Differentials', National Institute Economic Review, 85 (August 1978), p.45.

[2] Calculated from the New Earnings Survey 1977, p.A5.

pay ceiling. Brown's survey of the engineering industry in the West Midlands, for example, reveals that during Phase II a higher proportion of firms exceeded the limits than in the earlier period, and fewer firms undershot.[1] Third, as Willman's research shows, there was a tendency for bargaining groups to exploit loopholes in the pay code, such as the new work clause, in ways that had not been intended or approved by the Department of Employment.[2] Obviously it is impossible to assess the extent and magnitude of such breaches. But that they happened is irrefutable.

As with Phase I, free riding was mainly confined to the private sector. For this reason most of the relative gains made by public sector workers during the early 1970s were lost under Phases I and II. According to OECD figures, average earnings in the private sector rose by 16.5% during 1976 and by 11.1% in 1977.[3] By contrast, public sector earnings rose by 12.5% in 1976 and only 7.2% in 1977. This pattern continued during 1978, although the differences were less dramatic.

Curiously, in spite of the egalitarian bias of the policy, there was no appreciable compression of skill differentials.[4] Indeed, in the case of payment-by-results workers in engineering and chemicals, skill differentials actually widened.[5] Brown's evidence reveals some variation between plants, but lends

---

[1] William Brown, 'Engineering Wages and the Social Contract, 1975-77' p.55.

[2] Paul Willman, Fairness, Collective Bargaining and Incomes Policy, pp. 135-136.

[3] OECD, Economic Surveys: United Kingdom (Paris: February 1980),p.16.

[4] Andrew Dean, 'Incomes Policies and Differentials', pp.46-47.

[5] Ibid., p.47.

confirmation to the view that the compression of differentials, which had been pronounded in the previous two years, was not continued during Phase II.[1] What this means is that bargainers deliberately resisted a further narrowing of inter-occupational differentials and, as with Phase I, bent the rules to lessen, or more accurately, undermine the redistributive intent of the policy. Thus, unskilled workers frequently received less than the policy permitted, whilst skilled and semi-skilled workers were granted increases above the pay limit. Because of this, low-paid workers made only marginal gains in their relative pay during the mid 1970s and the egalitarian goals of Jones, Foot, and many others in the labour movement were thwarted.[2]

If the assumption that free riding was more extensive under Phase II than during the £6 policy is correct, what explanations can be offerred? To start with, there appears to have been a slight decline in employer resistance. This was the product, it seems, of the upturn in the economy, growing labour shortages in certain markets, and the easing of the price controls. Equally important, there was a weakening in the commitment to Phase II amongst union negotiators and their constituents. This is borne out by a number of surveys during 1977. An Opinion Research Centre poll commissioned by New Society in March 1977 revealed that only 36% of those interviewed believed that an incomes policy would make Britain a fairer society.[3] By contrast, 39% thought that it would not,

---

[1] William Brown, 'Engineering Wages and the Social Contract, 1975-77', p.57.

[2] See Ceri Thomas, 'Low Pay and Incomes Policy', in Chater et al. eds., Incomes Policy, p.73; and Chris Pond, 'Low Pay', in Bosanquet and Townsend, eds., Labour and Equality, pp.97-98.

[3] New Society, 28 April 1977, p.161.

while 25% were uncertain. This compared with 60% who had responded positively to the question three years earlier. Similarly, according to Willman's case study of two packaging plants, respondents were much more critical of Phase II than Phase I.[1] Of the 90 or so workers interviewed, a substantial number regarded the £6 policy as a necessary anti-inflation measure; 48% in the case of those in factory A, and 33% in the case of factory B. Against this only 16.7% of those questioned at factory A had a similar view of Phase II and an even more meagre 5.2% in factory B. Finally, all the main indicators of industrial unrest (the number of stoppages, the number of workers directly and indirectly involved, and the number of working days lost) registered significant increases during Phase II. The number of working days lost through stoppages, for example, almost trebled between 1976 and 1977 (3.5 million to 10.4 million).[2]

That this should be so is perfectly understandable. Phase II was, for all intents and purposes, less generous than its predecessor. Thus, when Willman asked his respondents what they thought of Phase II, 45% remarked that it simply did not give them enough money.[3] Had the rate of inflation decelerated as planned, the decline in real incomes would not have been great. But, as it was, the Government's inflation target was well and truly exceeded. Under the impact of escalating import prices, higher indirect taxes, lower subsidies and a sharp rise in seasonal food prices, retail prices accelerated to an annual rate of some 22% in the six months

---

[1] Paul Willman, Fairness, Collective Bargaining and Incomes Policy, pp.127-129.

[2] Annual Abstract of Statistics, 1979-80, p.172.

[3] Paul Willman, Fairness, Collective Bargaining and Incomes Policy, p.128.

to April 1977.[1] Although this declined to an annual rate of roughly 9% in the second half of the year, for 1977 as a whole the RPI rose by nearly 16%, double what had been hoped for. The net result, of course, was a very marked fall in real incomes. As table 6.1 (col. 3) shows,real earnings, on average, fell by 5.6% during 1977. Undeniably it was this loss of purchasing power which undermined support for the Social Contract and prompted repeat calls for a return to free collective bargaining.

But if falling living standard provided the main catalyst for a gradual weakening in union consent for Phase II, there were also many other contributing factors. Shop stewards and plant negotiators were becoming restive under the shackles of pay limits imposed from above. Various anomalies, some no doubt caused by the stabilization policies, were in need of correction. The fall in differentials between 1974-76 provoked unrest amongst certain categories of skilled workers. And as more and more bargaining units evaded the pay policy, so too the controls seemed increasingly unfair and the urge for other groups to defect became stronger. Willman's study, for example, reveals that the growing dissatisfaction with Phase II amongst workers in factory B arose partly because of their awareness of policy breaches by other plants in the same locality.[2]

Thus, free riding cannot be concealed for long. Once it is detected, or at least widely suspected, more and more workers, responding both to the pull of self-interest and to notions of fairness,will seek to protect their relative pay position.

---

[1] OECD, Economic Surveys: United Kingdom (Paris: March 1978), p.16.

[2] Paul Willman, Fairness, Collective Bargaining and Incomes Policy, pp.131 and 138.

Needless to say, the extent of this phenomenon during Phase II cannot be accurately determined. But that something along these lines took place is beyond dispute.

9.7 Conclusion

Despite the evidence of growing rank-and-file discontent with the Social Contract, and despite the somewhat lower level of compliance, from the narrow perspective of containing unit labour costs and moderating the rise in nominal incomes, Phase II was a major success. For a second year the growth of average earnings was virtually halved, and yet again a serious, publicly embarrassing breach of the policy limits was avoided. Certainly, there was some fudging of the rules, but such instances were relatively few. Overall, therefore, the TUC could claim with some satisfaction to have delivered its side of the bargain.

That this should be so owes a great deal to the political commitments, loyalties and tactical skills of senior union leaders. For, when all is said and done, it was they who ultimately took responsibility for accepting a second year of real-wage reductions, they who sold the policy to their conferences and executives, and they who stood firm against the attempts of unions like the NUS to ignore the rules of the game. That they were willing to do this is a remarkable testimony to their loyalty to the Labour Government, to their fear of the alternatives, and to their desire to maintain trade union solidarity in the face of a grave economic crisis. Joe Gormley summed up well the centrality of such motivations in a speech shortly after the General Council endorsed Phase II:

> We cannot be seen to be leading the labour movement to the demise of a Labour Government, thus facing either a Tory or a coalition Government that will be anti the ideals of the Labour and trade union movement. I think this was really the overriding issue that affected us.[1]

Yet if the personal, ideological and organizational connections between the two wings of the Labour Government supplied the cement for a second stabilization package, subsequent events were to strain these bonds of loyalty and friendship to the uttermost limits. It was not merely the tactics of the Government in announcing changes to the price code and cuts in public expenditure within weeks of the Special Congress which provoked suspicion and resentment. It was also the fact that in virtually every field of public policy union leaders found themselves lacking influence. Certainly ministers continued to consult the TUC leadership. But increasingly these consultations became discussions rather than negotiations. Instead, effective power lay with the Treasury and Britain's foreign creditors. Deflation and retrenchment became the order of the day.

Moreover, it was not just that short-term policy decisions were being dictated by bodies like the IMF, but that in the view of many trade union leaders, the Government's commitment to reforming British society had radically declined. The muted wording of the Liaison Committee's policy statement 'The Next Three Years', published in July 1976, provided ample evidence of this.[2] Increasingly, therefore, the Social Contract came to be regarded within the union movement, not as a charter for building a new society, but merely as an instrument for curbing the bargaining freedom of workers and reducing real wages. As such it could not survive for long.

---

[1] The Guardian, 14 May 1976.

[2] TUC - Labour Party Liaison Committee, 'The Next Three Years and the Problem of Priorities', in TUC Annual Report 1976, pp.416-424.

CHAPTER 10

THE GRADUAL BREAKDOWN OF NORMATIVE COMMITMENT FOR PAY RESTRAINT, 1977-79

... by 1977 the Social Contract conception was sick.
Michael Foot[1]

10.0 Introduction

The final two years of the Labour Government witnessed a slow, but ultimately decisive weakening in the degree of normative commitment within the union movement for a centrally coordinated policy of wage moderation. The first stage of this process of disintegration began, as we have seen, in the latter part of 1976 and continued until the autumn of 1978. During this period there was a rise in the level of both ideological and pragmatic opposition to pay restraint. A growing number of trade unionists began to question the economic, political and moral rationale for a pay policy, and more and more groups of workers, faced with a variety of pay anomalies, reduced margins for skill, tighter labour market conditions and a rise in company profitability, chose to exploit their bargaining power to achieve real and relative wage gains. In keeping with this, the majority of union conferences in the spring of 1977 rejected another pay deal, and the Government and the TUC were unable to agree upon a new set of guidelines to replace Phase II.

At the same time, despite the growing frustration with incomes policies, support for the Labour Government, most

---

[1] 'A Contract for the 1980s'. Speech delivered to the Royal Institute of Public Administration, Cardiff, 29 October 1982, p.9.

notably at senior levels within the union movement, remained firm. Trade union leaders had no intention of allowing the Callaghan Government to fall and thereby letting Mrs. Thatcher reap the harvest of the previous years of sacrifice and the rising inflow of North Sea oil. Consequently, the TUC adopted a generally acquiescent stance in response to the Government's efforts to enforce a 10% pay limit during the 1977-78 wage round. In short, union leaders tried to ensure that pace setters, such as the local authority manual workers and Ford workers, did not settle too much beyond the 10% earnings target. They offered no moral or financial support to unions which deliberately sought to violate the Government's guidelines. And they continued to remind their members and local negotiators of the harm that could be done by another free-for-all like that of 1974-75. By adopting such tactics, union leaders greatly assisted the Government in moderating real-wage expectations, containing the growth of nominal incomes and preventing a potentially damaging confrontation with a major industrial union. As a result, there was no full-scale, ideologically motivated assault on the Government's pay policy. Instead, opposition was confined, for the most part, to sporadic, generally short-lived outbursts based upon narrow, self-interested goals.

But if the TUC refused to lead, and thereby prevented a coordinated attack on Phase III, they met with much less success the following year. During this, the second phase of the breakdown of normative commitment for pay moderation, opposition became both more widespread and more intense. Within Parliament the Government was defeated on its policy of imposing economic sanctions against firms which broke the pay code. Outside

Parliament a series of strikes in key sectors of the economy led to pay settlements well above the new 5% target. Ford workers, for example, secured pay increases averaging 17%. Such developments destroyed the credibility of the 5% policy and generated widespread demands, especially on the part of low-paid, public sector workers, for large cash increases. Unable, and in some cases unwilling, to exercise a restraining influence, union leaders were forced to watch as one group after another challenged and finally broke the pay policy. By the spring of 1979, therefore, nominal incomes were growing at a rate almost double that originally hoped for. Against this background of popular discontent, and with price inflation accelerating, the Government lost a crucial motion of no-confidence in the Commons. So ended the premiership of James Callaghan and five years of Labour rule.

In the context of British pay policies, the gradual breakdown and then collapse of the Social Contract was by no means unusual. Similar developments had occurred in 1949-50, 1969-70 and 1973-74. What was surprising, however, was that the breakdown did not come sooner. This chapter explores the efforts of the Labour Government and the TUC to maintain support for pay restraint, to thwart opposition, and to prevent an unacceptable level of free riding, particularly amongst important trend-setting unions and bargaining groups. Why this strategy proved reasonably successful in 1977-78 and yet failed in the winter of 1978-79 will provide the main focus for this inquiry.

10.1 Towards Phase III

Long before the end of 1976 the Government, the TUC, the CBI and a variety of other agencies were pondering the problem of finding a workable policy to replace Phase II. It was universally accepted that such a task would be extremely difficult. Originally, some ministers had hoped that the TUC would accept a Phase III deal. At the minimum this would require an agreed wage norm or earnings target, together with a set of bargaining priorities and some mechanisms for dealing with anomalies and exceptions. The norm would obviously be negotiable, but would have to be low if the target of single figure inflation was to be met by the end of 1977. Healey, for one, was under no illusions that the Government would have, as he put it, 'a hell of a time' securing an agreement.[1] However, despite the scepticism of many of his colleagues, he remained optimistic until the very end that a settlement would be forthcoming. In his view, there simply had to be another pay deal. Without it Britain could face a 'catastrophe'.[2] As early as November 1976, therefore, he talked of giving tax concessions in exchange for a satisfactory pay agreement, and spoke of the necessity for a firm, explicit policy, rather than some vague, implicit understanding.[3]

Healey's views were echoed in subsequent months by many other ministers including Callaghan, Booth and Barnett.[4] Again

---

[1] The Guardian, 5 May 1977.

[2] The Times, 19 February 1977.

[3] The Times, 1 December 1976; and IDS, Report No. 247, December 1976, p.2.

[4] See for instance The Guardian, 18 February 1977; The Times, 6 April 1977; The Financial Times, 23 April 1977.

and again it was emphasised that a further pay deal was absolutely essential; that it would be better to have a slight decrease in living standards than a large rise in unemployment; and that the Government was not prepared to countenance a return to free collective bargaining. If there was any suggestion of a threat entering ministerial pleas for continuing pay moderation, it was that without it the Government might be forced to resign. David Steel, the Liberal leader, had made it plain early in 1977 that the Lib-Lab Pact was contingent upon an effective pay policy. Should a Phase III deal fail to materialise, therefore, it was likely that the Liberals would withdraw their support for the Labour Government. And once this happened, there was the ever present prospect of a Parliamentary defeat. Thus, it was not just for economic reasons that ministers sought the TUC's cooperation: their future might well depend on it.

On the whole, union leaders were united on two issues: the need for greater flexibility during the next round and their absolute rejection of a further fall in living standards. Apart from that they were sharply divided. Some, like Clive Jenkins and Ken Gill, wanted unfettered collective bargaining. This meant the abandonment of the twelve-month rule, no wage norm or earnings target, and the withdrawal of the Government and the TUC as pay policemen. Unions would be free to bargain for whatever they could get. While relatively few senior union leaders held this view, it was widely shared by shop stewards and union activists - as was to become apparent during the conference season in the spring and early summer of 1977.

A second approach, and the one which was eventually to prove dominant, rejected both the idea of another formal deal with the Government and also the complete absence of restraints. According to this view, which was held by such leaders as Jones, Scanlon and Chapple, the twelve-month rule should be maintained and unions should adopt the bargaining priorities agreed upon by the 1976 TUC conference. While the TUC could not explicitly endorse a pay norm, it would not necessarily oppose any guidelines which the Government might choose to introduce. The stance would thus be one of acquiescence, or 'passive non-resistance', as Lawrence Daly later called it.[1] The rationale behind this approach was two-fold. First, union leaders questioned whether the Government would be willing to offer any meaningful concessions, most notably in the vital areas of wealth redistribution, trade policy, industry policy and macro-economic policy. Yet, without such quid pro quos, and particularly a more expansionary monetary and fiscal stance, it would be impossible to sell another pay policy. Second, they doubted their capacity to deliver compliance for any future deal. As Jones remarked at the STUC in April:

> One thing is clear, it would not be fair to anyone to work out some so-called Phase Three policy which would not work. Solemn and binding assurances which melted away like butter in the sun would only serve to undermine the trade unions themselves as well as the Government.[2]

---

[1] The Economist, 8 July 1978, p.8.

[2] The Financial Times, 18 April 1977.

A final school of thought accepted the case for an orderly return to free collective bargaining, but contended that this was compatible with another deal with the Government. Such an agreement would obviously be contingent upon certain governmental concessions of which a reflationary economic policy would be central. In return, the TUC would endorse a pay guideline for the next wage round, so long as it was not interpreted as a rigid maximum, and provided there was scope for restoring differentials and upgrading incentive schemes. Supporters of a Phase III deal of this kind included most of those normally in favour of incomes policies, such as Tom Jackson, Sid Weighell and Geoffrey Drain, together with one or two rather surprising converts. Alan Fisher, for example, having opposed the £6 policy, now came to the defence of Healey and the union moderates. Fearing that a return to collective bargaining would produce a free-for-all in which the members of his union (mainly low-paid public sector workers) would inevitably fall behind, he appealed to his fellow union leaders to wait and see what the Government would offer before committing themselves to oppose a further year of restraint. As he declared in March: 'There has got to be a continuing incomes policy of some sort.'[1]

The picture, then, on the eve of the 1977 conference season and the spring Budget was one of division and uncertainty. Officially the TUC was committed to an end to formal incomes policies. Yet there was also a lot of talk, often vague and unspecific, about the need for continuing restraint. Some union leaders, including Lord Allen, Len Murray and David Basnett, even seemed to be suggesting that the question was not

---

[1] The Daily Telegraph, 21 March 1977.

whether there would be a Phase III, but what minimum conditions the Government would have to fulfil to secure TUC consent for a new policy. For instance, Len Murray commented towards the end of January:

> I am sure that the General Council will be insisting that an explicit target for a reduction in unemployment must be made part of any new deal with the Government.[1]

Events during the spring provided little encouragement for the pro-incomes policy faction within the TUC. Spurred on by the rise in unemployment, the expenditure cuts, accelerating inflation and the decline in living standards, left-wing union leaders and shop stewards, together with Marxist organizations such as the Liaison Committee for the Defence of Trade Unions, the Socialist Workers' Party, The Right to Work Campaign and the Communist Party, mounted a sustained attack upon the Social Contract. Mass protest meetings were held in large industrial enterprises like BL and Ford. Conferences were organised in various parts of the country to coordinate opposition to a Phase III deal. And a nationwide day of action was called for 20 April. This latter event was hardly a success. Almost every factory in the country kept working, including most of BL's plants where the strike idea had originated. Moreover, the mass lobby on Parliament attracted only 3000 marchers.[2] Nevertheless, the campaign drew a great deal of media publicity and indicated that, even though there was still a reluctance on the part of the vast majority of workers to openly challenge the Social Contract, there was sufficient discontent in certain key sectors of manufacturing industry to make a Phase III deal

---

[1] The Financial Times, 26 January 1977.

[2] See The Economist, 23 April 1977, p.115; and Derek Robinson, 'Leyland Workers and The Social Contract', Labour Monthly, 59 (April 1977), pp.156-7.

extremely difficult to implement. Moreover, it was becoming increasingly clear that the supporters of incomes policy had lost the initiative. There were no campaigns, marches or meetings to back the Social Contract, and even at the highest levels within the TUC, moderate leaders made little effort to develop a coordinated strategy to secure a new pay deal.

