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Paying for the Crisis

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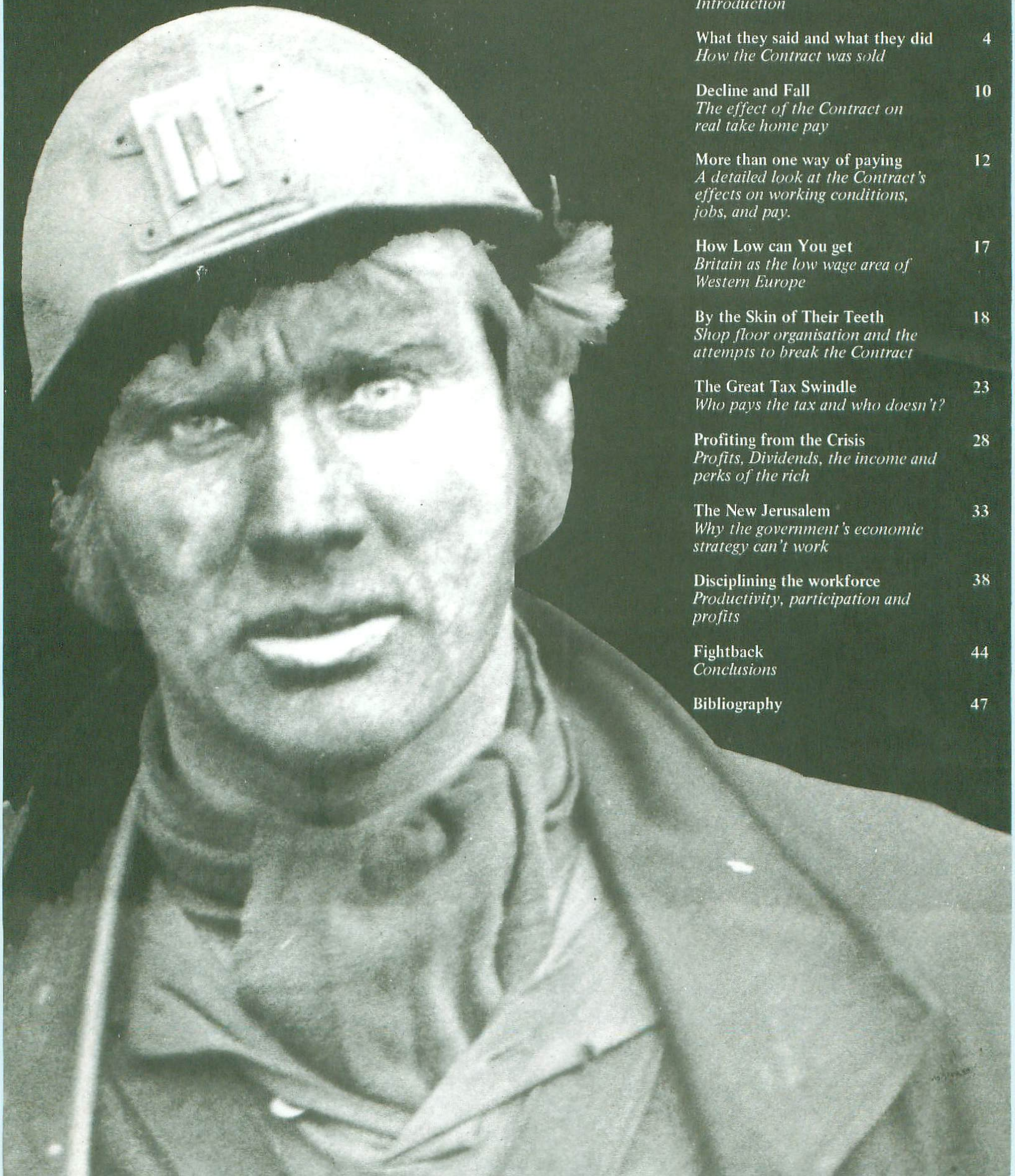


Paying for the Crisis

During the first three years of the Labour Government's term of office, real wages have suffered the worst fall since the post General Strike period of 1926-29. Unemployment is the highest since 1938. Price rises have been higher than in living memory. Investment in real terms is the lowest since 1964 and the only area which is beating inflation is company profits. These are the real achievements of the Social Contract.

Writing before the March 1974 election we pointed out that, under the Tories, profits were rising much faster than wages, and that these profits were not going into investment. Food companies and the banks were doing particularly well (The Unacceptable Face, CIS Special Report). All these trends have been multiplied under labour.

After a big jump in 1976, reported profits for the first three months of 1977 show a year on year rise of a further 33%. In February 1974 we wrote, 'A good example of the trend to pile up extra profits in the bank while ignoring new investment is . . . GEC. Profits for the financial year 1972/73 were up 59% after tax, from £44m to £70m, while employees' wages rose only 8% . . . money in the bank soared from £83m to £125m."

GEC's profit after tax for 1975/76 was £207m. On 9th December 1976 the company announced its interim profits. They were up by more than a third on the first half of the previous year, and it had worked out a real bonanza for shareholders to collect on the £334m cash in the bank. By a complicated arrangement the shareholders were paid out (in the form of exchangeable notes) the grand total of £178m. As the *Financial Times* (10.1.77) said, the whole manoeuvre, 'underlines the absurdity of dividend controls'.

GEC's profits boom is being reechoed throughout most other large companies and nowhere more than in the food industry. We listed 11 major food companies in the top 50 UK companies in our earlier report. In the Tory freeze period we pointed out profits had risen 25% per annum on average. This was to prove peanuts under the Social Contract. Unilever, the giant among food companies has recently announced an 84% leap to £605m in combined U.K. and Dutch profits. Imperial Group's food division (Ross, Golden Wonder, etc.) profits were up over 50% last year. Rank Hovis were up 40% to £42m, Associated British Foods were up 45% to £66m – twice as fast as anything achieved under the Tories – and first half profits for the current financial year were up another 22%. Little wonder that food prices, which hit the worse off more than anyone else, have been rising so steeply.

The Banking sector of course have also been doing exceptionally well mainly out of the dear money policy of the Labour Government. The big four banks recently reported profits up 63% to all time records. So much for the Government's policy of keeping down wages to make room for investment. GEC's cash return to its shareholders says it all. If Weinstock, the whizzkid of profits can't find a profitable investment after three years of falling wages, who can?

"There is no evidence that dividend controls, by enabling companies to retain more of their profits have encouraged them to spend more on new plant and equipment" said the *Financial Times* (10.1.77), inadvertently writing the epitaph on Labour's industrial strategy. But then it is doubtful if that strategy was ever taken really seriously by the Treasury. The dividend controls have been operated with a great deal of flexibility, and the number of loopholes whereby a company can increase its dividend by more than the statutory minimum is considerable. A recent example is RTZ who have been granted total exemption because their trading profits and operating assets are based overseas. They are accordingly going to increase their 1976 dividends by 50%. Similarly Inchcape, the multinational trading group have also been let off any restraint on what they pay out to their shareholders.

Compare this with TUC leaders stomping on a pay rise, and think of the 'Socialist Aims' of the January 1974 Manifesto on which Labour were voted in, to 'achieve far greater economic equality – in income, wealth and living standards.'

And what about the promises that were the Government's side of the Social Contract, to keep down prices and unemployment? The promise to 'Bring about a fundamental and inevitable shift in the balance of power and wealth in the favour of working people and their families"?

As the manifesto so truthfully pointed out, "Only practical action by the Government to create a much fairer distribution of the national wealth, can convince the worker and his family and his trade union that an 'incomes policy' is not some kind of trick to force him to bear the brunt of the national burden.'

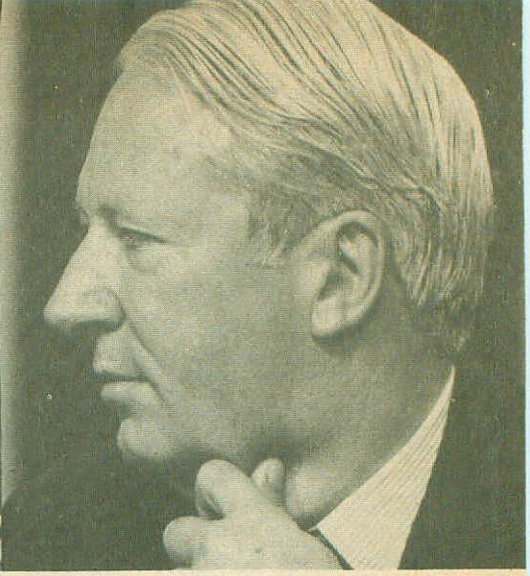
What has been the result of that practical action?

The complete reverse of what was promised. There has been a massive shift of wealth into companies profits, the burden of taxation has been transferred onto the wages of working people, the prices of gas electricity and transport have risen enormously, and health and education are facing massive cuts.

Yet as another attempt to negotiate a pay deal starts up, the same old promises of single figure inflation by the end of the year are trotted out as they were two years ago. The same visions of pie in the sky are offered for sacrifices today. Once again what is being sold is precisely a trick to force the worker and his family to bear the brunt of the national burden. This report outlines just how much of that burden has been shifted onto the backs of the workers and why. Now is the time for that judgement on deeds.

Keystone

In 1974 the miners brought . . .



Edward Heath down . . .

Camera Pre

What they said and what they did

The history of the Social Contract as a method of wage restraint falls into two periods. When the minority Labour government was returned to power in March 1974 the Tory incomes policy had just been smashed by the miners. After two years of falling real incomes, against a background of rapidly rising profits, the pressure of workers pay demands was irresistable. The lesson of the miners' struggle – that only militancy brought real rewards – was everywhere apparent.

During its first period of office, therefore, the Labour government could only cajole and wheedle. Like scraps to a starving lion the more offensive aspects of Tory industrial policy were removed from the statute book. The essential strategy was to appear to grant reforms whilst delivering as little as possible in reality. The most important tactic was to allow the union leaders, the government's natural allies, enough cause to be able to argue that the government was delivering its side of the contract and that this justified wage restraint.

The second period, starting with the return of the Labour government with an overall majority in October 1974, is the period when the Social Contract had no meaning other than wage restraint. The militancy of the workers, sold out on the one hand by the TUC and threatened on the other by rising unemployment, sharply declined. Even the appearance of reform became unnecessary, as the TUC leaders voted for government policy, however much it damaged their members' interests.

What they said . . .

The Labour Manifesto for the 1974 election made great play of the Social Contract which had been drawn up by a joint Labour Party-TUC working committee over the previous two years. The 'essence of the new Social Contract' was 'an entirely new recognition of the aims of social justice.' **'Only practical action by the Government to create a much fairer distribution of the national wealth can convince the worker and his family and his trade union that 'an incomes policy' is not some kind of trick to force him, particularly if he works in a public service or nationalised industry to bear the brunt of the national burden', the Manifesto argued.** The Labour Party agreed to dismantle the Pay Board, repeal the Industrial Relations Act and introduce an Employment Protection Act and an Industrial Democracy Act, and a wealth tax. A wide range of proposals to extend public ownership, to 'socialise' existing nationalised industries and generally to allow 'the British people, both as workers and consumers' to have 'more control over the powerful private forces that at present dominate our economic life', were included.

'These measures will allow the unions, **on a voluntary basis and under free collective bargaining** to recognise in their wage claims the contributions to living standards that these measures will make', said Hugh Scanlon, leader of the engineering union, during the campaign. (*Financial Times* 23.2.74) **With unconscious irony, Scanlon added 'to call this an agreed incomes policy, with all that name conjures up, in the minds of working people, would create misunderstandings which should be avoided.'**

Labour won the election in March 1974, and Michael Foot was appointed to the crucial post of Minister of Employment. In April 1974 came Healey's first budget – more froth than substance. True, some food subsidies were introduced and the pensions increase agreed but the annual wealth tax on the rich was postponed until 'a thorough public discussion about the precise form it should take' had taken place. 'This Budget must help restore the sense of national unity, it must establish the social contract on which the solution of all our problems must depend' Healey told the House. Len Murray, General Secretary of the TUC, as usual, hailed it as a 'move in the right direction'. At the National Economic Development Council meeting a week after the Budget, the TUC leaders set about manacling their members by agreeing to restrict pay increases to cost of living increases only.

The TUC team included Hugh Scanlon, whose union, the AUEW, was about to begin a work-to-rule to get pay rises over the Tory Phase 3 limit. It was necessary to draft Foot, whose past left associations made him the spearhead of the government's attack on wages, to get the union to trim down its demands. Demands for the 35 hour week, equal pay for women, and guaranteed weekly pay were soon removed from the agenda. Despite the pressure both from Foot and the TUC council to settle, the AUEW overtime ban started on April 16th 1974, one week before the AUEW conference. Foot was sent to address the conference, and with Scanlon's little publicised last minute intervention, the right wing on the Executive won a majority of 27 to 25 to settle with the employers, and, equally important, deferred consideration of the next national pay claim to the following year. The *Financial Times* **summed up the capitualtion 'Mr Scanlon is much more closely identified with the social contract than was the case before.'** (29.4.74)

The government was not slow to capitalise on this. Wilson was cheered to the echo at the USDAW (shopworkers) conference, and again at the Union of Post Office Workers in early May. Not all was plain sailing however, as ASTMS leaders decided against backing the Contract, and the nurses had to be bought off with a 'special Case' inquiry, as did the teachers.

In May, however, unexpected aid came in the form of threshold increases – still around from the days of the Tories. Not only did these take the pressure off wages in a time of rapidly rising prices but, being for many groups of workers automatic, they removed some of the thrust of shop floor militancy. In June 1974 restraint was rejected by NALGO and the Scottish miners.

Something stronger was obviously needed, and the TUC moved a step further with the launching of its pay curb guidelines at the end of June. The document drawn up by the TUC's economic committee may be summarised as follows:- 'Although the groundwork is being laid for increasing consumption and living standards in the future' there is no scope at the moment and the objective is to see that real incomes are maintained. Twelve month intervals between pay claims are to be maintained. Priorities are to negotiate agreements, which will have 'beneficial effects on unit costs and efficiency'.

Sleight of hand

The document was launched on the eve of the National Union of Miners conference in July 1974 and Murray set off to sell the contract. A motion proposed by the Yorkshire miners for £20 pay rises was only defeated by 138 votes to 134, after right winger Jack Lally switched the Midlands vote despite its being mandated for the Yorkshire resolution.

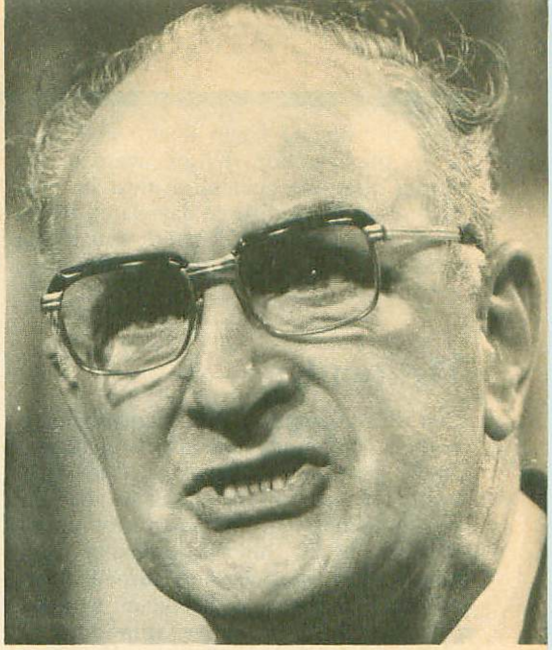
With the end of stage 3 of the Tories incomes policy in late July, many groups were determined to restore their real incomes. But the TUC Congress in early September took place in the shadow of the forthcoming general election. **'We're all for getting Labour's re-election with a big majority and that's what it's all about this week', commented Jack Jones of the giant Transport and General Workers Union.** Jim Callaghan as Labour Party Chairman spelt out the 'consequences' of rejecting the social contract. 'Rejection will make the task of a Labour Government in arresting inflation and preventing mass unemployment that much more difficult.' Scanlon once again delivered the last minute goods by refusing to vote against the contract and by pressing Ken Gill to withdraw a militant motion from TASS, the white collar engineering union. A sleight of hand from Len Murray, who agreed to put the points in the TASS motion to the Government, thereby avoiding their adoption before the agreement of the Social Contract, assisted the process.

Wages and the City

Summing up at the end of the TUC conference Wilson, with the decisions under his belt could afford to be blunt, 'The Labour Government wants to see industry prosper, and this means a Stock Market strong and confident enough to help industry raise the finance required for industrial investment . . . For this investors must have confidence in the viability of industry and that means its profitability' he told the delegates after telling them that living standards would do well to stay the same over the next two years. Far from finding all this strange the delegates gave him a massive ovation and Jack Jones even went so far as to call it a vision of 'a new Jerusalem'.

The following week Labour announced an election for October 10th 1974. The first major issue to arise was unemployment. The Labour government was utterly determined not to resort to unemployment as an economic instrument, Wilson told his supporters in Huyton on September 19th. On October 5th Healey promised a reflationary budget, 'I think unemployment is bound to continue rising in the next year, although I think it will be well short of 1m by the end of next year', he announced. The TUC's 'new Jerusalemers' were looking forward. The Social Contract is 'an investment in the future and a bid to take the battle against inflation into the workshop and into men's minds' said Murray. **On polling day itself Jones warned voters 'The Tories want to reduce living standards – that is the fact that electors should remember'.**

With the election out of the way the Government could return to its urgent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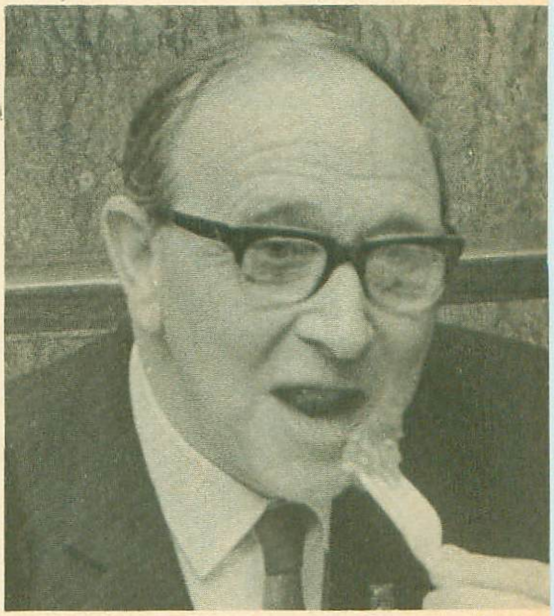
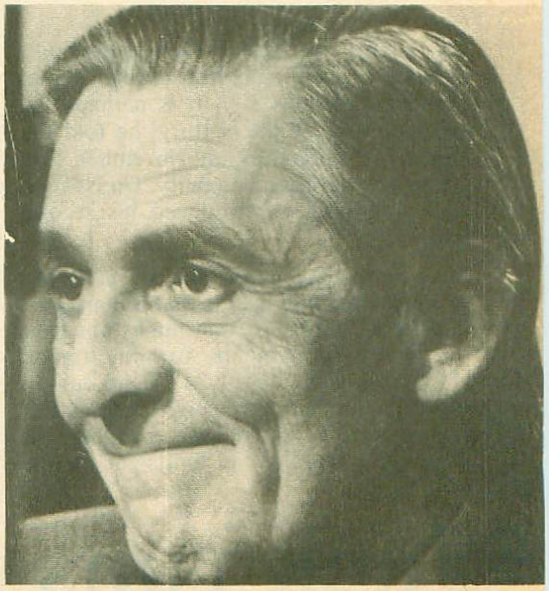
Hugh Scanlon


Keystone
Jack Jones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Len Murray

task of bringing wages down. Five days after the election Wilson warned the unions that the guidelines must be held 'to the letter' and three days later during a massive upsurge of strike activity in Scotland, Jones appealed for general wage restraint.

Tighten Up

First Ford workers, then Scottish lorry workers obtained substantial increases. Under pressure from Foot, the TUC hastily rushed out proposals to tighten the guidelines. On the same day union officials, under intense pressure from groups of striking workers turned down a 14% offer for manual council workers and the NUM executive threw out a productivity deal backed by Gormley.

Keystone

Denis Healey speaks on inflation

Once more into the breach came Foot, 'We face a supreme test of our democratic institutions . . . It is perhaps the supreme test of the century' he told the House of Commons on November 5th. After the rhetoric, the reality. On November 12th Healey introduced his second budget.

'The immediate impression given by Mr. Denis Healey's budget is that it contained almost nothing . . . that might not have been put forward by Mr. Anthony Barber' (*Financial Times* 13.11.74). Hand-outs to industry totalled a massive £1.6bn. For the workforce there was nothing. 'If wages rise beyond the limits set by the TUC, the Government will be compelled to take offsetting steps to curtail demand. And the effects are . . . bound to lead to unemployment', Healey told the Commons. The TUC thanked him fulsomely, 'The Chancellor's measures will be generally seen as a courageous endeavour to protect employment, stimulate investment and promote social fairness,' (*Financial Times* 13.11.74).

Not many workers agreed with this view. In mid November the miners kicked out the NCB productivity proposals by 61.5% to 38.5% on a ballot. On 10th December, 1974 the NUM leaders, in the absence of Gormley, their president, carried a £30 claim on the casting vote of Mick McGahey. All the stops were pulled out. Foot and Murray entered heart rending pleas, and two days later Gormley was wheeled from his sick bed to get the decision changed. He did this by reversing a precedent on voting he, himself, had created two years earlier.

Meanwhile unemployment rose inexorably. 'It is far better that more people should be in work, even if that means accepting lower wages on average, than that those lucky enough to keep their jobs should scoop the pool while millions are living on the dole. That is what the Social Contract is all about' Healey told an audience in Leeds. Shortly before he had met CBI leaders who had left the meeting feeling 'optimistic and encouraged'. So much so in fact that five days later they dared make their first pronouncement on new pay norms. 'What we have in mind is a general ceiling on pay based on the current inflation rate minus a certain amount' said Adamson (*Financial Times* 16.1.75).

By early February 1975 the TUC was trying to tighten its guidelines. Aided by Healey, the 'moderates' in the NUM began to whittle down demands and finally on 13th February 1975 accepted a rise of 30%. With the miners out of the way the whole weight of the government was thrown against public sector pay. Foot, who had praised the miners' settlement on the 14th of February, told other public sector unions not to treat it as a guideline. On the 21st February Crosland told the railway unions not to try and match the miners, but ended his speech **'We shall certainly not repeat the unequitable policy of past Governments by loading the pay scales against workers in the public Sector'.**

Needless to say the next real battle turned out to be over public sector wages – specifically the NUR claim. British Rail, under pressure from the Government, came up with an offer of 20% which the NUR rejected. Meanwhile the electricity supply workers made headlines with a 31% increase.

Workers into Line

With the unions' conference season coming up, Foot and Jones were sent off to bring them into line. On the eve of the Scottish TUC in April 1975 Foot urged members to keep to the contract, claiming the Government was 'already delivering its part of the bargain'. Two days later in his third budget Healey increased taxes by £1¼bn. VAT and income tax were raised. At the end of April 1975 Callaghan and Foot had to defend the

Harold Wilson enjoys his standing ovation at the 1974 TUC.

Contract against a wave of highly critical motions at the Labour Party Conference. However, at the USDAW (shopworkers) conference general secretary Allen called for 'total commitment' to wage guidelines and the executive decided to ignore a conference decision to demand a 35 hour, £35 week. Frank Chapple of the EEPTU supported the Social Contract and called for the unions to tighten the wage guidelines. (*Financial Times* 9.5.75)

By mid May 1975, Jones felt secure enough to propose voluntary wage restraint. Len Murray was in full flight against 'excessive' pay rises, 'In tnat direction there lies trouble and there

"Jack runs an organisation whilst

lies danger for our society and for our class of people', talking to the NUPE conference, although it might have been more appropriate at the British Institute of Management conference he was to address a month later. In June when the electricians settled for between 18% and 24½% the employers happily called them 'responsible and moderate', compared to the 30% that the NUR had wrung by tough bargaining – including a national rail strike threat.

But there was a long way to go before wage restraint was fully accepted. On the 11th June 1975 the NALGO conference threw out the Social Contract and a week later the AUEW conference did the same, against Scanlon's advice. Murray was shaken. "I do not know what they (the left) think they are going to put in its

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place, perhaps they want instant socialism at a stroke" he told the British Institute of Management.