Nor did the actions of the Government, or lack of them, assist in creating favourable conditions for the negotiation of a Phase III. By the spring it was evident that the Cabinet's enthusiasm for union appointed worker-directors - as sought by Jones for almost a decade, and as recommended by the Committee of Inquiry on Industrial Democracy under the chairmanship of Lord Bullock (which reported in late January 1977) - was waning in the face of trenchant managerial resistance, widespread public criticism and left-wing union opposition.[1]

In February major modifications to the Price Code were announced ending the cost-based price controls and the requirement for companies to supply the Price Commission with details about wage costs.[2] More importantly, the March Budget was less generous than union leaders had hoped for. As in 1976 Healey announced a package of conditional and unconditional tax reduction. The unconditional relief consisted of a rise in personal income tax allowances. This would free some 850,000 of the lowest paid people from paying taxes and was estimated to cost nearly £1 billion.[3] As well as this, tax-band rates

---

[1] For a comprehensive analysis of the debate on industrial democracy in the labour movement during the mid 1970s and the findings of the Bullock Committee see John Elliott, Conflict or Co-operation? The Growth of Industrial Democracy (London: Rogan Page, 1978), esp. pp.205-263.

[2] The Financial Times, 23 February 1977.

[3] OECD, Economic Surveys: United Kingdom (Paris: March 1978), p.27.

were raised in order to reduce the impact of fiscal drag on higher income groups. The conditional tax relief, which depended on the continuation of a voluntary incomes policy, consisted of a 2 pence cut in the basic income tax rate from 35 pence to 33 pence in the pound. In a full year this was expected to cost almost £1 billion and would benefit the vast majority of trade unionists. Collectively, these measures were equivalent to a 4-4½% increase in gross average earnings or about a 2½% rise in net average earnings.[1]

On the negative side, indirect taxes on a range of products, such as tobacco and petrol, were raised thereby increasing the Government's revenue by some £800 million and adding about 1 percentage point to the RPI.[2] Public investment was expected to fall by about 6% in real terms, and with the exception of certain categories of welfare expenditure, all areas of public spending would experience cuts in the coming financial year. To a large extent these revenue announcements merely ratified the decisions already taken in the previous December at the time of the IMF negotiations. But this did little to console or appease the TUC.

Whatever the impact of the Budget on leadership attitudes, the most significant influence on the future of pay policy was undoubtedly the outcome of the union conference season. Dominating the debate at most conferences was the conflict between those who favoured a 'planned' or 'orderly' return to free collective bargaining which implied, at a minimum, the maintenance of the twelve-month rule, and those who rejected

---

[1] OECD, Economic Surveys: United Kingdom (Paris: March 1978), p.27.

[2] Ibid., p.27.

all restraints on bargaining. The rallying cry here was so-called 'unfettered' collective bargaining. Initially, the moderates appeared to be in the ascendancy. As expected, the USDAW, the UPW, and the ISTC, and later the GMWU and the NUR, all voted in favour of a 'planned' return. Then, more surprisingly, other groups such as the teachers, the journalists and the bank clerks also backed the moderate view. However, the tide turned in early May at the Conference of the National Committee of the Engineering Section of the AUEW in Eastbourne.

Scanlon had been aware for many months before the conference that it would be difficult, if not impossible, to repeat the favourable votes of the previous two years. As early as January it had become evident that several middle-of-the-road divisions, most notably Tyneside and Teeside, would switch sides.[1] This alone would turn the 29:22 result of May 1976 into a 25:26 loss for those wanting continued restraint and the outcome would be even worse should other areas like West Yorkshire also alter their position. Fearing defeat, Scanlon initially tried to persuade conference delegates to delay making a final decision until late June or early July by which time they should be in a position to assess the Government's offer and the progress of the negotiations between ministers and the TUC. But after a highly-charged, day-long debate it became apparent that the supporters of a Phase III deal were outnumbered. Speaker after speaker referred to the disenchantment of the rank-and-file and the widespread demands for a restoration of differentials. Moreover, the four delegates from Tyneside and Teeside refused to switch their

---

[1] The Guardian, 21 January 1977.

votes. Thus, with defeat in sight the moderates decided to cut their losses and support a resolution which, although demanding a return to free collective bargaining in August, also guaranteed that the national committee would be recalled to review the position if the Government-TUC negotiations proved successful.[1] In this way the moderates hoped to reverse the AUEW's stance should the Government come up with an attractive Phase III offer. This was not to be.

The final nail in the coffin of a formal Phase III deal came in the first week of July when the miners and the TGWU almost simultaneously rejected the idea of further pay moderation. The miners' vote had not been unexpected. Earlier in the year at the Nottinghamshire Area Annual Conference Gormley had declared:

> Even if I were inclined to sell an extension of the Social Contract - and I am not - I have no doubt that my members would reject it ... Our members are fed up because the Social Contract has not cut unemployment, it has not held down prices, we still don't have proper controls over imports - in fact we have not received our part of the bargain.[2]

At the same time, Gormley and his moderate colleagues on the NEC were determined to avoid a free-for-all when Phase II ended. To this end they tried to get the annual conference to endorse both a mild, non-specific resolution on pay - which would leave the NEC with a degree of discretion in their negotiations with the Coal Board - and the idea of a national productivity deal.[3] This would ensure that the miners received substantial

---

[1] The Times, 4 May 1977.

[2] The Miner, February-March 1977, p.1.

[3] At its meeting on 22 July, the General Council of the TUC had agreed that self-financing productivity agreements could be exempted from the twelve-month rule.

cash increases,while simultaneously relieving pressure for a large rise in basic rates (which other unions would doubtless seek to emulate) and helping to improve coal production (which had stagnated in recent years).

As matters transpired the strategy was only partially successful. On the one hand,the moderates managed to defeat, albeit narrowly, an attempt by Yorkshire to insert the word 'demand' in a Nottingham resolution calling for £135 per week for the highest grade of underground workers. On the other hand,delegates voted by 137 to 134 to reject a motion calling for a meaningful incentive scheme,and by an identical majority reaffirmed the results of the 1974 pithead ballot which had come out against such arrangements.[1] Unless this verdict could be altered later in the year, perhaps by resort to another membership ballot, there were bound to be demands for a big rise in basic rates when the next pay increase fell due in March 1977. Any new pay deal would thus encounter major difficulties.

This negative assessment was confirmed the next day (6 July) at the Biennial Delegate Conference of the TGWU in the Isle of Man. Two composite resolutions on wages policy were placed before delegates. The first, motion 1A, was backed by the executive and sought an 'orderly return' to free collective bargaining in the context of the bargaining priorities laid down at the TUC conference in September 1976. The alternative, motion 1B, declared bluntly:

> the constraints placed upon union negotiators during recent years have failed to solve the basic problems facing the country. The undue emphasis placed upon wage levels as being a major source of inflationary pressure has now been totally disproved and continued adherence

---

[1] The Financial Times, 6 July 1977.

> to present policies will only aggravate the chronic crisis of unemployment. Conference calls for a return to unfettered collective bargaining from August 1, 1977...[1]

Jones launched a major assault on this motion claiming that if it were passed by the conference it could mean an end to the Labour Government and a certain victory for Thatcher. As he put it:

> You will put back the mighty in their seats and kick people of low degree in the teeth. That is the danger.[2]

Furthermore, he strongly criticized those who disputed the benefits of the Social Contract and pointed out that acceptance of motion 1B would be in breach of the agreement under Phase II to uphold the twelve-month rule:

> The issue before the Conference is whether we maintain our word as a trade union - a word given by the full General Executive Council: the word given by a delegation of the Transport Union - almost all rank-and-file members - at the TUC when they met to decide the second phase of the pay policy.[3]

Such arguments cut little ice with left-wingers. In their estimation the Social Contract had been a tragic mistake. It was supposed to have reduced inflation. Yet the RPI was still rising by over 17%. It was originally designed to preserve real incomes. Yet living standards had been cut by an amount unprecedented since the war. It had been presented by the Government and the TUC as an alternative to unemployment and a reduction in the social wage. But unemployment had reached a post-war record,and the social wage had recently been cut - and, what is more, cut at the direction of international money lenders. Now the Government was saying that despite such failures,

---

[1] The Record, August 1977, p.2.

[2] Ibid., p.3.

[3] Ibid., p.4.

wage restraint must continue. Yet all the while it was removing price controls, increasing indirect taxes and allowing company profits to grow. For many, therefore, the discrepancy between claim and reality, between promise and performance, and between expectation and result, had grown too wide to bridge. Since ministers, it was claimed, had not delivered their side of the bargain, they could not expect the unions to go on granting them loyal and unconditional support. It was time to end any formal agreements and restore bargaining freedoms. Such were the arguments from the left; arguments which had been repeated again and again at union conferences up and down the country in the preceding months. On this occasion, as on many others, they proved compelling. The 1000 delegates voted by a margin of three-to-one to reject motion 1A and support instead the call for unfettered collective bargaining.[1]

For Jones the outcome of the long debate was a humiliating blow. Rarely had General Secretaries of the TGWU been defeated on such a central issue by the BDC, and rarely had delegates been so enthusiastic about doing so. In some respects the vote was ironical. During his nine years as leader of the TGWU, Jones had encouraged the devolution of bargaining responsibilities within the union and had sought to increase lay participation in bargaining.[2] The effect of this had been to reduce the control of the union's full-time officials, and indeed the influence of the General Secretary, over pay

---

[1] For a summary of the debate, see The Record, August 1977, pp.2-3; and The Economist, 9 July 1977, p.97.

[2] Roger Undy, 'The Devolution of Bargaining Levels and Responsibilities in the Transport and General Workers Union 1965-75', Industrial Relations Journal, 9 (Autumn 1978), p.56.

determination and give a growing number of union members a vested interest in the maintenance of a system of free collective bargaining. While lay negotiators could be prevailed upon to abide by centrally imposed restraints for short periods, it was doubtful that they would accept a permanent reduction in their bargaining rights, even for the sake of a Labour Government, and even if it could be demonstrated that the collective interest was best served by the centralized coordination of pay fixing. To some extent, then, Jones' defeat can be seen as a consequence of the sponsorship which he had previously given to local bargaining.

Of course, structural changes of this nature were not the only, or even the main factor involved. Far more important was the general disillusionment of delegates with the Social Contract. It simply had not lived up to expectations. Moreover, the defenders of the Social Contract had the worst of both worlds. With the economic crisis having passed, with output and profitability improving, with the exchange rate rising gradually against most major currencies, and with the Lib-Lab Pact having removed any immediate threat to Labour's survival, there was no longer any obvious need for continued wage discipline. At the same time, the full impact of the fall in sterling, in terms of higher domestic inflation and reduced living standards, happened to coincide with the union conference season. All in all, the circumstances were hardly conducive for convincing union activists of the benefits of the Social Contract or of the desirability of a Phase III deal.

Had sterling not experienced such a dramatic devaluation during 1976 and had economic conditions been more favourable in the spring and summer of 1977 there would probably have been

more support for a new pay policy. After all, if the failures of economic policy had been less blatant there would have been less popular dissatisfaction. This would have reduced the influence of those ideologically opposed to the Government and probably tipped the balance of opinion in some unions in favour of continued restraint. Also, if economic outcomes had been more in line with the original targets and if the Government had not been forced into the hands of the IMF, ministers would have had more scope for granting tax concessions and other quid pro quos. This being so, the opportunities for bargaining - and thereby the chances of finding a compromise formula - would have been greatly enhanced.

As it was, once the AUEW, the NUM and the TGWU had categorically rejected a wages policy there was nothing much left to negotiate about. The talks between ministers and TUC leaders, which had been in progress since the Budget, continued in the week after the TGWU conference, but bore little fruit. Reluctantly, ministers concluded that they would have to go it alone, trusting that the TUC would either recognise the Government's pay guidelines, or at least offer no formal resistance. As Callaghan readily acknowledged, the Government was embarking on a 'high-risk' strategy.[1] There was, in his estimation, only a 50% chance of success. But effectively there was no alternative.

10.2 The Phase III Guidelines and The TUC Response

Of what did this 'high-risk' strategy consist? The new policy, as enunciated by Healey in the Commons on 15 July and set out five days later in a Government White Paper The Attack on Inflation after 31st July 1977, contained the following

---

[1] Joel Barnett, Inside the Treasury, p.135.

elements.[1] The Government recognized that restraint would depend in part on assuring negotiators that their acceptance of moderate pay settlements would not undermine their members' real disposable incomes and would not be taken advantage of by maverick unions.[2] This meant that the expectation (and reality) of widespread free riding had to be avoided, that the main trend-setting awards in the public and private sectors were settled within tolerable limits, that there were very few special cases, and that there were legitimate means for certain groups of workers to receive additional cash increases without increasing basic rates excessively. To this end the Government declared its intention of limiting the rise in average earnings to 10%. This, as we have already noted, implied that increases in basic rates would have to be well within single figures to make allowance for the consolidation of the Phase I and II supplements, to give scope for the restoration of skill differentials, and to allow the resolution of any pay anomalies which had arisen during the preceding few years.[3]

Two main strategies were adopted in an effort to curb free riding. First, the Government sought to reduce pressure for substantial increases in basic rates by permitting self-financing productivity schemes and occupational pension schemes. Ministers were under no illusions that this would produce numerous bogus productivity deals. However, it was thought

---

[1] The Attack on Inflation after 31st July 1977 Cmnd. 6882, July 1977.

[2] Ibid., p.4.

[3] In practice the 10% ceiling came to mean that wage rates, rather than earnings could not rise more than 10%.

preferable to have slippage occurring in this manner rather than by means of large rises in basic rates. Second, Healey announced that sanctions would be imposed against firms which broke the guidelines. For example, companies which ignored the twelve-month rule or which granted excessive pay increases would have their statutory profit-margin ceilings reduced by the amount of the offending settlement. As well as these penalties applied under the Price Code, the Government warned companies that it would take compliance with the pay policy into account in determining public purchasing policy, in the placing of contracts, and in the granting of industrial assistance.[1] Whilst selective disincentives of this kind were not expected to prevent infringements of the policy, especially in capital intensive industries, they were thought likely to strengthen employers' resistance to excessive pay claims.

Notwithstanding the failure to reach a Phase III agreement, Healey decided to implement, with several modifications, both the conditional and unconditional tax concessions offered in the Budget. The conditional 2 pence cut in the basic tax rate was limited to 1 pence in the pound, but personal allowances were raised substantially more than had been originally proposed. Thus, overall, the total amount of tax relief remained virtually unchanged. In addition to these measures, Healey assured the TUC that if prices rose by more than had been anticipated, thereby jeopardizing living standards, he would consider fiscal action to remedy the situation.[2] As a final concession to the TUC it was decided to retain the 10% limit on dividend controls and the controls over profit margins until July 1978.

---

[1] The Attack on Inflation after 31st July 1977, p.4.

[2] The Financial Times, 16 July 1977.

The 10% policy won a mixed reception from union leaders. The TUC Economic Committee issued a somewhat ambiguous statement after their meeting on 19 July. On the one hand, the statement declared: 'It would not be consistent ... to attempt to give either general or specific guidance on the level of pay settlements.'[1] On the other hand, the committee instructed members to abide by the twelve-month rule, urged negotiators who had yet to settle under Phase II to do so, and warned of the dangers of trying to restore living standards immediately to the level attained in 1974-75.[2] Instead, the committee recommended that unions adopt a forward-looking rather than a backward-looking bargaining stance: the aim was to maintain real disposable incomes, not to make up lost ground.

Although both the Economic Committee and the General Council gave their full support to the twelve-month rule, there still remained some uncertainty about whether the TUC conference in September would do likewise, and whether, even if it did, it would be possible to prevent a serious breach by industries with acute industrial relations difficulties such as BL. As it stood, almost all the main left-wing unions, together with the TGWU, were opposed to the twelve-month rule. This gave the opponents almost 4½ million votes. Consequently, if they could secure the support of the AUEW engineering section with its 1.2 million votes and several other small unions they could carry the day.

---

[1] The Guardian, 20 July 1977.

[2] IDS, Report No. 261, July 1977, p.1.

Strong pressure was thus brought to bear on Scanlon to cast his delegation's votes against the twelve-month rule. However, Scanlon stood firm. In his view the rule was essential. Without it there was the danger of another wage explosion and the fall of the Labour Government. What is more, from Scanlon's perspective his union's decision to support Phase II implied a commitment to keep the twelve-month rule in force until August 1978 when the last of the Phase II contracts would expire. Therefore, in spite of the national committee's recent call for unfettered collective bargaining, and in spite of protests by many members of his delegation, he decided to cast his union's votes in favour of the twelve-month rule.[1] As a result,the moderates won the TUC vote by a substantial majority - 7.13 million to 4.34 million.[2] For the time being, then, the twelve-month rule would stand.

10.2 The 1977-78 Wage Round

Forecasts of the rise in average earnings during the new wage round varied considerably. Healey, for one, remained an optimist. In his estimation, even allowing for some drift in the private sector and one or two special cases, it should be possible to keep the growth of earnings down to between 12-14%.[3] Independent analysts took a more sceptical approach. For instance, the stockbroker firm, Phillips and Drew, advised union leaders at Ford to expect average earnings to increase by between 15-20% (most likely 17½%).[4] As matters transpired,

---

[1] For an account of the battles within the AUEW over Scanlon's action see The Times, 8 September 1977; The Economist, 20 August 1977, p.82; and The Economist, 10 September 1977, p.19.

[2] For an account of the conference debate on the issue see TUC Annual Conference 1977, pp.457-486.

[3] Joel Barnett, Inside the Treasury, p.135.

[4] The Financial Times, 18 July 1977.

Healey proved most of the sceptics wrong. According to the new earning survey (seasonally unadjusted), average earnings rose by 14.2% in the year ending July 1978, 13.9% to August and 13.3% to December.[1] Such results could hardly be interpreted as a triumph for the Government's economic strategy. After all, earnings rose by 4% more than the original target and unit labour costs increased by 12%, which was significantly higher than Britain's main competitors. Nevertheless, the much feared wage explosion had been avoided. Why was this?

To start with, opinion polls throughout Phase III recorded a consistently high level of public support for the Government's 10% limit and only minimal backing for groups, such as the firemen and miners, who challenged (or were thought likely to challenge) the guidelines.[2] Second, despite the rise in strike activity during 1977-78, and notwithstanding serious industrial relations problems in particular industries, the pressure from below was less intense than some had expected. Whether this was due to the continual exhortation for restraint by ministers and senior trade union leaders, or the memory of 1974-75, or the belief that 10% was a fair norm, or a recognition of the nation's continuing economic difficulties, or the absence of any successful and politically damaging breach of the policy in the early months of the new round, is impossible to say. No doubt all these factors influenced

---

[1] Department of Employment Gazette, 87 (November 1979), p.1195.

[2] According to an Opinion Research Centre poll in November, 81% of those interviewed were opposed to the miners receiving special treatment, and 87% thought that everyone should support Callaghan's fight against inflation (The Guardian 10 November 1977). In another poll, a month later, 70% said that the firemen should accept the 10% limit (The Economist, 10 December 1977, p.86).

public perceptions and attitudes in some measure. What is fairly clear, however, is that barring one or two notable exceptions, rank-and-file union members seemed satisfied to settle within or only marginally outside the guidelines and were in no mood for protracted industrial action. This was graphically illustrated when,in October,manual workers at Ford overwhelmingly accepted a pay deal giving average increases of 11.8% and when,in April the following year,power workers voted (albeit by a slim margin) to accept a 10% rise in basic rates plus a productivity scheme.

If rank-and-file workers were not inclined to fight the guidelines, neither were the union leadership. And even in those instances where the membership showed considerable militancy, such as in the case of the firemen, they received no encouragement or support from the TUC. Indeed, the firemen's dispute furnishes an excellent example of the extent to which the TUC tacitly underwrote the Government's pay policy.

Early in the new round the Fire Brigades' Union (FBU) submitted a 30% claim based on a report of a joint working party set up under the auspices of the National Joint Council for the Fire Service to establish a new basis for the determination of firemen's pay. The working party, chaired by Lord McCarthy, had concluded that since firemen had no obvious reference group, their rates should be based on 'the generality of jobs in the community'.[1] Employing this decision to their advantage, the union put in a claim which would give them 10% more than national average weekly earnings of £78.60. In due course, both the local authorities responsible for employing firemen and the Government rejected the claim. In response the FBU

---

[1] The Economist, 12 November 1977, p.85.

executive called a national delegate conference in Eastbourne to consider the situation, and this in turn voted by a substantial majority to declare a nation-wide strike.

From the beginning, the strike seemed unlikely to succeed. The Government made it plain that it would stick to the 10% maximum. Public support for the firemen was limited. The Fire Fighters' Union, representing 12,000 volunteer fire fighters, and the Fire Officers' Union opposed the strike. And the army was able to mount a reasonably satisfactory emergency service to replace the strikers. In these circumstances the FBU appealed to the TUC for support, but none was forthcoming. Both the Finance and General Purposes Committee and the General Council refused to organize a campaign, either against the 10% policy in general, or in favour of the firemen in particular.[1] The reason was straightforward: the majority of TUC leaders simply did not want to place themselves in the position of openly defying the Labour Government. Naturally, many left-wingers on the General Council thought differently. In their view the 10% limit was unnecessary and unjust, and strategically it made sense to harness the firemen's militancy as a battering ram against the pay policy. But in the end they were unable to carry the day.

Abandoned by TUC and having been on strike for some two months, the firemen finally acknowledged defeat and accepted a compromise settlement offered by the Government. Under this

---

[1] The General Council vote on 21 December 1977 was very close: 20 against supporting the firemen, 17 in favour. For details of the dispute and the TUC role see The Economist, 12 November 1977, p.85; 10 December 1977, p.88; 14 January 1978, p.88.

they would receive a 10% rise backdated to November 1977 and the guarantee of further increases in November 1978, regardless of the incomes policy limits in force at that time. Thus, the firemen joined a small but growing list of public sector groups (policemen, doctors and dentists, the armed services and air traffic controllers' assistants) to whom the Govenment had made forward commitments of one kind or another in order to secure compliance with the 10% limit. Whilst such tactics helped restrain public sector pay in the short run they obviously carried dangers. Before long other groups would be demanding similar treatment and eventually the promises would have to be kept; which meant there would be groups receiving amounts well in excess of any Phase IV guidelines. This being said, the Government was much more successful in controlling the number of exceptions than it had been in 1974-75. Altogether only a small percentage of public servants were granted special treatment.

In short, a host of factors combined to restrain the growth of nominal wages during the 1977-78 round. Public support for the pay policy meant that those groups attempting to free ride were viewed as cheats, rather than as heroes. The lack of rank-and-file militancy meant that few groups of workers were prepared to follow their more radical shop stewards into battle with the Government. The confirmation of the twelve-month rule by the TUC Conference, and its rigorous enforcement by the General Council, helped to keep a number of groups in check and reduced fears of another free-for-all. The unwillingness of union leaders to sanction opposition to the 10% limit assisted in preventing a major policy breach, as did the tactical skill of moderate leaders

in unions like the NUM who managed to get their members to accept productivity schemes in place of big increases in basic rates.[1] And ministers, by diverting potential free riders into the productivity escape-hatch, by their flexible use of economic sanctions, by their constant resort to moral suasion, by their guarantee to preserve real incomes, and by their preparedness to grant certain groups special case status, managed to buy-off powerful groups, while also keeping the growth of earnings in check. Had the pressure from below been greater or the balance of opinion within the TUC more skewed in favour of unfettered collective bargaining, such a strategy would not have been so successful. The truth of this was to become apparent all too soon.

10.3 The Decision to Attempt a Phase IV

By the early summer of 1978 the fortunes of the Labour Government had greatly improved. Inflation had fallen to its lowest level since 1972 - just over 8% - and was expected to remain at about this level for at least six months. Output was expanding, spurred on by the growing inflow of North Sea oil. Unemployment, having peaked at 5.9% of the workforce in late 1977, had begun to fall, and by the end of 1978 was down to about 5.4%.[2] Phase III, despite many predictions to the contrary, had been relatively trouble free. And public opinion polls showed that Labour had recovered most of the ground it had lost to the Conservatives since 1975. The

---

[1] For details of the controversy over the union's productivity scheme during the autumn of 1977 see The Sunday Times, 6 November 1977, p.17; The Economist, 10 December 1977, p.86; Tony Hall, King Coal, pp.233-238; and Joe Gormley, Battered Cherub, pp.148-153.

[2] OECD, Economic Surveys: United Kingdom (Paris: March 1979), p.11.

key political question facing the Government, therefore, was when to hold the next general election.

Most outside observers expected Callaghan to capitalize on the improved economic situation and to call an election in the autumn. Above all this would avoid the risk of a poltically damaging confrontation with the union movement during any Phase IV policy which the Government might seek to enforce. But to almost everyone's astonishment, and much to the consternation of union leaders, Callaghan decided to postpone an election until 1979. There were a number of reasons for this.[1] The party's finances and organization were in poor shape. The economic outlook was reasonably promising. Callaghan believed he could get inflation even lower and thought that this would be electorally popular. Furthermore, he assumed that the unions would cooperate with another pay policy and that he could secure the support of sufficient MPs from the Liberal Party and the other minor parties to survive a motion of no-confidence in the Commons. In the event, both assumptions proved false.

Long before Callaghan made his fateful decision in September 1978 to postpone an election, the Government had debated, decided, and begun to implement Phase IV. Discussions with the TUC on what should replace the 10% limit, when it expired at the end of July, started shortly after the April Budget and continued for several months. But little progress was made. As in the previous year, trade union leaders recognized that they were in no position to guarantee compliance

---

[1] For an examination of the arguments for and against an early election see David Butler and Dennis Kavanagh, The British General Election of 1979, pp.43-44.

with any new policy. Equally, the Government calculated that it had nothing to gain by offering significant concessions with respect to macro-economic, trade, or industry policy. So as in 1977 it soon became evident that ministers would have to act unilaterally and trust that TUC passivity and acquiescence would see them through. Clearly this would be a gamble. No British Government had managed to get a Phase IV to stick before. Yet with the exception of one or two left-wingers like Stan Orme and Tony Benn, ministers were agreed that there was no alternative, election or no election.[1]

The main issue to be determined was the size of the new norm or pay limit. Views on this matter differed sharply. Callaghan, supported by his economic ministers, was adamant that the country must restore its competitiveness and that inflation must be reduced to at least 5% during 1979. This meant - allowing for improved productivity and assuming no supply shocks - that earnings would have to be kept down to about 8-9%; and this in turn would require a very low norm of 4 or 5%.[2] While few questioned the political or economic rationale for reducing inflation, many of Callaghan's close advisers doubted the wisdom of a norm as low as 5%. For, regardless of the logic of such a low figure, it would be quite unacceptable to the vast majority of union leaders, including those who favoured an incomes policy. Now that the economic crisis had passed and the economy was growing again, no trade union negotiator worth his salt would agree to a wage

---

[1] For an account of the Cabinet debate on the issue see Joel Barnett, Inside the Treasury, pp.162-163.

[2] Initially a norm of 4% was considered, but it was eventually concluded that this would be too low.

increase below the current rate of inflation. Hence, if the Government was to avoid a major confrontation with the unions, the pay limit would have to be higher, perhaps 7-8% - in line with inflation. Anything lower than this, it was feared, would be counter-productive.

But despite the vigour with which such arguments were put, Callaghan, Healey and other senior ministers remained unconvinced. They were determined to beat inflation and nothing would deflect them from this course. What is more, when the decision on the size of the pay limit was taken in July, most ministers assumed that there would be an autumn election. For this reason a 5% limit had yet another rationale: it would deter unions from bargaining and engaging in strikes until after the election. Thus, with any luck the Government could look forward to a strike-free election campaign. Should the party win the election, then the pay policy could be re-assessed in the light of the new Parliamentary situation. On the strength of such considerations the 5% norm was accepted by the Cabinet with only limited dissent. The new pay policy was announced in the Commons by the Chancellor on 21 July 1978.[1]

It its broad conception Phase IV differed little from its predecessor. The twelve-month rule was continued. There was a productivity escape-hatch. The dividend controls were extended for an additional year and the norm was to be applied universally. Enforcement would rely on cash limits and a tough governmental bargaining stance in the public sector, and various discretionary sanctions in the private sector. Apart from some tightening of the productivity clause, the only major change

---

[1]The new policy was set out in a White Paper Winning the Battle Against Inflation Cmnd. 7293, July, 1978.

from Phase III was the inclusion of an exception clause for low-paid workers. Such a provision had been excluded from the previous policy largely because both the TUC and the Chancellor considered it prudent to allow some widening of skill differentials. Now, however, with skilled employees less vociferous than in 1977, with the economy expanding, and with a number of unions led by NUPE mounting a full-scale assault on the problem of low pay, it was considered desirable to allow low-paid workers to exceed the 5% limit. Originally, Michael Foot had wanted the Government to introduce a new measure, known as 'underpinning', whereby the low paid would be entitled to a minimum weekly cash increase.[1] But neither the TUC nor the Cabinet were persuaded of the merits of this proposal. Instead, it was decided simply to allow breaches of the pay limit so long as the resulting earnings did not exceed £44.50 for a normal full-time week.[2] Ministers emphasized that where low-paid workers obtained rises in excess of 5%, other, more highly-paid workers in the same industry would have to accept a narrowing of differentials. Of course, whether the Government would be able to implement an egalitarian ruling of this nature was entirely another matter.

What were the Government's prospects of enforcing the 5% norm? In some respects the outlook for Phase IV was just as bright as it had been for the 10% policy. During the 1977-78 round many of the anomalies caused by Phases I and II had been resolved and in most cases the pay supplements of £6 and 5%

---

[1] Joel Barnett, Inside the Treasury, pp.162-3.

[2] The figure of £44.50 was based upon the TUC minimum pay target of £30 in 1974, updated by the maximum increases permitted under the three subsequent pay policies. See Winning the Battle Against Inflation, p.5. NUPE, in contrast, was demanding a 35 hour week and a minimum weekly wage of £60, equal to two-thirds the average earnings.

had been consolidated into basic rates. Public opinion was again favourable. According to a National Opinion Poll, a substantial majority (66%) supported the 5% limit and thought it would be good for the country.[1] This might have been down a bit on the level of support for Phase III, but it was still satisfactory from the Government's point of view. Further, in the year to July 1978, real disposable incomes had risen dramatically, on average about 6¼%.[2] Consequently, taking into account tax and benefit changes, most workers had recouped the losses of the previous two years. Some groups had done even better. Miners, for example, had gained about 19% in real terms in the year to April 1978, and power workers about 10%.[3] Given such improvements, particularly amongst a number of potential free riders, one might reasonably have expected the pressure for further, substantial real-wage gains to have eased. Finally, ministers were hopeful that the nearness of the general election (barring an emergency, one would have to be held by October 1979) would act as a restraining influence on the decision of unions to press excessive pay claims.

Against this there were very good reasons for doubting that the Government would be able to get the 5% policy to stick. To begin with, the country's two leading trade unionists and the Government's most influential supporters within the TUC, Jack Jones and Hugh Scanlon, retired during 1978. Their replacements, Moss Evans (TGWU) and Terry Duffy (AUEW) were relatively unknown quantities and possessed neither the experience nor the authority of their former bosses. They lacked

---

[1] The Daily Mail, 18 October 1978.

[2] OECD, Economic Surveys: United Kingdom (Paris: March 1979), p.6.

[3] The Economist, 25 November 1982, p.82.

their emotional hold over the rank-and-file and carried little sway with the left-wing. Moreover, although Duffy accepted the merits of voluntary wage restraint, Evans was passionately committed to free collective bargaining. He had only accepted Phases I and II because of the gravity of the economic crisis; now that this had passed he rejected the continuation of pay restraint, and was even unenthusiastic about the twelve-month rule.[1] Consequently, if ministers sought to impose the 5% limit, Evans would give them no assistance. Indeed, he was determined that the policy would not succeed. If this meant using the resources of his union to break the policy and raise the general level of pay settlements, then so be it.

That this might harm Labour's election chances did not seem to concern Evans unduly. As he saw it,his primary responsibility was to enhance the welfare of his members; and this he interpreted narrowly. In brief, it meant achieving the best possible short-term pay settlement. It did not mean preserving a Labour Government indefinitely, and certainly not a Government bent on wage control. Of course, Evans preferred a Labour Government to the election of Mrs. Thatcher, but unlike many of his union colleagues he was not too alarmed by the prospects of a Conservative victory. This was partly because he doubted that Mrs. Thatcher would actually implement her policies of monetarism, denationalization, curbing the welfare state and reducing union rights, and partly because, even if she did, he thought that the unions were strong enough to resist.

---

[1] The Guardian, 5 May 1978.

Quite apart from the changes in union leadership and the consequent weakening of commitment for Labour's survival, there were other factors which made the success of the 5% policy highly problematic. The relative decline in public sector earnings since 1975 meant that public sector unions were bound to press for sizeable catch-up pay increases in the forthcoming round. The rejection of the 5% policy by both the TUC and Labour Party conferences in the autumn of 1978 gave added legitimacy to those wishing to challenge Government policy. Finally, the improved state of the economy meant that employer resistance in the private sector was likely to be lower than in previous years and that union negotiators wouldn't be threatened with substantial redundancies should they push for big pay increases.

10.4 Towards the Winter of Discontent

Once Callaghan had decided in early September against an autumn election, the TUC, realizing that the two wings of the Labour movement were embarked upon a collision course, agreed to hold a further series of high-level talks with the aim of coming to some kind of understanding with ministers on a strategy for prices and wages.[1] Despite the hostility of union leaders to the 5% norm, the negotiations made reasonable progress and by early November the Economic Committee had accepted a new package of proposals. Under this the Government would, amongst other things, strengthen the powers of the Price Commission, permit greater scope for comparability in the determination of public sector pay, and aim for an annual rate of economic growth of 3%. In return, the TUC agreed to

[1] For a detailed account of the events of the 1978-79 wage round see Gerald A. Dorfman, British Trade Unionism Against the Trades Unions Congress (London: Macmillan, 1983). pp.59-91.

issue union negotiators with 'guidance' concerning the framing of pay claims. In accordance with this, unions would be asked to observe the need for 'a balanced allocation of benefits between worker, investment and the consumer'.[1] They were also to seek, wherever possible, to maintain price stability and improve productivity. In addition, the Economic Committee accepted the need for an inflation target and decided that unions should endeavour to keep inflation from rising above its current rate of 7.8%.[2] While this did not amount to the explicit acceptance of a pay norm, it meant that, if accepted by the General Council, the TUC would be committing itself to an earnings ceiling of roughly 10%.

But just as ministers were beginning to think they were winning the battle for a low wage round, an almost unprecedented development occurred: the General Council refused to endorse the recommendation of the Economic Committee. The vote in fact was tied, 14:14, and the Chairman of the TUC, Tom Jackson, although strongly in favour of the new guidelines, concluded that he had no choice but to declare the motion lost. The failure of the moderates to secure a majority on the General Council stemmed from a combination of factors. At least three supporters of the guidelines, Frank Chapple, Joe Gormley and Sid Weighell, were absent at the time of the vote. Several union leaders who might have been expected, for reasons of self interest, to vote in favour, namely, Ken Thomas, Bill Sirs and Alan Fisher, decided to cast their votes

---

[1] TUC Guidance to Negotiators (TUC Paper for TUC-Government Meeting, 31 October 1978), p.2.

[2] Ibid., pp.1-2.

against. Finally, Moss Evans was on holiday in Malta. In his absence, the other TGWU representatives on the General Council either abstained (Harry Urwin) or voted against (Stan Pemberson and Marie Patterson). Had Evans been present all four TGWU representatives would probably have voted in favour of the Economic Committee's recommendation; a recommendation which, after all, Evans had accepted, albeit reluctantly. Not surprisingly, many union leaders commented afterwards that Jack Jones would never have let such an important matter be decided in his absence.

What difference this negative outcome had on the 1978-79 wage round is difficult to assess. Had the proposed guidelines been endorsed they would undoubtedly have strengthened the hands of Len Murray and the Economic Committee in applying pressure on maverick unions to moderate their pay demands. At the same time,a serious problem would have arisen immediately the TUC contemplated intervention: at what point would a pay claim be regarded as excessive? There was no question of the TUC tacitly supporting the 5% limit as it had done with the previous norm. And the proposed guidelines were sufficiently vague to enable virtually any union to justify a pay increase above the inflation target of 7.8%. So to have implemented the guidelines would have caused the TUC incalculable headaches. Be that as it may, the General Council's rejection of the guidelines gave extra weight to those opposed to incomes policies. To the extent that this had any impact on union bargaining goals and strategies, it can only have made the implementation of the 5% policy all the more difficult.

While ministers were busy attempting to secure TUC support for pay moderation, events were unfolding that were eventually

to all but destroy the new policy. Initially the main problems centred upon Ford and to a lesser extent the road haulage industry.[1] In 1977 Ford manual workers had settled for roughly 12%, with no productivity deal. Although this had been outside the 10% limit, the Government had decided not to impose sanctions, partly because the magnitude of the breach was small, and partly because it was trying to encourage Ford's directors to invest in a new engine plant in South Wales, an area of high unemployment. In the subsequent ten months, however, there had been a series of developments which made it extremely unlikely that the Government would be able to keep the next Ford settlement to within 2% of the 5% limit. As already noted, there had been a change in the leadership of the TGWU - which represented the bulk of Ford manual workers - and there was no question of Moss Evans using his influence to moderate either the pay claim or settlement as Jack Jones had done the previous year. Second, the majority of workers, and most notably those who had negotiated productivity deals, had received pay increases during the 1977-78 round exceeding the 12% obtained by Ford's employees. Third, according to investigations undertaken on behalf of the TGWU by Ruskin College and Phillips and Drew, it was estimated that the U.K. Ford group's pre-tax profits for 1978 would be in the region of £300 million.[2] This was sufficient to accommodate a pay rise of up to 20% without unduly affecting the company's investment programme or pricing policy. Finally, the company wished to avoid a lengthy strike and was not particularly concerned by the threat

---

[1] For details of the Ford pay negotiations in the autumn of 1978 see Henry Friedman and Sander Meredeen, The Dynamics of Industrial Conflict: Lessons from Ford (London: Croom Helm, 1980) esp. pp.319-337.

[2] The Economist, 26 August 1978, p.82.

of governmental sanctions. As it stood, central government purchases amounted to only about 25,000 vehicles, or £60 million out of U.K. sales approaching £2.25 billion.

Altogether, therefore, the forthcoming Ford negotiations supplied all the ingredients for a disastrous start to the 5% policy. Indeed, it represented a paradigm case of a potential free rider to be feared by any government embarking on an incomes policy: a highly profitable, multinational company aiming to minimise its losses and well able to afford an increase above the policy limits; a union leadership determined to use what amounted to a key, trend-setting wage bargain to break the policy and raise the overall level of pay round; a rank-and-file membership keenly aware of the high opportunity costs which compliance with the 5% limit would entail and convinced, it seems, that strike action would bring substantial net payoffs; the absence of effective sanctions (or rewards); and an unwillingness by the nation's peak trade union organisation (the TUC) to exercise a restraining influence. Barring a miracle, the Government was in a 'no-win' situation. The best it could hope for was to keep the increase in the basic rate as low as possible and do what it could to minimize the flow-on effects.

The battle over pay at Ford began at the end of August 1978 when union leaders submitted a claim on behalf of manual workers for a £20 rise in basic rates. This represented an increase in earnings averaging 29%. They also demanded a 35 hour week, longer holidays, improved sick pay and the introduction of sabbatical leave of three months at the end of ten years' employment. The aim of the package was to restore real earnings to the levels reached in 1974 and enhance conditions of employ-

ment. In response, the company offered an increase in basic rates of 5% and a productivity deal. Within days mass meetings had been held at every Ford plant in the country and the bulk of the workforce was on strike. The strike was to last almost nine weeks.