Much depended on Jones being able to carry the TGWU conference at the beginning of July. Motions submitted to the conference showed a heavy groundswell against the Contract, which by now was identified as wage restraint. **The week before the conference opened sterling began to fall heavily, as the Bank of England pulled out its support of the pound. An air of crisis was generated by Wilson calling talks with economic ministers, and there was heavy manipulation behind the scenes at the TGWU conference. 'A number of strongly anti-contract motions have, in effect already been removed from the agenda through the clever formulation of composite motions'** the *Financial Times* reported (1.7.75). The passing of a motion supporting the Contract, while opposing any form of statutory wage control and demanding implementation of the election manifesto allowed the TGWU executive to claim backing for the Social Contract.

Tough!

Three and a half hours later Healey struck. Speaking in the Commons he told unions and employers to come up with a voluntary pay agreement or he would impose a 10% ceiling on wage increases and a strict cash ceiling on public sector wage increases. The TUC leaders decided to accept Healey's 10% threat voluntarily. While the '10% talks', which became the £6 across the board, were being finalised the miners were meeting in Scarborough. Gormley and Daly were both united in their opposition to the Yorkshire miners' demand for £100 a week, but it was only by motion juggling that they finally managed to get a composite which accepted the £100 as 'an objective'.

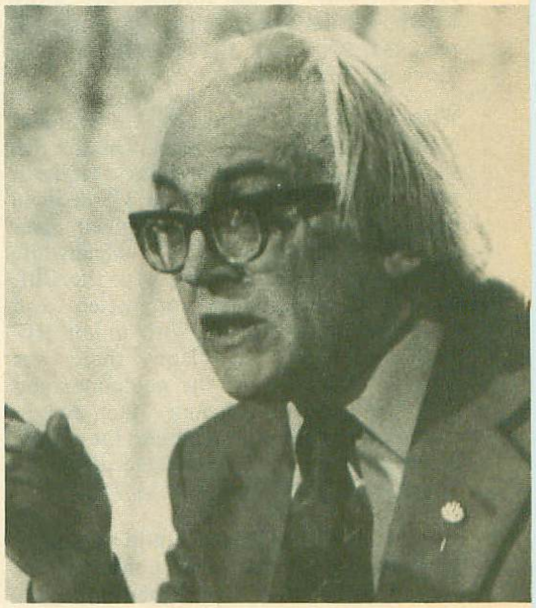
On the 9th of July the General Council of the TUC approved the £6 limit 19-13, and agreed to put it to the TUC annual conference in early September. On July 11th 1975 Healey admitted the pay powers were 'a policy for the first of several years programme'. Despite the fact this 'runs directly counter to the arguments pushed by union leaders like Mr Jones when rallying their reluctant members that the TUC's plan is only a one off exercise restricting free collective bargaining.' (*Financial Times* 12.7.75) the TUC leaders were all too eager to sell it. **'This is a tough policy to deal with a tough problem' said Murray. 'When the saucepan is boiling over – you don't turn the gas up you turn it down'.**

The NUR backed the suggested £6 limit on 17th July and the next day the NUM leadership decided to ballot the membership. In the Commons the government received the backing of the Tories. On July 24th 1975 the unemployment figures passed the 1m mark for the first time since 1940. Two days later the pay bill passed through its committee stage.

Murray assured the National Association of Schoolmasters that the £6 limit was only 'a temporary policy put forward for the coming year to arrest the inflationary process, prevent massive unemployment and enable the government to carry out its industrial programme' (*Financial Times* 28.7.75).

'Back the £6 limit or the government may fall' Jones warned delegates on the eve of the TUC conference. 'Socialism means being able to take part now and not just dream dreams'. Despite overall approval of the £6 limit there were many dissenting voices, particularly from the white collar unions. Bill Kendall of the CPSA spoke out against the general council. **'The only way you can obtain any change in the general council at all is to have a long hard look every year to detect that one is dead'.** (*Financial Times* 2.9.75) **On Wednesday September 3rd 1975 the TUC accepted the £6 limit by a 2-1 majority.** At the same time there was unanimous support for a motion expressing 'trade

Keystone



Michael Foot tells it all to the Labour Party Conference (1976).

union opposition to any reductions in the level of social and public services.' Further cuts would be regarded 'as an intolerable attack on the living standards of working people and a fundamental breach of the social contract'. That evening Murray and five other union leaders entertained the directors of the Bank of England – whose refusal to support the pound had generated the initial sterling crisis – to dinner.

On August 1st the £6 limit began. It was well timed to catch the holiday season. First into the fray were the TGWU officials who on the 5th of August told Scottish and Newcastle workers to

Hughie runs a debating society"

decrease their wage demands by 80%. 'I will be doing all in my power to make sure the S and N membership endorses the £6 a week pay policy of the TUC and the government' said Joe Mills the regional secretary who had shortly before put in the original claim. On 13th the TUC leaders improved their stranglehold and produced a scheme to monitor pay settlements. The guidelines published at the beginning of the following week were unequivocal in blaming wages for inflation. At the same time the Government started a massive propaganda campaign with leaflets, broadcasts, full page newspaper ads and TV appearances. All this activity paid off when the result of the miners ballot – a 60-40 vote in favour of the limit – was known.

At the Labour Party conference at the end of September Foot, trading on the last remnants of his former 'left' links, led the battle calling at the same time for pay restraint and the exercise of the 'Socialist imagination'.

With everything tied up, the Government could afford to come clean. **On the 9th October Callaghan said living standards must be cut. A day later a 3% drop in living standards was announced over the 2nd quarter of 1975.** Meanwhile the behind-the-scenes talks with the CBI, the TUC economic committee and Government continued. With union officials monitoring all claims there was general adherence to the guidelines and the Government became increasingly confident. By mid November they were forecasting that the next stage would be 'tough' (*Financial Times* 20.11.75).

But even the TUC leaders could no longer ignore unemployment. The union leaders warned Mr Healey and other ministers who attended the talks that they could not go to the next year's annual Trades Union Congress and ask for a wages policy to be supported if there were 1½m people out of work. **'We told him figures like 1½m which were being bandied about for next year are quite untenable' Mr Murray said.** (*Financial Times* 11.12.75) They were to seem less 'untenable' when it came to getting the wages restraint through nine months later.

Selling 3%

On December 12th 1975, Healey obtained Cabinet approval for his £3bn spending cuts package. The TUC leaders said nothing.

Early in the New Year Healey, in a TV interview, said how 'deeply conscious' he was of the problems of people earning between £4000 and £8000 a year,

Campbell Adamson of the CBI arrives at No.10

Popperfoto

the middle managers. he was not so worried about top management because they were 'often less interested in material rewards' presumably because they had already got them. Meanwhile the real living standards of ordinary workers continued to fall and the TUC continued to bleat about unemployment. They were rewarded in mid January 1976 by record figures of 1.43m, the worst since 1939. **Murray said they were 'disturbing'. 'Don't put the TUC in a position where we are no longer able to persuade our members that this is the best way forward' he pleaded.** In response to Healey's requests to tie up a pay package before the Budget, the TUC dutifully produced a shopping list. Chief amongst its recommendations were a £20,000 pay limit, and a wealth tax, as well as measures to combat unemployment. Only the last was ever heard of again, when the Treasury produced a net £60m in mid-February to deal with the problem. Even Foot was forced to admit that this would only have 'a mitigating effect' and that unemployment would go still higher. (*Financial Times* 18.2.76)

As well as unemployment the TUC leaders buckled under over cuts. Unity was complete. Jones won the backing of the TGWU to continue his role of holding down wages. Healey forecast that inflation would come down to 8.4% by 1977, and started demanding a 3% limit on wage increases.

In his 1976 budget Healey had a new carrot up his sleeve – 'conditional' tax cuts. The 'cuts', which were not in any case enough to restore the effects of fiscal drag, were conditional on a pay rise norm of 3%. Inflation was running at 19%. In a militant mood the TUC leaders were prepared to hold out for 5%. 'I don't think the 3 per cent is an offer I would want to put or sell to my members. It is not realistic', Joe Gormley ringingly. declared. An internal TUC document suggesting the 5% limit was widely circulated. **'We believe', said Campbell Adamson, CBI director-general, "that the lower the increase we can give ourselves as a nation next year, the better off we will all be.'**

The outrageous suggestion of a 3% settlement was followed by considerable anger, expressed for example in the Scottish TUC's rejection of the 3% limit on April 21st. The whole pay policy began to come under pressure. Some new impetus was needed and suddenly the gentle decline of sterling became front page news. The TUC entered urgent talks with the Government.

Meanwhile even USDAW, stronghold of 'moderate' opinion, rejected the 3% suggestion on April 26th. At the Government-TUC talks the agenda had been narrowed down to the one issue of wage restraint. The research department of the TUC was told to prepare a 'realistic' list of demands on jobs, prices, and pensions to put before the TUC June Congress.

Total Betrayal

The *Financial Times* candidly told its readers 'the TUC leaders want Government commitments on (them) so that they can 'sweeten' a special congress to help sell a further period of wage restraint' (*Financial Times* 27.4.76). By April 28th Murray and Jones reported the expected success of their efforts to the TUC general council, although the details were not yet settled. Whatever the details were the general council was prepared to endorse a settlement, any settlement. (*Financial Times* 29.4.76) Healey praised their 'commonsense and patriotism' and Callaghan said they were being 'extraordinarily good'.

When the details were announced on May 5th, the reasons for Healey's enthusiasm were thoroughly apparent. The pay rises were to range from £2.50 to £4.00 with a 5% limit. The average effect was to add 4½% to the wages bill. There was to be no consolidation of the last £6 or of the new increase into overtime or bonuses. There were to be no productivity deals or anomaly payments, no easing of the 12 month rule and no improvements in pensions. The only thing that was to be eased was price controls. The one pathetic sop was the removal of a planned 5p increase on school milk charges and £15m extra for training. The TUC leaders accepted this by 25 votes to 5.

A 'beaming' Murray said it was 'an honourable agreement' and Healey said it would bring inflation down to 5%-6% by the end of 1977.

Camera Press

George Smith, General Secretary of UCATT and Vice Chairman of the TUC (1974).

Leadership

Now the problem was to railroad it through. In most cases the power of the union general secretaries made it a foregone conclusion. Where this wasn't enough any tactics were considered fair. **The UCATT conference voted against any form of incomes policy only to be told by George Smith, the union general secretary, that the executive would not carry out the conference decision. It could, he told delegates, lead to the union's disaffiliation from the TUC, the Labour Party and the industry's national negotiating machinery. Despite these threats of being cast into outer darkness delegates voted by 112 to 89 to throw out the leadership's pro incomes-policy motion.** Only in the case of the miners were the union members themselves consulted.

Keystone

Frank Chapple, EEPTU.

The miner's ballot for the policy was much closer than the previous year with 53½% for and 46½% against. At the TUC conference in June the executive were taking no chances. They forbade any motions from the floor. On 16th June 1976 the TUC voted 17½ to 1 for the guidelines. The 5% limit with a maximum of £4 and a minimum of £2.40 was to last until July 31st 1977.

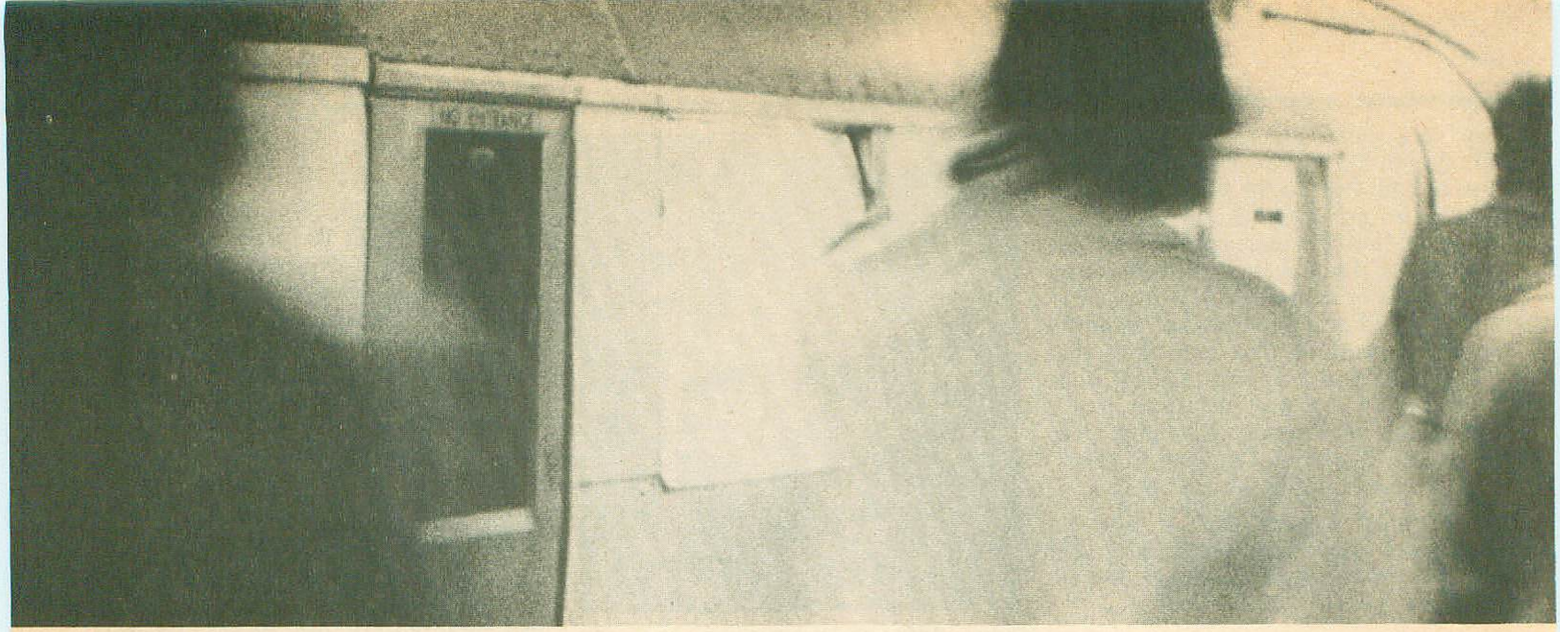
The Murray Way

By the 28th of July 1976 both the TUC and the Labour Party National Executive had approved the 'new Social Contract'. Of the original demands only planning agreements with the top 100 companies and a wealth tax 'to be introduced in the next Parliamentary session' remained. The rest was a risible farrago calling for example for 'rapid expansion of the economy' with the creation of 1m new jobs. The best comment was that of Murray himself. **'It is not so much a programme, more a way of life . . . it's a policy for all seasons.'** At the TUC conference in early September 1976 and the Labour Party Conference at the end of the month, Jones played a key part in helping to get the policy accepted. With the new policy hardly under way, he was already outlining his new proposals for 1977/1978 which combined payments for cost of living increases with productivity deals. **The fall in living standards was to be made permanent.**

Miners' leaders meet the new Labour government, May 1974

Popperfoto

Keystone



Keystone

Decline and Fall

We've been living with inflation for long enough for people to realise that it's not just how many pound notes you have in your pay packet that counts – what really matters is how much you can buy with them. Your pay packet itself depends not only on how much you earn, but also on how much tax and National Insurance you have to pay.

Pay increases are normally judged by comparing average earnings with the Retail Price Index. This is very misleading, and by no means shows the real fall in incomes of ordinary families. But even measured on this basis, since the middle of 1976 average earnings have been lagging far behind prices.

When is an average not

Averages are misleading too. 'Average earnings' include all those people on very high incomes – company directors and the like on £25,000 a year and upwards. On the other hand, they don't include a third of all women workers – the part-timers. Nor do they allow for workers who are given the sack.

Married Couple with two children under 11

Pay per week	*Net pay after tax child benefit*	*Deductions %*
£25	27.50	–10
£30	32.50	– 7
£35	35.96	– 2
£40	39.21	2
£50	45.71	8
£60	52.21	13
£70	58.71	16
Average industrial wage		
£80	65.21	18
£90	71.71	20
£100	78.21	22
£120	91.21	24
£140	104.21	25

As a result, no less than two thirds of all workers earn less than average earnings.

Earnings, Take Home Pay

Earnings are calculated on gross pay – before tax and National Insurance deductions. In money terms, everyone is paying on average three or four times as much as four years ago. A married man with two children under 11 would have paid a tenth of his income in deductions, assuming he was on average earnings, in 1964/5. Today he loses nearly a quarter. We are paying more and more of our income to the taxman.

The reason for the higher tax burden is that for many years Chancellors have failed to adjust the value of personal allowances to take adequate account of inflation. As money earnings rise, so does the proportion going in tax. Income from tax rose from £7,444m in 1973/4 to £17,045m in 1976/7 – an increase of 129%.

Because the proportion of our earnings going in tax is increasing, take home pay is falling faster than earnings.

Index of real take-home pay

	*average male weekly earnings** £	*take-home pay at January 1974 prices†* £	*LRD index of real take-home pay (Jan '74=100)*
April 1971	33.00	34.57	97
April 1973	41.90	36.86	103
October 1973	45.76	37.67	105
April 1974	47.70	35.81	100
October 1974	55.51	37.71	105
April 1975	60.80	35.99	101
October 1975	67.55	35.42	99
April 1976	71.80	35.51	99
October 1976	75.74	34.76	97
December 1976	78.08	34.66	97

*average earnings for all male employees (manual and non-manual).

†earnings after deduction of income tax and national insurance but including family allowance; assumes married man with two children under eleven; figures at constant January 1974 prices.

(Source: Labour Research)

The Retail Price Index

On top of all this, the Retail Price Index is an adequate measure of the rise in the cost of living. Price rises are weighted in accordance with their importance in the 'average' household budget.

But these weights are derived from the results of the previous three years Family Expenditure Survey. This is taken from a sample of about 10,000 households, of which only about 7,000 can and do co-operate by supplying details of their expenditure, including keeping a daily record of every penny spent. Of these, only about 6,000 qualify between the minimum and maximum earning figures.

It is known that because of this method of collecting the information, the households included tend to be more middle class than most, and certain items like drink and tobacco are consistently underestimated. The other main source of inaccuracy is the housing weight which is always too small. It is calculated to represent the cost of housing for owner occupiers, and is based on rateable values adjusted by the rise in rents since the date of valuation. This underestimates the real cost of owner occupation, and does not reflect current house prices.

It is well known that low income families have to spend a higher proportion of their income on food than is the case for higher income groups. Food has risen in price far faster than the Retail Price Index. In 1976, while the Retail Price Index rose 15.1%, food rose 22.1%. So for low income groups, the cost of living is rising faster than the Retail Price Index.

What does all this mean? **It means that for most people, especially those on lower incomes, their standard of living has fallen much further than the usual figures show**. The Treasury has estimated that real net disposable income – that is the money left over after paying tax and rent or mortgage payments, and taking price rises into account, has fallen by 12 to 21%. In other words, those at the bottom of the scale, who can least afford it, have seen their spending power cut by around a fifth.

Retail Price Index Groups

	Weight in Index i.e. proportion of expend.	*Percentage increase Dec. 1975-Dec. 1976*
1. Groups which rose more than average		
Food	22.8	22.1
Fuel and light	5.6	17.9
Meals out	4.7	17.7
2. Groups which rose less than average		
Misc.	7.4	14.5
Housing	11.2	14.4
Alcohol	8.1	13.8
Transport/ vehicles	14.0	12.0
Clothing/ footwear	8.4	11.7
Tobacco	4.6	10.7
Services	5.7	8.0
Durable household goods	7.5	7.4
All items	100.0	15.1

Keystone

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End of a shift at Lady Windsor colliery, Wales

More than one way of paying

The increasing gap between controlled wages and uncontrolled prices is the most obvious disadvantage suffered by British workers during two years of the Social Contract. It would, however, be a serious error to interpret these two years simply in terms of a struggle between wage levels and inflation. Earnings have been hit by other factors besides wage restraint, and the standard of living of the majority of the population has been reduced by more than inflationary price levels.

In this section we shall look at a number of examples of what has happened to people's jobs since mid 1975, and consider not only the fall in real wages due to wage restraint, but also changes in overtime working, in productivity, redundancies, shrinking differentials, increased work-loads, the effects of public expenditure cuts, and so on.

Miners

By March 1977 there were 120 National Coal Board senior staff in the £10,000 to £12,500 p.a. bracket, although there had only been 28 at this level in 1975. In the same period the number of those receiving between £12,500 and £15,000 p.a. rose from 1 to 21, and one fortunate administrator reached the all-time high level of £15,000 to £17,500 p.a. But while the upper echelons of the National Coal Board were busy sidestepping wage restraint by the simple expedient of changing the titles of their jobs, the miners and surface workers had no such gambit open to them.

The last annual agreement before wage restraint (March 1975) gave surface workers a minimum rate of £41.00 for 40 hours (£9 increase - 28.13% over 1974) and a maximum of £50.25 (£12.50 increase = 33.11%). Underground workers received a minimum of £47.00 for five shifts (£11 increase - 30.56%) and a maximum of £61.00 (£16 increase = 35.56%). Since then all mining grades, surface and underground, have received the maximum possible under the Social Contract. There was a £6 supplement across the board under Phase 1, granted under the March 1976 agreement. Then they received an increase of 5% up to a maximum of £4.00 under Phase 2, granted under the March 1977 agreement.

Between July 1975 and January 1977 the Retail Price Index rose 22.5%. In the same period miners' wage rates have risen as follows:

Surface, minimum rate 14.6%
maximum rate 11.9%
Underground, minimum rate 12.8%
maximum rate 9.8%

Unlike workers in other industries, miners cannot substantially boost their take-home pay with overtime work, as the amount of overtime they are allowed to do is restricted by legislation. Average earnings for the year 1975-76 were £74 p.w. for the industry as a whole, against an all-industries average of something over £66. Thus for one of the dirtiest, heaviest and most dangerous jobs in the country, miners received less than £8 p.w. more than the national average. Attempts had started before Phase 1 to update various allowances and holiday provisions, but these were crushed by the terms of the Social Contract. It is small wonder that morale in the industry is extremely low.

Going Under

There also seems to be a propaganda war being waged which plays one energy source off against another and puts much more focus and emphasis on North Sea Oil than on the coal industry. Under the new license terms there is an automatic provision that the British National Oil Company will provide 51% of the cost of exploring new North Sea Oil areas – the most generous terms offered by any major oil producing country. Meanwhile the expanding coal industry which miners would like to see – and which the union firmly believes to be viable – remains a forlorn hope. Every year a few more collieries are closed down. There were 246 collieries in 1974-75 and 241 in 1975-76, and at least a couple more closed last year.

The number of people joining the industry is slightly below the number of people leaving it.

Year	*Numbers recruited*	*Numbers lost via natural wastage*
1974-75	30,800	24,600
1975-76	17,000	22,100
1976-77 (49 weeks)	18,000	20,000
Totals	65,800	66,700

The recruitment in 1974-75 was greatly swollen by the deep recession which hit other industries in mining areas, so over the longer term the workforce is being reduced faster than the above figures show. It is now particularly difficult to recruit young men for 'face and development' work – the most hazardous of the underground jobs.

The coal industry has a few attractions for young men nowadays. Most of the workers are between 40 and 60 years old. Ironically, the one gain made during the Social Contract period – the reduction in retirement age from 65 to 62 – will hasten the shrinkage of the workforce, as older men retire earlier without a corresponding increase in young recruitment. Without immediate increases in basic rates, coalmining is doomed to stagnate and contract. Productivity has fallen as a result of falling morale, andalso because many of the old pits are becoming exhausted. Many miners reject the idea of productivity deals, and this rejection has become a feature of area resolutions in 1977, along with a call for an end to wage restraint, substantial pay rises (Nottingham £136, Yorkshire £110, South Wales £110 – coal face weekly rate), improved concessionary allowances on smokeless fuel, and the institution of service increments.