By the beginning of the sixth week the company decided that it had little choice but to break the Government's pay policy and improve its offer. However, under intense pressure from ministers, it agreed to keep the increase in basic rates to single figures. The new offer, therefore, included a rise in basic rates averaging 9.75%, a new supplementary payments plan of £4 a week to be paid to workers who turned up regularly for work, and improved holiday pay and pensions. But the offer was rejected by a substantial majority of the rank-and-file, partly because it was felt that the company was in a position to afford a more generous package,and partly because of certain penalty clauses in the new attendance allowance. Eventually, after several more weeks of fruitless negotiations and having lost over £400 million in production, the management agreed to modify the conditions of the attendance scheme so that it would be paid to all workers except those involved in strikes. In effect, this meant that most workers would receive a pay rise of about £12 a week, or a net improvement in pay and benefits of approximately 17%. The new formula was duly accepted in late November and production resumed.

Throughout the strike ministers had made it plain that if Ford broke the pay policy they would be forced to impose sanctions, no matter how ineffective they might be and regardless of the logic of penalizing a company which had

just endured a costly strike . Once the new pay deal had been settled, therefore, the Cabinet issued directives telling Government departments not to place future contracts with Ford unless the product was vital and there were no alternative suppliers.[1] It also urged nationalized industries to follow suit and announced that all discretionary financial assistance to Ford would be reviewed, and most likely terminated. But, as matters transpired, the sanctions were to remain in force for only two weeks. For to heap one humiliation upon another, on 13 December Parliament narrowly passed a Tory-sponsored motion condemning the arbitrary use of economic sanctions against firms which broke the 5% policy.[2]

Thus, by the middle of December the Government's pay policy was in tatters. It no longer had any means, other than moral suasion, of enforcing its policy in the private sector. The success of the strike at Ford had seriously undermined the credibility of the 5% limit. Petrol tanker drivers and lorry drivers were demanding pay increases of 30% and threatening to strike early in the New Year (unofficial stoppages had already begun in many areas). Moreover, with ministers having lost control over the private sector, there was no way that public sector workers would accept a fourth year of rigid wage control. Local authority manual workers were seeking a 40% rise in basic rates. There was mounting pressure for the Government to increase the low-pay target. Hospital workers, ambulancemen, garbage collectors, school teachers, water workers and BBC staff were all threatening to strike.

---

[1] The Financial Times, 29 November 1978.

[2] The vote was 285 against the sanctions and 279 in favour, a majority of six. Four left-wing Labour MPs abstained. For an account of the debate see Hansard, 13 December 1978, Vol. 960, Cols. 676-810.

And despite their big increase in the previous round, the miners were demanding a 40% rise. All told the outlook for the winter was extremely grim.

Moreover, there was little that ministers could do, assuming, that is, that they were still committed to a low pay round.[1] They coudn't impose a wage freeze because it simply wouldn't receive Parliamentary endorsement; and even if it did, it probably couldn't have been enforced.[2] There was nothing much to gain by raising the pay limit to say 8 or 9% since it still wouldn't win TUC support, it wouldn't be enforceable in the private sector, and might be interpreted as a sign of weakness. Nor was there much profit in attempting to buy-off powerful groups in the hope that other groups would accept inferior treatment: rank-and-file militancy was now too widespread to make this a viable option. Lastly, to carry out the threat to adopt a tighter monetary policy would do nothing in the short-run to curb wage demands and would only exacerbate the problems of unemployment in the future.

Lacking a better alternative, and with TUC leaders powerless in the face of autonomous shop-floor action, ministers initially decided to ride out the storm by taking a firm stand in the public sector; this they hoped would strengthen managerial resistance in the private sector. It was also hoped that the high incidence of strike activity would eventually evoke a positive response from the TUC and mobilize public opinion against the blatant pursuit of sectional interests.

---

[1] For an insider's account of the 1978-79 wage round see Joel Barnett, Inside the Treasury, pp.163-178.

[2] The idea of a wage freeze was put forward by William Rodgers, the Secretary of State for Transport, but received little support from other ministers.

But the Cabinet soon found themselves in hasty retreat. By mid January the policy of 'underpinning', previously advocated by Foot, but rejected by the Cabinet in July, had been resurrected to head off a clash with the local authority manual workers.[1] Another strategy known as 'end-loading' also came to prominence as a means of relieving pressure for immediate, big pay increases. In accordance with this, unions agreed to single-figure settlements in exchange for guarantees of further increases later in the year. The classic example here was the establishment of the Standing Commission on Pay Comparability under Professor Hugh Clegg in early March.[2] In this instance, public sector unions accepted a 9% pay rise on the understanding that any additional amounts granted by the Commission - which turned out to be substantial - would be implemented in two stages, 1 August 1979 and 1 April 1980.

Yet, such strategies could not hide the fact that the round was proving disastrous. By February, basic rates of pay were increasing, on average, by 9%. Moreover, there was every likelihood of average earnings rising by as much as 16% for the year to August 1979 - excluding delayed payments under the 'end-loading' strategy. If this pessimistic forecast turned out to be correct, as it did, then the Government's original target of 7-8% would have been drastically overshot.[3] Coupled

---

[1] Joel Barnett, Inside the Treasury, p.173.

[2] The idea of a comparability study had been urged on the Government by public sector workers for several months, but had initially been rejected because of its likely inflationary consequences. For details of the Clegg Commission and its work see Sid Kessler, 'Comparability', Oxford Bulletin of Economics and Statistics, 45 (February 1983), esp. pp.93-97

[3] In the year to August 1979, average earnings rose by 16.4%. See Department of Employment Gazette, 87 (December 1979), p.1307. According to Michael Foot, delayed payments amounted to another 5%, bringing the total to 21.4%. See 'A Contract for the 1980s', p.15.

with the impact of the second oil shock, which happened to coincide with the winter of discontent, the result could only be much higher domestic inflation, a significant rise in unit labour costs, and a loss of competitiveness. One of the tragic ironies, of course, was that the 17% pay increase received by Ford manual workers was virtually matched by other workers in the subsequent months. Thus, Ford workers made no significant relative-wage gains and only achieved temporary gains in their real earnings. Such an outcome graphically illustrates the futility and self-defeating character of uncoordinated collective bargaining.

If only to compound the Government's difficulties, the widespread industrial disruption, as expected, severely harmed its electoral prospects. By early February, opinion polls were giving the Conservatives a 19% lead.[1] Consequently, when the Conservatives won a vote of no-confidence in the Commons in March, Labour's electoral defeat was virtually a foregone conclusion.

Perhaps the only positive outcome of the long winter of discontent was the publication of a joint statement by the TUC and ministers entitled, The Economy, the Government and Trade Union Responsibilities.[2] The statement, which was referred to as a 'concordat' to distinguish it from the now discredited Social Contract, was the product of lengthy negotiations during January and early February. It was designed both to repair the broken partnership between the two wings

---

[1] The Economist, 10 February 1979, p.20.

[2] Joint statement by the TUC and the Government, The Economy, the Government and Trade Union Responsibilities (February 1979).

of the labour movement and prevent a future confrontation of similar proportions. To this end, the statement dealt with most of the controversial issues in the realm of pay fixing, and included three annexes in which the TUC gave detailed advice to unions about dispute procedures, the conduct of industrial action (particularly with regard to picketing) and the closed shop.[1] But whatever the good intentions of the statement's drafters, and whatever the merits of the TUC advice, few commentators anticipated that the new agreement would have much impact on the conduct of wage bargaining, let alone prevent another serious bout of labour versus labour competition. The reason was quite simply: nowhere in the statement was there any mention of a diminuation in the sovereignty of individual unions over the determination of their bargaining goals and tactics. Nor, for that matter, was there any acknowledgement by the TUC of the need for a centrally-agreed incomes policy. Yet, without fundamental reforms to the structure of pay bargaining, there was effectively nothing, save mass unemployment, to prevent a repeat of the 1978-79 round. Not surprisingly, the claims of ministers during the subsequent election campaign that a Labour Government was now, as a result of the joint statement, in a position to avoid another confrontation with the unions were greeted with great scepticism. It would take more than a few finely worded declarations of intent to remove the scars caused by the recent conflict.

---

[1] Trades Union Congress, TUC Guides (February 1979).

10.5 Conclusion

With the benefit of hindsight many have contended that Callaghan made a colossal blunder in failing to go to the country in the autumn. Politically this may well have been so. Labour stood a good chance of being returned as the largest party in Parliament in the autumn, and might even have won an outright majority. But how an early election would have helped the attainment of a moderate pay round (in other words, one in which the rise in unit labour costs did not exceed the rate of inflation) is quite another matter. Had the Conservatives been returned to power, the increase in nominal wages may have been even higher. Firstly, the Conservatives were committed to free collective bargaining and, although they were expected to modify their stance once in office, it was unlikely that they would have followed Labour's policy of trying to enforce a low pay norm in the private sector. Second, those union leaders who had sought, however unsuccessfully, to encourage restraint in the interests of preserving a Labour Government, would have withdrawn this discretionary assistance, as indeed they were to do in the subsequent pay round.

If, on the other hand, Labour had been re-elected with an overall majority it is doubtful that it could have achieved a significantly lower round. The unwillingness of union leaders to offer tacit support for a pay norm would not have altered. In fact, with Labour in a secure position, the political importance of avoiding industrial unrest and slowing the pace of inflation would have diminished. Nor would the Ford settlement have been any lower. Perhaps the only gains would have been the retention of economic sanctions and the possibility (given the removal of the Parliamentary constraints) of a

broader range of quid pro quos. But precisely what difference this would have made during the winter months is impossible to quantify. Thus, excepting the implementation of a statutory policy or some form of tax-based incomes policy, neither of which would have been tolerated by the left-wing of the party, it is difficult to envisage how - assuming similar economic conditions and the same configuration of attitudes amongst union leaders, shop stewards and members - any government could have kept the growth of average earnings significantly below their actual outrun.

This does not mean that there were no mistakes in the design and implementation of Phase IV. If moderate union leaders had been better organized and more determined to defend their policy stance, the TUC's proposed guidelines would have been accepted. This might have made a marginal difference to the conduct of the round. Also, had ministers been less ambitious in attempting to reduce inflation and had instead adopted a higher norm, say 7 or 8%, there would probably have been less strife. As it was, the 5% limit was almost universally disowned by union leaders. Indeed, to speak in its favour was tantamount to treachery. Such a situation undermined the influence of the voices of moderation and created an atmosphere in which union negotiators felt obliged to try and break the policy. Free riders were no longer regarded as cheats, as had been the case under previous policies, but rather as heroes. In short, the 5% norm, far from encouraging restraint and reducing expectations as intended, acted as a catalyst for mobilizing resistance and opposition.

At the same time, the view of Michael Foot that a more relaxed pay norm would have reduced nominal-wage growth by between 4% and 9% seems highly questionable.[1] Certainly a higher norm may have yielded a lower round, but the gains would probably have been small. This is because the objective conditions were not in Labour's favour. Shop-floor workers in key sectors were in a militant mood. The majority of union leaders were either unable or reluctant to restrain the demands from below. The retirement of Jones and Scanlon had removed an important steadying influence. And the improvement in the country's economic performance had enhanced the bargaining position of labour and reduced employer resistance. An intensification of the conflict between labour and capital for a share in the fruits of economic growth thus seemed inevitable. In the event, this is precisely what happened.

---

[1]Michael Foot, 'A Contract for the 1980s', p.15.

CHAPTER 11

CONCLUSIONS

11.0 Introduction

As we have observed in the previous chapters, incomes policy under the Labour Government (1974-79) took a variety of forms and was employed to fulfil a multiplicity of aims. In accordance with the definition adopted in Chapter 1, each of these forms (with the possible exception of the five-month period to July 1974) can be regarded as an essentially voluntary policy. For, despite pressures from the Treasury and the media, especially during the late spring and early summer of 1975, the Government resisted the temptation of imposing comprehensive mandatory wage controls and instead sought to achieve compliance by means of moral suasion, public pressure and private coercion, and only a limited amount of state coercion. Of course, not all of these enforcement mechanisms were employed throughout the period. Only in mid 1975, for example, did the Government embark upon a concerted and systematic attempt to control nominal-wage growth in the public sector and to deter policy breaches in the private sector. Likewise, private coercion by the TUC only played a significant role in the enforcement process during Phases I and II. Moral suasion and public pressure, on the other hand, were relied upon throughout the years of the Labour Government. However, as was demonstrated during the first 16 months of the Social Contract, moral suasion on its own is rarely a sufficient instrument for deterring free riders. In fact, even when fortified with a range of financial sanctions, wage restraint may not be forth-

coming. Certainly it was not during the final eight months of the Callaghan Government, as was emphasized in Chapter 10.

Just as incomes policy took a number of different forms during the years in question and relied on a variety of enforcement mechanisms, so too it was designed to accomplish a range of tasks. In the initial period up until July 1975 the principal aims were to prevent an escalation in the growth of money wages and restrain the growth of real wages. In the event neither of these objectives was realized. During the subsequent two years (Phases I and II) incomes policy had three main purposes: to slow the pace of wage inflation; to bring about a small reduction in real wages; and to secure a more egalitarian wage structure. Whilst the first of these objectives was undoubtedly fulfilled, the others were not. There was no significant change in wage differentials, and both real wages and real disposable incomes fell much more than intended, thus undermining trade union support for the Social Contract. During the final two years of the Labour Government, incomes policy was basically designed to prevent a resurgence of wage inflation and to ensure that real-wage growth did not outstrip productivity improvements. Again, neither of these objectives was realized.

Such failures starkly reveal the pitfalls and limitations of voluntary incomes policies. Indeed, from the theoretical perspective of this thesis, the period is highly instructive. It shows very clearly the difficulty of getting unions to trade off immediate real-wage gains for promised returns in the future. It highlights the problem - which seems to be particularly acute under conditions of decentralized bargaining

- of getting unions to lower their real-wage demands in return for higher employment and higher social-wage provisions. Further, the period demonstrates just how hard it is to sustain support for a voluntary stabilization programme when the policy fails to fulfil expectations, when the macro-economic payoffs of mutual restraint appear to be negligible or non-existent, and when the resource constraints are such that it is impossible for the state to offer significant quid pro quos. But above all, the period reveals the inherent problems of negotiating and sustaining a voluntary incomes policy in a world characterized by conflicting interests and conflicting values. The heart of the matter has been well summarized by Len Murray:

> The real issue is how we can get trade unionists to use their industrial power wisely, at the minimum to take account of their own longer-term interests - the impact of a wage settlement on their own future employment for example; and beyond that to take account of the effect of their actions on the interests and well-being of others - of other trade unionists and of society generally.[1]

Yet, if the years of the Social Contract highlight the difficulties of achieving cooperative solutions and ensuring the responsible use of union power, they also show that, even when structural and attitudinal conditions are far from perfect, it is possible, albeit for relatively short periods of time, to get unions to voluntarily accept real-wage cuts and limitations on their bargaining rights. Indeed, the successful implementation of the £6 and 5% policies was no mean achievement.[2] For, as we have seen in the preceding chapters, these policies were accepted by the TUC in the absence of significant new governmental concessions, in the

---

[1]Len Murray, 'The Democratic Bargain', (Text of Speech, TUC,1982).

[2]The 5% mentioned here refers to Phase II, not Phase IV.

absence of real-wage guarantees, and against a background of rising unemployment and fiscal retrenchment. Moreover, their implementation provoked relatively little organizational resistance, at least initially, and witnessed a surprisingly low level of free riding. Certainly there were breaches of the policy guidelines; but not nearly as many as some observers had predicted. Equally significant was the fact that not a single union left the TUC in protest; nor, for that matter, was the TUC forced to take disciplinary action against any of its members for violating the terms of Phases I and II - although it did threaten the seamen with expulsion.[1] As Jack Jones put it poignantly: 'For two years we managed to make the waters flow up the mountain'.[2]

The preceding chapters have sought to explain how this seemingly impossible task of building consent and maintaining compliance was accomplished. Instead of recapitulating all the arguments here, the following remarks will be directed at answering three broader questions. Firstly, in the light of the experiences of the Social Contract, what are the necessary conditions for the acceptance and effective implementation of a policy of wage restraint by a trade union movement. We are concerned here both with policies to reduce (or control) nominal-wage growth, as well as policies to temporarily lower real wages. Secondly, how, if at all, can consent for such policies be sustained for more than two or

---

[1]The lack of challenges to the authority of the TUC contrasts sharply with the record of voluntary incomes policies in other countries, such as Ireland. See James F. O'Brien, A Study of National Wage Agreements in Ireland, pp.160-162.

[2]The Observer, 10 July 1977.

three years. And thirdly, to a question of a more speculative nature: what are the prospects of another voluntary incomes policy being agreed in Britain?

11.1 Conflicting Interests and Conflicting Values

As mentioned briefly in Chapter 4, it would seem that two general conditions must be satisfied if a voluntary incomes policy is to be accepted by a trade union movement and executed with a minimal amount of free riding. To start with, there must be what we shall call a relatively low conflict of values. By this one does not mean that there are never any disagreements about fundamental moral and ideological issues. Rather, one is talking about a situation in which a cooperative approach to the matter of wage determination is favoured by a sufficient number of those responsible for deciding and implementing the policy. What is sufficient in this context will of course depend to some extent upon the decision-making arrangements in the relevant labour market institutions. For example, assuming that the union movement in question is governed by the principle of majority voting - rather than say unanimity - then the sufficiency principle would require that there be majority support for the policy within the peak organization as well as within those unions with the strongest incentive to free ride. While it is ultimately crucial that the rationale for a voluntary incomes policy be accepted at all levels of the union movement, a high degree of positive commitment is most essential at the upper echelons. After all, if the majority of union leaders and negotiators reject the view that free collective bargaining is economically harmful and mutually damaging, and if they

reject the idea that a reduction of real wages may be necessary in certain situations, then, regardless of the sentiments of rank-and-file union members, coordinated strategies will never be agreed or successfully implemented. Similarly, if a number of key, trend-setting bargaining groups with the capacity to free ride are opposed to the notion of voluntary restraint, then a cooperative solution is almost certainly doomed to failure.

The second prerequisite for an effective voluntary incomes policy is a relatively low conflict of interest. That is to say, the short-term opportunity costs of compliance for most bargaining groups are small, and hence their <u>temptation</u> to defect, in contrast to their <u>willingness</u> to do so, is low. This doesn't mean that the strategic structure has ceased to be that of a prisoner's dilemma, or that compliance no longer entails the sacrifice of certain bargaining opportunities, but simply that the short-run advantages of defection are not strikingly great. For, the larger and more visible the net payoffs of non-compliance, the stronger the commitment to the policy must be if extensive free riding is to be avoided.

But how can these two conditions be satisfied simultaneously? In particular, how can they be fulfilled when, in a country like Britain, wage determination is decentralized and the labour movement is sharply divided ideologically? One extremely helpful catalyst for generating the necessary conditions for pay moderation is an economic crisis. Conceptually, such a crisis has two important consequences. First, it reduces the conflict of interest associated with a restraint programme. Assuming that the crisis takes the form of a wage explosion or

a deep recession and is characterized by falling profit margins and rising unemployment, managerial resistance to large pay claims, at least in the private sector, will increase. This, in turn, will raise the strike costs of achieving real-wage gains (or even of maintaining real wages) and hence will reduce the advantages of short-term, self-interested maximization. Consequently, if a voluntary wage restraint programme can be agreed in these circumstances, the net payoffs of non-compliance will be low, and few groups will have the incentive to free ride.

The other main effect of an economic crisis will be to change perceptions and attitudes at all levels within the union movement. The impact here will probably be two-fold. On the one hand, a crisis will convince many of those trade unionists who normally favour free collective bargaining of the weaknesses of this mode of wage determination in conditions of rising unemployment. As a result, a policy of mutually agreed and mutually enforced restraint will seem a more attractive proposition. On the other hand, a crisis will reduce the salience of narrow, sectional interests and foster a commitment to broader goals and values - trade union solidarity, national unity, party loyalty, and so forth. In these circumstances, there will be strong moral pressures on individuals and groups to sacrifice their wants and demands in the national interest, and equally strong pressures for them to abide by any nationally-agreed policies. Thus, as long as the majority of union leaders are committed to preserving the existing political and economic order - as opposed to exploiting the situation to advance a revolutionary cause -

an economic crisis is likely to enhance the prospects of a cooperative outcome.