The changing agricultural workforce

	Thousands			*1975-6*
	June 74	*June 75*	*June 76*	
Family and Hired workers				
total regular whole time – male	168.6	161.8	157.7	– 3
– female	24.3	22.3	19.8	–11
	192.9	184.1	177.5	– 4
total regular part time – male	27.7	27.2	25.4	– 7
– female	39.8	39.9	38.3	– 4
	67.5	67.1	63.7	– 5
total all regular workers	260.5	251.2	241.2	– 4

	Thousands			*1975-6*
	June 74	*June 75*	*June 76*	
Seasonal or casual workers				
– male	36.4	36.1	38.3	+ 6
– female	34.1	30.2	32.5	+ 8
Total male workers	232.7	225.1	221.3	– 2
Total female workers	98.3	92.4	90.6	– 2
Total all workers, regular and/ seasonal part time	331.0	317.5	311.9	– 2
Farmers, partners and directors	212.5	212.6	224.8	+ 6

(Ministry of Agriculture, Fisheries and Food February 14th 1977)

Agricultural workers

Agricultural workers received a Phase 1 increase in January 1976 that was more than twice as large, as a percentage of their wages, as that of the highest paid miners. For all that, it was, of course, still the same £6 across the board. But in this case it was added to one of the most scandalously low wage structures in the country.

In July 1975 general farm workers were on an ordinary rate of £30.50 for 40 hours. The annual agreement in January 1976 added the £6 supplement. In November 1976 the farmers and their friends on the Agricultural Wages Board outvoted the eight 'worker representatives' from the NUAAW and the TGWU, and allowed a Phase 2 rise of only the Social Contract minimum of £2.50. This gave a minimum ordinary rate of £39 and a maximum of £48. The NUAAW lodged vigorous objections, and a reconvention of the Board in February 1977 voted for the full 5% supplement on earnings, despite the opposition of the farmers. This will enable those earning over £50 a week to be paid up to the £4 maximum. To earn over £50 a week, and get an increase of more than the £2.50 minimum, a large amount of overtime must be worked regularly.

	In the year October 1975 to September 1976	
	Earnings	*Hours*
All hired men	£48.92	46.0
Foremen	£58.02	45.6
Dairycowmen	£59.12	52.5
Tractor drivers	£48.55	46.3
Hort. workers	£45.48	42.7
General farm workers	£45.58	45.1

Over the year the only non-foreman grade to break the £40 p.w. level was that of dairycowman, working massive amounts of overtime.

Agricultural workers have no choice but to work these overtime hours. As with any low-paid worker whose income depends on overtime working, the farm worker is hit by the fact that under the Social Contract, overtime is calculated on his basic rate only, exclusive of the Phase 1 and Phase 2 supplements. The farmworker has to be a skilled technician in a bewildering variety of areas, exercising specialised knowledge and skills and operating a wide range of sophisticated machinery. In addition, he has to work extremely hard in the sheerly physical sense, and in all sorts of weather and conditions. Despite this his rates of pay are so low that even with long hours of overtime his average earnings fall well short of the all-industry average (over £66 for 1975/76).

Farmers have been more hostile than practically any other employer to the minimal increases awarded under Phases 1 and 2, issuing dire warnings of food-price increases. They lost no time in clawing back £1 of the Phase 1 £6 supplement – the rents of tied cottages went up, by £1 at the same time as the award was made, affecting some 55% of all agricultural workers. Yet the farmers have been benefiting for years from regular productivity increases for which they have made no extra payments to their workforce. And while productivity has been going up (at an average of around 6% per year for several years apart from the drought year, 1976) the numbers of farm workers have been decreasing. If the present rate of decline in numbers continues, the NUAAW is afraid that it will have virtually no members at all by the 1990's. The June 1976 agricultural returns for England and Wales (issued February 1977) showed these changes (see table above).

The government's stated aim in the Social Contract is to stimulate private investment as a means of boosting productivity and profits, so as eventually to bring down inflation and unemployment. Farmers have long been recipients of government subsidies towards capital expenditure, and the capital equipment purchased has been a major cause of declining employment 'increasing farm mechanisation, and the overall efficiency of labour intensive methods of production are beginning to be questioned. Widespread concern has been expressed that there are now more tractors than workers on UK farms.' (*Landworker* November 1976)

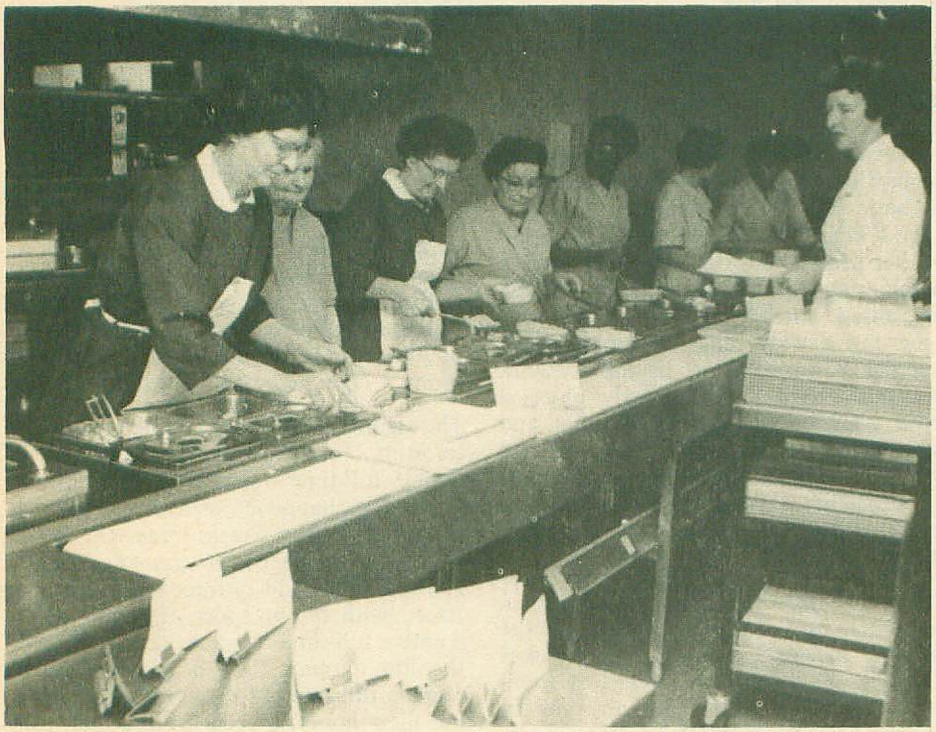
The figures in the above table are also interesting for showing a sharp fall in female full-time unemployment. This, of course, has happened at a time when the raising of women's rates under the Equal Pay Act is one of the rare exceptions allowed to Social Contract wage restraint. Faced with the prospect of paying many women full-time workers a fair rate for the job, farmers have not been slow to regrade full-timers to part-time by reducing their hours, or else to axe their jobs altogether.

The largest numerical increase came in the 'Farmers, partners and directors' category, which is fast overtaking the hired worker categories. The tax advantages of multiple directorships, particularly within the family, need no elaborating here.

120,000 English and Welsh farmworkers have left the land in the past ten years, during which time output per worker has increased at an average 6%, per year, or more than double the rate of the industrial workforce. Wage restraint under the Social Contract has succeeded in consolidating the large gap between farm and industrial earnings.

Hospital Workers

All British workers are affected by the government's cuts in public expenditure. At the same time as wage restraint inflated prices, and increased taxation has reduced real purchasing power, especially for the lower paid, cuts in public expenditure on education, housing, municipal works, health and social services have meant a reduction in the 'social wage'. This has of course been accompanied by a calamitous erosion of vital services and facilities. (See CIS anti-report No.13, *Cutting the Welfare State – Who Profits*). Again it is the lower paid who suffer most. The cuts are part of the government's overall economic policy, and have to be included in any evaluation of the Social Contract. For those workers who are employed in the public sector the cuts are part of their experience of the Social Contract, and their effects have to be added to the other effects of wage restraint.



Keystone

Preparing food for the patients at Britain's new 'super hospital' in Greenwich (1969).

Ancillary workers

Hospital ancillary workers have always been badly paid, so that the restricted supplements of Phase 1 and 2 have meant that for two years they have seen all chances of climbing out of the low-pay rut vanishing. There are 18 ancillary grades ranging from Domestic – Grade 1, to Garden Superintendent – Grade 18. The Equal Pay Act offers little or no possibility to women ancillaries of increasing their earnings, as women are firmly concentrated in the bottom three grades. Grade 1 – basic £30.00 plus Phases 1 and 2 – consists nearly entirely of women. Grade 2 – the old ward orderly grade, including dishwashers, general labourers, floor cleaners, and a few porters, receives a basic £30.52 plus Phases 1 and 2. This grade is usually 50/50 men and women. Grade 3 is usually the highest women's ancillary rate (except for supervisors) with less than 20% women in the grade. Basic pay is £31.08 plus Phases 1 and 2.

A garden superintendent in the maximum Grade 18 gets £10.56 more than the domestic in Grade 1. And yet, to qualify for grade 18 the garden superintendent has to be in complete charge of at least four main hospital grounds, comprising a minimum of 300 'loaded' acres. He is responsible for the training, supervision and deployment of all staff including patient labour (in long term mental hospitals). He is also responsible for all aspects of estate management including planning and upkeep, the sale or distribution of crops, and grounds security. The job description goes on for many paragraphs, and yet the garden superintendent, with responsibilities which would earn him many thousands of pounds per year in private employment, has his wages pegged at a level considerably below the national manual average. The small and shrinking differentials apply equally to all other ancillaries in hospitals. The cuts in health service spending have meant that more work is being done by the same number of staff or fewer, and without a corresponding increase in overtime working. Natural wastage is now going ahead in some departments. If the cuts continue, they will increasingly focus on current, rather than capital, costs – mainly wages.

As greater numbers of wards and entire hospitals are axed, the ancillary workers are the most vulnerable section of the workforce. Doctors, and to some extent nurses, with their professional qualifications and skills can be redeployed in other hospitals – up to a point. But to most ancillary workers closed hospital is a lost job, as other hospitals are already trying to reduce the numbers of ancillaries.

Technical staff

Reduction of overtime earnings is also experienced by technical staff in hospitals. Technicians work from 9 until 5, after which they can be 'on-call'. A token fee is paid for standing by, the bulk of overtime earnings coming from jobs phoned through to technical sections. The technicians are paid £4.55 per phoned-in job, but there is now pressure on doctors to restrict the number of such calls, to save money, and closing casualty wards reduce them further. In the City and Hackney district ten wards have been closed down in the last financial year, equivalent to a whole hospital. In the Hackney hospital seven technicians do 'on-call' stand-bys. In January to March inclusive in 1976, there were 358 calls during stand-by. In the same period in 1977 there were only 235 calls, a 34% drop representing a loss of earnings of £239 per technician. While their earnings have been plummeting, supposedly in the cause of reducing inflation, technical staff have found themselves burdened with a mass of petty penny-pinching extra costs. Canteen costs are going up all the time. Tea, 1p a cup in 1975, is now 6p a cup. Coffee has gone up from 2p to 7p. In January 1977 staff were informed that over the following six months canteen prices would have to rise by 30% over and above inflation rates so that the canteen could make a profit.

Promotion through the complex grading system of technical staff depends to a great degree on the passing of exams and attendance at day-release centres. The expenses incurred – fees, books, travelling – are paid automatically for junior grades, and have always been paid in the past for senior grades, though technically discretionary. Now senior grades are being made to meet many of these necessary expenses out of their own pockets. Even the time off to attend courses is

being far less readily given. Overtime working and promotion are the only ways in which hospital technicians can boost their frozen pay under the Social Contract, and both are being squeezed out of existence.

Nursing staff

Cuts in health spending and the closing of wards and hospitals has swollen the workloads of nurses more than anyone else in the sector. In addition there has been a cutback in recruitment, and vacancies deliberately left unfilled. Meanwhile hospital management is operating a policy of restricted overtime working in order to save money. All this adds up to a far worse service and a great deal more work crammed into the same hours. At the beginning of the Social Contract a 1st year Student Nurse received £30 per week, rising in annual incremeents to £33.46 after 3 years. The basic SRN rate was £40.79 rising in 6 annual increments to a maximum of £50.88.

The Charge Nurse minimum was £52.05 rising in 7 annual increments to a maximum of £68.31. Held down to these low rates plus Phases 1 and 2, for exhausting, dedicated and highly responsible work, nurses in the student and pupil categories, on the lowest wage rates, have had their earnings further reduced by increasing hostel charges. At the beginning of the Social Contract period hostel charges (bed only) for student nurses were £138 per annum. In April 1976 the charges were increased by £51, and in April 1977 a further £33 was added. Over the two years that represents an increase of 61%. Nursing and ancillary staff this year rejected an attempt to put up canteen prices by 20%, settling for a 5% increase, though they have been warned that this may mean a drop in the standard of the food supplied. The severity of the attack on nurses pay and work conditions has had the effect of making nurses more trade union minded. OOHSE recruitment in March 1977 was the highest monthly level since 1974.

Manufacturing

In the manufacturing sector the period of the Social Contract has been characterised by increased profits and 'rationalisation' which has axed jobs and closed plants. Encouraged by government and official trade union support for 'the drive for profits', firms have pushed for increased productivity, using the fear of further unemployment and closures as a lever on a workforce already battered by inflation. The effect of rationalisation can be measured by the amount of overtime being worked. There has been pressure for more overtime from workers desperate to increase their weekly earnings in order to keep their heads above water, but most overtime increases come from the redistributed workloads of those who have lost their jobs, and the success of management's productivity drive. Overtime working has been rising every month since February 1976 and is now at a level of over 15 million hours per week. Between one half and three quarters of the rise in earnings since July 1976 is attributable to overtime.

At Chrysler's Stoke plant, as elsewhere throughout Chrysler, only the Phase 1 supplement of £6 has so far been received, coming on top of a previous low-level rise of £8. But now the stewards are talking of forthcoming productivity deals in the wake of the savage axing of between 8 and 9,000 jobs over the last six months throughout the UK operation. At Stoke the assembly workers are doing 3 and 4 hours a week overtime, while the maintenance engineers are doing considerably more. While these maintenance men often have to work at night and over weekends, the levels of night-shft and unsocial hours payments have been frozen since the beginning of Phase 1.

At GEC's Stoke plant, which makes telecommunications equipment, there has been a reduction in labour levels of some 40%, representing 130 jobs, over the Social Contract period. Rationalisation has also meant a change over from piecework to a daily rate, that has meant a cut in take-home pay of anything up to £20 a week. GEC's profits this year have gone up to £207 million, an increase of 25%.

In all sectors percentage differentials have shrunk as a result of restricted across the board supplements. TASS, the staff section of the AUEW, see this as particularly affecting their highly skilled membership.

'There is less and less monetary incentive for technicians and technologists to undergo lengthy training. Despite cuts in manual workers' living standards over the last two years, the differential, staff to manual, continues to decrease.' (TASS press release 25.2.77) TASS goes on to point out that the take-home pay of the average skilled technician, married with two children, of £41.75, is worth only £39.96 at 1975 prices. The average young technologist with a degree or equivalent, is taking home less than £30 a week at 1975 prices, for a single person. TASS calculates that its members need between £4.90 (Technician age 20) and £15.13 (Technologist Managers aged 30+) per week immediate increase to restore their living standards to 1975 levels.

In Courtaulds the period of the Social Contract has seen a drastic reduction in plants and jobs – Skelmersdale (1200 jobs), Flint (1500 jobs), Grantham (164 jobs), Ulster (660 jobs) and Aintree (600 jobs) have all closed. Belmont, near the Worsted Spinning Division plant of Spennymoor in Co. Durham, has never even opened, and £1 million worth of Government grants have had to be paid back. At Spennymoor itself, percentage differentials between skilled and operative levels have fallen from 20% of skilled levels in 1974, to 11.6% now. There has always been a high turnover of labour at Spennymoor, 39% per annum in 1975, falling to 16% per annum in 1976 thanks to enormous unemployment. However the first three months of 1977 have seen a 17% turnover – 68% in annual terms – as skilled workers, unable to improve their earnings in a single factory, begin to lead a 'nomadic' existence, hopping from one plant to the next in search of higher rates. Because of the cutback in apprentice training which has resulted from management 'economies', there is a shortage of skilled labour, which encourages this nomadic process. The heavy labour turnover also increases the amount of overtime worked. Because growing proportion of the labour force is 'green', increasing amounts of overtime go to the established workforce to make up for lost production and the backlog of maintenance work.

Refit and Rejig

Overtime at Spennymoore is usually about 2%, but is now running at 7% to cater for increased 'down-time', that is the time taken to refit, rejig and maintain machinery.

In October 1976 the labour force of 190 worked 923 hours overtime.

In January 1977 the total overtime was 1481 hours.

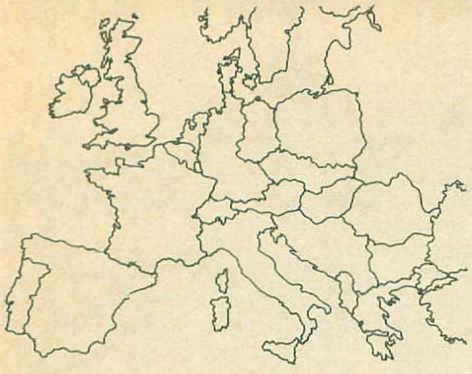
In February the total was 1644 hours. In March it was an enormous 2026 hours – the equivalent of eight full-time skilled workers.

But as most of this overtime is on the maintenance engineering side, it has had no effect on productivity – in fact productivity at Spennymoor is falling as a result of wage restraint. As in the mining industry (and many Spennymoor workers are ex-miners) government policies have depressed morale. Hoped-for allowances, frozen for two years, have aided that depression. In 1972 there was a National Agreement for maintenance engineers on increases in night-shift and weekend working. Those increases have never been received.

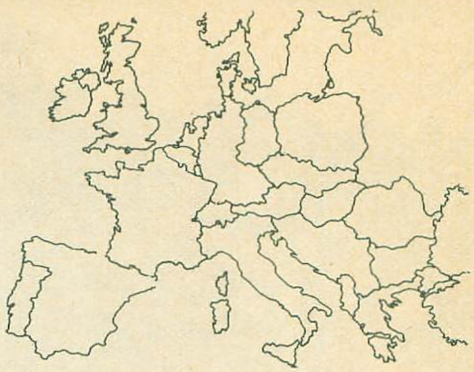
Although the coming struggles are bound to be focused on wage levels, it should not be forgotten that over the last two years British workers have had to pay for the crisis not simply in terms of falling wages. Enforced changes in overtime working, increased workloads, shrinking differentials, and lost jobs have all been part of the price paid.

Building the Fiesta at Dagenham.

Keystone



How low can you get?



'Britain is a cheap labour country and fast becoming cheaper.' (*Economist* 28.6.1975)

Amid a chorus of protest over falling profits, declining investment and an unstable pound, little or nothing is said of the real state of wages. Yet the earnings of British workers have fallen below those of any other country in the industrialised west.

Even before 1971, when the Conservatives adopted the formula 'wages cause inflation' and imposed their incomes policy, earnings in Britain were amongst the lowest in Europe. Under Labour the formula was developed to 'one man's wage rise is another man's job', and was the basis of a crisis 'manifesto' on the social contract posted to every household in the country in 1975. By then, **Britain was the low wage area of the industrialised west.**

Wages Spiral

According to the press and the government at the time, the early 70s were a period of 'wages explosion'. Wages were chasing prices in a headlong, uncontrolled spiral. Wage costs were blamed directly for the deterioration of Britain's competitive position in world markets. The trade union leadership accepted the arguments and joined with the government and employers in keeping wages down through the Social Contract.

But there was little truth in the allegations. Between 1964 and 1974, the rise in earnings of British workers was not outstandingly rapid; it was almost the same as in France and Belgium and slower than in Italy, Holland or Denmark. Between 1970 and 1974, in fact, after taking the fall in the value of the pound into account, hourly earnings rose slower in Britain than in any other European country.

Added to that, Britain's inflation rate of over 7%, almost the highest in Europe, made the accusations additionally hollow from the point of view of the workforce. **In terms of the value of the pay they were taking home, the 'wages explosion' was no more than a damp squib, especially when compared with what was happening in other industrialised countries.** By 1974 even Japanese labour costs exceeded those in Britain.

Poor Relatives

Recently a comparative study was made of hourly labour costs between Britain and fourteen other western industrialised countries, including the EEC, Canada, Japan and the US. It covered eighteen industries in all, making a total of 288 comparative figures. The study showed that, in 1974, there were only six cases (one French industry and five Japanese) in which labour costs were below those in Britain.

Since 1974 the relative position of the British workforce has deteriorated even further, with large additional devaluations and real wage cuts under the Social Contract. As early as the 1890s engineering employers are recorded as pleading that British labour would be uncompetitive if they conceeded shorter working hours (to an eight-hour day). Cheap German labour was cited. Today labour costs in West German engineering companies are around DM17 per hour compared with DM 16 per hour in the US, DM 8½ in Japan and DM 7½ in Britain (*Financial Times* 15.3.77). Yet still wage controls and cuts are demanded to maintain 'our' competitiveness.

But wages cause inflation?

The strait-jacket on wages has not had the promised effect. Inflation is still in double figures. Savings in wage costs have filtered into profits and little else. But although the facts of Britain's wage position are clear, the myths live on. There has been no questioning of the claim that wages are the primary cause of spiralling inflation, despite the evidence. Rather a new chorus can be heard: the cause of Britain's lack of competitiveness is low labour productivity.

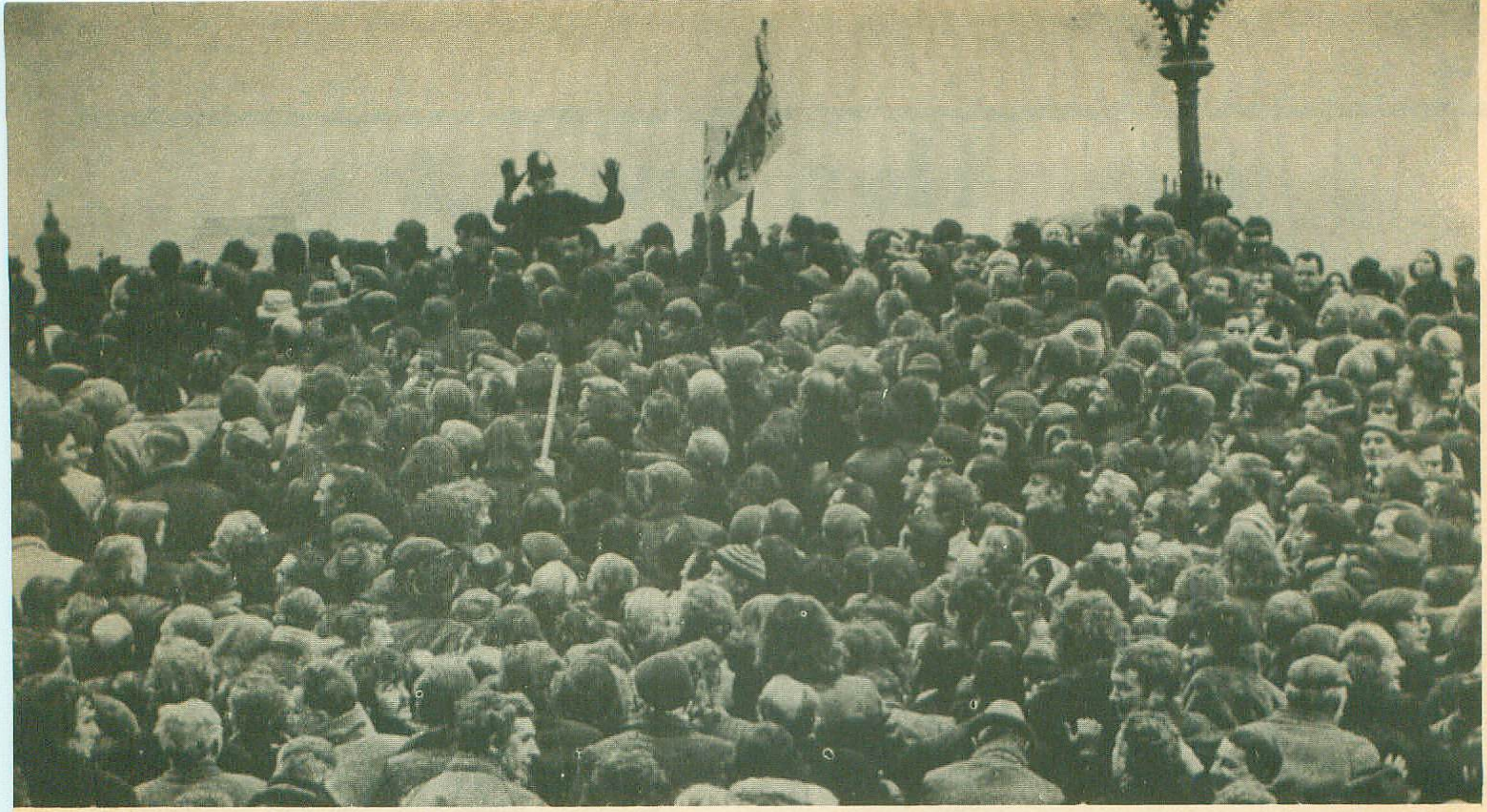
The logic of this is that the British worker will have to do more for a still decreasing, or at best static, wage. If the employers have their way, the losses already experienced by the workforce will be compounded.

Labour costs in manufacturing 1964-1974

Total hourly labour costs including social charges (GB = 100)

	1964	1970	1974
Belgium	105	124	175
Denmark	119	141	188
France	103	103	118
Germany	119	145	185
Great Britain	100	100	100
Italy	93	111	122
Netherlands	95	126	184
Austria	80	92	120
Finland	102	94	126
Norway	122	148	189
Sweden	153	179	208
Switzerland	110	118	157
Canada	192	207	186
USA	268	253	194
Japan	42	66	105

Source: *Wages and total labour costs for workers – International survey 1964-74*, Swedish Employers' Confederation Research Department, Stockholm, May 1976.



By the skin of their teeth

Under the Social Contract a remarkable change has taken place – a change that employers and government have been trying to bring about for years. For the first time since 1966, the number of strikes has fallen for two years running. Even more important, and more marked, has been the fall in the number of working days lost because of disputes.

This table gives some idea of the rise and sudden decline of strike activity from 1966 to 1976. Compare for example the number of working days lost in 1966, nearly 2½ million, to the number in 1974, over 14½ million. And then look at the figures for 1975 and 1976 – only 6 million and 3.2 million.

Disputes

In order to understand the real extent of the decline in militancy and confrontation, it is necessary to look back over the last ten years. In the 60s, the main problems for employers were short unofficial strikes over pay and conditions, and the drift of power from the official trade union machine to the work-place based shop steward. The overwhelming majority of strikes were very short – between 1954 and 1964 the average length of a strike was only 3.3 days. Of all disputes recorded, only about 1 in 20 were official.

From 1966 onwards, the number of working days lost through strikes rose consistently until it reached the figure of nearly 24 million in 1972. There was also a change in the nature of the disputes during this time. From 1968, strikes became longer, and the national strike played a more important role. For example, the building workers, the miners, the post office workers, all took national action. Other groups of workers followed, and the early 70s saw many public sector workers taking strike action, like the gas workers, teachers and hospital ancillary workers.

At the same time tactics changed. The flying picket was used extremely effectively by building workers and miners in 1972, and the use of factory occupations as a weapon in support of claims became marked. In 1973/4 there were almost 100 occupations in support of everything from jobs to bonus payments.

The self reliance and spontaneity that characterised workers' action in the 60s by no means disappeared in the larger national stoppages of the 70s. Far from it. The local organisations, the shop steward committees, combine committees and trades councils were all-important in maintaining and bringing to a successful conclusion those national strikes.

Survival

That same year, 1972, the Department of Employment carried out a survey on workplace industrial relations, which found that the influence and status of shop stewards had survived all the legislative attacks of the previous few years. No less than 82% of shop stewards interviewed could hold meetings in the workplace, and 52% could do so in working hours . . . a real measure of the status of stewards.

How then, with this basis of organisation in the factories, with the very recent tradition of militancy and solidarity, could there be such a remarkable turnaround? How could the number of strikes and working days lost fall so fast, at a time when the cost of living was rising at an unheard of rate?

Stoppages in the years 1966-1976

Year	*No. of stoppages beginning in year*	*No. of workers involved in stoppages 000's*	*Aggregate no. of days lost in stoppages 000's*	*Year*	*No. of stoppages beginning in year*	*No. of workers involved in stoppages 000's*	*Aggregate no. of days lost in stoppages 000's*
1966	1,937	544	2,398	1972	2,497	1,734	23,909
1967	2,116	734	2,787	1973	2,873	1,528	7,197
1968	2,378	2,258	4,690	1974	2,922	1,626	14,750
1969	3,116	1,665	6,846	1975	2,282	809	6,012
1970	3,906	1,801	10,980	1976	1,990	661	3,286
1971	2,228	1,178	13,551				

Source: Department of Employment Gazette, January 1977

Saltley Gates

The high point of the period was the miners' strike of 1972 – and the extensive display of solidarity by the workers of Birmingham at the Saltley coke depot. The Saltley coke depot was the only remaining large stockpile of coal in the country. Every day some 250 lorries from all over the country loaded up with coal – sapping the effectiveness of the striking miners' action. Two hundred miners picketed the depot every day, but they could not stop the lorries, and they were continually being harassed by the police.

On the 7th of February, a thousand miners arrived to picket the depot. They were met by a massive contingent of police with instructions to keep the depot open. That day 13 pickets were arrested, and two taken to hospital. The next day, 8th February, Arthur Scargill addressed the Birmingham East district committee of the AUEW – and the engineering union agreed to call for solidarity strike action and a mass picket on the 10th. The day after this meeting, a district meeting of senior stewards took place which decided to call out their engineering factories. At the same time militants in other unions were organising further support through trades councils and their own branches.

On the 10th of February, 10,000 workers, mostly engineers and miners, manned the Saltley picket line. In all 50,000 struck in the Birmingham area on that day. The police closed the depot, and it stayed closed for the duration of the strike.

Saltley gates, 1974 *Camera Press*

Unemployment

Part of the answer must be the high and rising level of unemployment. Many people used to believe that a certain level of unemployment was necessary to prevent inflation – the theory being that unemployment acts as a brake on wage militancy, and that it is wage rises that cause inflation. Both halves of the argument have been disproved by history. In 1971 unemployment was higher than it had been for many years, but this had n noticeable effect on strikes.

Also, the level of struggle over sackings and closures has been just as low as the struggle over wages. Considering the enormous rise in unemployment, disputes over work levels and redundancy have not increased significantly. One only has to compare the occupations at Upper Clyde Shipbuilders, Briant Colour Printing, Fisher Bendix and C.A. Parsons to the debacle at Chrysler, the slow rundown of the workforce at British Leyland, or the redundancies at Plessey and GEC.

Social Contract

Unemployment cannot be the only answer. **The main cause of the decline in strike activity has clearly been the social Contract. But this is not the first time that there has been a wages policy. It has in fact been a prominent part of most government's strategies since 1966.**

The real reason for the decline in strikes is not that workers do not face real wage cuts, nor that they are intimidated by the threat of unemployment. The root cause for the lack of any significant fight back during two years of wage restraint must be laid at the door of the TUC. For the first time in their lives, workers who feel they have a justified grievance over pay are faced with the active opposition of their trade union leadership if they want to take action.

Demoralisation

In the words of a shop steward in the AUEW, "It's like hitting your head against a brick wall". Workers have lost faith in their ability to win disputes particularly over wages. He gives an example from his factory. A bonus was negotiated for skilled workers, to maintain their differential over piece-rate paid workers. The agreement to pay such a bonus was first won in 1974 . . . but management were only offering 12p. They refused to improve this derisory offer through 1975 and 1976, on the grounds that it would be in breach of the Social Contract.

By June 1976, every tactic in the book was being used by shop stewards to try and win this badly needed bonus – from a go-slow to a half day stoppage. Finally the stewards called a meeting and put it to the floor. The only way forward was to go on the other side of the gates. The first question asked was would the union give official support. The stewards had to say that it would not be forthcoming. Understandably, in the face of a rigid and obstinate management, the men decided that official support was crucial, and that therefore they could not strike. The bonus issue was postponed for another twelve months.

A similar dispute occured at the Thames Case factory in Warrington, a subsidiary of Unilever (profits £366m in 1975).

Engineers and SOGAT workers had had parity for many years. But the SOGAT workers successfully negotiated a £15 a week increase just before the £6 limit was imposed – and the engineers only got £6. The engineers went on strike, and stayed out for 13 weeks, but they failed to get the backing of the district committee. Without that support, their bid for parity failed, and they have seen their wages fall further behind those of SOGAT workers through 1976.

Using the pound

There are a number of other examples of quite long strikes which got no support, and little to show for it at the end of the day. Such experiences sap the morale and the will to fight of the workforce. **Strikes hit the pay packet and are not entered into lightly. Only the most aggrieved and militant will come out against not only their employer but their union officials as well.**

By 1976 the 5% limit was pushed through as a fait accompli, despite the rising level of unemployment and inflation. The possibility of breaking it was quickly destroyed by the grisly spectacle of the TUC arbitrating with the Executive of the National Union of Seamen against the backdrop of a deliberately engineered run on the pound. This frantic effort to avert a strike which might lead to a settlement outside the limit demonstrated conclusively what the Social Contract meant. In 1966 Harold Wilson had roundly abused the leaders of the seamen's strike of that time. Ten years later the TUC was doing his job for him, and doing it better.

Popperfoto

Victories

The point must be made that there were victories as well as defeats during this time. The dispute at Massey Ferguson showed what could be done. Masseys wanted to introduce a new track to fit cabs to tractors and establish piece work rates on a shift output of 48 tractors. The men on the track insisted that this was too high a rate, and after a period management took the men off the clock, claiming they were in breach of their contracts of employment, because they were not working hard enough. The response was immediate. The factory was occupied, and support gained from other Massey factories. Despite the use of the courts to break the occupation, the strike lasted 11 weeks, and successfully restored the status quo.

At Greenings in Warrington, where a man was dismissed for refusing to work on an unsafe crane, an official nine week strike succeeded in reinstating him. Perhaps because the issue was safety, not pay.

Massey Ferguson workers picket at Coventry *John Sturrock (Report)*

Public Sector

What about the public sector? There the major concern, opposition to the cuts in public expenditure, has official union support. Certainly on questions of pay the public sector unions have toed the line, and in any case most agreements in the public sector are settled nationally. But there have been some indications that the pattern of local negotiation from a national base, so familiar in engineering, might become more common in the public sector. The successful National Union of Teachers campaign for an increased London allowance over and above the nationally negotiated amount took place in 1973 and 1974. In 1975 it was followed by NALGO (local government officers) members, putting in claims for local agreements weighted to the local cost of living. Glasgow, for example, negotiated an agreement which compensated for the particularly high cost of living there, while Aberdeen argued that the oil boom was raising living expenses there.

The Social Contract soon put an end to this method of negotiating. But resistance to the cuts has meant the forging of links at local level across unions, and the local nature of the cuts means that there is still room for local initiative.

Perhaps the best example to date of this sort of response is in Essex. The county council employs about 55,000 people. In February 1977, the council announced a deficit in budgeted spending of £9.5m. They therefore declared that there would have to be a reduction in employment of 2,180 people, of whom 1,213 would suffer direct redundancy. The council had already operated a policy of not filling vacancies and freezing manning levels.

The unions in Essex County Council called a series of meetings right across the county in opposition to this. To make their actions more effective, they decided to form combined union workplace committees involving all the unions – Nalgo, TGWU, GMWU, Natfhe (higher education teachers) and NUT (schoolteachers). If any one union took industrial action, all the other unions would know about it and give support at each workplace. At the same time area campaign committees were established to initiate activity.

The results of this organisation have already shown some success. When NUPE called a one day strike on March 1st, the General and Municipal Workers Union supported it, and it was backed by the teaching unions and Nalgo too. Over 400 schools and 3 Further Education colleges were closed, and a massive 2,000 strong demonstration marched through the streets of Chelmsford. So far there have also been large one day stoppages in Norwich, and in Medway and Rochester in Kent. A successful no cover policy is in force, as is the official Nalgo overtime ban. The Fire Brigades Union is also in dispute over jobs.

This sort of activity, the forming of public sector alliances, is growing. In Glasgow, for example, where bus workers have resisted cuts in services and the closure of garages, they have not only co-ordinated activity with other public sector workers, but have enlisted support from workers in local factories, including John Brown Engineering, Prestcold, British Leyland and many others.

Leyland demonstrate at visit of Secretary of State Varley *Camera Press*

Union police

The experience of the last two years is unprecedented outside war time. The trade unions are policing the government's wages policy ruthlessly and openly. The examples are numerous enough – threatening the seamen with expulsion from the TUC so that they wouldn't strike; threatening the Leyland toolroom workers with the sack when they were on strike; threatening the *Times* Natsopa chapel with expulsion from the union if they didn't return to work; refusing to support the maintenance engineers at Heathrow airport and the electricians at Port Talbot steelworks. **But the biggest demonstration of the effectiveness of this support for the government is the record on wages, living costs and strikes.**

Does the relative inactivity of the first two years of the Social Contract mean that shop stewards organisation has atrophied? With wages removed from the bargaining table, and the union actively or implicitly opposed to action, has the shop steward lost his authority and control? **The answer must clearly be no.**

Perhaps the most decisive demonstration of the survival of shop stewards' organisation, and its flexibility, adaptability and readiness to fight anew, was given at the time of the toolmakers strike in British Leyland.

The dispute over toolmakers pay has, like many others, been a long standing affair. In 1976 there was a two week strike by tool fitters in Longbridge and Drews lane demanding parity with demonstrators, after months of fruitless negotiations. The strikers were instructed by their union, the AUEW, to return to work, and they did. It was after this experience that the Toolroom Committee came into being, based on the Pressed Steel Liaison Committee which had existed for some time.

In March 1977 the same dispute broke out again but coupled this time with the demand for separate negotiating rights. The major difference this time was that the toolmakers' action was seen by other skilled workers as affecting their situation as well. The unofficial skilled workers committee at Fords had already approached the Leyland committee and at the meetings of the strike committee during the stoppage there were representatives present from Standard Triumph

and factories in Swindon and Cuffley as well. The real level of support for this strike was not evident until British Leyland issued the return to work ultimatum and Hugh Scanlon, president of the AUEW refused to support them. The response from other workers was spontaneous and widespread.

In North London for example there were shop floor meetings of AUEW members in Bellings, Standard Telephones and Cables, Gestetner, MK Electric, Lesneys and others. They resolved to take strike action should the members in Leyland be sacked. It is difficult to tell what caused the most outrage, the ultimatum, or Scanlon's position. Some members of North London district were prepared to take strike action in solidarity with the toolmakers where previously, on the question of their own bonus payment, they had considered the tactic hopeless.

This sort of support for the toolmakers strike was widespread. The committee received offers of sympathetic strike action from Lucas, Reynolds Chain, MK Electrics, Rover, Coventry Engines, GEC Coventry, Rolls Royce, Ford, Chrysler, and AEI Manchester, and 30 other factories up and down the country.

On March 16th there were stoppages of work at Rolls Royce, Birfield Extrusions and Ford's Basildon.

In fact the Social Contract survived by the skin of its teeth, and so did Hugh Scanlon, leader of the AUEW. Had the toolmakers decided not to go back Scanlon would have faced a massive challenge to his authority from his own members.

Already the strike figures for the first three months of this year are higher than for the same period for two years. What is apparent, is that the structures of shop floor organisation are very flexible and can adapt quickly. In the Leyland dispute and in the public sector struggles against cuts there is proof that the shop stewards, the office reps and so on are still active, and still capable of responding.

The union leadership is caught in a death grip with the Labour government, and the commitment to the continued survival of that government becomes of more importance than the interests of the membership. But as wages and living standards become more depressed it is only a question of time before the supporters of the Social Contract become totally exposed in the eyes of grassroots union members.

It is this tendency which forms a growing opposition to a new form of wages policy. If it doesn't lead, the union leadership is nothing. Over the past few months it has become clear that that prospect could be on the cards. The manouvering in the future will be based on calculations of what the membership will accept. The danger for the Government and the TUC is that some of the membership will decide they don't have to accept anything at all.

The Great Tax Swindle

In his April 1976 budget Chancellor Healey, setting the scene for stage 2 of the Social Contract, took an unprecedented step. He announced conditional tax 'concessions' that 'would be introduced only if the trade union movement accepted a further period of strict pay restraint. It was a blatant attempt to create the political climate in which a deal could be struck between the government and the trade union leadership. And it worked.

It was one of the cheapest blackmailing operations imaginable, for the government was giving away nothing, and extracting a great deal in return. The increase in tax allowances was not even enough to keep up with the previous year's inflation, let alone that of the coming year. The basic tax allowance for a married man had been set at £955 a year earlier, in April 1975. Since then prices had risen 19%. Just to hold the allowance level in real terms it would have had to go up to £1,135. What was Healey's magnificent tax concession? He offered, provided the contract was accepted to put the allowance up to just £1,085.

The same thing happened to other allowances. In real terms, the conditional tax 'cuts' were in fact tax increases. This illustrates a major advantage to government of what is known as 'fiscal drag'. Governments can magnanimously announce tax cuts, when in reality all that is being given back is part of the extra tax that has been collected, unannounced and automatically, due to inflation.

What is fiscal drag? In a period of inflation, prices are rising, and so are money wages. Real wages may be rising, much more slowly, or falling. Unless tax allowances are revised upwards to take account of this, a larger and larger proportion of everyone's wages goes in income tax.

Take the example of a married man earning £1,500 a year in April 1976, whose earnings rose by £5 a week.

	Before	*After*	*Increase*
Earnings	1500	1750	17%
Married Man's Allowance	1085	1085	–
Hence taxable income	415	665	61%
Hence tax payable at 35%*	145	233	61%
Hence net income	1355	1517	12%

*Excluding National Insurance contributions @ 5¾%.

In this case a 17% wage rise was insufficient compensation for price rises of 12%. It is this disproportionate growth in tax that accounts for fiscal drag. Wage earners, even if they do win wage rises bigger than price rises, still find themselves worse off after deductions. The worst hit are the lower paid.

If the Chancellor in proposing his 1976 deal had offered to raise the allowances to match the past year's inflation and then some more he could have claimed to have been reducing income taxes. But he did not, and the government was pulling in more money than ever from wage packets – and hitting the worse off harder in doing so. So while between 1975 and 1976 total personal wages and salaries rose by only 12.7% in the country as a whole, taxes on incomes rose by 16.6%.

Income taxes and NI contributions have become a steadily more important source of revenue to the government. This has been despite the duty increases on goods such as beer, petrol and tobacco. **Moreover there has been a decline in taxes on business profits**, as the table shows.

While the tax load on wages has soared, that on companies has withered away. It seems a far cry from the large tax liabilities that companies lament when declaring their annual results. In their 1976 accounts, for instance, National Westminster Bank allows £100million for taxation, Midland Bank £89m, BP £196m. That is £385million from just these three companies, yet in 1976-7 the Inland Revenue only expects to receive just over £2,000million from all companies – or only five times more. **In fact, of course, companies' real tax charges bear little resemblance to the misleading figures in the 'profit and loss' account.**

The point is that the tax charge written into company accounts is the *maximum* to which it could possibly be liable, and is as a result entirely unrealistic. The money is not paid to the state, but into the company's deferred taxation reserves and used as an integral part of the company finances. It still doesn't look so bad, until you realise that, as the Economist put it, 'as long as companies continue to invest and build up stocks, they are unlikely ever to have to meet the deferred tax liability' (19.2.1977).

One reason is that the stock appreciation relief the government gave the corporations is still down in the books as deferred taxation, and Healey gave a categorical assurance that this relief will not be withdrawn.

Into Profit

There is so much money floating around in corporate balance sheets as a result of this that it has become a cause for concern in business circles. They can't decide whether to leave it as it is or risk blowing the gaff by putting the millions of pounds straight into shareholders' funds.

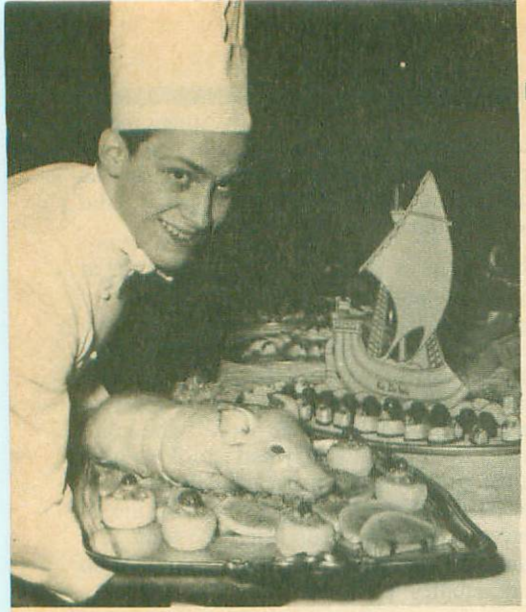
One company, Bath and Portland, did exactly that in 1976. As the chairman of the company put it, 'In 1973 I informed shareholders that we were providing in our accounts for deferred taxation. These provisions have been created in each succeeding year although at all times your Board have found it difficult to believe that the provisions were necessary **or that we would ever be called upon to pay the tax so reserved in any foreseeable future. . . It will therefore be noted that there is a reduction of £4.1m in such provisions and this is now added to unapproppriated profits brought forward.'** At the stroke of a pen, shareholders' funds had risen, in the balance sheet by 32%. And that is just one company.

Where the State takes its Revenue
percentages

Financial Year	*Personal Income tax and NIC*	*Customs and Excise*	*Rates*	*Miscellaneous including employers' NIC*	*Corporate taxes*
1972-3	38.6	32.2	11.2	11.7	6.4
1974-5	44.8	27.7	9.9	10.2	7.4
1975-6	47.2	27.2	10.4	12.7	negligable
1976-7*	46.8	26.9	10.0	11.6	4.6

*Estimate

Source Treasury, quoted in *Financial Times* 31.3.1977.



Others, are following the lead. The worry is that companies will cease to make any provision for deferred taxation at all, and will release the billions of pounds waiting to be paid out into shareholder's funds. The 'trouble' is, as the Economist put it, 'British companies, many of which pay no corporation tax, will be seen not to pay corporation tax by trade-unionists and politicians.' (ibid).

Whilst income tax 'reductions' were made conditional on real wage cuts, the Labour government has given enormous hand-outs to companies since coming into office – without any conditions whatsoever. One of the most significant has been tax relief, particularly on stock appreciation which, coupled with 'investment allowances', means that most companies pay very little, if any, tax. At the time the relief was announced *The Economist* reckoned it to be worth something over £2billion to companies. Given the resurgence of profits, that implies total savings for them of over £4billion over the past three years, though the government claims it has been only £3billion.

In addition there has been considerable direct and indirect assistance, other than tax relief. Some, such as regional aid, is a continuation of previous policies. This has increased by one half – at constant prices – over three years of Labour rule. The list of who receives what is like a veritable roll-call of British business. In the second quarter of 1976 alone the ICI parent company received £4.1million, GKN (Cardiff) £1.8m, Ford (Halewood) £0.4m, Barclays Export & Finance Co (Grangemouth) £0.5m, Urenco(UK) (Wirral) £1.4m. All the major British companies and their subsidiaries are constantly reappearing on the lists, for lesser or greater handouts.

Add in all the other payments, whether special employment assistance, aid to the foundry or shipbuilding industries, support for 'industrial innovation' (around £300million in 1976-7), and so on. The total mounts rapidly to the Department of Industry's estimate that financial assistance to private industry has totalled over £6billion over the past two years (in addition to the £4billion above).

Then there is the indirect assistance, ranging from 'soft' government contracts through to the virtually total relaxation of price controls. One set of changes in the price code alone (those in July 1976) was reckoned by the government to be worth £900million a year of higher profits; and there have been several others.

These massive handouts can be compared to, for instance, the total amounts paid out in food subsidies of only £1,463million between April 1974 and January 1977. And whereas there is a firm policy of continued and often expanded aid to the private sector, the food subsidies will have been completely halted by March 1978. The handouts can also be directly compared with the now well established policy of continual slashing of social spending.

For Better or For Worse

While aid for the companies increases, that for the consumer and for the social services is cut. While tax on company profits declines, that on pay packets rises. This is no accident, for taxation and public spending are the central weapons in any social democratic government's economic and political armoury. Chancellor Healey has used these weapons intensively since the Labour administration came to power in 1974.

The rule of thumb seem to be that while the Conservatives boost public spending to buy votes, Labour governments do so to buy time. And that is exactly what happened when Wilson came to power in 1974.