What is more, because both the conflicts of interests and values will be lower than usual, union negotiators will have greater confidence that, should a voluntary incomes policy be agreed, it will enjoy a high level of compliance. Stated differently, they will have more reason to assume that their sacrifices will not be taken advantage of by other bargaining groups, and that dissident minorities can be held in check.

Nevertheless, on its own, an economic crisis is an insufficient instrument for bringing about a cooperative solution, let alone guaranteeing its continuance. It may be that, despite all, a majority of union leaders, or at least a majority of those in strategic sectors of the economy, are unwilling to abandon their commitment to free collective bargaining, even temporarily. Alternatively, they may refuse to accept that in a particular situation a cut in real wages is needed in order to help mitigate the rise in unemployment. Another possibility is that union leaders may be ideologically opposed to the government in power, and thus unwilling to countenance restrictions upon their bargaining freedom. An interesting example of this occurred in Australia in 1982. Here, despite a catastrophic drought and a major economic downturn, the union movement refused to endorse the proposals of the conservative Liberal-National Party Government of Malcolm Fraser for a wage freeze. Yet, following the general election election in March, 1983, which brought a return to a Labor Government, the union movement agreed to a policy of wage

restraint and the re-introduction of a system of centralized pay fixing.[1] Likewise, as has been argued repeatedly in this thesis, it was only the combination of an economic crisis and a Labour Government which brought the TUC to the point of accepting a strictly defined pay policy. Had, instead, there been a Conservative Government in power, no such agreement would have been forthcoming.

But, even if economic and political conditions are favourable, the negotiation of a voluntary incomes policy will encounter innumerable problems. Doubtless there will be disputes amongst policy makers concerning the pay norm, the procedures for monitoring, the mechanisms for enforcement, the provisions for exceptions, the controls on profits and prices, and the kinds of quid pro quos thought necessary for membership acceptance of the policy. None of these issues are insurmountable, but their resolution will depend a good deal on the capacity and willingness of sectoral and governmental elites to compromise. If union leaders are deeply divided on distributional issues, as has been the case from time to time in Denmark, Norway and Sweden, an agreement on a voluntary policy may be imperilled. Similarly, if public sector unions believe that their pay levels have fallen significantly behind those of their counterparts in the private sector, then there could be acute difficulties in finding an acceptable formula. Fortunately for Wilson's Labour Government, this problem was avoided in 1975 because public sector wages had moved ahead of those in the private sector during 1974. However, the subsequent relative decline in public sector pay was, of course, a major factor behind the collapse of the 5% policy in 1978-79.

---

[1] The Times, 16 April 1983.

Let us suppose for a moment that all the problems associated with the negotiation and implementation of a voluntary incomes policy have been surmounted and a policy has been put in place during an economic crisis. How stable or permanent is such a policy likely to be? The answer, in all probability, is that union acceptance of the need for wage moderation will be short-lived. First, the crisis may pass quickly, thereby undermining the consensus in favour of an incomes policy. Second, if the policy has been explicitly designed to reduce real wages, and indeed has this affect, then rank-and-file opposition is likely to emerge before very long. Finally, conjunctural factors or unanticipated supply shocks may bring about an unintended fall in real wages (or real disposable incomes) or a greater fall than originally envisaged - as happened in Britain in 1976. Again, this seems bound to generate dissatisfaction and hence destroy the chances of a further voluntary deal.

To sum up: the thrust of the argument so far has been to suggest that only in a limited range of circumstances can a government expect to reach agreement with a union movement on a pay policy. In particular, it has been contended that the necessary conditions for a cooperative outcome will only be satisfied if there is an economic crisis (or perhaps a war), and if union and government leaders share, broadly speaking, the same normative commitments. The central drawback with this, however, is that a crisis is unlikely to produce the necessary conditions for lasting cooperation.

Now it might be asserted, quite rightly, that although a national crisis of some sort is a prerequisite for the

negotiation of a voluntary deal in a country with decentralized bargaining, a relatively weak central union organization and an ideologically divided union movement, it is not essential when the structural and attitudinal conditions are different. Austria is a good case in point. Here, as noted in Chapter 4, a voluntary incomes policy has been successfully implemented in conditions of both economic prosperity and recession, and under both conservative and socialist administrations. Moreover, voluntary policies have been agreed in several other countries in circumstances that could hardly be regarded as a crisis - although the rate of inflation may have been reasonably high. Clearly, then, the necessary conditions for wage restraint - a low conflict of interests and a low conflict of values - do not depend on a deep recession, a balance of payments crisis or a left-of-centre government. But, if this is so, how else does one create a bargaining environment in which there is a consensus favouring pay moderation, and in which few unions are tempted to free ride; or to put it more simply, in which enlightened self-interest prevails?

One prerequisite is obviously structural in form: that is, wage determination must be centralized, and decision-making power on both sides of industry must be concentrated at a high level. This means, in effect, that there are authoritative, sector-side peak organizations and that the bargaining rights of workshop, plant and company negotiators are restricted. As mentioned in Chapter 3, institutional arrangements of this kind tend to reduce the conflict of interest encountered by bargaining groups under a voluntary incomes

policy. This is partly because it is more difficult to mount effective industrial action, and partly because the costs of so doing are greater. Hence, the net payoffs from defection are small. Added to this, centralized bargaining makes the macro-economic costs of independent decision making more transparent, thus enhancing the incentives for a cooperative solution and increasing the willingness of peak organizations to engage in bilateral or multilateral bargaining. Yet it by no means solves all the complex problems associated with a voluntary restraint programme. For, even when bargaining is centralized, the payoffs to labour and capital are still asymmetrical in structure, economic uncertainties persist, and basic distributional conflicts remain.

Furthermore, as is evident from the Norwegian case, the mere existence of authoritative peak organizations and centralized bargaining is not enough to ensure compliance. Something else, it seems, is required, namely, a widely held commitment to inter-class collaboration and long-term restraint. This implies, amongst other things, that there is a relatively low level of ideological conflict within the union movement, that sectional, craft-based loyalties are weak while class orientations are firm, that there is an overarching consensus on major social and economic issues, that there is a measure of agreement on distributional matters and a reasonable degree of pay satisfaction, and that the traditional values of self-discipline and restraint hold sway. How such conditions can be secured remains a puzzle. Judging by the experiences of the past few decades, they are certainly beyond the power of political elites to engineer. Moreover, they would seem to be

in relatively short supply. There is not the space here to attempt a detailed analysis of how a country like Austria has managed to secure, and then sustain, a broadly-based commitment to voluntary wage restraint. Nevertheless, two brief points should be made.

First, if an answer is to be found, it would obviously require a careful examination of Austria's recent political history, the process of industrialization, the continuing salience of traditional religious values, the high level of union involvement in both national policy making and company planning, the peculiar character of Austria's political institutions, and the achievement of a relatively high rate of economic growth. Second, it will be extremely interesting to observe what impact the recent slow down in economic growth and the gradual process of secularization has on the goals and bargaining strategies of Austrian unions. To date, the Social Partnership has withstood the rigours of global recession. But strains are now apparent, and its survival is by no means certain.

11.2 Maintaining Consent

Few countries have been able to repeat Austria's achievement of maintaining consent for a voluntary incomes policy over several decades. Indeed, as noted in Chapter 3, some countries haven't even been able to secure union agreement for a pay policy, let alone guarantee compliance. The general rule seems to be that voluntary policies collapse after about two or three years. In this respect, the Social Contract is typical. But are such failures inevitable? Is it not possible for a voluntary incomes policy to be sustained for a much longer period in a

country, such as Britain, with unfavourable structural and attitudinal conditions? The answer here must be negative.

As we have argued previously, trade union attitudes in Britain are such that it is doubtful that a pay policy could ever be agreed and effectively implemented in the absence of an economic crisis or war. Union negotiators are jealous of their bargaining rights and privileges, and will almost certainly oppose any attempt to enforce permanent or semi-permanent restrictions, either by the TUC, or the Government, or both. It was only because the £6 policy, for example, was perceived to be a temporary limitation on their bargaining freedom, that it won approval. As Jones remarked in 1977, pay restraint was only accepted 'on the basis that we could eventually return to voluntary collective bargaining'.[1] Unless this firm commitment to free collective bargaining can be fundamentally weakened, there seems little prospect of British unions accepting the idea of a long-term pay policy.

Yet, how could such a radical shift in attitudes be brought about? Clearly, one requirement would be for a sufficient number of union leaders and negotiators to be convinced that it was in their interests to coordinate their bargaining activities, rather than to pursue a strategy of independent short-term maximization. But for this condition to be fulfilled, the harmful consequences of free collective bargaining would have to be plainly evident, as would the advantages of a cooperative solution. While the current recession may have persuaded some trade unionists of the pitfalls of free collective bargaining under monetarist policies, it seems doubtful that a voluntary incomes policy could ever be

---

[1] The Times, 18 April 1977.

made a permanently attractive alternative. There is no need to rehearse here all the reasons why this should be so: the Social Contract revealed the manifold weaknesses of a voluntary restraint programme plainly enough.

In any case, even if by stroke of good fortune everything goes according to plan for several years - there is no Sterling crisis, living standards improve, inflation and unemployment are held in check, there is a low level of rank-and-file dissatisfaction, and the policy achieves a reasonable level of compliance - two inevitable problems will have to be faced before long. At some point an economic downturn will occur. Although it might be possible to maintain consent for the policy during the trough of the recession, previous experience suggests that this will soon dissipate as recovery gets underway and more and more bargaining groups seek to exploit their improved market position.

The other problem is related to this: how does one restrain key bargaining groups - such as the manual workers at Ford in 1978 - who have both the capacity and inclination to free ride in an overt and highly damaging manner? One possibility, which indeed is what the Callaghan Government tried, is to employ selective sanctions. But this strategy faces three immediate drawbacks. First, even a fully fledged system of tax disincentives, such as a tax-based incomes policy, will not always prevent a maverick settlement in a key sector of the economy. Second, any system of selective state sanctions poses a host of administrative problems, as mentioned in Chapter 3. Third, only a limited degree of state coercion is generally compatible with trade union support for a voluntary pay deal.

All in all, the chances of an incomes policy receiving union endorsement for more than three years in the context of decentralized bargaining, strong negative commitments and a significant level of distributional dissent, are remote. The best that can be hoped for is the acceptance of temporary restraint.

11.3 Prospects for the Future

But if some observers are correct, even the prospects for a short-term consensual wages policy are declining. According to Phelps Brown, for example, British trade unions are becoming increasingly like 'business' unions of the American variety and are now much less concerned about the wider goals of the labour movement. As he lamented in 1980:

> The attitudes of business unionists stand contrasted with those of trade unionists of the old school, who feel themselves part of a labour movement, and accept the duty to defer their own gains to the interests of their comrades, and obey the ruling of a common leadership.[1]

This erosion of union commitment to the goals of the labour movement was graphically illustrated, in the view of Phelps Brown, during the 'winter of discontent' when so few unions were willing to assist a Labour Government in the months preceding a general election. It was also highlighted in 1980 when the TUC called a one-day stoppage in protest against the policies of the Conservative Government. In marked contrast to the widespread support for the TUC's call for an indefinite strike in May 1926, in May 1980 the response of union members was patchy and unenthusiastic. The net result of this change in union attitudes, to quote Phelps Brown, 'is that the possibility of restraint through the TUC, even in favourable

---

[1] Henry Phelps Brown, 'Comments', in Frank Blackaby, ed., The Future of Pay Bargaining, p.92.

political circumstances, has diminished'.[1] There is thus little future for another Social Contract.

Phelps Brown may well be correct in his assessment that the past decade or so has witnessed a general increase in narrow, short-sighted, self-interested, maximizing behaviour. However, this does not mean that there has been a fundamental or irreversible change in human motivations. Nor does it imply that union members will never again be willing to make sacrifices for the common good. Consequently, given roughly similar political and economic conditions to those of 1975, the TUC should be able to muster support for another temporary pay policy. But, of course, whether a similar situation will arise in quite another matter. Needless to say, there would have to be a return to power of a Labour Government. Likewise, there would have to be economic difficulties of sufficient magnitude to mobilize widespread union support for a policy of restraint. It is doubtful whether the mere existence of 3-4 million unemployed would be a sufficient condition in this respect. Obviously, much will depend on the commitment of union leaders and shop stewards to reducing the level of unemployment, and hence their willingness to accept a lengthy period of wage moderation. To date, union bargaining behaviour suggests that employment objectives have a relatively low priority. Assuming that this pattern continues, the prospects for a Labour Government pledged to a policy of expansion and the alleviation of mass unemployment are rather bleak. Indeed, perhaps the best that can be hoped for would be a repeat of the experiences of the Social Contract. That is to say, there

---

[1] Henry Phelps Brown, 'Comments', in Frank Blackaby, ed., The Future of Pay Bargaining, p.94.

will be an initial period of expansion which will give rise to inflationary pressures and exchange rate difficulties. This will be followed by a period of agreed pay restraint, and subsequently by a return to a freer system of wage determination. Over the whole cycle, there will probably be a net improvement in output, employment and real wages, but the results are bound to be disappointing when compared with the original aims. Yet, unless the lessons of the Social Contract can be learned, and unless a high degree of commitment for pay moderation can be generated in the first year of the programme, a more promising outcome is improbable. Overall, there is little cause for optimism.

APPENDIX I

RESEARCH METHODOLOGY

With only a few, minor exceptions I was denied access to confidential Government and TUC papers. Obviously, this imposes certain limitations on the conclusiveness of my account of the Social Contract. Fortunately, however, there is no lack of published material on the subject, and few important aspects of the 'story' remain hidden or obscure. This is partly because of the large amount of investigative journalism which the Social Contract inspired, partly because of the willingness of senior ministers and trade union leaders to speak freely and openly about their negotiations over pay and related issues, and partly because several leading participants have subsequently published books or diaries which cover aspects of the Social Contract. In acquiring relevant materials I was greatly assisted by the fact that a former student of Nuffield College, Peter Hayward, kept a daily newspaper-clipping file on pay-related matters during virtually the entire period of the Labour Government. Peter very kindly gave me access to this and thus saved me many weeks, if not months, of 'hard labour'. In addition, David Butler, my College Supervisor, permitted me to draw upon information contained in many hundreds of interviews which he had conducted with politicians, trade unionists and their advisers between 1973 and 1979.

But,despite access to these rich data sources, there were still many aspects of the pay negotiations and the implementation of the Social Contract which required clarification. Consequently, it seemed prudent to undertake

a series of interviews with some of the leading policy makers. In terms of interviewing strategy, the main issue to be decided was who to talk to. Various considerations governed my choice here. First, it was obviously desirable to talk to as many senior ministers in the Labour Government as possible, most notably those directly involved in the negotiations with the TUC. Likewise, it was desirable to consult members of the TUC's negotiating team, together with certain members of the TUC's Economic Committee, and a selection of union leaders representing the main ideological traditions. Finally, in order to gain a different perspective, I decided to interview a number of senior civil servants who were involved with the development and implementation of the Contract, as well as some of the Labour Government's 'special' advisers.

Altogether, detailed discussions were held with 22 people (a full list is provided at the end of this methodological note). These included six union leaders, five politicians, and a number of advisers, civil servants and union research officers. Shorter, more informal discussions were also held with a number of union leaders, politicians and industrial relations specialists during their visits to Nuffield College. The interviews were conducted between December 1981 and January 1983, and ranged in length from 30 minutes to several hours. Most were undertaken on the basis of strict confidentiality and generally took the form of a guided conversation rather than a formal, structured interview. That is to say, I sought to allow respondents to tell me what they felt, by virtue of their position and experience, to be most germane. This naturally gave rise to a variety of interview situations.

Sometimes one was forced to ask a series of specific questions in order to elicit the relevant information. On other occasions, respondents talked almost without stopping for an hour or so and told me much of what I wanted to know without deliberate probing.

It should be noted that a tape recorder was not used during any of the interviews. There were several reasons for this. To start with, the presence of a tape recorder was thought likely in some situations to detract from the respondent's frankness. Civil servants, in particular, tend to be wary about disclosing potentially sensitive information if they are being recorded. It was also felt that the time and expense required to transcribe many hours of interviews was simply too great. Because of this, all interviews were recorded by hand and written up as soon as possible after the completion of the interview.

Two difficulties arose in the course of my interviewing. First, a number of the leading participants, namely Sir Harold Wilson, James Callaghan, Michael Foot, Denis Healey, Lord Gormley, and Roy Hattersley, were 'too busy' to grant interviews. Moreover, a number of union leaders failed to respond to my correspondence. Consequently, the number and range of interviews was somewhat lower than had originally been hoped.

The other difficulty encountered was that of recall. The events and issues which I was investigating occurred, for the most part, some six or seven years before my interviews. Not surprisingly, this meant that respondents had forgotten many details and were even unsure, at times, about fairly important matters. As a result, I attempted wherever possible to check

one person's responses against those of another. Furthermore, in writing up the history of the Social Contract I avoided making contentious claims unless the relevant matter was discussed with several respondents and there was evidence of a corroborative nature.

The following people were interviewed during the course of my research. The details supplied below include the name and position of the person in question, together with the date and location of the interview.

1. Mr. David Basnett, General Secretary of GMWU : 2 July 1982, Claygate Surrey.

2. Mr. Albert Booth (MP), former Secretary of State for Employment 1976-79 : 12 July 1982, House of Commons.

3. Mr. G.A. Brand, Under Secretary, Incomes Division, Department of Employment : 1 July 1982, London.

4. Mr. Bill Callaghan, Head of the TUC Economic Department : 11 December 1981, Congress House, London; and 28 January 1983, Nuffield College, Oxford.

5. Sir Kenneth Couzens, Second Permanent Secretary to the Treasury, former Deputy Secretary, Incomes and Public Finance 1973-1977 : 22 July 1982, London.

6. Mr. John Daly, Deputy General Secretary of NALGO : 15 September 1982, London.

7. Mr. Geoffrey Goodman, Industrial Editor of The Daily Mirror, former Head of the Counter-Inflation Unit 1975-76 : 23 July 1982, London; and 25 October 1982, Nuffield College, Oxford.

8. Mr. Andrew Graham, Fellow of Balliol College, Oxford, former economic adviser to Harold Wilson 1974-76 : 26 January 1983, Oxford.

9. Mr. Joe Haines, Leader Writer, The Daily Mirror, former Chief Press Secretary to Harold Wilson : 13 July 1982, London.

10. Mr. Tom Jackson, General Secretary of the UCW : 8 July 1982, London.

11. Mr. Clive Jenkins, General Secretary of ASTMS : 29 June 1982, London.

12. Mr. Jack Jones, former General Secretary of TGWU : 15 September 1982, London.

13. Mr. David Lipsey, Economics Editor of The Sunday Times, former adviser to James Callaghan : 29 September 1982, London.

14. Mr. Tom McNally (MP), former political adviser to James Callaghan : 30 June 1982, House of Commons.

15. Mr. Ian Mikardo (MP), former member of Labour Party NEC and Liaison Committee : 20 July 1982,

16. Mr. Len Murray, General Secretary of the TUC : 12 July 1982, London.

17. Mr. John Robertson, Director of Research for AUEW-TASS : 30 June 1982, Richmond.

18. Lord Scanlon, former President of the AUEW : 30 June 1982, London.

19. Mr. Derek Scott, former economic adviser to Denis Healey : 28 June 1982, London.

20. Mr. John Thane, Chief Research Officer for NALGO : 15 September 1982, London.

21. Mr. Eric Varley (MP), former Secretary of State for Energy 1974-75, and Secretary of State for Industry 1975-9 : 15 July 1982, House of Commons.

22. Mrs. Shirley Williams (MP), former Secretary of State for Prices and Consumer Affairs 1974-76, and Secretary of State for Education 1976-79 : 13 July 1982, Policy Studies Institute, London.

23. The author had an opportunity to discuss specific points with a number of visitors to Nuffield College during 1981 and 1982 including James Callaghan, Harold Wilson, Derek Gladwin (Southern Regional Secretary, GMWU), and Samuel Brittan (Assistant Editor of The Financial Times).