The Heath administration had set in motion expensive public spending programmes, from the reorganisation of the NHS and local government to the expansion of the social services, without offsetting tax increases. This had been planned in the heady days of the 'new British economic miracle', on the assumption that steady growth would provide the extra resources from which those programmes could be financed. The oil crisis made it clear just how ridiculous those dreams had been. The Heath-Barber profits boom of 1971-73 had only existed for the property speculators, asset-strippers and other financial wizards swift enough to cash in on it. The rapid inflation that accompanied it led to the prices and incomes policy that was smashed by the miners.

Swing to Labour

Labour came to power faced with the aftermath of the three day week, the oil crisis, the wages policy and its wage distortions, three years of near total financial anarchy, and 30 years of under-investment in British industry. On top of that it came to power on a wave of militancy and revulsion against the policies of 'progressive' Toryism. There was the expectation that a Labour government should provide a real alternative.

Buying Time

In the light of the looming recession, it was apparent that as activity slumped even the Tory public spending programmes would be running the government deep into the red. But the expectations of Labour's constituency had to b be met. It was not just a matter of winning the Autumn 1974 election, but also of buying time so that the militancy could be defused. Public spending on such popular measures as food subsidies followed. But at the same time the private sector had to be prevented from stampeding into recession.

Healey's expansionary policies effectively rescued British capital in its hour of greatest need. It not only kept economic activity up, but as the stock market

Budget	*Change in tax rate*	*Increases in allowances* — *Single person* — *Given*	*Single person* — *Required to match. inflation*	*Married couple* — *Given*	*Married couple* — *Required to match inflation*
April '74	+3%	£30	£80	£90	£105
April '75	+2%	£50	£135	£90	£185
April '76	–	£60	£130	£130	£185
April '77*	–2% (cond)	£70	£120	£140	£180

*assuming 16.6% inflation

slumped from its high point of over 500 towards 100, and the whole financial edifice was in danger of collapse, money was always available where it was most needed. Whether it was to support and buy British Leyland (resaving in the process hundreds of component suppliers) to send the 'lifeboat' to rescue the fringe banks which in turn held up the property companies, or to help out Chrysler or Burmah Oil, the government was there.

City First

The 'lifeboat' was organised by the Bank of England (using public funds) with some assistance from the London and Scottish clearing banks. Its heaviest 'passengers', as the Bank likes to call them, are First National Finance Corporation and United Dominions Trust. Along with them are a number of smaller, unnamed secondary banks. At the end of February 1976 loans totalling £1,140 million had been made under the scheme, according to the Bank's annual report. Exactly what amounts had gone to whom the Bank refuses to reveal.

And, on top of that, the biggest single hand out was the 'temporary' stock appreciation relief – effectively a total write off of corporate tax liability that year estimated as worth over £2billion.

Jobs last

The measures had the desired effect; the stockmarket slowly recovered, and the city gradually sorted out its bad eggs.

Hundreds of thousands were made redundant as companies adjusted to the new situation, rationalising and reorganising their operations. The state coughed up its share of the redundancy payments, and all of the unemployment benefits.

By the summer of 1975, the FT Index had recovered, to well over 300, and the political climate had changed. The crisis atmosphere, the redundancies and the

The difference between the publicised tax figures and the reality that lies behind them is highlighted in BP's report and accounts. The deception exercise begins with the profits statement on p14:

Income before taxation	**1,783·6**	1,523·3
Overseas taxation	**1,401·0**	1,323·2
Income after overseas taxation	**382·6**	200·1
UK taxation	**196·7**	51·1
Income after taxation	**185·9**	149·0

Now, UK taxes can be offset in part against overseas taxation, and it is suspected that sometimes, particularly in the case of oil companies overseas taxation may partly reflect notional charges set as a favour by friendly oil sheikhs.

Then we come to the 'UK taxation' figure of £196.7m – 51% of the income after overseas taxation. A heavy burden for the company to bear apparently. Until, that is, you look at an item hidden away in the company's cash-flow figures two pages later. Actual UK tax paid during the year amounted to just £20.2m. In real terms, then, post tax profits were £362m, not the £186m given.

Application of funds	Capital expenditure	**807·8**	668·7
	Investment in associated companies	**154·0**	115·2
	Reduction of North Sea oil advance proceeds	**71·3**	3·9
	Dividends paid	**72·6**	67·3
	UK tax paid (net of transitional relief)	**20·2**	22·8
		1,125·9	877·9
	Increase in working capital	**234·0**	93·2
		1,359·9	971·1

The Impact of the Poverty Trap on a couple with Four children

Income	*Fam.*	*Tax*	*N.I.*	*FIS*	*Rent*	*Rent Rebate*	*Rates*	*Rate Rebate*	*Work Costs*	*Free school meal*	*Free welfare milk*	*Net spending power*
£	£	£	£	£	£	£	£	£	£	£	£	£
45	+4.50	–2.32	–2.59	+1.50	–5.38	+4.02	–2.18	+1.56	–1.75	+2.25	+0.67	45.28
55	+4.50	–5.82	–3.16	–	–5.38	+2.32	–2.18	+0.99	–1.75	+1.50	+0.67	46.69
65	+4.50	–9.32	–3.74	–	–5.38	+0.62	–2.18	+0.39	–1.75	–	+0.67	48.81
*44.81	+4.50	–	–	–	–5.38	–	–2.18	–	–	+2.25	+0.67	44.67

*Supplementary benefit level, Fam: family allowance, N.I.: National Insurance, FIS: Family Income Supplement barrage of propaganda were taking effect. The first phase of the contract was signed and sealed. Now the table of public spending began to turn: 'we' would have to pay our way; 'we' had to make resources available for investment in private industry; 'we' had to face up to a period of hardship while the industrial restructuring which would turn Britain into a high wage, high productivity economy took place. It could only be achieved by cutting the deficit – 'we' couldn't carry on getting 'our' social services on the never-never. Unless this happened, there would not be enough funds available for the private sector to invest. It was a matter of either raising taxation – ruled out because 'taxation in Britain is already too high' – or cutting public spending.

Fiscal Drag

In this climate, could the Chancellor continue to increase income tax, cut public spending at the same time and still leave the social contract intact? Yes. Through fiscal drag. This avoided the political disadvantages of overt tax increases. It avoided raising the question as to who should suffer the increases. And it was not identified as contributing to inflation in the way that increased expenditure, taxes or duties would be.

The social spending cutbacks have been enormous, threatening a virtual dismemberment of parts of the welfare state (see *Cutting the Welfare State – Who Profits* CIS Report no.13). Alongside them have run increases in taxation in real terms, as the basic allowances have been systematically held down.

Tax Net

With the April 1977 budget the government is continuing the same trick. In a Commons reply on 18.3.1977 Mr Healey stated that, (optimistically) assuming inflation over the year at 15%, it would cost £1,300m to raise personal tax allowances to compensate for it. To adjust for inflation since April 1973, the last budget before Labour came to power, would cost £3,500m, in 1977-8. Yet the actual 'increases' in allowances given in the budget are worth only £769m in 1977-8 and £961m in a full year. And again he made part of his tax 'cuts' conditional.

Healey's 1977 budget raised the basic allowances by £70 for a single person and £140 for a married couple. At the same time he raised the thresholds for those paying higher rates of tax by a further £1,000 to £2,000. He also put 5½p on a gallon of petrol, 4p on 20 cigarettes, and £10 on road tax.

Once again the worst off are hardest hit. A married man with a wife and two children earning £2,000 a year has his income tax cut by £12.60 a year, or 0.7% of his take home pay. If he earns £25,000 a year, he gains no less than £710 a year, or 6.7% of take home pay. And the picture will be little different even if Healey does put through his conditional changes.

The *Guardian* estimated that taking into account the increases on cigarettes and petrol and assuming the conditional tax cuts are brought in, a family on £40 a week is 34p a week *worse* off after the budget than before. A worker on the average wage at the time of £75 a week has his take home pay raised by a miserable 34p a week. But a 'middle manager' on £7,500 a year gains £1.42 a week, while a top manager on £25,000 a year nets an extra £15.10 a week.

The worst off are worst hit once again. Many are snared in the 'poverty trap' where marginal tax rates are so high that higher wages can mean lower income. The 1977 Budget, by increasing personal tax allowances, removed 845,000 people from the 'tax net'. But over the previous year, April 1976 to April 1977, no less than 1.4 million low wage earners had started paying tax for the first time.

Hard-Pressed

One consolation, according to the CBI, is that at last Britain's hard pressed managers have been helped. The problems that they face, the lack of incentives, and poor rewards are constantly brought to our notice. Many companies, in that section of the annual report where directors' remuneration is stated carefully stress that much of it is paid to the government in income tax.

Take the BP Report and Accounts for 1976 for instance, which shows directors remuneration like this:

'The number of all the directors . . . whose emoluments exceeded £10,000 in the following bands were:

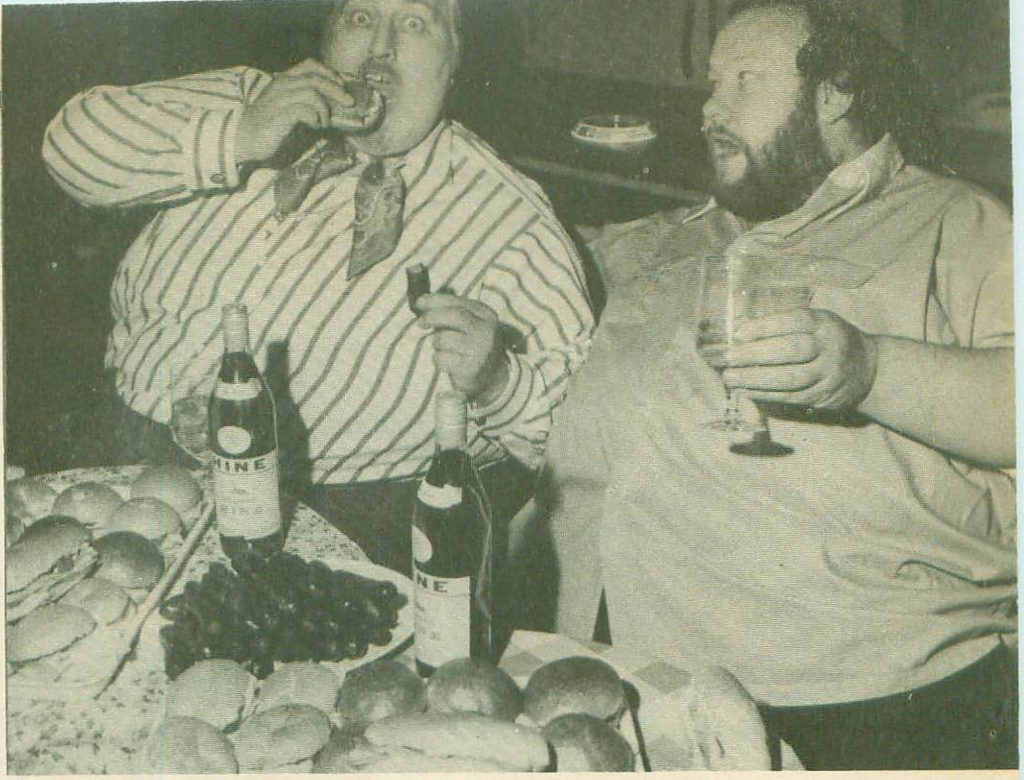
Gross Emoluments £	*Tax* £	*Take-home pay* £	*1976*
47,501-50,000	35,499	14,501	4
62,501-65,000	47,949	17,051	1
87,501-90,000	68,699	21,301	1*

*The chairman, Mr D.E.C. Steel, who was paid £88,852.

It is only when you read the small print underneath that you realise that the tax deduction figures are purely notional, based on the assumption that the only allowance offset against the gross incomes is that for a married man without children. If Mr Steel didn't arrange his affairs better than that then he certainly should not be chairman of a major corporation. The figure ignores all the tax deductible items from interest on mortgages (which alone could cut his tax bill by £2,800) through to life assurance and covenants. And, most important of all, the whole exercise assumes that he gets no benefits other than his salary. The 'business' flat in town, the company car, the trips abroad etc., are not counted. Yet still, by the company's own conservative calculations, the cash in Mr Steel's pay packet comes to over £400 a week.

Over the last three years of Labour government there have been steady increases in taxation, and huge cuts in social spending. To what end? Apparently so that the corporations and the better off, already paying only a fraction of their ostensible liability, can be encouraged by still more tax cuts and handouts. So that the money lenders can receive their huge interest and debt payments, and at the same time their capital gains. And, above all, to lay the basis for yet more extraction of profits from British workers in the future.

Taxation has been used for years as a tool to suppress real wage growth. 'Throughout the 60s, the erosion of living standards through taxation accelerated: a 6.6% annual increase in gross pay achieved over the period 1964 to 1968 represented a real improvement, after accounting for prices of 2½%. But income tax whittled this to an annual rate of increase of only one half of one per cent. Then again, between 1968 and 1970, wages grew at a rate of 10%; inflation cut this to 3.6% and taxes cut it to 1.3%. Inflation and taxation together were able to reduce the impact of the 'wage explosion' of those years to that of a damp squib.' (Pond p4) Since then, according to the Labour Research Department's index of real take-home pay, real wages have actually dropped by 3%.



Keystone

The Threat

Wage control has been exercised above all at the expense of the lower paid, through the fiscal drag mechanism. The poorest tenth of wage earners have seen their tax burden double for a two child family during the 'Social Contract'. (Pond p2) Yet it is they who suffer most from the decline in the social services.

The 'Social Contract' has brought cuts in gross wages. Through taxation, it has brought even larger cuts in real disposable incomes. And through the manipulation and chopping of public spending, it has brought unquantifiable cuts in the real social wage. The conditional tax changes in Chancellor Healey's 1977 budget and the warnings about control of the money supply make it clear. **The government will continue to use its twin weapons of taxation and cutting public spending to hang on to the gains already made at the expense of the workforce and unemployed, and to win more besides. The threat is that if that does not happen through wage restraint via extension of the social contract, it will be imposed by still greater rises in taxation and unemployment and more drastic cuts in social spending. The threat is valid only if it is accepted by those most affected – the workforce.**

BRITAIN IS NOT HIGHLY TAXED

The view that the tax burden in Britain is already too great is well propagated. In fact, taxation in Britain is much lower than in many other countries. In 1974, 38% of GNP was collected in taxes and social security contributions in Britain, yet the figure is up to 53% in other developed countries. The feeling of bearing a heavy tax burden is principally due to the fact that in Britain, taxation is concentrated on incomes as opposed to goods.

	Austria	Belgium	Canada	Denmark	France	Germany	Italy	Japan	Holland	Norway	Sweden	US.A
More highly taxed overall than Britain	45%	42%	39%	53%	41%	43%			50%	53%	49%	
Incomes less heavily taxed than Britain				●							●	
Spending less Heavily taxed than Britain	●		●		●							
Higher Social Security contributions (from employers and employee) than Britain.	●	●			●	●	●	●	●	●	●	●

'Knights of London's booming Metal Exchange', 1974. *Camera Press*

Profit Dividends

In June 1976, stockbrokers Phillips and Drew announced that the profits recovery was underway. The previous year pre-tax profits had risen and things looked good for a further rise of 46% in 1977.

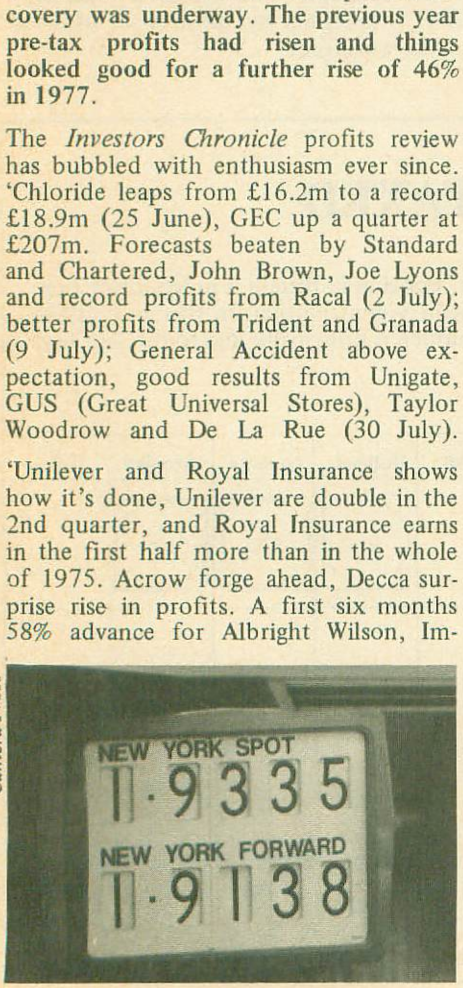
The *Investors Chronicle* profits review has bubbled with enthusiasm ever since. 'Chloride leaps from £16.2m to a record £18.9m (25 June), GEC up a quarter at £207m. Forecasts beaten by Standard and Chartered, John Brown, Joe Lyons and record profits from Racal (2 July); better profits from Trident and Granada (9 July); General Accident above expectation, good results from Unigate, GUS (Great Universal Stores), Taylor Woodrow and De La Rue (30 July).

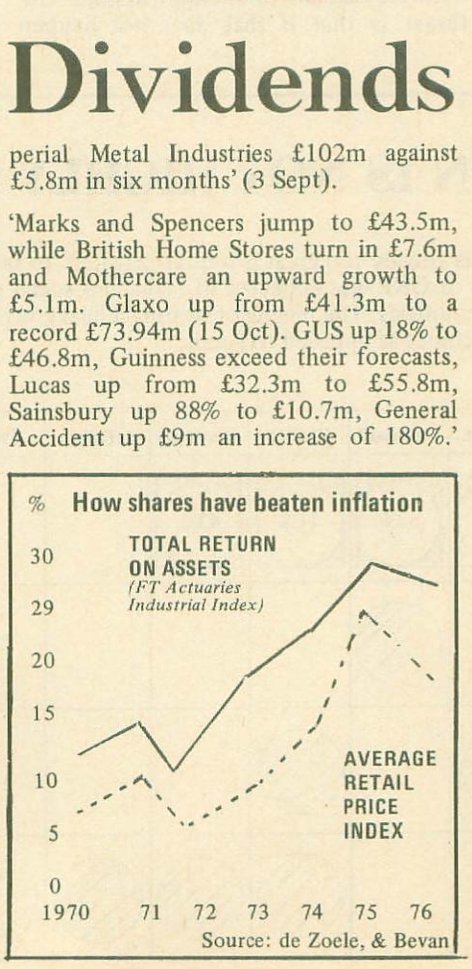
'Unilever and Royal Insurance shows how it's done, Unilever are double in the 2nd quarter, and Royal Insurance earns in the first half more than in the whole of 1975. Acrow forge ahead, Decca surprise rise in profits. A first six months 58% advance for Albright Wilson, Imperial Metal Industries £102m against £5.8m in six months' (3 Sept).

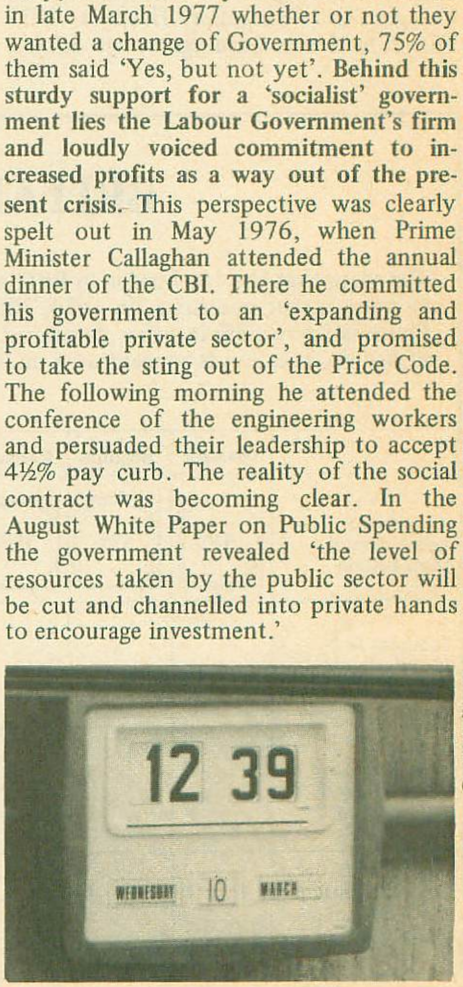
'Marks and Spencers jump to £43.5m, while British Home Stores turn in £7.6m and Mothercare an upward growth to £5.1m. Glaxo up from £41.3m to a record £73.94m (15 Oct). GUS up 18% to £46.8m, Guinness exceed their forecasts, Lucas up from £32.3m to £55.8m, Sainsbury up 88% to £10.7m, General Accident up £9m an increase of 180%.'

The City will probably continue to vote Tory, but when City brokers were asked in late March 1977 whether or not they wanted a change of Government, 75% of them said 'Yes, but not yet'. **Behind this sturdy support for a 'socialist' government lies the Labour Government's firm and loudly voiced commitment to increased profits as a way out of the present crisis.** This perspective was clearly spelt out in May 1976, when Prime Minister Callaghan attended the annual dinner of the CBI. There he committed his government to an 'expanding and profitable private sector', and promised to take the sting out of the Price Code. The following morning he attended the conference of the engineering workers and persuaded their leadership to accept 4½% pay curb. The reality of the social contract was becoming clear. In the August White Paper on Public Spending the government revealed 'the level of resources taken by the public sector will be cut and channelled into private hands to encourage investment.'

Camera Press







Camera Press

By September the Prime Minister could without ambiguity lay his priorities before the delegates at the Labour Party Conference. 'Industry must make a profit. Whether you call it a surplus or a profit it is necessary whether we live in a socialist economy, a mixed economy or a capitalist economy.'

Perhaps the clearest expression of support for business profitability came in a speech by Chancellor Healey to the Overseas Bankers Club at the Guildhall in January, 'Firms will only expand and invest if they can see scope for making profits'.

Behind the rhetoric lay the reality that under the terms of the Social Contract, profit increases would in no way be a justification for wage rises. Businessmen were to be given a free hand, while wage rises were to be carefully monitored and controlled.

No tax on profits

The Government policy extends beyond keeping wages down and letting profits rise. It has reduced taxation on profits substantially, and in many cases has eliminated it altogether. The Treasury put it like this: 'Taxes on company income (profits) were relatively small in 1975. Over recent years, although the nominal rate of corporation tax stands at 52%, when both the capital allowance for stock appreciation have been deducted (by the company), and allowances made for advance corporation tax on dividends paid, **the residual corporation tax bill can be nil.'** (*Economic Progress Report* February 1977). **In 1977 this 'gift' to the employers will be worth at least £2bn.**

The much publicised £30m investment by the U.S. owned diesel company Cummins in Scotland, may have been assisted to the tune of 50% by the government. The Scottish Development Agency already owns the present Cummins factory at Schotts and is extending and modernising it for nothing. In addition the company have been given substantial selective assistance under the Industry Act (1972) as well as the standard 22% investment grants.

Public Funds into Profits

At the same time the government is redirecting public funds into company profits. The Department of industry has admitted that financial assistance to private manufacturers over the last two years has been 'about £6,350m' (*Trade and Industry* 18.3.1977).

Just how enormous this assistance is can be seen from the fact that the total gross fixed capital formation of *all* U.K. industrial and commercial companies over the same period was £12,500m. Many companies may well be involved in new investment at little or no cost to themselves.

Wages into Profits

The largest, although incalculable, contribution to profits has been the curbs on the pay of the workers in industry. These curbs were justified by the government so that companies could keep the price of their products down, particularly in the export market. But this has not happened. Employers faced with falling sales in the recession have put up their prices in order to keep up their profits.

Profits into Investment?

The governments policy has received its heaviest indictment from its own Labour Party research department. A confidential report leaked to the newspapers concludes **'The volume of private manufacturing investment for the year 1976 was the lowest since 1974 and over 20 per cent down from the 1970 figure. . . Total private sector investment is not expected to rise dramatically in the coming 18 months'.** (*Socialist Worker* 2.4.1977).