BIBLIOGRAPHY

I Government Publications

National Board for Prices and Incomes, Payment by Results Systems Report No.65, Cmnd. 3627, 1968.

Pay Board, Problems of Pay Relativities Advisory Report No.2, Cmnd. 5535, 1974.

Attack on Inflation : A Policy for Survival, 1975.

The Attack on Inflation Cmnd. 6151, 1975.

The Attack on Inflation : The Second Year, Cmnd. 6507, 1976.

The Attack on Inflation After 31st July 1977, Cmnd. 6882, 1977.

Winning The Battle Against Inflation, Cmnd. 7293, 1978.

The Economy, The Government and Trade Union Responsibilities Joint Statement by the TUC and the Government, February 1979.

House of Commons Debates, Hansard.

II Trade Union Publications

(a) Trades Union Congress

Annual Reports 1972-78.

Economic Reviews 1974-78

Economic Policy and the Cost of Living TUC and Labour Party, 1973.

Economic Policy and Collective Bargaining in 1973, 1973.

Special Conference Report, June 1976.

'TUC Guidance to Negotiators', TUC Paper for TUC-Government Meeting, 31 October 1978 (Unpublished).

TUC Guides, 1979.

(b) Individual Unions

AUEW-TASS, Engineering Staff Salary Census 1982.

CSEU, Annual Reports 1975-78.

EETPU, Report of Biennial Delegate Conference 1975 and 1977.

NUM, Annual Reports 1974-78.

NUPE, Conference Reports 1977, 78.

TGWU, Report and Balance Sheet 1974-78.

(c) Union Journals

Journal (AUEW)

Contact (EETPU)

Journal (GMWU)

Public Service (NALGO)

The Miner (NUM)

The Seaman (NUS)

TASS News and Journal

Record (TGWU)

Labour (TUC)

III Labour Party

Conference Reports, 1971-78.

Manifestos March 1974 and October 1974.

Inflation Working Group, 'Suggested Programme of Work', January 1973.

IV Contemporary Publications

(a) Data Sources

Bank of England Quarterly Bulletin

CSO, Economic Trends

Department of Employment, Gazette

Department of Employment, New Earnings Surveys

Incomes Data Services, Reports and Briefs

Industrial Relations Review and Report

Monthly Abstract of Statistics

National Institute Economic Review

OECD, Economic Surveys : United Kingdom

(b) Journals

The Economist

The New Stateman

(b) Journals (continued)

New Society

Socialist Worker

Labour Monthly

(c) Newspapers

The Daily Mirror

The Daily Telegraph

The Evening Standard

The Guardian

The Financial Times

The Observer

The Sunday Telegraph

The Sunday Times

The Times

V Unpublished Materials

(a) Discussion Papers

Addison, John T. and Burton, John, 'Keynes's Analysis of Wages and Involuntary Unemployment Revisited'. Discussion Paper, Faculty of Commerce and Social Science, University of Birmingham, 1981 (Series A).

Behrend, Hilde, 'Inflation and Attitudes to Pay Increases: The Major Issues'. Department of Business Studies, University of Edinburgh, mimeo 1981.

Brown, William, 'The Structure of Bargaining in Britain'. Discussion Paper, Industrial Relations Research Unit, University of Warwick, Coventry, 1980.

Brown, William, and Sisson, Keith, 'The Use of Comparisons in Workplace Wage Determination'. Discussion Paper No. 10, Industrial Relations Research Unit, University of Warwick, Coventry, September 1974.

Chatterji, 'Employment-Inflation Dynamics and Economic Policy'. Department of Economics, University of Essex, England, October 1981.

Hazledine, Tim, 'Price Controls : For Full Employment Without Inflation'. Discussion Paper No. 467, Queen's University, Kingston, Canada, February 1982.

Jackman, R., and Layard, R., 'Trade Unions, the NAIRU and a Wage-Inflation Tax'. Centre for Labour Economics, London School of Economics, Working Paper No. 368, December 1981.

Jackman, R., and Layard, R., 'Administrative Aspects of a Wage-Inflation Tax'. Centre for Labour Economics, London School of Economics, Working Paper No. 370, January 1982.

Oswald, Andrew J., 'Wages, Trade Unions and the Welfare Econimics of Incomes Policy'. Institute of Economics and Statistics, Oxford University, November 1980.

Oswald, Andrew J., 'Optimal Intervention in an Economy with Trade Unions'. Institute of Economics and Statistics, Oxford University, August 1981.

Oswald, Andrew, J., 'The Microeconomic Theory of the Trade Union'. Institute of Economics and Statistics, Oxford University, October 1981.

Oswald, Andrew J., and Rosswell, Bridget C. 'Tax-Based Incomes Policy : Would It Work?' Institute of Economics and Statistics, Oxford University, April 1981.

Purcell, John, 'Strategies and Practice in the Management of Industrial Relations'. Management Research Papers, 8214, Oxford Centre for Management Studies.

Roche, William K., 'Ross on Comparisons : A Critical Examination of an Industrial Relations Classic'. Research Paper, Nuffield College, Oxford, November 1982.

Sachs, Jeffrey, 'Stabilization Policies in the World Economy : Scope and Skepticism'. National Bureau of Economic Research, Working Paper Series, No. 862, February 1982.

Schott, Kerry, 'The Rise and Fall of Keynesian Economics'. University College, London, November 1981, (Unpublished mimeo).

Sutcliffe, Charles, 'Inflation and Prisoners' Dilemmas'. Discussion Paper No. 126, Department of Economics, University of Reading, October 1981.

(b) Conference Papers

Bliss, Christopher, 'The Decline of Keynesianism'. Paper for Policy Seminar on the Future of Social Democracy, Nuffield College, Oxford, November 1980.

Dorscht, Axel, 'The Concerted Action Program : Incomes Policy in the Federal Republic of Germany'. Paper prepared for the Canadian Political Science Association Conference, Halifax, May 1981.

Goldthorpe, John H., 'Problems of Political Economy After the End of the Post-War Period'. Paper prepared for the Committee on Western Europe of the American Social Science Research Council and the American Council of Learned Societies Nuffield College, Oxford, February 1981.

Green, Leslie, 'Authority and Public Goods'. A paper prepared for presentation at the Annual Meeting of the Canadian Political Science Association, Dalhousie University, Halifax, May 1981.

Lange, Peter, 'Consenting to Restraint : The Political Economy of Union Wage Regulation ... Some Hypotheses and Data'. Paper delivered at the Annual Meeting of the American Political Science Association, New York, September 1981.

Laver, Michael, 'Force and the Strategic Free Rider'. Paper prepared for the 1981 ECPR Joint Sessions, Lancaster, England. Workshop : Socialism, Freedom and the Market.

Lehmbruch, Gerhard, 'Corporatism, Labour and Public Policy'. Submitted for Symposium No.11 : Social Policies in Comparative Perspective. 9th World Congress of Sociology, Uppsala, 14-19 August 1978.

Lehmbruch, Gerhard, 'Neo-Corporatist Policy Formation in Western Europe : Areas of Inquiry and Theoretical Problems'. Paper prepared for presentation at the Annual Meeting of the American Political Science Association, New York, September 1981.

Nordhaus, William D., 'Macroconfusion : The Dilemmas of Economic Policy'. Paper presented at a symposium in Honour of Arthur Okun, September 1981.

Robinson, Derek, 'A European Perspective'. A paper presented to an International Management Seminar on Collective Bargaining and Inflation : New Relations Between Government, Labour and Management, OECD, Paris, November 1976.

Scharpf, Fritz W., 'The Political Economy of Inflation and Unemployment in Western Europe : An Outline'. Paper presented at a Conference Politica, Societa, Economia Nell' Europa Occidentale Degli Anni '80 organized by Associazione Il Mulino, Bologna, October 1981.

Schwerin, Don S., 'The Analytics of Corporate Incomes Policy'. A paper prepared for delivery to the Annual Meeting of the Southern Political Science Association, Gatlinburg, Tennessee, November 1979.

Schwerin, Don S., 'If Political Complexity is the Problem, Then Neo-Corporatism is the Solution : The Case of Norwegian Incomes Policy'. Paper prepared for delivery to the ECPR - VW Conference on Overloaded Government. Paris : November 16-18, 1977.

Sharpe, L.J., 'Economic Performance and Distribution : Is the U.K. a Harbinger or Aberration?' Paper prepared for presentation at the ECPR Workshop on 'The Comparative Study of Distribution and Social Policy in Advanced Industrial Nations, Freiburg, 20-25, March 1983.

Wolfe, David A., 'The Demise of the Keynesian Era in Canada : Dilemmas of Federal Economic Policy, 1975-1980'. A paper presented to the Annual Meeting of the Canadian Political Science Association, Dalhousie University, Halifax, Nova Scotia, May 29, 1981.

Ward, Hugh, 'Theories of Economic and Political Crisis and the Problem of Collective Action'. A paper to be presented at the Conference of the Political Studies Association, University of Kent, April 1982.

(c) Draft Papers

Lange, Peter, 'Union Consent to Wage Regulation : A Comparative Analysis'. Draft Paper, Harvard University, 1981.

Roche, William K., 'Social Partnership and Political Control : State Strategy and Industrial Relations in Ireland'. Draft Paper, Nuffield College, Oxford, 1981.

(d) Speeches

Foot, Michael, 'A Contract for the 1980s'. Speech delivered to the Royal Institute of Public Administration, Cardiff, 29 October 1982.

Jones, Jack, Text of Speech to the Biennial Delegate Conference of the TGWU, Blackpool, 1975.

Murray, Len, 'The Democratic Bargain'. TUC, 1982.

Scanlon, Hugh, Text of an Address at Francis Berkeley School, Heath Park Road, Romford, 22 February 1974.

Transcript of an interview by Robin Day of Hugh Scanlon and Harold Lever, 18 February 1974.

Wilson, Harold, Text of an Address at the Co-operative Rooftop Restaurant, Upper Parliament Street, Nottingham, 17 February 1974.

(e) Theses

Corina, John, 'The British Experiment in Wage Restraint With Special Reference to 1948-50', (Oxford University D. Phil. Thesis, 1961).

Haywood, P.A., 'The Political Development of Incomes Policy in Britain from 1945-75 with Special Reference to Relations between Government and the Trade Union Movement', (Oxford University D. Phil. Thesis, 1980).

Helm, Dieter, 'Explaining Actions : Maximizing and Satisficing Models of Rationality', (Oxford University M. Phil. Thesis, 1981).

VI General Bibliography : Articles and Books

Anon, 'Economic Commentary', Bank of England and Quarterly Bulletin, 15 (June 1975): 125-139.

Addison, J.T., Wage Policies and Collective Bargaining Developments in Finland, Ireland and Norway Paris: OECD, 1979.

Alchian, Armen A. et al., The Economics of Charity London: Institute of Economic Affairs, 1973.

Almond, Gabriel A., 'Corporatism, Pluralism, and Professional Memory', World Politics, 35 (January 1983): 245-260.

Alt, James, The Politics of Economic Decline: Economic Management and Political Behaviour in Britain Since 1964 Cambridge: Cambridge University Press, 1979.

Atesoglu, H. Sonmez, 'Inflation and its Acceleration: Evidence from the postwar United States', Journal of Post Keynesian Economics, 3 (Fall 1980): 105-115.

Atkinson, Rodney, 'Incomes Policies Do Not Work', The Journal of Economic Affairs, 2 (April 1982): 178-180.

Austin-Smith, David, 'Voluntary Pressure Groups', Economica, 48 (May 1981): 143-153.

Axelrod, Robert, Conflict of Interest: A Theory of Divergent Goals with Applications to Politics Chicago: Markham Publishing Co., 1970.

Balogh, Thomas, Labour and Inflation Fabian Tract 403 London: Fabian Society, 1970.

Barbash, Jack, Trade Unions and National Economic Policy Baltimore: John Hopkins Press, 1972.

Barnes, Denis, and Reid, Eileen, Governments and Trade Unions: The British Experience 1964-79 London: Heinemann Educational Books, 1980.

Barnett, Joel, Inside the Treasury London: André Deutsch, 1982.

Barry, Brian, Sociologists, Economists and Democracy London: Collier-Macmillan Ltd., 1970.

Barry, Brian, 'Review Article : 'Exit, Voice and Loyalty'', British Journal of Political Science, 4 (January 1974): 79-107.

Barry, Brian, 'The Economic Approach to the Analysis of Power and Conflict', Government and Opposition, 9 (Spring 1974): 189-223.

Barry, Brian, and Hardin, Russell, eds., Rational Man and Irrational Society? Beverley Hills: Sage Publications, 1982.

Basnett, David, The Future of Collective Bargaining Fabian Tract 481. London: Fabian Society, 1982.

Basu, Kaushik, 'Information and Strategy in Iterated Prisoners' Dilemma', Theory and Decision, 8 (July 1977): 293-298.

Batstone, Eric, Boraston, Ian, and Frenkel, Stephen, Shop Stewards in Action : The Organization of Workplace Conflict and Accommodation Oxford: Basil Blackwell, 1977.

Beer, Samuel, Britain Against Itself : The Political Contradictions of Collectivism London: Faber and Faber, 1982

Behrend, Hilde, 'The Impact of Inflation on Pay Increase Expectations and Ideas of Fair Play', Industrial Relations Journal, 5 (Spring 1974): 5-10.

Behrend, Hilde, 'Research into Public Attitudes and the Attitudes of the Public to Inflation', Managerial and Decision Economics, 2 (1981): 1-8.

Bell, Daniel, 'The Cultural Contradictions of Capitalism', The Public Interest, 21 (Fall 1970): 16-43.

Bell, Daniel, 'Towards the Great Instauration : Reflections on Culture and Religion in a Postindustrial Age', Social Research, 42 (Autumn 1975): 381-413.

Bell, Daniel, The Cultural Contradictions of Capitalism London: Heinemann, 1976.

Bell, Daniel, 'Models and Reality in Economic Discourse', The Public Interest, Special Issue, (1980): 46-80.

Beloff, Max, and Peele, Gillian, The Government of the United Kingdom : Political Authority in a Changing World London: Weidenfeld and Nicolson, 1980.

Benjamin, Roger, The Limits of Politics : Collective Goods and Political Change in Postindustrial Societies Chicago: Chicago University Press, 1980.

Berger, Suzanne, ed., Organizing Interests in Western Europe : Pluralism, Corporatism and the Transformation of Politics Cambridge: Cambridge University Press, 1981.

Birch, A.H., 'Economic Models in Political Science : The Case of Exit, Voice and Loyalty', British Journal of Political Science, 5 (January 1975): 69-82.

Bispham, J.A., 'The Nature of the Inflation Process', National Institute Economic Review, 100 (May 1982): 8-13.

Blackaby, Frank, ed., An Incomes Policy for Britain : Policy Proposals and Research Needs London: Heinemann Educational Books, 1972.

Blackaby, Frank, 'The Reform of the Wage Bargaining System', National Institute Economic Review, 85 (August 1978): 49-54.

Blackaby, Frank, ed., The Future of Pay Bargaining London: Heinemann, 1980.

Bootle, Roger, 'How Important is it to Defeat Inflation? - The Evidence', The Three Banks Review, 132 (December 1981): 23-47.

Bosanquet, Nick, 'Tax-Based Incomes Policies', Oxford Bulletin of Economics and Statistics, 45 (February 1983), pp.33-49.

Bosanquet, Nick, and Townsend, Peter, eds., Labour and Equality : A Fabian Study of Labour in Power London: Heinemann, 1980.

Boston, Jonathan, Incomes Policy in New Zealand, 1970-1980 Wellington: The Treasury, 1980.

Brams, Steven J., Game Theory and Politics New York: The Free Press, 1975.

Braun, Anne Romanis, 'The Role of Incomes Policy in Industrial Countries Since World War II', International Monetary Fund Staff Papers, 22 (March 1975): 1-36.

Braun, Anne Romanis, 'Indexation of Wages and Salaries in Developed Economies', International Monetary Fund Staff Papers, 23 (March 1976): 226-271.

Brittan, Samuel, Steering The Economy New York: The Library Press, 1971.

Brittan, Samuel, The Economic Consequences of Democracy London: Temple Smith, 1977.

Brittan, Samuel, How to End the 'Monetarist' Controversy : A Journalist's Reflections on Output, Jobs, Prices and Money London: The Institute of Economic Affairs, 1981.

Brittan, Samuel, and Lilley, Peter, The Delusion of Incomes Policy London: Temple Smith, 1977.

Brown, A.J., 'Inflation and the British Sickness', The Economic Journal, 89 (March 1979): 1-12.

Brown, William, 'Incomes Policy and Pay Differentials', Oxford Bulletin of Economics and Statistics, 38 (February 1976): 27-49.

Brown, William, 'Engineering Wages and the Social Contract, 1975-77', Oxford Bulletin of Economics and Statistics, 41 (February 1979): 51-61.

Brown, William, ed., The Changing Contours of British Industrial Relations Oxford: Basil Blackwell, 1981.

Brown, William, 'Central Co-ordination', Oxford Bulletin of Economics and Statistics, 45 (February 1983): pp.51-62.

Brown, William, and Nolan, Peter, 'The Context of the Next Incomes Policy', Policy Studies, 1 (January 1981): 138-144.

Brown, William, and Sisson, Keith, A Positive Incomes Policy Fabian Tract 442, May 1976.

Brown, William,and Sisson, Keith, 'Industrial Relations in the Next Decade : Current Trends and Future Possibilities', Industrial Relations Journal, 14 (Spring 1983): 9-21.

Brown, William,and Terry, Michael, 'The Changing Nature of National Wage Agreements', Scottish Journal of Political Economy, 25 (June 1978): 119-133.

Buchanan, James M., The Limits of Liberty : Between Anarchy and Leviathan Chicago: Chicago University Press, 1975.

Buchanan, James M., et al., The Economics of Politics London: The Institute of Economic Affairs, 1978.

Burkitt, Brian, 'Excessive Trade Union Power : Existing Realtiy or Contemporary Myth?', Industrial Relations Journal, 12 (May-June 1981): 65-71.

Burkitt, Brian,and Bowers, David, Trade Unions and the Economy London: Macmillan, 1979.

Burton, John, Wage Inflation London: Macmillan, 1972.

Butler, David,and Kavanagh, Dennis, The British General Election of February 1974 London: Macmillan, 1974.

Butler, David,and Kavanagh, Dennis, The British General Election of October 1974 London: Macmillan, 1975.

Butler, David,and Halsey, A.H., eds., Policy and Politics London: Macmillan, 1978.

Butler, David,and Kavanagh, Dennis, The British General Election of 1979 London: Macmillan, 1980.

Butler, David and Sloman, Anne, British Political Facts 1900-1979 London: Macmillan, 1980.

Cameron, David, 'The Expansion of the Public Economy : A Comparative Analysis', The American Political Science Review, 72 (December 1978): 1243-1261.

Castle, Barbara, The Castle Diaries 1974-76 London: Weidenfeld and Nicolson, 1980.

Caves, Richard E., and Krause, Lawrence B., eds., Britain's Economic Performance Washington: The Brookings Institution, 1980.

Cell, Charles P., 'Selective Incentives versus Ideological Commitment : The Motivation for Membership in Wisconsin Farm Organizations', American Journal of Agricultural Economics, 62 (1980): 517-524.

Chater, Robin E.J., Dean, Andrew, and Elliott, Robert F. eds., Incomes Policy Oxford: Clarendon Press, 1981.

Clark, Colin, 'Do Trade Unions Raise Wages?', The Journal of Economic Affairs, 1 (July 1981): 228-229.

Clark, Jon, Hartmann, Heinz, Lau, Christoph, and Winchester, David, Trade Unions, National Politics and Economic Management : A Comparative Study of the TUC and the DGB London: Anglo-German Foundation, 1980.

Clarke, Tom, and Clements, Laurie, Trade Unions Under Capitalism Fontana, 1977.

Clegg, H.A., How to Run an Incomes Policy and Why We Made Such a Mess of the Last One London: Heinemann Educational Books, 1971.

Clegg, H.A., Trade Unionism under Collective Bargaining : A Theory Based on Comparisons of Six Countries Oxford: Basil Blackwell, 1976.

Clegg, H.A., The Changing System of Industrial Relations in Britain Oxford: Basil Blackwell, 1979.

Coates, David, Labour in Power? A Study of the Labour Government 1974-79 London: Longman, 1980.

Coates, Ken, ed., What Went Wrong : Explaining the Fall of the Labour Government Nottingham: Spokesman, 1979.

Coates, Ken, and Topham, Tony, Trade Unions in Britain Nottingham: Spokesman, 1980.

Cohen, C.D., 'The Social Contract and the Standard of Living', National Westminster Bank Quarterly Review, (August 1975): 44-56.

Colander, David, 'Incomes Policies: MIP, WIPP and TIP', Journal of Post-Keynesian Economies, 1 (Spring 1979): 91-100.

Collard, David, Altruism and Economy : A Study in Non-Selfish Economics Oxford: Martin Robertson, 1978.

Coombes, David, 'Trade Unions and Political Parties in Britain, France, Italy and West Germany', Government and Opposition, 13 (Autumn 1978): 485-495.

Corina, John, Incomes Policy - Problems and Prospects London: Institute of Personnel Management, 1966.

Cripps, Francis, 'The Money Supply, Wages and Inflation', Cambridge Journal of Economics, 1 (March 1977): 101-112.

Crouch, Colin, Class Conflict and the Industrial Relations Crisis London: Humanities Press, 1977.

Crouch, Colin, The Politics of Industrial Relations Fontana, 1979.

Crouch, Colin, 'Varieties of Trade Union Weakness : Organized Labour and Capital Formation in Britain, Federal Germany and Sweden', West European Politics, 3 (January 1980): 87-106.

Crouch, Colin, Trade Unions : The Logic of Collective Action Fontana, 1982.

Crouch, Colin, and Pizzorno, Allessandro, eds., The Resurgence of Class Conflict in Western Europe Since 1968, Volume I : National Studies London: Macmillan, 1978.

Crouch, Colin, and Pizzorno, Alessandro, eds. The Resurgence of Class Conflict in Western Europe Since 1968, Volume II : Comparative Analysis London: Macmillan, 1978.

Currie, David, and Smith, Ron, eds., Socialist Economic Review 1981 London: The Merlin Press, 1981.

Currie, David, and Sawyer, Malcolm, eds., Social Economic Review 1982 London: The Merlin Press, 1982.

Dahrendorf, Ralf, ed., Europe's Economy in Crisis London: Weidenfeld and Nicolson, 1982.

Daniel, W.W., 'The PEP Survey on Inflation', PEP Broadsheet, 41, 553 (July 1975): 60 pp.

Daniel, W.W., 'Wage Determination in Industry', PEP Broadsheet, 42, 563 (June 1976): 132 pp.

Daniel, W.W., 'The Next Stage of Incomes Policy', PEP Broadsheet, 42, 568 (December 1976): 35 pp.

Davidson, Paul, 'Post Keynesian Economics : Solving the Crisis in Economic Theory', The Public Interest, Species Issue (1980): 151-173.

Davidson, Paul, and Weintraub, Sidney, 'A Statement of Purposes', Journal of Post Keynesian Economics, 1 (Fall 1978): 3-7.

Dean, A.J.H., 'Earnings in the Public and Private Sectors 1950-75', National Institute Economic Review, 74 (November 1975): 60-70.

Dean, A.J.H., 'Public and Private Sector Manual Workers' Pay 1970-77', National Institute Economic Review, 82 (November 1977): 62-66.

Dean, A.J.H., 'Incomes Policies and Differentials', National Institute Economic Review, 85 (August 1978): 40-48.

Dean, James W., 'The Dissolution of the Keynesian Concensus', The Public Interest, Special Issue (1980): 19-34.

Dorfman, Gerald A., Wage Politics in Britain: 1945-1967 London: Charles Knight, 1974.

Dorfman, Gerald A., Government versus Trade Unionism in British Politics since 1968 London: Macmillan 1979.

Dorfman, Gerald A., British Trade Unionism Against the Trades Union Congress London: Macmillan, 1983.

Douty, Christopher M., 'Distasters and Charity : Some Aspects of Cooperative Economic Behaviour', American Economic Review,

Downs, Anthony, An Economic Theory of Democracy New York: Harper & Row, 1957.

Drucker, Peter F., 'Towards the Next Economics', The Public Interest, Special Issue (1980): 4-18.

Dunlop, John T. ed., The Theory of Wage Determination London: Macmillan, 1966.

Dworkin, Gerald, Bermant, Gordon, and Brown, Peter G. eds., Markets and Morals Washington D.C.: Hemisphere Publishing Corporation, 1977.

Eaton, Jack, and Gill, Colin, The Trade Union Directory London: Pluto Press, 1981.

Edelman, Murray, and Fleming, R.W., The Politics of Wage-Price Decisions : A Four Country Analysis Urbana : University of Illinois Press, 1965.

Eichner, Alfred S., 'Income Conflicts, Inflation and Controls : A Response', Journal of Post Keynesian Economics, 5 (Summer 1983): 603-607.

Elliott, John, Conflict or Co-operation, The Growth of Industrial Democracy London: Kegan Page, 1978.

Elliott, R.F., and Fallick, J.L., Pay in the Public Sector London: Macmillan, 1981.

England, Joe, 'Shop Stewards in Transport House : A Comment Upon the Incorporation of the Rank and File', Industrial Relations Journal, 12 (September-October 1981): 16-29.

England, Joe, and Weeks, Brian, 'Trade Unions and the State : A Review of the Crisis', Industrial Relations Journal, 12 (January-February 1981): 11-26.

Evely, Richard, 'The Effects of the Price Code', National Institute Economic Review, 77 (August 1976): 50-59.

Fallick, J.L., and Elliott, R.F. eds., Incomes Policies, Inflation and Relative Pay London: George Allen and Unwin, 1981.

Farber, Henry S., 'Individual Preferences and Union Wage Determination : The Case of the United Mine Workers', Journal of Political Economy, 86 (October 1978): 923-942.

Fatchett, O.J., and Whittingham, W.M., 'Other Aspects of the Social Contract', Industrial Relations Journal, 9 (Winter 1978/79): 57-64.

Fellner, William, et al., Shock Therapy or Gradualism? A Comparative Approach to Anti-Inflation Policies New York: Group of Thirty, 1981.

Finer, S.E., 'The Political Power of Organized Labour', Government and Opposition, 8 (Autumn 1973): 391-406.

Flanagan, Robert, 'Wage Interdependence in Unionized Labour Markets', Brookings Papers on Economic Activity, 3 (1976): 635-673.

Flanagan, Robert, 'The National Accord as a Social Contract', Industrial and Labour Relations Review, 34 (October, 1980): 35-51.

Flanagan, Robert, Soskice, David, and Ulman, Lloyd, Unionism, Stabilization and Incomes Policies Washington D.C.: The Brookings Institution, 1983 forthcoming.

Flemming, John, Inflation Oxford: Oxford University Press, 1976.

Fox, Alan, Socialism and Shop Floor Power Fabian Research Series 338, October 1978.

Frey, Bruno S., Modern Political Economy Oxford: Martin Robertson, 1978.

Friedman, Henry, and Meredeen, Sander, The Dynamics of Industrial Conflict : Lessons from Ford London: Croom Helm, 1980.

Friedman, Milton, Inflation and Unemployment : The New Dimension of Politics (The 1976 Alfred Nobel Memorial Lecture) London: Institute of Economic Affairs, 1977.

Friedman, Milton, and Friedman, Rose, Free to Choose Harmondsworth: Penguin, 1980.

Friedman, Milton, and Laidler, David, Unemployment versus Inflation? An Evalutaion of the Phillips Curve London: Institute of Economic Affairs, 1975.

Frohlich, Norman, 'Self-Interest or Altruism, What Difference?' Journal of Conflict Resolution, 18 (March 1974): 55-73.

Frohlich, Norman, and Oppenheimer, Joe A., 'I Get By With a Little Help from My Friends', World Politics, 23 (October 1970): 104-120.

Frohlich, Norman, Oppenheimer, Joe A. and Young, Oran, R., Political Leadership and Collective Goods Princeton, New Jersey: Princeton University Press, 1971.

Furniss, Norman 'The Political Implications of the Public Choice - Property Rights School', American Political Science Review, 72 (June 1978): 399-410.

Galbraith, John Kenneth, Economics and the Public Purpose Penguin Books, 1979.

Galbraith, John Kenneth, 'On Post Keynesian Economics', Journal of Post Keynesian Economics, 1 (Fall 1978): 8-11.

Gamble, Andrew, and Walton, Paul, Capitalism in Crisis : Inflation and the State London: The Macmillan Press, 1976.

Gapinski, James H. and Rockwood, Charles E. eds., Essays in Post-Keynesian Inflation Cambridge Mass: Ballinger Publishing Co., 1979.

Garner, C. Alan, 'Uncertainty, Human Judgment and Economic Decisions', Journal of Post Keynesian Econimics, 4 (Spring 1982): 413-424.

Gertler, Mark, 'Imperfect Information and Wage Inertia in the Business Cycle', Journal of Political Economy, 90 (October 1982): 967-987.

Glendon, A. Ian, Tweedie, D.P., Behrend, Hilde 'Pay Negotiations and Incomes Policy : A Comparison of Views of Managers and Trade Union Lay Negotiators', Industrial Relations Journal, 6 (Autumn 1975): 4-19.

Goodin, Robert E., The Politics of Rational Man London: John Wiley and Sons, 1976.

Goodin, Robert E., 'Discounting Discounting', Journal of Public Policy, 2 (February 1982): 53-72.

Goodwin, Cranfurd D. ed., Exhortation and Controls : The Search for a Wage-Price Policy, 1945-1971 Washington: The Brookings Institution, 1975.

Gordon, Robert J., 'The Demand for and Supply of Inflation', The Journal of Law and Economics, 18 (December 1975): 807-836.

Gormley, Joe, Battered Cherub London: Hamish Hamilton, 1982.

Grant, Wyn, and Marsh, David, 'The Politics of the CBI : 1974 and After', Government and Opposition, 10 (Winter 1975): 90-104.

Grant, Wyn, and Marsh, David, The Confederation of British Industry London: Hodder and Stoughton, 1977.

Gustavsen, Bjorn, and Hunnius, Gerry, 'Industrial Relations in Norway', New Zealand Journal of Industrial Relations, 6 (December 1981): 125-138.

Gylfason, Thorvaldur, and Lindbeck, Assar, 'The Political Economy of Cost Inflation', Kyklos, 35 (1982): 430-455.

Haberler, Gottfried, Parkin, Michael, and Smith, Henry, Inflation and the Unions London: Institute of Economic Affairs, 1972.

Haines, Joe, The Politics of Power London: Jonathan Cape, 1977.

Hall, Tony, King Coal : Miners, Coal and Britain's Industrial Future Penguin Books, 1981.

Handy, L.J., Wages Policy in the British Coalmining Industry : A Study of National Wage Bargaining Cambridge: Cambridge University Press, 1981.

Hardin, Russell, 'Collective Action as an Agreeable N-Prisoners' Dilemma', Behavioural Science, 16 (1971): 472-481.

Hawkins, Kevin, 'The Miners and Incomes Policy 1972-75', Industrial Relations Journal, 6 (Summer 1975): 4-22.

Hawkins, Kevin, The Management of Industrial Relations Penguin, 1978.

Hayek, F.A., 1980s Unemployment and the Unions : The Distortion of Relative Prices by Monopoly in the Labour Market (Hobart Paper 87) London: The Institute of Economic Affairs, 1980.

Hayward, Jack, 'Trade Union Movements and their Politico-Economic Environments', West European Politics, 3 (January 1980): 1-9.

Head, J.G., 'Public Goods and Public Policy', Public Finance, 17 (1962): 197-219.

Headey, Bruce, 'Trade Unions and National Wages Policy', Journal of Politics, 32 (May 1970): 407-439.

Heath, Anthony, Rational Choice and Social Exchange Cambridge: Cambridge University Press, 1976.

Hemphill, William L., 'Inflationary Momentum and Stabilization Policy : A U.S. Perspective', Journal of Public Policy, 2 (August 1982): 193-215.

Henry, S.G.B. and Ormerod, P.A., 'Incomes Policy and Wage Inflation : Empirical Evidence for the U.K. 1961-1977', National Institute Economic Review, 83 (August 1978): 31-39.

Hibbs, Douglas A. and Fassbender, Heino, eds., Contemporary Political Economy : Studies on the Interdependence of Politics and Economics Amsterdam: North Holland Publishing Company, 1981.

Hicks, John, The Crisis in Keynesian Economics Oxford: Basil Blackwell, 1973.

Higham, David, and Tomlinson, Jim, 'Why Do Governments Worry About Inflation', National Westminster Bank Quarterly Review, (May 1982): 2-13.

Hirsch, Fred, Social Limits to Growth London: Routledge & Kegan Paul, 1977.

Hirsch, Fred, and Goldthorpe, John H. eds., The Political Economy of Inflation London: Martin Robertson, 1978.

Hirschman, Albert O., Exit, Voice and Loyalty Cambridge Mass: Harvard University Press, 1970.

Hollingsworth, J. Rogers, 'The Political-Structural Basis for Economic Performance', The Annals of the American Academy of Political and Social Science, 459 (January 1982): 28-45.

Holmes, Martin, Political Pressure and Economic Policy : British Government 1970-1974 London: Butterworth Scientific 1982.

Hyman, Richard, 'The Politics of Workplace Trade Unionism: Recent Tendencies and some Problems of Theory', Capital and Class, 8 (Summer 1979), pp.54-67.

Hyman, Richard, 'British Trade Unionism : Post-War Trends and Future Prospects', International Socialism, 8 (Spring 1980): 64-79.

Inman, John, 'Wages Policy in Norway', British Journal of Industrial Relations, 17 (November 1979): 347-361.

Jackman, R. and Layard, R., 'An Inflation Tax', Fiscal Studies, 3 (March 1982): 47-59.

Jackson, Dudley, Turner, H.A. and Wilkinson, Frank, Do Trade Unions Cause Inflation? London: Cambridge University Press, 1975.

Jackson, Michael P., Trade Unions London: Longman, 1981.

Jones, Aubrey, 'A Policy for Prices and Incomes Now', Lloyds Bank Review, 103 (January 1972): 1-11.

Jones, Aubrey, The New Inflation : The Politics of Prices and Incomes London: André Deutsch, 1973.

Jones, P.R., 'Membership of Associations and Free-Riders', Industrial Relations Journal, 12 (November/December 1981): 34-44.

Kahn, Richard, 'Inflation - A Keynesian View', Scottish Journal of Political Economy, 23 (February 1976): 11-15.

Kaldor, Nicholas, 'What is Wrong with Economic Theory', The Quarterly Journal of Economics, 89 (August 1975): 347-357.

Kaldor, Nicholas, 'Inflation and Recession in the World Economy', The Economic Journal, 86 (December 1976): 703-714.

Katsimbris, George M. and Miller, Stephen M., 'The Relation Between the Rate and Variability of Inflation : Further Comments', Kyklos, 35 (1982): 456-467.

Kavanagh, Dennis, and Rose, Richard,eds., New Trends in British Politics : Issues for Research London: Sage Publications, 1977.

Keenan, William, and Pennant-Rea, R., Who Runs the Economy, Control and Influence in British Economic Policy London: Maurice Temple Smith, 1979.

Kelly, Mary, O'Dowd, Liam, and Wickham, James, eds., Power, Conflict and Equality Dublin: Juroe Press, 1982.

Keohane, Robert O., 'Economics, Inflation and the Role of the State : Political Implications of the McCracken Report', World Politics, 30 (October 1978): 108-128.

Kessler, Sid, 'Comparability', Oxford Bulletin of Economics and Statistics, 45 (February 1983), pp.85-104.

Keynes, John Maynard, The General Theory of Employment, Interest and Money London: Macmillan, 1973.

King, J.E., ed., Readings in Labour Economics Oxford: Oxford University Press, 1980.

Korner, Stephen, ed., Practical Reason Oxford: Basil Blackwell, 1974.

Korpi, Walter, 'Conflicts and the Balance of Power', Acta Sociologica, 17 (2, 1974): 99-114.

Korpi, Walter, and Shalev, Michael, 'Strikes, Industrial Relations and Class Conflict in Capitalist Societies', British Journal of Sociology, 30 (June 1974): 164-187.

Krause, L.B. and Salant, W.S. eds., Worldwide Inflation: Theory and Recent Experience Washington: Brookings Institution, 1977.

Kristol, Irving, ''When Virtue Loses All Her Loveliness' - Some Reflections on Capitalism and 'The Free Society'', The Public Interest, 21 (Fall 1970): 3-15.

Kristol, Irving, 'Rationalism in Economics', The Public Interest, Special Issue (1980): 201-218.

Laidler, David, 'Monetarism : An Interpretation and an Assessment', The Economic Journal, 91 (March 1981): 1-28.

Laidler, David, and Parkin, Michael, 'Inflation : A Survey', The Economic Journal, 85 (December 1975): 741-809.

Lal, Deepak, Unemployment and Wage Inflation in Industrial Economies Paris: OECD, 1977.

Lave, Lester B., 'An Empirical Approach to the Prisoners' Dilemma Game', Quarterly Journal of Economics, 76 (August 1962): 424-436.

Laver, Michael, 'The Great British Wage Game', New Society, 6 March 1980, pp.495-6.

Laver, Michael, 'Exit, Voice and Loyalty Revisited : The Strategic Production and Consumption of Public and Private Goods', British Journal of Political Science, 6 (October 1976): 463-482.

Laver, Michael, 'Political Solutions to the Collective Action Problem', Political Studies, 28 (June 1980): 195-209.

Laver, Michael, The Politics of Private Desires Penguin, 1981.

Layard, Richard, 'Human Satisfactions and Public Policy', The Economic Journal, 90 (December 1980): 737-750.

Layard, Richard, 'Is Incomes Policy The Answer to Unemployment?' Economica, 49 (August 1982): 219-239.

Lehmbruch, Gerhard, 'Liberal Corporatism and Party Government', Comparative Political Studies, 10 (April 1977): 91-126.

Leibenstein, Harvey, 'Microeconomics and X-Efficiency Theory : If There is no Crisis - There Ought to be', The Public Interest, Special Issue (1980): 97-110.

Leibenstein, Harvey, 'The Prisoner's Dilemma in the Invisible Hand : An Analysis of Intrafirm Productivity', The American Economic Review, 72 (May 1982): 92-97.

Leijnse, Frans, 'Workplace bargaining and trade union power', Industrial Relations Journal, 11 (May/June 1980): 58-69.

Lewin, Leif, and Vedung, Evert, eds., Politics as Rational Action : Essays in Public Choice and Policy Analysis Dordrecht: D. Reidel, 1980.

Lilley, Peter, 'Incomes Policies : A Cost-Benefit Analysis', National Westminster Bank Review, (May 1977): 19-31.

Lindberg, Leon N., 'The Problems of Economic Theory in Explaining Economic Performance', The Annals of the American Academy of Political and Social Science, 459 (January 1982): 14-27.

Lindblom, Charles E., Politics and Markets New York: Basic Books, 1977.

Lipsey, David, and Leonard, Dick, eds., The Socialist Agenda : Crosland's Legacy London: Jonathan Cape, 1981.

Lipsey, Richard G., 'The Understanding and Control of Inflation : Is there a Crisis in Macro-economics?' The Canadian Journal of Economics, 14 (November 1981): 545-576.

Lipsey, Richard G., 'Government and Inflation', The American Economic Review, 72 (May 1982): 67-71.

Lipsey, Richard G. and Parkin, Michael, 'Incomes Policy : A Re-appraisal', Economica, 37 (May 1970): 115-138.

Llewellyn, David T., 'Can Monetary Targets Influence Wage Bargaining?' The Banker, 130 (January 1980): 49-53.