The news from the City on profits is little better. Despite the favourable treatment meted out to businessmen by the government, capital seems to have 'gone on strike'. The Centre of Investment Studies and leading city stockbrokers Wood Mackenzie have shown that, while the cash flow of British companies will leap by 42% in 1976 to a grand total of £14 billion, capital spending will rise by a mere 11%. '**A large part of the higher cash flow will be absorbed by restocking, but the biggest lump will simply swell the corporate sector's bank balances.' There is a growing body of evidence that this cash is being invested in the City, to earn the high interest on Government bonds for instance or in some cases shifted into lucrative currency transactions.** The Treasury itself admits that this is going on and adds sympathetically 'It is understandable if managements are tempted to postpone new investment in fixed assets (plant and machinery). . . and decide instead to apply retained profits to reduce company debt or employ their funds to make financial investments where they will earn high rates of return'. (*Economic Progress Report* February 1977).

The Wood Mackenzie report goes on to ask a question relevant to anyone who is being asked to make sacrifices in order to swell the profits of UK businesses. 'Who is going to undertake the conventional role of business, that of deploying real resources to create real wealth?'

Even if investment is stimulated by raising profits there is no assurance it will be in Britain. An increasing proportion of the investment of UK Companies, particularly the multinationals, is overseas. ICI for example, despite the impact of its huge investment in the North Sea Oil fields, increased its capital spending overseas for 28% of total investment in 1975 to 39% in 1976. Over the same period employment in the UK fell from 129,000 to 125,000, whereas overseas it rose from 66,000 to 67,000.

What little investment there is in the UK is directed towards rationalisation, not the creation of new capacity. It is almost all capital intensive. The two together means redundancies. **'The net effect of increased industrial investment in the UK may well be to raise unemployment levels rather than reduce them'** (*Barclays Bank Review* February 1977).

Smiths Industries, for example, spent over £2½m on plant and machinery last year and still reduced its workforce by 1,800. This makes nonsense of the Prices Secretary's claim that 'In a very real sense profitable enterprises are islands of security and prosperity for all that work in them'.

Dividends

In this totally permissive climate on profits, what has happened to dividend restraint? Limiting cash hand-outs to shareholders was part of the social contract package but no one has been over anxious to reveal what has actually been happening.

The wriggling of finance directors of companies trying to get round the cash limits on dividends is some testimony to their effectiveness. But apart from the cash-in-hand element of dividend restraint, shareholders have done well out of their investments and have kept well ahead of inflation.

This was revealed by Stockbrokers de Zoete and Bevan in February 1977. **By combining dividends with the increase in the value of shares they have showed that the total return to shareholders was well ahead of inflation.** 'The total return on the up to date values of assets per share has been 4% greater than the rate of inflation' (see table below). **When restraints are evaded or lifted the already substantial income provided by dividends could turn into a windfall. It is this aspect of investment in stocks and shares and the income they generate that makes any comparison with the income of working people absurd. Wages are not inflation proof and when restraints are over no government is going to give back what has not been paid out.**

Dividend Controls

GEC — The Profit and Jobs Record

Year to March 31	*Pre-tax Profits £ million*	*No. of UK employees thousands*	*Profit per employee (£ per year)*
1969	49	230	213
1970	58	206	281
1971	63	195	323
1972	77	181	424
1973	120	170	706
1974	151	170	888
1975	165	171	965
1976	207	166	1,247

(*Morning Star* 22.9.1976)

PRE-TAX PROFITS
(So far this year)

Sector	*Latest Annual £m*	*% change on previous year*
Building Mat.	104.35	+48.9
Construction	26.48	+28.6
Electricals	7.22	+40.2
Eng. (heavy)	5.51	+36.7
Eng. (gen.)	41.27	+24.9
Machine, tools	0.73	−32.9
Misc. (cap gds.)	37.22	+67.1
Capital Goods	**222.78**	**+42.6**
Lt. Elec. TV	28.82	+198.9
House Gds.	31.04	− 2.2
Motors	27.63	+43.5
Consumer Goods (Durable)	**87.49**	**+44.3**
Breweries	63.70	+ 4.7
Wines and spirits	7.53	+79.9
Entertainment	90.24	+48.9
Food (Manufg.)	68.81	+28.3
Food (ret.)	5.06	+21.2
Newspapers	14.39	+15.7
Paper	3.05	−20.2
Stores	41.83	+11.8
Textiles	32.98	+96.0
Tobaccos	503.57	+30.2
Consumer Goods (Non-durable)	**831.16**	**+19.8**
Chemicals	196.49	+50.1
Office Equip.	36.02	+39.4
Shipping	3.97	+119.7
Misc. (Unclass.)	15.57	+31.1
Total Industrial	**1,393.48**	**+35.7**
Oils	**23,865.88**	**+31.5**
Banks	760.81	+63.9
Discount Houses	0.73	−51.0
Ins. (composite)	125.70	+643.8
Ins. Brokers	18.37	+70.2
Merchant Banks	−32.11	N/A
Property	7.54	+37.7
Misc. (fin)	0.48	+12.4
Financial Group	**881.52**	**+111.9**
Rubber	**3.52**	**+55.8**
TOTAL	**26,144.40**	**+33.4**

Investors Chronicle, 1.4.77)

'Are Britain's dividend controls effectively a dead letter?' asked *The Economist* in March. 'The Stock Market seems to think so. On Monday the Financial Times 30 share index shot up to a 3½ year high of 428.8 mainly on the news that the overseas trading company Inchcape had been freed from all British dividend controls.' The market was not over-reacting. The treausry's permission to Inchcape was the latest in a long line of loopholes tolerated by the government that allowed shareholders to receive what had become huge dividends.

Inchcape's evasion was allowed by the government because it was argued 80% of its earnings and assets are overseas. The fact that the majority of its shareholders are British does not seem to have entered into it. It was good news for the owners of shares because many more companies may now qualify; companies like Booker McConnell, Unilever, the UK registered oil companies, RTZ, Consolidated Goldfields, British American Tobacco, Charter Consolidated and a host of others.

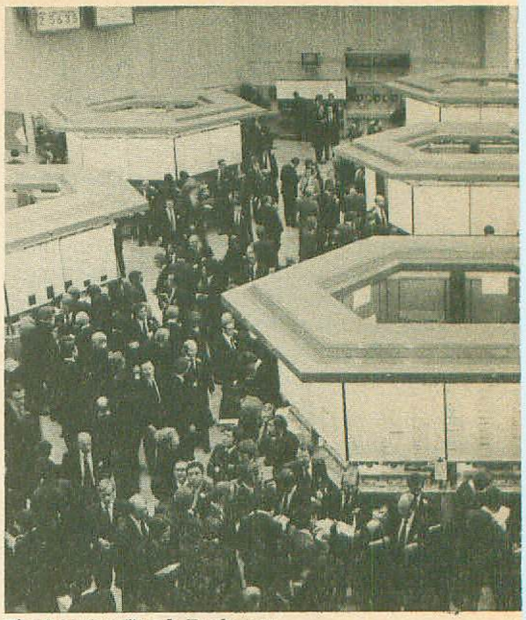
Camera Press

The Earl of Inchcape

They are in the words of *The Times* 'now free to establish dividend policy by reference to normal commercial criteria' (14.3.1977). A dividends 'free for all' was getting under way. The *Daily Mail* exhorted its readers 'we must give every encouragement to Hepworth Ceramic. . . Hepworth and their advisers are looking hard at a scheme to give their shareholders at least some of the *£10m cash* that their company has in the bank'.

The same newspaper also quotes Sir Robert McAlpine of the huge construction firm Marchwiel Holdings, as saying 'So far we have found no ways of actually handing the cash to the shareholders.'

There are in fact three well travelled routes for evading dividend restraints. First make a rights issue, that is put up a lot of new shares for sale on the Stock Market. This method was pioneered by Croda International, the chemical and plastics group. A company making a rights issue is allowed to give unconstrained dividends to its shareholders.



The London Stock Exchange

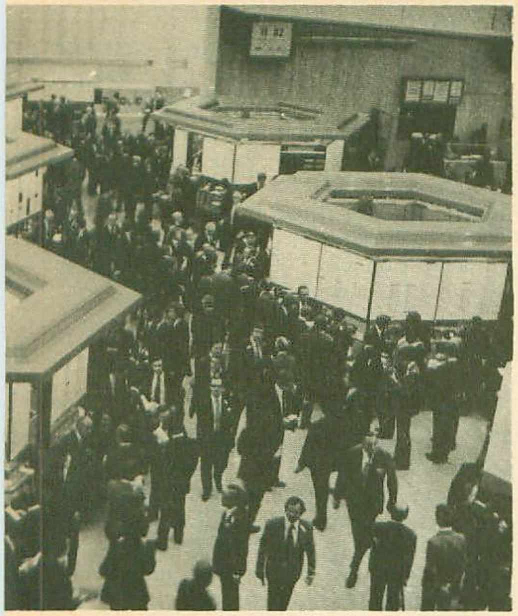
Second make a GEC 'scrip' type issue. GEC gave its shareholders the equivalent of £178m in the form of 'rate capital notes'. A shareholder could sell these for cash, or keep them as a profitable investment in the company. Either way 'Christmas has come early for GEC shareholders this year' and 'doing a Weinstock could well be the in thing in 1977' (*Observer* 12.12.1977).

And finally a company can make 'an all shares bid' to buy another company. The best example to date of this method was when Davy International, the process plant manufacturer, took over Head Wrightson. The bidder Davy International was able to increase its dividend by 57%.

'The Treasury is clearly sympathetic to easier dividend controls, and the City of course approves.' (*Economist* 19.3.1977).

Gilt Edged Profits

The amount paid out by the Government to finance capital in the form of interest is the fastest growing component of the government deficit. When the Labour Government came to power in March 1974, it was running at a rate of about £4 billion a year. Currently it is about double this figure. Much of this is raised on the stock market by the sale of Government bonds, called gilt edged stock. In 1976 for example, the Government issued some £8½bn of gilt edged stock. Through the Bank of England the Government also controls interest rates. By keeping interest rates high through most of 1976 it has ensured massive profits for finance capital.



Firstly there are the enormous extra interest payments caused by issuing stock when the rates are high. During 1976 for example over £3b of stock was issued at a rate of 15% interest or more. Now the going rate is about 11½%, so that on these stocks alone the excess interest is over £100m every year — and some of them run on to the end of the century.

Secondly, as interest rates fall, the values of gilt edged stock rise. To take but one example, in 1976 the Government issued £600m of Treasury 15½% stock at £98 for every £100 of stock. By April 4th 1977 that stock sold at £117½, giving a capital profit of £19½ for every £100 invested. The capital profits on the stocks issued in 1976 total almost £1b.

In what seems like eagerness to expand speculators' profits the government has recently been issuing partly paid stock. This means that instead of paying up all his money at once the speculator need only pay a small part of the price of the stock at once. On March 2nd the Government issued £800m of Exchequer 12¼% stock on which only £15 per £100 had to be paid immediately. One week later a speculator could have sold the stock he paid £15 for for £18½, a profit of 23.3% in a week. Taxed only at the capital gains rate of 30%, this was equivalent to a return of 42,500%p.a. for top tax rate payers, super profits indeed! Since the government must now go all out to reduce interest rates, as they are a major factor in causing inflation and represent a disincentive to employers to invest, the City is set for even greater profits.

Part of the government's aim is to cut public spending. Since it quite clearly has neither the will nor the power to cut the huge interest payments being made to the City, these cuts must be made in education, the social services and construction. Every pound cut in these areas will feed straight into the hands of those dealing in government bonds. Every unpalatable constraint imposed on the workforce, every concession to the IMF will be followed by reduced interest rates and further profits in gilts.

Advertising for the Trident Gilt Edged Fund puts it this way: 'If, for example, interest rates fall to between 12% and 11% over the next three years the growth arising as a result of the fall in yields plus re-invested income could produce a combined growth of between 36% and 44% in the value of an investment in (this) Fund.'

Clearly what continues to be a crisis for those who work in the public sector, and which has led to a dismantling of the welfare services, continues to be a windfall for those wealthy enough to invest in gilts. 'For the man with say £10,000 and security in mind then Gilts are a real starter.' (*Sunday Times* 19.9.1976).

Banks Profits

Of course there are those who have done equally well out of a rise in interest rates. Most notable among them were the clearing banks, who this year all reported record profits well above what was expected. 'It seems that last year's super economic crisis brought the bankers a super bonanza . . . the nation's distress is bestowing such an impressive windfall on them.' (*Observer* 13.2.1977).

The Banks Super Profits

	Profit 1976	*Profit* 1975	*Increase* %
Lloyds	148	95	56
National West	188	104	80
Barclays	237	142	67
Midland	166	83	100
Total	739	424	74

This 74% increase in profits has clearly embarrassed the banks. Barclays tried to reduce their massive £237m by excluding currency transactions which gave them an extra £40m (included here). Certainly the banks are looking for ways of representing their accounts which will obscure these huge profits.

'The banks are perhaps the only businesses anxious to see inflation accounting reduce their profits' (*Investors Chronicle* 4.3.1977).

In theory the Pay Code has frozen all salaries of more than £8,500 since August 1975. **There is growing evidence that those on the highest incomes, the managers and directors of companies, have been pretty much immune from the pay policy.** By changing the job title the salary can be changed. In the Imperial Group for example the number of 'employees' earning £20,000 to £25,000 grew from four to seventeen during phase two of the Social Contract. The number of employees in the £10,000 to £25,000 range grew from 167 to 275.

Unlike the wage claims of the workforce, these increases are paid before they become public knowledge in the companies report and accounts. The justification for these increases was given by a spokesman of Lloyds Bank, where the salaries of at least 136 of their top paid executives were raised (it could be many more, but the way companies reveal the information obscures the true picture). 'In our case these are all people who have been given new appointments or extra responsibilities. With the bank expanding the way it is, and growth of responsibilities by many departments it is quite a natural thing.'

Major Companies Recently Reporting Who Broke the Pay Code

Birmid Qualcast Chairman and five directors had increases of around £2,000.

Carrington Viyella Three directors and five executives had increases ranging from £2,000 to £10,000.

Fisons All directors and executives shifted up one or more steps in the pay scale. Top two directors getting £40-42,000, top two executives £22-25,000. Chairman increased his salary by £10,000 to £51,000.

Gestetner Five directors who earned around £25,000 moved into the £27-30,000 salary scale. The two chairmen increased their weekly pay from £442 to £538.

Imperial Metal Industries Three senior executives in the £10-22,000 salary band got increases.

Grand Metropolitan Ltd The number of executives in the £10-32,500 salary band increased from 123 to 163.

Marchwiel Holdings Three directors earning above £22,000 took increases, as did 31 executives in the £10-20,000 category.

Tate & Lyle The chairman increased his income by £2,000 to £46,000. The number of executives in the £10-12,500 group increased from 40 to 51, in the £20-22,500 from five to ten and five executives in the £20-32,500 band went up into the £33-35,000 scale.

'British bosses may get less wages than their continental counterparts but they can show the Europeans a clean pair of heels when it comes to collecting those executive perks' *(Evening Standard)*

Occasionally perks hit the headlines. There was Tiny Rowlands' £300,000 house exposed in the Lonhro Affair, or Duncan Sandys' Cayman Island Consultancy fees. 'Perks as we all know', says the *Financial Times,* 'assume an increasing importance in these days of high personal taxation'. Whatever the reason devising perks has become a substantial industry. Favourite devices are company cars, share options, private pension schemes and service contracts. Many of them have a two sided benefit. They benefit the individual receiving them, and they can often be written down by the company that provides them against tax. Often the individual and the company are one and the same.

How is it done? 'When I go, I'm going to do it in style' runs an advert for a bosses pension scheme with National Provident. In the picture a cigar smoking executive shows off a £22,500 cheque. Simply by periodic contributions to NPI 'which rank for full corporation tax relief'. The size of the payment hinted at in the ad might well have wiped out any tax obligations by the company. 'When I finally did go, NPI presented me with a £22,500 cheque as a reward for my foresight. On top of that there's a pension of 7,500 a year'. The lump sum is tax free.

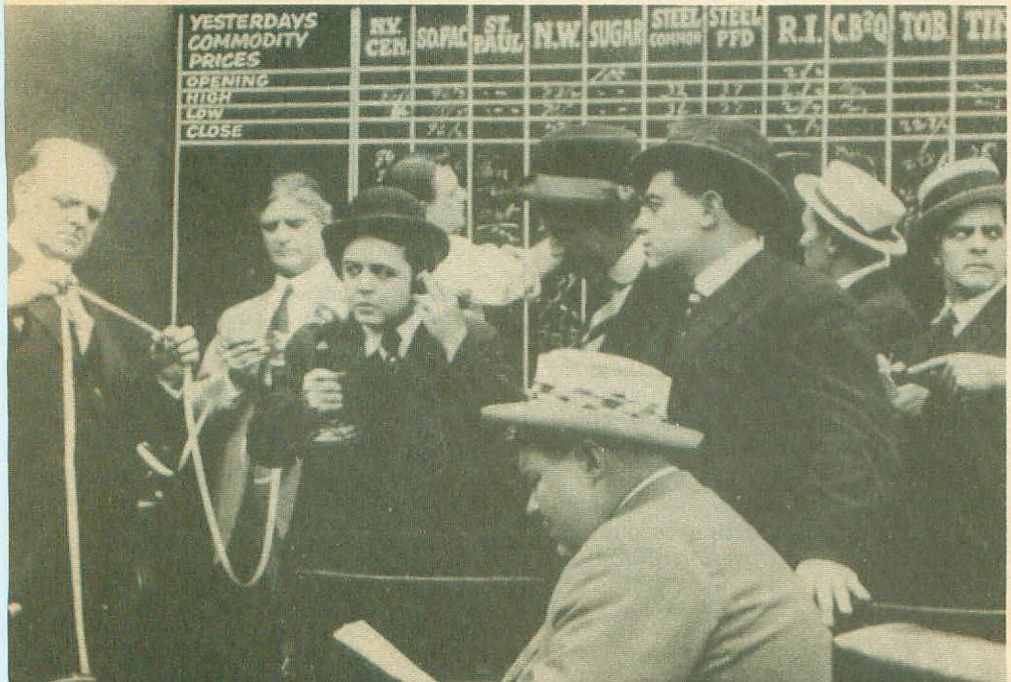
Companies and the self employed pay tax retrospectively and are only charged on net income – that is what remains after the expenses of business have been met. These expenses have been swelled considerably by the perks and benefits that have been received by the better off members of the company.

There are so many opportunties to move resources to a more favourable tax position that the Inland Revenue could not possibly either be aware of them all or keep up. Some devices benefit profits, others benefit the personal income of executives. There are a host of professional organisations to devise schemes.

'Before any tax avoidance scheme is offered to prospective clients, the advice of Britain's top tax barristers is sought. In some cases they are the SAME barristers who on other matters advise the Inland Revenue'. (*Sunday Times* 13.6.1976).

In a British Institute of Management Survey of 1974, it was revealed that many companies registered with the institute had made special managerial appointments to administer the benefits. A typical package as calculated by the TGWU and the Low Pay Unit would look like this: an earnings related pension scheme, the private use of a company car, medical insurance, subsidised lunches, and, mainly in the financial sector, loans at reduced rates of interest. Private company cars alone were subsidised to the tune of £800m by the Inland Revenue, although nine out of ten companies in London said their cars 'were provided not because they were necessary for the employee to do his job efficiently but because they formed part of his pay'. (*Guardian* 27.12.1974).

New York Commodities Exchange between the wars



Overall figures are difficult to obtain. But the Diamond Commission on the Distribution of Income and Wealth revealed that fringe benefits were considerable although it made no attempt to assess their real value. For those earning over £10,000 in 1975, perks added another quarter to the salary. These increased proportionately until a manager on £24,000 would get another 29% or £133 a week in perks.

Unemployment – A Golden Handshake

The very different degree of economic security enjoyed by the wealthy is also illustrated by payments made to executives for termination of employment. Many directors have service contracts which commit a company to make certain payments to directors or senior executives over a fixed period of time 'whether or not they continue to be employed by that company' (Low Pay Unit).

The present recession which has led to 1½m unemployed and the humiliation of the dole, has, like so many other things, turned into something of a windfall for the wealthy. Recently there has been a spate of 'golden handshkes' to directors and senior executives taking leave of their companies, in the wake of boardroom rows, takeovers and rationalisation.

Company	*Director or Executive*	*Amount £*
Scottish & Newcastle Breweries	Mr Henry Porter	29,000
Corinthian Holdings	Mrs Gloria Eban	11,000
Madame Tussauds	Mr Edward Gatacre	45,000
S.Pearson & Son	Lord Pooie	50,000
Cadbury Schweppes	Mr T. Auchincluss	76,000
Alfred Herbert	Two Directors	115,000
Burmah Oil	Four Directors	132,000
First National Finance	Mr Pat Matthews	57,000
First National Finance	Mr B. Bard Mr J. Bardwell	63,000
Co-operative Society (Royal Arsenal)	All Directors	5,000

As usual, those who control capital have looked after themselves. It is not their wages, jobs and social services that have been attacked under the Social Contract.

Healey at the IMF, Varley with Scanlon. The result – unemployment. *Camera Press, Financial Times*

The New Jerusalem

The depression of the 1930s is still fresh in many memories. Apparently the underlying reasons for it are not, certainly in the mind of the current Labour government. The rapid growth of production after the end of the First World War, largely due to the introduction of mass production techniques, led to a situation where capital became trapped in a spiral of soaring output and declining rates of profit. When demand began to fall off industrialists sacked their workers and cut real wages, thus forcing demand down even further. It was Keynes who first provided a theory to back the programme that Roosevelt was already putting into practice viz. that demand must be created, by public spending programmes or expanded credit, to take up the excess production in times of recession.

It was the application of Keynes' theories that was a major factor in sustaining the post World War Two boom until 1973. The creation of consumer credit and government spending between them provided a growing market for the enormous rise in production over the period. There were, of course, many other factors involved, such as expanding world markets and, in many countries, increasing real wages.

Price of Growth

By 1974, however, it had become apparent that Keynes' remedies for overproduction concealed rather than cured the underlying problem. The creation of credit and government spending which was not matched by income meant that enormous amounts of money were being created without any backing in real terms. Not only were the amounts of production being absorbed through these means very substantial but the effect of interest payments on past debts was beginning to become a major problem in their own right.

During the early post war years the rebuilding of Western European and Japanese production facilities was aided by the American market and American Marshall Plan aid. The 'export or die' slogan of Britain during this period was even more true of other economies, but by the mid-1950's the stimulus provided by American demand and aid had worked through to all levels. Workers' real wages were beginning to rise and thus creating further demand.

By 1955 the first expansionary stage of the consumer boom was coming to an end throughout the developed world. In America, the dominant industrial nation in the West, the Eisenhower administration's failure to use government intervention on ideological grounds led to a period of comparative stagnation.

Kennedy's use of government intervention brought about the longest period of unbroken growth in the US economy of the post war period. In part this was due to the vastly increased arms expenditure of the Vietnam war: arms spending provides a useful sink to pour away excess surplus. Heavy spending on scientific research makes existing weaponry obsolescent, preparing the way for a new generation of more sophisticated weapons and so on. As Keynes himself had pointed out it doesn't matter what a government spends money on, however insane, as long as it spends money.

Between 1960 and 1968 US arms spending rose by 75%. At the same time the overall government position went from a surplus of $1b in 1960 to a deficit of $19b in 1968. The Nixon clamp down and slowing down of US expenditure in Vietnam were two of the most important factors in the 1968-79 world recession. In the UK the Jenkins budget brought the government back in to surplus at the cost of heavy unemployment and static real wages – a modest fore-runner of Labour's efforts five years later.

Into Decline

The application of Keynesian tactics on a world wide basis led to the unprecedented boom of the 1970-73 period. The pricking of this bubble and the consequent stagnation, inflation and mass unemployment, left Keynesians in particular and economics in general in complete disarray. Since Social Democrat politicians have in the past subscribed to the Keynesian idea this left them in a state of confusion.

The 'theory' that Healey has used to justify his attack on living standards is that we must make more room for investment and that current standards of living must be cut for this purpose. This is in fact a jump back to the policies that fuelled the depression of the 1930s and, as Keynes pointed out 40 years ago, completely ignores the reasons for investment.

Companies invest to make profits. To do this two fundamental requirements must be met. Firstly they must be able to foresee an upturn in demand so that the new capacity will be fully employed. Secondly the rate of return on the investment must be better than can be found elsewhere. Far from providing either of these possibilities the government's efforts ensure they cannot be met.

Reflate . . .

The early period of the Social Contract was filled with predictions of a world boom which must inevitably follow the recession. This has not occured for several reasons. The first and most important is the enormous addition to productive capacity which occured in the 1970-73 period. To take the motor car industry for example, vehicle production world wide rose from 29m to 38m, a 30% increase in three years. Yet production for 1975 was almost 6m units lower than the 1973 peak.

Meanwhile productive capacity was closed or lay idle, and companies with idle capacity are not going to add to it. As the Deutsche Bank commented in its March market letter, 'The capacity utilisation of presently 82% (in both Germany and the US) offers little incentive for investments with regard to expansion, all the more so as rationalisation measures will, as a rule, inevitably entail the extension of capacity.' In turn this depresses the manufacture of components and capital goods.

A second major factor is that the fiscal weapons once used to promote recovery have lost their effectiveness or are unusable. More and more consumer credit is required to stimulate production. In 1949 25 cents of consumer credit produced $1 of GNP in the US. By 1973 it required a $2.50 stimulus to produce the same $1. As many governments were already running large deficits, there was little that could be done.

Despite this, the Labour administration's policies are still based on the old chestnut of an 'export-led boom'. Perhaps world trade has not recovered sufficiently yet, the argument goes, but it will do soon, particularly when the German and the US governments, the two pacemakers of the Western economy, really begin to stimulate their economies.

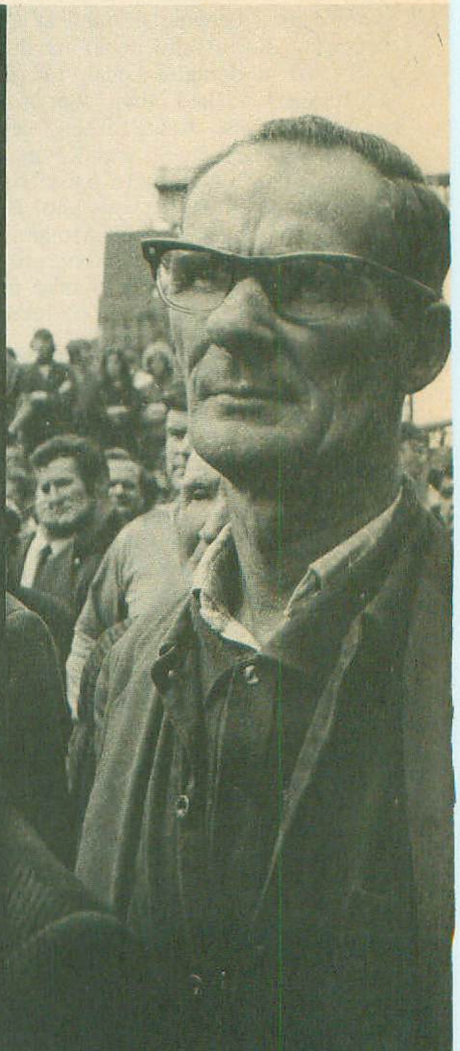
. . . or Bust

This tomorrow's world has little foundation in reality. The Germans are following a very cautious line, claiming that they are doing as much as possible – whilst running a large trade surplus. The Americans, with the incoming Carter administration, seemed set to take off during 1977. But the administration made an abrupt about turn. In their first four months in office they had 'been exhorting Germany, Japan and other strong industrialised nations to follow the American lead and reflate' (*Financial Times* 19.4.1977). Then, in mid April 1977, Carter abruptly announced abandonment of the greater part of his own

Callaghan on the 'New Jerusalem' . . .

Keystone

Workers on 'take over', Upper Clyde



stimulus package subsequently sounding 'a warning about inflation that could easily have come from the lips of Herr Helmut Schmidt, the German Chancellor, himself' (ibid).

In the absence of substantial renewed growth in world trade, Healey's 'export-led boom' will only come about through British goods winning out in the cut-throat battle for a greater share of existing markets. And that means, essentially, given that after years of underinvestment British industry certainly has no lead in terms of technology or quality, incredible price-competitiveness.

No Sense

To bring this about it has tried to cut capital's costs, by making British wages, already among the lowest in developed countries, even lower. Besides direct control of wages, it has done so in a number of indirect ways, of which the most important is the devaluation of sterling.

A central plank of the strategy has been the downward drift of the pound. In theory, this is supposed to make UK exports more competitive in relation to those of other countries. In fact over the 1974-77 period when the pound fell from $2.40 to $1.70 a decline of 20%, exports only rose 5% in volume terms. Britain's share of world trade had continued to drop. During the same period the Japanese yen improved against the dollar from 285 in March 1974 to 275 in November 1976, yet Japanese exports rose more than 30% by volume over the same period.

There are three major reasons for this phenomenon. Firstly most British companies invoice exports in foreign currencies. When the exchange rate declines they don't reduce their overseas prices at all. This means that the fall in sterling feeds straight through into profits. Many British companies have in fact made a gigantic killing by holding export prices up in this way.

Secondly, where the exports are sold through overseas subsidiaries, as is often the case, price maintenance also provides a useful means by which profits can be channelled overseas. Export prices to the subsidiary are reduced – but it in turn maintains its onward selling price, so the end effect is that its profits are greatly increased.

Thirdly, most raw materials used in British industry are imported; the fall in the pound pushes up these costs considerably. Whereas a Japanese manufacturer has seen the cost of copper drop by almost 60% from April 1974 to April 1976, for a British manufacturer the price is only 35% down.

Given these various factors it is obvious that the idea that a falling exchange rate would increase exports and profits, and therefore investment, was nonsense. It has boosted profits, but no more. And that has been at considerable cost in terms of 'imported' inflation.

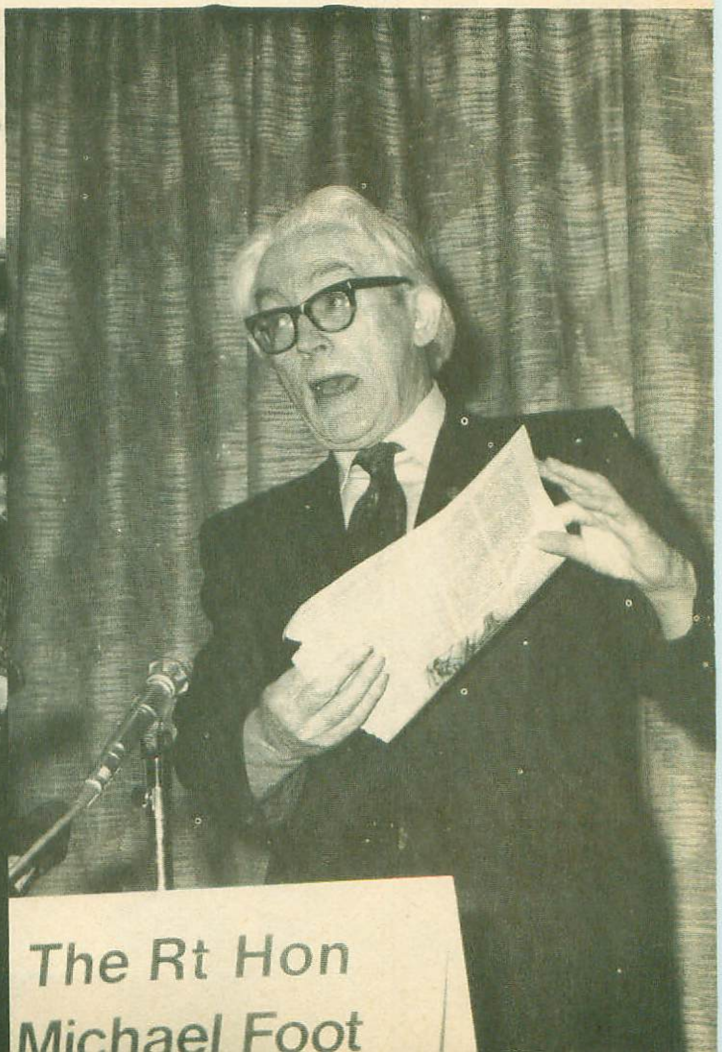
Whose Interest?

Despite the stringent effect of phase two of the Social Contract on real wages, price increases are now speeding up again towards the 20% mark for a number of reasons. On top of the decline of sterling,

Camera Press

Foot on 'self restraint'

Keystone



which has pushed up the costs of the imported raw materials on which Britain is so dependent, interest rates have been held up to prevent a further decline, and that too boosts inflation.

In this respect it is worth recalling Harold Levers' words when he wound up the first budget debate of Labour's 1974 government. 'Interest rates are at an outrageous, dangerous and destructive level caused by the previous government . . . It did not need a singularly ingenious government to bring down such interest rates. It needed a reasonably sensible government.' (*Times* 2.4.74)

Naive Rhetoric

The interest rates of the time, record though they were, were to be surpassed by the Treasury under Labour's direction.

Again, Britain's membership of the EEC Common Agricultural Policy means that food prices are bound to rise. And running across all these factors, the effective monopoly power of the larger corporations means that, even in a recession, they can keep pushing up prices to reflect not only higher raw material costs but also lower capacity utilisation. Whatever happens, the larger companies ensure that their profits are maintained.

Prices rise because of these factors, with or without wage control. But at least the higher profits should, in theory, provide the base from which the second plank of the government's strategy may succeed. This is that there should be a resurgence of industrial investment in Britain, to pave the way to the 'high productivity, high wage' Britain of the future.

Is it naivety, or is it simply rhetoric to cover up the true effects of the government's policies, that leads it to equate higher profits with increased industrial investment? Capital is invested to make profits. If large returns are available to finance capital (15% or more on gilts, for example), then why invest in industry? The rate of return has to be astronomical, given that the capital has to be written off over the life of the machine. As there is already excess industrial capacity in most sectors anyway, and the prospects of any significant upsurge in demand seem remote to say the least (particularly in Britain, given the effects of real wage and public spending cuts), there seems little point. So many major British companies have put higher profits into gilts, or similar financial investments. The Imperial Group, for example, had £98m in gilts in October 1976, and this will almost certainly have risen to well over £100m by now.

The corporations, and particularly the larger and hence more profitable ones, have other options as well, one being overseas investment. The restructuring of both the control and organisation of production – the takeovers, rationalisations and so on – that invariably occurs during recessions is occurring now on a more international scale than ever before. The government's exhortations are no more than water off a duck's back if the investment opportunities are more attractive elsewhere. And they are bound to be, given that the prospects for, say, the US or South Korean economies have so much more potential for growth than does the British economy.

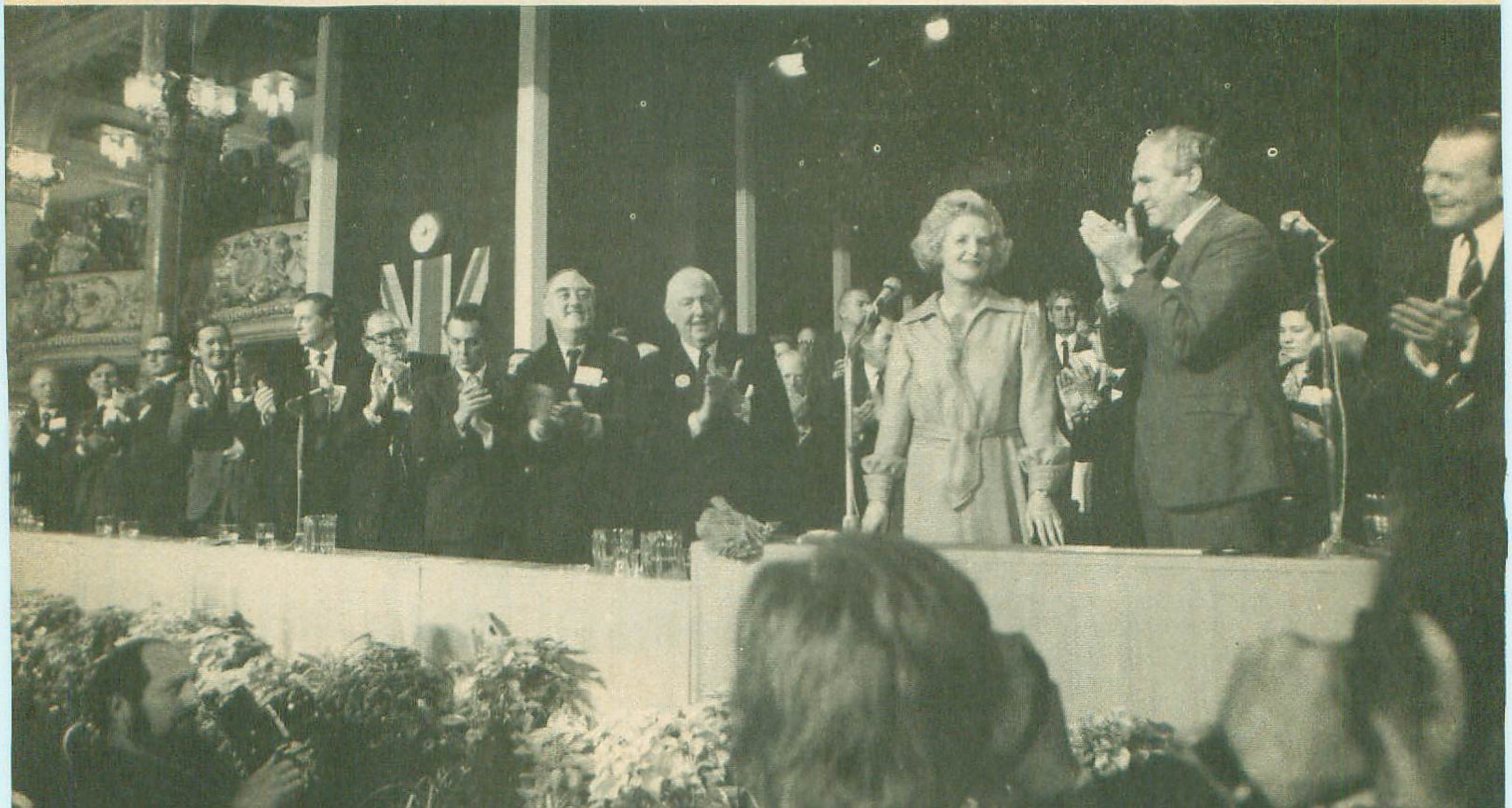
Even if more money is put into investment would this create more jobs?

The answer is obviously no. The purpose of investment is to raise productivity which means cutting jobs. Britain has an impossible amount of ground to make up in relation to other industrialised countries. To achieve the same productivity levels as Japan, for example, would mean producing the same amount of output from less than half the number of workers in many industries. In steel, for example, Japanese production per worker is 2½ times as high as British, mainly because Japan has been investing 5 times as much. To raise British investment to the same level in this one industry would cost an initial investment of £10b and more than £1b annually thereafter.

Marking Time

To become competitive British industry either has to raise production by quantum

The Conservatives at Blackpool *Camera Press*



amounts or sack millions of workers and raise production modestly. The first is impossible because of the amounts of capital needed, the second would cause the home market to shrink to such an extent that even a doubling of exports in volume terms (approximately what has been achieved in the past 25 years) would mean a fall in total production.

The corporations are, of course, putting *some* money into industry, but their aim in doing so is clear. Low wages and low productivity in Britain mean that it is possible, with a small amount of investment directed at maintaining and rationalising the existing industrial base, coupled with a continued attack on both the wages and conditions of the workforce, to continue squeezing out profits. It is essentially a 'hold and maintain' operation, designed to protect companies' home bases whilst the build up elsewhere is occurring. It means, of course, a continuing run-down of Britain's industrial base. And it means, of course, no possibility of reducing unemployment – quite the contrary in fact.

Profitology

The government has nailed its colours to the mast of British capital. Sir Harold Lever told the House of Commons that, 'the clearer it is that private enterprise operating within the framework which broadly accords with our concepts of social needs and social justice, the more extensive and durable will be the role of private enterprise in modern society.

'The crucial thing for investment is the creation of an expectation among industrialists of sustained and rising profitability.' (April 1974)

Industrialists have their own expectations for the British economy, and they have formulated their own strategies in accordance with those expectations, their cardinal aim being the maximisation of profits regardless of anyone else's concepts. The government of the day can either make the effects of those strategies politically acceptable, or come to terms with the question of to who controls what.

Cheshire Cat

The Labour Government is depending on North Sea Oil to buy that acceptance. It may buy a little, but not enough. The balance of payments, for example, is likely to come into substantial surplus by 1980 – but this will be absorbed by paying off past overseas debts. Government tax revenues will benefit by about £5b a year by 1980 – just enough to pay off the extra interest bill on the government's rising debts.

There may be a few new jobs – but fewer than those lost by the slowing down of the North Sea investment programme. The Labour government has sold out the commitments on North Sea Oil it gave in the February 1974 Election Manifesto.

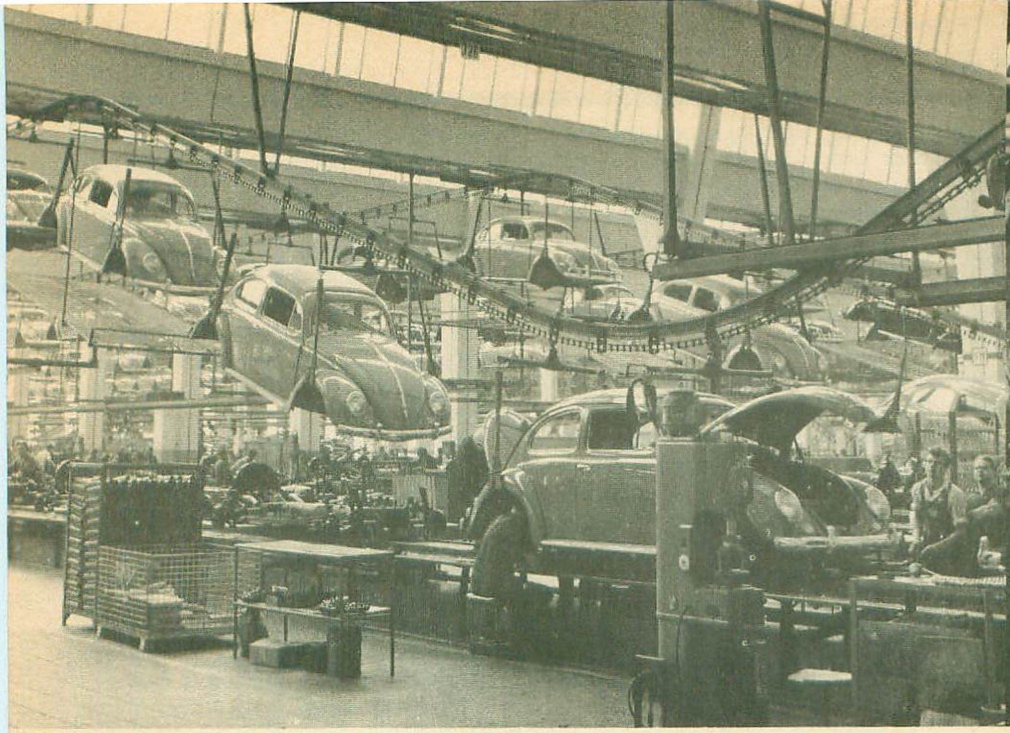
'It now appears that the Government is willing to interpret the term participation as implying little more than an option to purchase enough of the crude output of a field at market price to give it access to a majority of a fields output. Thus the financial dimension of participation has virtually disappeared except as a useful facility for the least credit worthy small companies . . . Thus participation agreements have turned out to be a bit like the Cheshire Cat. The socialist body has disappeared leaving only a grin on the face of Harold Lever.' (W. Greenwell & Co. [Stockbrokers] Oil Commentary, March 1976)

Wages will never be low enough, productivity never high enough. Unemployment will continue to rise, intermittently but inexorably, and the social services will be continually squeezed. Overseeing it all, and pulling the strings through monetary control if direct wage control is not feasible, will be the government.

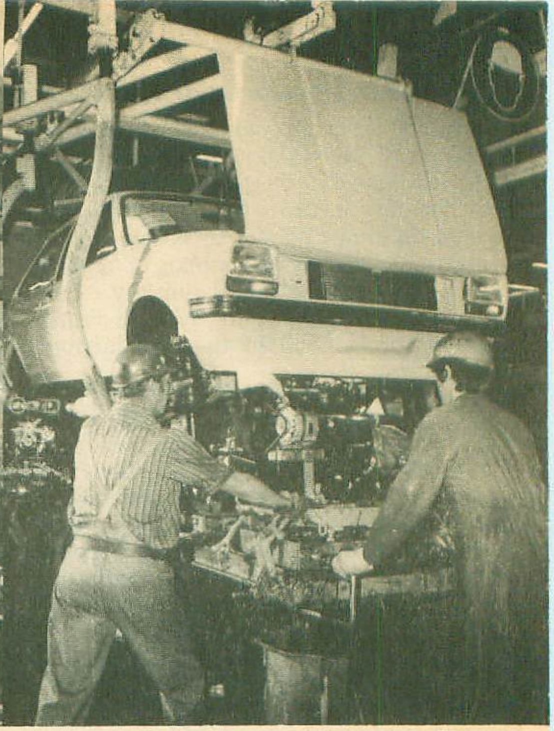
The government's main fear is that the workers, who are being made to pay for the crisis will fight back.

For the City of London not Jerusalem

Free enterprise jam.



Keystone



Keystone

Disciplining the workforce

British industry is not competitive enough. Markets are becoming increasingly international, especially since Britain joined the Common Market, but years of low capital investment have led to antiquated plant and machinery and low productivity in British industry. There are difficulties in trying to compare productivity in different enterprises. But there is a lot of evidence that productivity in British industry is lower than in any of its major competitors.

The Think Tank report on the motor industry concluded that 'it takes almost twice as many man hours to assemble similar cars using the same or comparable plant and equipment in Britain as it does on the Continent . . . To check the data obtained from manufacturers, members of the CPRS team, including two engineers, examined all the plants involved in assembling the models used for these productivity comparisons to ensure that production facilities, including capital equipment, age of equipment, and plant layout, were comparable'. (CPRS report on the Motor Industry, 1975)

Productivity

Another study, which used information gathered from multinational companies about their operations in different countries concluded that productivity in comparable work situations is 50% higher in the US, 35% higher in Germany and 28% higher in France than it is in Britain (*Lloyds Bank Review,* January 1977). There are many reasons for the lower productivity of British industry: they include old plant and machinery, bad management (for example bad design of plant, shortages of raw materials and so on), short production runs, and militant shop floor organisation.

Foreign Countries' Productivity Lead Over UK

Cause	*Germany* %	*France* %	*North America* %
Output and length of production runs	5½	1½	20½
Plant and machinery	5	5	6
Others including differences in product mix and capacity use	2	2	6
Strikes and restrictive practice	3½	0	5½
Manning and efficiency	8½	5½	6½
Average lead	27	15	50

Low wages in Britain compensate to some extent – but not sufficiently. British manufacturing industry is trapped in a vicious circle of low investment, low profitability and low productivity where shorter production runs, lower wages and less modern capital equipment reinforce one another.

There are four main avenues that employers could explore in the attempt to raise competitiveness and profits. They could try to push wages in Britain even lower than they are already. They could try to raise productivity directly by 'persuading' the workforce to produce more for the same wages on existing plant and machinery. They could invest heavily in new plant and equipment, or they could concentrate their new investment abroad.

Employers Strategy

Employers are not willing to make large capital investments in British manufacturing industry, and it is politically impossible to lower wages drastically at this point. So they are adopting a strategy of concentrating new investment outside Britain, and trying to launch a new offensive on productivity levels within the existing British industrial base.

Raising productivity means disciplining the workforce, and extending the control of management over the shop floor. It means rationalisation, speed up, fewer jobs and more work for the same money. Above all, it means undermining the power of the shop steward, power built of years in the forefront of the struggle to maintain workers' standards.

There are several fronts on which employers are moving. They are trying to lower manning levels, increase flexibility, and reduce job demarcation. They are trying to increase the intensity of work.


TRANSPORT HOUSE

They are trying either to muzzle shop stewards or to integrate them into the official union machine, and use the union leadership as a disciplinary agent against those who fight back. The state is supporting these efforts with legislation on arbitration, on worker participation, on Planning agreements. And union leaders are increasingly backing them up.

Employers are further assisted by the debilitating effect of high unemployment on the morale and militancy of the workforce.

Manning Levels

The drive to lower manning levels is a permanent feature of industry, and disputes are common. In January 1977 alone, there were 26 strikes over manning levels and work allocation. At stake is not just rates of pay, the pace of work and health and safety conditions, but also organisation within the workplace, and the number of jobs available.