Loasby, Brain J., Choice, Complexity and Ignorance : An Enquiry into Economic Theory and the Practice of Decision-Making Cambridge: Cambridge University Press, 1976

Logue, Denis E. and Sweeny, Richard J., 'Inflation and Real Growth : Some Empirical Results', Journal of Money, Credit and Banking, 13 (November 1981): 497-501.

Luce, Duncan R. and Raiffa, Howard, Games and Decisions : Introduction and Critical Survey New York: John Wiley and Sons, 1957.

MacDonald, D.F., The State and Trade Unions London: Macmillan, 1978.

Maddock, Rodney, and Carter, Michael, 'Inflation as a Prisoner's Dilemma : A Comment', Journal of Post Keynesian Economics, 4 (Winter 1981-82): 330-331.

Maital, Shlomo, 'Linking wages to prices without causing inflation : deferred income in theory and practice', Cambridge Journal of Economics, 2 (March 1978): 83-98.

Maital, Shlomo, and Benjamini, Yael, 'Inflation as Prisoner's Dilemma', Journal of Post Keynesian Economics, 2 (Summer 1980): 459-481.

Maital, Shlomo, and Benjamini, Yael, 'Inflation as a Prisoner's Dilemma : Response to Maddock and Carter', Journal of Post Keynesian Economics, 4 (Winter 1981-82): 332.

Malinvand, E., 'Wages and Unemployment', The Economic Journal, 92 (March 1982): 1-12.

Margolis, Howard, Selfishness, Altruism and Rationality : A Theory of Social Choice Cambridge: Cambridge University Press, 1982.

Marks, Mitchell Lee, and Mirvis, Philip, M., 'Wage Guidelines : Impact on Job Attitudes and Behaviour', Industrial Relations, 20 (Fall 1981): 286-296.

Marsh, David, 'On Joining Interest Groups : An Empirical Consideration of the Work of Mancur Olson Jr.', British Journal of Political Science, 6 (July 1976): 257-271.

Marsh, David, and Locksley, Gareth, 'Trade Union Power in Britain : The Recent Debate', West European Politics, 4 (January 1981): 19-37.

Martin, Andrew, and Ross, George, 'European Trade Unions and The Economic Crisis', West European Politics, 3 (January 1980): 33-67.

Martin, Ross M., TUC : The Growth of a Pressure Group 1868-1976 Oxford: Clarendon Press, 1980.

Martin, Ross M., 'Pluralism and the New Corporatism', Political Studies, 31 (March 1983): 86-102.

Marwell, Gerald, and Ames, Ruth E., 'Economists Free Ride, Does Anyone Else?' Journal of Public Economics, 15 (June 1981): 295-310.

Matthews, R.C.O., 'Comment on the article by Jackman and Layard', Fiscal Studies, 3 (March 1982): 61-64.

Maunder, W.P.I. ed., The British Economy in the 1970s London: Heineman Educational Books, 1980.

Mayhew, Ken, 'Traditional Incomes Policies', Oxford Bulletin of Economics and Statistics, 45 (February 1983), pp.15-32.

McCarthy, W.E.J. and Ellis, N.D., Management by Agreement London: Hutchinson, 1973.

McCarthy, W.E.J., O'Brien, J.F. and David, U.G., Wage Inflation and Wage Leadership : A Study of Key Wage Bargains in the Irish System of Collective Bargaining Dublin: The Economic and Social Research Institute, 1975.

McCracken, Paul, et al., Towards Full Employment and Price Stability Paris: OECD, 1977.

McDonald, Ian M. and Solow, Robert M., 'Wage Bargaining and Employment', American Economic Review, 71 (December 1981): 896-908.

McLean, Iain, 'The Social Contract in Leviathan and the Prisoner's Dilemma Supergame', Political Studies, 29 (September 1981): 339-351.

McLean, Iain, 'Tit-for-tat and Ethical Computers', Politics, 2 (April 1982): 31-35.

McMillan, John, 'The Free-Rider Problem : A Survey', The Economic Record, 55 (June 1979): 95-107.

Meade, James E., Stagflation : Volume I, Wage Fixing London: George Allen and Unwin 1982.

Meltzer, Allan, H., 'Monetarism and the Crisis in Economics', The Public Interest, Special Issue (1980): 35-45.

Miche, Alistair, and Hoggart, Simon, The Pact : The Inside Story of the Lib-Lab Government 1977-78 London: Quartet Books, 1978.

Minford, Patrick, et al., Is Monetarism Enough? London: Institute of Economic Affairs, 1980.

Minford, Patrick, 'Trade Unions Destroy a Million Jobs', The Journal of Economic Affairs, 2 (January 1982): 73-79.

Minkin, Lewis, 'The British Labour Party and the Trade Unions : Crisis and Compact', Industrial and Labour Relations Review, 28 (October 1974): 7-37.

Mitchell, Daniel J.B., Unions, Wages and Inflation Washington D.C.: The Brookings Institution, 1980.

Mitchell, Douglas W., 'Deficit and Inflation in a Post-Keynesian Model', Journal of Post Keynesian Economics, 3 (Summer 1981): 560-567.

Mitchell, Joan, The National Board for Prices and Incomes London: Secker and Warburg, 1972.

Mire, Joseph, 'Incomes Policy in Austria Under a Voluntary Partnership', Monthly Labour Review, 100 (August 1977): 13-17

Mire, Joseph, 'Industrial Relations in Austria', New Zealand Journal of Industrial Relations, 6 (December 1981): 139-149.

Moe, Terry M., The Organization of Interests : Incentives and the Internal Dynamics of Political Interest Groups Chicago: Chicago University Press, 1980.

Ng, Yew-Kwang, 'Incomes Policies : Conditions for Voluntary Compliance', Manchester School, 2 (June 1981): 111-128.

Nordhaus, William D., 'The Worldwide Wage Explosion', Brookings Papers on Economic Activity, 2 (1972): 431-465.

O'Brien, James F., A Study of National Wage Agreements in Ireland Dublin: The Economic and Social Research Institute, 1981.

OECD, Present Policies Against Inflation Working Party No.4 of the Economic Policy Committee, Paris, June 1971.

OECD, Wage Determination Paris, 1974.

OECD, Socially Responsible Wage Policies and Inflation Paris, 1975.

OECD, Collective Bargaining and Inflation : New Relations Between Government, Labour and Management Paris, 1977.

OECD, Prices and Incomes Policies in an Overall Setting Working Party No.4 of the Economic Policy Committee, Paris, April 1977.

OECD, The Role of Incomes Policy in Short-Term Economic Management Working Party No.4 of the Economic Policy Committee, Paris, December 1978. (CPE/WP4(78)7).

OECD, Collective Bargaining and Government Policies Paris, 1979.

OECD, Collective Bargaining and Government Policies in Ten OECD Countries Paris, 1979.

OECD, Collective Bargaining and Economic Policies : Dialogue and Consensus Background Working Paper for Experts' Meeting 18-20th July, 1983.

Office of Manpower Economics, Wage Drift : Review of Literature and Research London: H.M.S.O. 1973.

Okun, Arthur M., Prices and Quantities : A Macroeconomic Analysis Oxford: Basil Blackwell, 1981.

Okun, Arthur M., and Perry, George L., eds., Curing Chronic Inflation Washington: The Brookings Institute, 1978.

Oliver, Pamela, 'Selective Incentives in an Apex Game : An Experiment in Coalition Formation', Journal of Conflict Resolution, 24 (March 1980): 113-141.

Olson, Mancur, The Logic of Collective Action Cambridge Mass: Harvard University Press, 1971.

Olson, Mancur, and Bailey, Martin J., 'Positive Time Preference', Journal of Political Economy, 89 (February 1981): 1-25.

Orbell, John M. and Wilson, L.A. 'Institutional Solutions to the N-Prisoners' Dilemma', American Political Science Review, 72 (June 1978): 411-421.

Oswald, Andrew, 'Trade Unions, Wages and Unemployment : What Can Simple Models Tell Us?' Oxford Economic Papers, 34 (November 1982): 526-545.

Oswald, Andrew, 'Uncertainty and the Trade Union', Economic Letters, 9 (1982): 105-111.

Owen, David, Face the Future London: Jonathan Cape, 1981.

Panitch, Leo, Social Democracy and Industrial Militancy : The Labour Party, the Trade Unions and Incomes Policy, 1945-1974 Cambridge: Cambridge University Press, 1976.

Panitch, Leo, 'The Development of Corporatism in Liberal Democracies', Comparative Political Studies, 10 (April 1977): 61-90.

Panitch, Leo, 'Trade Unions and the Capitalist State', New Left Review, 125 (January-February 1981): 21-43.

Pardoe, John, 'The Case for an Incomes Policy', Policy Studies, 1 (January 1981): 129-137.

Parfit, Derek, 'Prudence, Morality and the Prisoner's Dilemma', Proceedings of the British Academy for 1979 London: Oxford University Press, 1981: pp.539-564.

Parkin, Michael, 'The Politics of Inflation', Government and Opposition, 10 (Spring 1975): 189-202.

Parkin, Michael, and Sumner, Michael T. eds., Incomes Policy and Inflation Toronto: University of Toronto Press, 1973.

Peel, D.A. and Pope, P.F., 'How to Minimize Crazy Wage Settlements', The Journal of Economic Affairs, 1 (July 1981): 212-215.

Perry, George L., 'Determinants of Wage Inflation Around The World', Brookings Papers on Economic Activity, 2 (1975): 403-447.

Phelps, Edmund S., ed., Altruism, Morality and Economic Theory New York: Russell Sage, 1975.

Phelps Brown, Henry, 'A Non-Monetarist View of the Pay Explosion', The Three Banks Review, 105 (March 1975): 3-24.

Phelps Brown, Henry, 'Incomes Policy Revisited', Fiscal Studies, 2 (November 1981): 1-9.

Plamenatz, John, 'Interests', Political Studies, 2 (1954): 1-8.

Ploeg, Rick van der, 'Government Policy, Real Wage Resistance and the Resolution of Conflict', European Economic Review, 19 (October 1982): 181-212.

Poole, Michael, 'Some Problems of Method and Operational Techniques in the Study of Corporatism', European Journal of Political Research, 10 (1982): 255-263.

Prager, Theodor, 'Austria's 'Social Partnership' - A View From Within', Policy Studies, 1 (January 1981): 145-156.

Purcell, John, and Smith, Robin, eds., The Control of Work London: Macmillan, 1979.

Rayman, R.A., 'Price Stability and Full Employment : A Neo-Keynesian Policy for Growth Without Inflation', PEP Broadsheet, 41, 558 (October 1975), 62 pp.

Reder, Melvin, W., 'Job Scarcity and the Nature of Union Power', Industrial and Labour Relations Review, 13 (April 1960): 349-362.

Rees, Albert, The Economics of Trade Unions Cambridge: Cambridge University Press, 1962.

Robbins, Lord, et al., Trade Unions : Public Goods or Public 'Bads'? London: Institute of Economic Affairs, 1978.

Robinson, Derek, Incomes Policy and Capital Sharing in Europe London: Croom Helm, 1973.

Robinson, Derek, 'Indirect and Partial Measures', Oxford Bulletin of Economics and Statistics, 45 (February 1983) : 105-125.

Robinson, Derek, and Mayhew, Ken, 'Conclusions', Oxford Bulletin of Economics and Statistics, 45 (February 1983) : 127-139.

Roche, William K., 'Convention and Change in Irish Industrial Relations : Comparisons and Differentials', in Trends in Irish Industrial Relations Dublin: College of Industrial Relations, 1981.

Rose, Richard, ed., Challenge to Governance : Studies in Overloaded Politics London: Sage Publications, 1980.

Rotstein, Abraham, ed., Beyond Industrial Growth Toronto: University of Toronto Press, 1976.

Rowthorn, R.E., 'Conflict, Inflation and Money', Cambridge Journal of Economics, 1 (September 1977): 215-239.

Sachs, Jeffrey D., 'Wages, Profits and Macroeconomic Adjustment : A Comparative Study', Brookings Papers on Economic Activity, 2 (1979): 269-319.

Saunders, Christopher, Murkherjee, Santosh, Marsden, David, and Donaldson, Alison, 'Winners and Losers : Pay Patterns in the 1970's', PEP Broadsheet, 43, 570, (September 1977), 106 pp.

Sawyer, M.C. 'Collective Bargaining, Oligopoly and Macro-Economics', Oxford Economic Papers, 34 (November 1982): 428-448.

Schelde-Anderson, Palle, and Turner, Philip, 'Incomes Policy in Theory and Practice', OECD Economic Outlook : Occasional Studies Paris: OECD, July 1980.

Schelling, Thomas C., The Strategy of Conflict Cambridge, Mass: Harvard University Press, 1963.

Schmitter, Philippe C., 'Modes of Interest Intermediation and Models of Societal Change in Western Europe', Comparative Political Studies, 10 (April 1977): 7-38.

Schmitter, Philippe C., and Lehmbruch, Gerhard, eds., Trends Towards Corporatist Intermediation London: Sage Publications, 1979.

Schwerin, Don S., 'Norwegian and Danish Incomes Policy and European Monetary Integration', West European Politics, 3 (October 1980): 388-405.

Schwerin, Don S., 'Corporate Incomes Policy : Norway's Second-Best Institutions', forthcoming in Polity.

Scitovsky, Tibor, 'Market Power and Inflation', Economica, 45 (August 1978): 221-233.

Scott, Maurice, with Laslett, Robert A., Can We Get Back to Full Employment? London: Macmillan, 1978.

Seidman, Laurence S., 'Tax-Based Incomes Policies', Brookings Papers on Economic Activity, 2 (1978): 301-348.

Sen, Amartya K., 'Isolation, Assurance and the Social Rate of Discount', Quarterly Journal of Economics, 81 (February 1967): 112-124.

Sen, Amartya K., Collective Choice and Social Welfare San Francisco: Holden-Day, 1970.

Sen, Amartya K., 'Rational Fools : A Critique of the Behavioural Foundations of Economic Theory', Philosophy and Public Affairs, 6 (1977): 317-344.

Sen, Amartya K., Choice Welfare and Measurement Oxford: Blackwell, 1982.

Shackle, G.L.S., The Nature of Economic Thought Cambridge: Cambridge University Press, 1966.

Smith, Douglas A., 'Labour Market Institutions and Inflation', British Journal of Industrial Relations, 14 (March 1976): 35-42.

Smith, Trevor, 'Politics, Economics and Political Economy', Government and Opposition, 8 (Summer 1973): 263-279.

Spitäller, Erich, Incomes Policy in Austria International Monetary Fund, Research Department, July 21, 1972.

Sutcliffe, Charles, 'Inflation and Prisoners' Dilemmas', Journal of Post Keynesian Economics, 4 (Summer 1982): 574-585.

Sweeney, John W., 'Altruism, The Free-Rider Problem and Group Size', Theory and Decision, 4 (February-April 1974): 259-275.

Tarling, Roger, and Wilkinson, Frank, 'The Social Contract: Post-War Incomes Policies and Their Inflationary Impact', Cambridge Journal of Economics, 1 (December 1977): 395-414.

Taylor, Michael, and Ward, Hugh, 'Chickens, Whales, and Lumpy Goods : Alternative Models of Public-Goods Provision', Political Studies, 30 (September 1982): 350-370.

Taylor, Robert, Labour and the Social Contract Fabian Tract 458, London: Fabian Society, 1978.

Taylor, Robert, The Fifth Estate : Britain's Unions in the Seventies London: Routledge and Kegan Paul, 1978.

Telser, L.G., 'A Theory of Self-Enforcing Agreements', Journal of Business, 53 (1980): 27-44.

Thomson, A.W.J., 'Trade Unions and the Corporate State in Britain', Industrial and Labour Relations Review, 33 (October 1979): 36-54.

Thurow, Lester C., The Zero-Sum Society : Distribution and the Possibilities for Economic Change New York: Basic Books, 1980.

Tobin, James, 'Inflation and Unemployment', American Economic Review, 62 (March 1972): 1-18.

Tobin, James, 'The Monetarist Counter-Revolution Today - An Assessment', The Economic Journal, 91 (March 1981): 29-42.

Torrington, Derek, ed., Comparative Industrial Relations in Europe London: Associated Business Programmes, 1978.

Towers, Brian, 'A Return to Incomes Policy?' Industrial Relations Journal, 12 (March-April 1981): 7-18.

Trace, Lane, 'The Influence of Non-economic Factors on Negotiators', Industrial and Labour Relations Review, 27 (January 1974): 204-215.

Trevithick, J.A., 'Inflation, The Natural Unemployment Rate and the Theory of Economic Policy', Scottish Journal of Political Economy, 23 (February 1976): 37-53.

Trevithick, J.A., Inflation : A Guide to the Crisis in Economics Penguin Books, 1977.

Trevithick, James and Mulvey, Charles, The Economics of Inflation London: Martin Robertson, 1975

Tuchscherer, Thomas, 'The Unnatural Natural Rate of Unemployment', Journal of Post Keynesian Economics, 4 (Fall 1981): 25-31.

Turner, H.A., and Wilkinson, Frank, 'The Seventh Pay Policy', New Society, 17 July 1975.

Tylecote, Andrew, The Causes of the Present Inflation : An Interdisciplinary Explanation of Inflation in Britain, Germany and the United States London: Macmillan, 1981.

Ulman, L., and Flanagan, R.J., Wage Restraint : A Study of Incomes Policies in Western Europe Berkeley: University of California Press, 1971.

Undy, Roger, 'The Devolution of Bargaining Levels and Responsibilities in the Transport and General Workers' Union 1965-75', Industrial Relations Journal, 9 (Autumn 1978): 44-56.

Vickers, Douglas, Economics and Man New Jersey: The Craig Press, 1976.

Vickers, Douglas, 'Uncertainty, Choice and the Marginal Efficiencies', Journal of Post Keynesian Economies, 2 (Winter 1979/80): 240-254.

Vig, Norman J., 'Post-Keynesian Economics and Politics : Towards an Expectationist Theory of Democracy?' World Politics, 34 (October 1981): 62-89.

Walsh, Pat, 'Myth and Reality in Industrial Relations : Moderates, Militants and Social Contracts', New Zealand Journal of Industrial Relations, 7 (August 1982): 77-82.

Walton, Clarence C. ed., Inflation and National Survival New York: Academy of Political Science, 1979.

Ward, Terry, 'Thatcherism in Practice', Journal of Post Keynesian Economics, 4 (Summer 1982): 516-530.

Weintraub, Sidney, 'An Incomes Policy to Stop Inflation', Lloyds Bank Review, 99 (January 1971): 1-12.

Weintraub, Sidney, Capitalism's Inflation and Unemployment Crisis Reading Mass: Addison-Wesley, 1978.

Weintraub, Sidney, 'The Missing Theory of Money Wages', Journal of Post Keynesian Economics, 1 (Winter 1978/9): 59-78.

White, Michael, The Hidden Meaning of Pay Conflict London: Macmillan, 1981.

Wiles, Peter, 'Cost Inflation and the State of Economic Theory', The Economic Journal, 82 (June 1973): 377-398.

Wiles, Peter, 'Ideology, Methodology and Neoclassical Economics', Journal of Post Keynesian Economics, 2 (Winter 1979/80): 155-180.

Willman, Paul, Fairness, Collective Bargaining and Incomes Policy Oxford: Clarendon Press, 1982.

Willman, Paul, 'A Note on the Feasibility of Incomes Policy', Industrial Relations Journal, 13 (Summer 1982): 75-81.

Wilson, Harold, The Governance of Britain London: Weidenfeld and Nicolson and Michael Joseph, 1976.

Wilson, Harold, Final Term London: Weidenfeld and Nicolson, 1979.

Wood, Adrian, A Theory of Pay Cambridge: Cambridge University Press, 1978.

Wright, Michael,and Apple, Nixon, 'Incomes Policy and Industrial Relations : Britain, Sweden and Australia', The Journal of Industrial Relations, 22 (December 1980): 453-475.