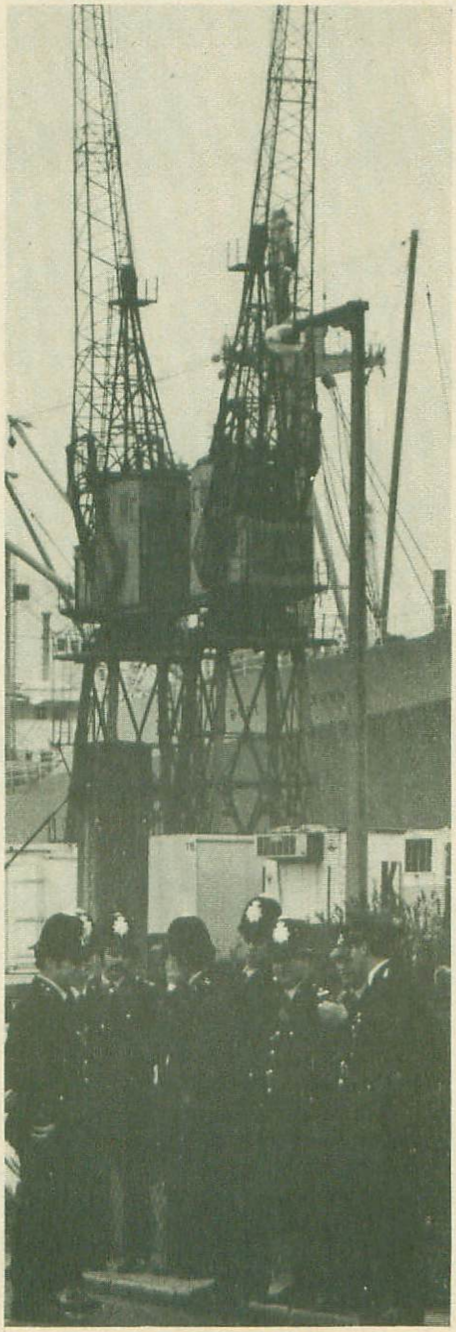
The long and bitterly contested strike at Massey Ferguson's big tractor plant in Coventry in early 1977 is typical. There a dispute over manning levels arose following the introduction of a new model. Management claimed the men ought to produce 48 tractors per hour – the men insisted that existing manning could only produce 32, and six more men would be needed for 48. In this case the workforce resisted successfully.

Central to strategies for lowering manning levels is the management's demand for increased flexibility in the labour force. They are seeking to break through the defensive barriers created by rigid demarcation of jobs by workers, where 'machine operators may not be responsible for keeping their section of a factory clean (this work being done by cleaners), operators may not be responsible for checking the quality of the products they make, and this may necessitate the employment of inspectors; operators may not be allowed to put right, or attempt to put right, faults in a machine or to set up a machine; specialist personnel may themselves operate demarcation rules (electricians and mechanical maintenance staff may not be interchangeable)' (The Efficiency of British Industry, *LLoyds Bank Review* January 1977).

Flexibility of labour boils down to one worker doing a variety of jobs previously done by a number of people. Leyland, hit by a strike at its Castle Bromwich plant where 32 painters refused to be redeployed as spot welders, tried hard to introduce a deal, which would entail men changing jobs as required. It was rejected. In the wake of the toolmakers strike, Leyland's management have announced the formation of teams of 'troubleshooters' – 'mobile task forces' who can move in on a job under particular pressure, denying the workers already on it the right to negotiate improved rates for the extra work.

Flexibility of labour deployment allows the complete elimination of some jobs, and makes it much easier for employers to intensify work by using 'natural wastage' to run down the labour force. It also gives management one other important advantage -- it enables them to split up shop organisation by moving workers from one shop to another.

Waiting for the striking dockers



Camera Press

Interruptions to production because of disputes – and in particular unofficial disputes – are a major source of concern for employers. While it is true that the bulk of plants in the UK are completely strike free in a given year, it is also true that engineering, the backbone of the manufacturing industry, has a significantly higher incidence of strike activity. Strikes not only cause lost production, they also raise wage levels and conditions.

In February 1977, Leyland made a 'revolutionary' offer to its workforce, which illustrates likely future developments throughout manufacturing industry. The manual workforce was offered 'white collar' conditions of sick pay, redundancy and lay off pay, in return for a reduction in 'unconstitutional' industrial action, and more flexibility. It contained a stiff penalty clause – any worker who took unconstitutional industrial action for more than half a shift would lose lay-off entitlement for the next quarter. Despite being recommended by union officials and plant convenors, the deal was overwhelmingly rejected.

Elsewhere attempts have met with considerable success, as for example at Chrysler (UK). At the end of 1975 the government gave Chrysler £162.5 million to persuade it not to close down its UK operation. With total closure a possibility and the work force divided and uncertain, 8,300 redundancies were pushed through without a murmur. Since then, the company's labour relations record has been transformed. Hours lost through disputes fell from 1,795,000 in 1975 to 199,000 in 1976.

The company 'has broken new ground in the involvement of the unions in the car factories' affairs' (*Financial Times*) by signing the first Planning Agreement. How did Chrysler management achieve this? The threat of redundancy and the awareness of high general unemployment were undoubtedly factors in weakening workers' resistance to management, i.e. in disciplining the workforce.

Chrysler itself attributes its new found ease of management to 'communication'. In January 1975 it appointed a director of employee participation and communication, whose 22 strong staff included at least one senior steward. The three devices of worker involvement that this team developed are: quarterly conferences, at which a 15 minute film of the company's performance over the previous quarter is shown; a company bulletin; and the attendance of trade union representatives at management discussions. At Stoke, for example, five manual and three staff union representatives attend a weekly management meeting. The combination

The miners' strike, 1972 – Upnor, near Rochester in Kent. Camera Press

of mass redundancies and the communication of management perspectives to the workforce has produced what one senior steward called 'a fundamental change in mood'.

The official machine

Crucial to the management in its attempts to gain control of the work force is the co-operation of the unions. In August 1976, the TUC General Council 'persuaded' the National Union of Seamen not to strike in support of their claim by threatening the union with expulsion from the TUC.

Getting the unions to police their own membership is a trend much strengthened after three years of Labour government. For example, the March 1977 toolmakers' dispute in Leyland ended with the spectacle of the National Executive of the AUEW publicly supporting management in its threat to sack the 3000 workers on unofficial strike. The danger that the AUEW Executive might lose control of its own rank and file membership was clearly identified by the employers as a grave possibility. 'The great movement towards a quasi-corporate state, started by Mr Edward Heath, given a tremendous leap forward by Harold Wilson, and already endorsed in advance by what might be the next Conservative government, is based on the cosy notion that, once assimilated, the TUC barons will themselves take on the task of disciplining the workers.

'The trouble is that every now and again one or another group of employees – the policemen, say, or the toolroom men – shakes and rattles with frustration at the strait-jacket thus imposed. Carry on like this for long enough, and the TUC are seen as part of 'them', together with the Government and the employers. This is an open incitement to unofficial strikes.' (*Financial Times* 15.3.77)

The leadership of the print union NATSOPA went even further than the AUEW. Not only did they support the management of *The Times* in trying to sack the workers on unofficial strike in March 1977, they went as far as expelling the men from the union, and offering to find other men to do their jobs. After the strike collapsed, the leader article in *The Times* declared: 'The Trade union leadership has come to occupy the position the boss has occupied, that of the man who has the responsibility to say no.' (12.3.77)

Employers may look to Europe where the equivalents of the TUC have far more influence and authority in relation to member unions than has the TUC, and where the central authorities of trade unions have more influence and power relative to branches than in Britain. Indeed, in Sweden, unofficial strikes are illegal – as are official strikes after the union has agreed to enter negotiations. This sort of situation would clearly suit British employers.

Legal curbs

There have been many attempts to legislate against the militancy and independence of shop floor union leaders. It was the Donovan Commission on Trade Unions in 1968 who identified a split in the industrial relations machinery. There was the 'formal' externally based union network, regulating the workforce through nationally negotiated industry wide agreements. And there was the 'informal' workplace based structure dominated by shop stewards. Donovan and subsequent legislation sought to integrate the shop steward into the official union machine. Both political parties sought to go further. The Conservatives in 'Fair Deal at Work' and Labour in 'In Place of Strife' (both 1968), sought to empower the State to interfere in the internal government of unions, to undermine the right to strike, and to eat away at the job controls and membership controls on which trade union bargaining power rests.

Many of these ideas were included in the ill-fated Industrial Relations Act of 1972, which made union officials legally responsible for shop floor activities. This piece of blatantly anti-union legislation was defeated by massive (unofficial) industrial action, which was brought to a head when the Industrial Relations Court, set up under the Act, imprisoned five dockers.

In 1974 after the defeat of the Heath government by the miners' strike a Labour government came into office. It repealed the Industrial Relations Act, and introduced the Trade Union and Labour Relations Act and the Employment Protection Act. These two pieces of legislation are based not on the attempt to introduce the rule of law into industrial relations – nor to weaken the unions as organisations. They are attempts to integrate unions with management, to formalise procedures, through conciliation and arbitration to reduce conflict, to undermine the power of the shop stewards and increase the role of the full-time union official For example – the government's Arbitration Conciliation and Advisory Service has been successfully diverting conflict on the shop floor towards arbitration in court for several years.

It is in this light that the Bullock proposals on industrial democracy need to be seen. Since 1970 legislation on worker directors or broadly comparable schemes has been introduced or extended in seven European countries, while serious discussion of such possibilities is going on in many others.

Speaking of the growth of informal power on the shop floor similar to that revealed by Donovan, the Industrial Democracy Committee in 'Industrial Democracy: the European Experience' says 'In particular, the lack of worker influence . . . and the concentration of collective bargaining above the level of the enterprise, led to a new pattern of strikes and other forms of collective resistance in a number of countries . . . The unions, some employers and political parties reacted with alacrity, introducing new measures to recognise and channel these demands. There has been an increase in bargaining at enterprise level in most countries in addition to major new laws on industrial democracy'.

Will workers' participation lead to a greater degree of control by the workforce over the decisions that affect their working lives? The Bullock report itself is clear: 'It is our belief that the way to release (workers') energies, to provide greater satisfaction in the workplace and to assist in raising the level of productivity and efficiency in British industry . . . is not by recrimination or exhortation but by putting the relationship between capital and labour onto a new basis which will involve sharing responsibility for the success and profitability of the enterprise.' (*Bullock* p.160)

'Sharing responsibility for the success and profitability of the enterprise' means sharing responsibility for extracting higher profits from the workforce. In times of expansion, higher profits can go hand in hand with higher living standards. But not in Britain today. Today, higher profits mean speed-up, rationalisation, redundancy and lower real wages.

In the Bullock proposals the workforce representatives will be outnumbered 2:1 by shareholder directors and independent outsiders but the CBI has come out so strongly against the Bullock report, threatening investment strikes and the like, that many trade unionists have been led to believe that it must be in their interest.

Management filter

Another argument used in favour of participation is that it gives access to information about the company. But worker directors would be subject to the law on confidentiality, which makes it a breach of duty to disclose confidential information on company plans and projects to people outside the board. 'Employee representatives may, through inexperience, be unsure about what is confidential, but any such problems should be solved by the chairman paying special attention to his existing duty to give guidance to his fellow directors on what part of the discussions in the boardroom are confidential.' (*Bullock* p.89) How much information that would be useful to workers in conflict with management would slip through that filter?

Worker directors have sat on the boards of German iron, coal and steel companies since 1946 – and have had parity with the shareholders' directors. What could be the decisive vote has been held by a neutral and independent member. In the last ten years there have been massive closures in the Ruhr mines, and drastic rationalisation of the iron and steel industries. But even though rationalisation has led to enormous redundancies outright opposition to closures by worker directors has been rare, and the Biedenkopf Commission, set up to investigate the workings of the participation system, could find not one single case of such opposition being continued indefinitely.

In Sweden, where unions have been able to place two worker directors on the boards of companies employing over 100 people for the past four years, only 8% of worker directors claimed ever to have dissented from a board decision! (National Swedish Industrial Board, 1976)

Why is this? . . . would the same sort of thing happen if we had worker directors here?

The legal requirement that worker directors adopt a co-operative stance in the pursuit of 'company interests' means that worker directors are encouraged to hold 'responsible' attitudes that deny any conflict of interest between shareholders and workers. Both are presumed to have an interest in the profitability and continuation of the enterprise. 'The effects of such "realism" are generally to subordinate worker interests to those of the shareholders' (Industrial Democracy Committee).

'The pressures on the new worker director to espouse views of this kind are considerable . . . given the formalities of board activity and the norms of board conduct, he is dependent on other directors to 'show him the ropes' and to instruct him how to act as a proper director.

'Pressures from other directors are the more effective because the worker director as such is in a position of 'authority', involving a new style of life and relative isolation from other workers. Moreover if the worker director is to play any meaningful role at the board he needs to become involved in the informal discussions between directors and management at which information is provided and strategies are considered . . . In the German codetermination industries worker directors are regularly briefed by management on matters coming to the board; they thereby not only achieve greater 'insight' but also become ever more dependent on managerial perspectives. In short, there is pressure to change the views of the workers rather than the policies of management. The worker director is used both directly and indirectly as a lever in the hands of management.' (ibid)

The paradox, that some managements themselves find difficult to accept, is that in order to increase their control they have to share it. The legitimising of the functions of management, and the integration of shop stewards, lie behind all proposals for industrial democracy.

The Bullock Committee meets

Camera Press

Planning agreements

Another approach to the same problem of getting workers to accept responsibility for management decisions is via the Planning Agreement. These are essentially statements of intention by government and management, in close consultation with senior stewards or convenors. The agreement would spell out certain commitments – from management to make given investments, unions to oil the wheels of labour relations, government to give financial assistance.

The first such planning agreement was signed by Chrysler UK and the Labour government in March 1977. 'The Chrysler planning agreement has . . . added a crucial benefit for the long-term viability of the company. On the evidence of the shop stewards' convenors, Mr John Carty and Mr Eddie McCluskey, at yesterday's signing and press conference, the agreement has established a degree of trust between management and workforce which would have been inconceivable a year ago . . . It is even said that in Detroit, the Chrysler Corporation number two Eugene Cafeiro is looking to the British example of worker involvement as a model for theories he wants to develop in Chrysler worldwide.' (*Guardian* 10.3.77)

No wonder Detroit has its eyes on Coventry. Productivity on the Alpine model at Ryton has zoomed: from 58.4 man hours per vehicle in September 1976 to 36.4 man hours per vehicle by the end of 1976. By the end of 1977, management expect to get the figure down to 32.1 man hours – almost reaching the 28 man hours per vehicle at Chrysler France's plant at Poissy.

So far the only companies negotiating planning agreements are those already involved with the government through receiving money from the National Enterprise Board. But if Chrysler is anything to go by . . . it could catch on.

Camera Press

Queuing at the docks during a strike.

Productivity deals

The stage seems set for Phase Three of the Social Contract to include provision for a new round of productivity deals.

The National Coal Board has already announced its plans to introduce a new productivity and incentives scheme. The **history of productivity deals in this country is one of relatively large wage increases being rapidly eroded by inflation, while the conditions that were sold and the changes in work practice that were accepted became a serious threat to job security, earnings, and above all trade union organisation within the workplace.**

The first and most celebrated productivity deal was at the Esso refinery at Fawley in 1960. It raised wages by 40%, making Fawley workers among the highest paid in the country. But by 1968 Fawley had become one of the lowest paid refineries in the country, as a result of the loss of shop floor control, and Esso was able to negotiate a new deal with radical extensions of flexibility and a reduction in manning.

By 1970 over five million industrial workers were covered by productivity deals. Every productivity deal has a set of basic components – which, according to one industrial relations expert, include the following: reductions in non-working time at each end of shifts, at breaks and between jobs; greater flexibility in the deployment of labour; completion of work to schedule even if there is no follow on work available; the elimination of mates for craftsmen; reduction in lateness and absenteeism; elimination or reduction in claims for Special Allowances; the maintenance of a specified tempo of working; the gradual removal of intertrade barriers-demarcation. (A Productivity Symposium p.23)

Productivity deals change all conditions of work. As Sir Peter Runge, Joint Vice-Chairman of Tate & Lyle put it: 'Productivity deals . . . trade a new way of work (and life) for a new wage structure'. Because they aim at a total change in work practices, the signing of a productivity agreement only marks the beginning of work study, flexibility and all the other implications, although it ends the discussion on pay. Any illusions about being able to 'bend' such an agreement in the workers' interests are soon dispelled by the later stages of such an agreement.

Because productivity bargaining will be a soft option under any Phase 3 agreement, both right and left wing trade union leaders are inclined to support it. Right wing leaders are prepared to get extra money for their members by selling conditions. Left wing leaders can oppose a further round of the social contract, while not defending workers' conditions.

By reorganising payments systems in such a way as to remove from the bargaining table the issues around which stewards have traditionally argued, and gained their strength, productivity deals fundamentally limit shop stewards' organisation.

Conclusion

The battle for higher productivity takes many forms. In some places employers are trying to remove bargaining from the control of the shop floor, to weaken or integrate shop stewards organisation, to raise productivity without raising wages. Workers have resisted. So far the management of British Leyland has failed to win a national wage structure. 'Once they get a national negotiating structure, they can set manning levels, production targets and so on for the whole of the car division. And the shop steward's job on the shop floor will be gone. Shop floor control over work conditions will be gone.' (A Leyland worker).

Fightback

Will there be a third phase of the Social Contract, and will it hold? What will it look like?

The first three months of 1977 have seen some significant attempts to break out of the government's wages straitjacket. Opposition to these attempts has come from union executives as well as employers, government and TUC. The support that these unofficial disputes have received from fellow workers is some indication of the extent of the groundswell of resistance to any further wage restraint.

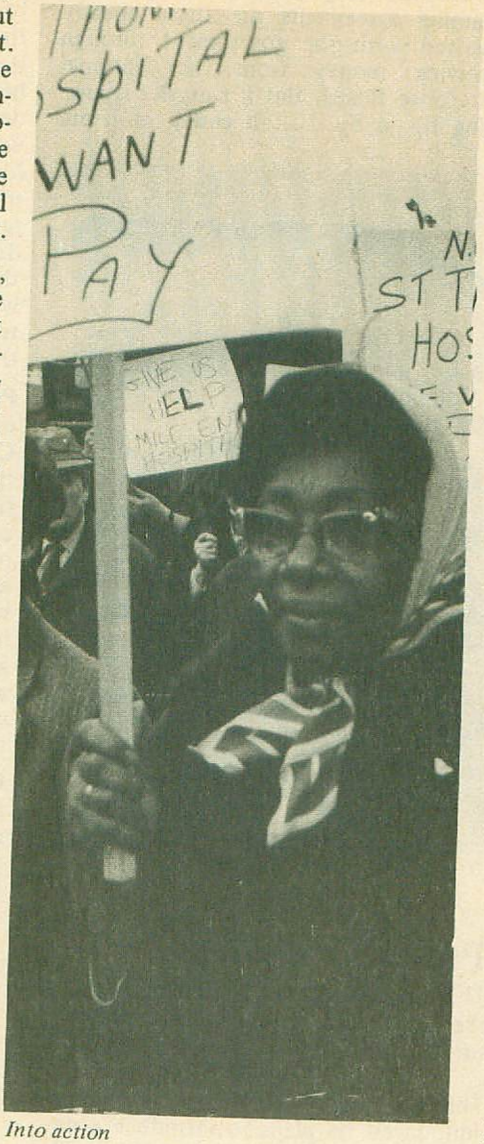
At the Leyland toolroom workers strike, Hugh Scanlon and Eric Varley were jeered and heckled by the engineers. At British Steel's vital Port Talbot plant, electricians struck despite the concerted opposition of their own union, the EEPTU, and the TUC Steel Committee. Support from other British Steel plants at Llanwern, Scunthorpe, Durham and Sheffield was crucial in enabling the strikers to hold out. At Heathrow too, maintenance engineers demanding higher shift pay allowances had to take on not only the employer and their own national executive, but the 14 other unions working at the airport as well. Once again, support from other workers was critical.

Intolerable

As well as these disputes there have been other indicators of growing hostility to the Social Contract. Two major conferences in March and April 1977 which demanded an immediate return to free collective bargaining attracted over a thousand delegates each, representing many of the most powerful sections of the labour movement. Agendas at union conferences were weighed down with resolutions from all over the country calling for an end to wage restraint. At the NUJ conference in Ilkley, while the Executive managed to win a narrow victory calling for a 'planned' return to free collective bargaining, rather than an 'immediate' one – conference agreed to submit a claim for £30 across the board for all provincial journalists.

The Fords shop stewards committee has called for 15% increases, on top of consolidation of the Social Contract rises into the basic rate, with recognition of skills and differentials, and threshold payments tied to the cost of living. They say they will pursue this claim regardless of any TUC commitment.

What are the prospects? On the one hand, loyalty to union leaders and the Labour government goes very deep. Another well orchestrated run on the pound, and the hysteria so easily produced in such a situation should certainly not be ruled



Camera Press

Into action

out. On the other hand, there are groups of workers whose situation is intolerable.

The series of strikes by skilled workers demanding, at the minimum, separate bargaining rights has brought the question of differentials into the centre of attention. In many industries, and in engineering in particular, a large proportion of wages is made up of locally negotiated bonuses and premiums. The erosion of differentials has meant disproportionate wage cuts for some, and an increasing emphasis on bonuses and premiums, like shift pay allowances and so on. Even the most rigid proponents of the Contract recognise that something must be done about differentials, hence the talk of 'kitty bargaining'. Under kitty bargaining companies would be allowed to increase their total wages bill by a fixed percentage, and divide it up between various groups of workers as they saw fit.

Anomalies are another area where pressure is building up against the Contract. Many groups of workers have failed to receive the rises by which their parity with fellow workers is normally maintained. As after other periods of wage restraint these groups will be in the forefront of the fightback.

On All Fronts

For the low-paid (those who, according to the supporters of the Contract have done so well out of it) perhaps the most important issue is that of consolidation. The rises of phases one and two have been supplements on top of the week's wage – they have not been consolidated into the basic wage and do not count in calculating overtime rates. For workers doing a lot of overtime, this consolidation into the basic rate could mean an extra £5 or £6 a week in hand immediately.

The architects of the Contract have no intention, however, of allowing the kitty to be large enough to resolve all grievances about differentials and anomalies. Albert Booth, Secretary for Employment made this clear in a speech to the Electrical Power Engineers Association on April 4th.

The difficulties of agreeing and enforcing another round of pay restraint are fairly clear. But the government has other options open to it. One possibility is that it can allow a fairly open wages agreement in the private sector – with sufficient flexibility, allowances for productivity deals, and so on to mean an effective return to free collective bargaining in private industry. It then, by the ruthless imposition of cash limits in the public sector, enforces public sector wage restraint, further redundancy and sufficient monetary savings to go on boosting company profits by giant cash handouts.

Other possibilities include rigid control of the money supply. It means that far from producing 'confetti money', as Jack Jones warns, the government can make sure that higher wages lead to higher unemployment. Support for those facing redundancy at firms such as Plessey and Courtaulds will be just as important as that for the workers at Heathrow and British Leyland, and for those in the public sector.

The fight over the Social Contract must not only take place over wages. It will have to be fought over the questions of redundancy and unemployment, productivity and cuts in the social services.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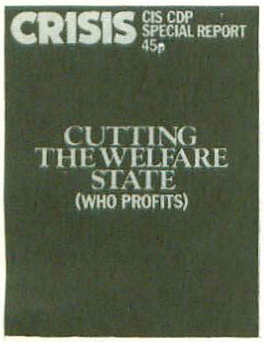

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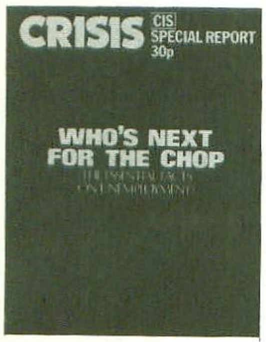

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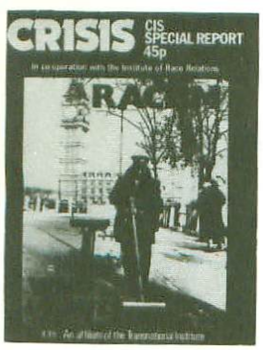

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