Missing Agenda

In the lead-up to the national elections in the early part of next year, Britain's Labour Party has forsaken arguably the most important part of modernising and reforming government in the 1990s—an incomes policy. Labour is convinced that experience shows such policies are unworkable and that their advocacy in the run-up to a General Election is political suicide.

The Shadow Chancellor of the Exchequer, John Smith, has also committed Labour not to devalue the pound within the European exchange rate mechanism (ERM), even though it is widely perceived that the current target for the pound is unsustainable. At the same time, Labour's plans for increased public spending and economic modernisation are predicated on funding higher levels of expenditure out of the tax receipts from economic growth.

But is a period of sustained growth in output and domestic demand possible with such policy commitments? Will an expansionary policy not be choked-off relatively rapidly by the effects of inflationary wage settlements? The decentralisation of wage bargaining in the UK since 1979 has left the country with a strong propensity to money wage inflation and this propensity will revive if there is a modest recovery, even with 2.5 million unemployed.

These problems have been exercising the minds of Labour and trade union policy makers. Three possible solutions have begun to emerge. The first is the claim that ERM membership will inevitably control wage settlements; firms and unions, it is argued, will see that wage increases over and above those of Britain's competitors will make UK firms uncompetitive by driving up unit labour costs and pricing UK workers out of jobs. The problem is that, given shortages of skilled labour, the most successful firms' wage increases will be passed on to other firms desperate to motivate and retain labour. Unions will push as far as they are able, and management will tend to concede if their order books are filling up and they fear loss of output today more than the long run effects of higher wages. In short, this view presupposes responsible wage bargaining at the firm level if it is to work in an expansionary context—yet UK unions are quite unused to looking to the long-term or trusting management assessments of what they can afford. Thus ERM management cannot be the panacea Labour claimed it was in its 1990 policy document Looking to the Future.

This is where the second solution, 'supply-side socialism', comes in. This option envisages unblocking the inflationary constraints on the supply-side by emphasising training policy, productivity-enhancing measures and investment. Training, it is argued, will increase the supply of suitably skilled labour and thus ease the labour market pressures towards higher wages, enabling the unemployed to re-enter the labour market. Increased labour productivity and capacity enhancing investment will increase the supply of goods on the UK domestic market. This will help to hold prices down and ease the tendency for the economy to overheat and suck in inputs during a period of expansion. Enhanced productivity will make it possible for firms to concede wage rises without increasing labour costs. The effect of these policies, it is argued, would be to move the UK toward the position of a high wage, high skill, high productivity economy like Germany.

The problem with such a policy is not that it is wrong per se but that it suffers from a time constraint. It is at best a medium term policy. The public and private investment it envisages will take 2-5 years to bear fruit. The public components of the policy require large expenditures on training and support for industry which cannot be achieved without either large short-term increases in taxation or higher revenues from rapid economic growth. It thus requires an expansionary policy, both in order to fund public expenditure and because private managements will not make major investments to enhance productivity and capacity unless they are confident that growth will be sustained. And the supply-side policy is subject to a severe constraint in the short term because in the present climate of decentralised bargaining workers are unlikely to forgo immediate gains.

This is why the advocates of the third solution, Co-ordinated Pay Bargaining, are growing in strength and vociferousness, particularly in the public sector unions. Co-ordinated Pay Bargaining (CPB) is an attempt to synchronise pay settlements and to get management and unions as 'social partners' to enter into a relationship of dialogue and
co-operation. CPB rests on a voluntary process whereby government and social partners develop a National Economic Assessment (NEA) of the performance of the economy in the coming year and the range of sustainable wage settlements. The government announces its spending plans in its autumn statement, the vast majority of wage deals are then concluded in a relatively short period in January and February, and are followed by the Budget. Synchronisation of pay settlements, its proponents argue, will prevent ‘leap-frogging’, whereby groups of workers seek to obtain better deals or to match them in order to maintain relativity and where the losers in last year’s round seek to catch up in the current year.

The NEA, it is claimed, will provide a reference point for responsible employers and unions, encouraging workers to think in terms of what the country can afford. CPB seeks to copy the forms of incomes policy through voluntary commitments and overcoming the worst defects of decentralisation without state compulsion.

It is attractive to public sector unionists in particular: firstly, because a pay free-for-all tends to leave them permanently behind the private sector; and, secondly, because without some measure of pay restraint a National Minimum Wage, which they support, will be undermined by stronger unions seeking to restore differentials eroded by pay rises for the lower paid. CPB is violently unpopular with predominantly private sector unions like the electricians (the EEPTU), who see it as a restraint on free collective bargaining and a threat to the incomes of their members in Britain’s most productive and profitable firms.

The real problem with CPB is that it requires unions and employers’ associations to behave with some discipline and put the outcome for the national economy into the frame of their own actions. But decentralisation in the 1980s has also been accompanied by the dissolution of the employers’ associations, the Trades Union Congress (TUC) and even the national unions as bodies capable of exercising discipline. None of these bodies has the power or means of persuasion to get firms or groups of workers voluntarily to comply with the norms of National Economic Assessment. Ironically, to be successful, the CPB needs the very co-operation and compliance for the absence of which it is supposed to be a solution. It would only take the determined behaviour of quite small groups of workers to bring the whole thing down.

Co-ordinated Pay Bargaining is a desirable objective. The problem in the British context is that voluntary compliance is just not robust enough to deliver it. Labour would therefore be forced back on one of two tough options: either accepting that a period of sustained expansionary policy is impossible and that policy objectives must be scaled down as a result; or, accepting that some form of state-sanctioned incomes policy is a prerequisite for a policy of growth and economic modernisation. A return to the unpopular form of incomes policy which prevailed in Britain in the 1970s is impossible.

However, there are other options. One is to reinforce CPB by a tax-based incomes policy (TIP). A TIP with flexible norms would still leave firms and unions with a great deal of freedom of manoeuvre. Firms could reward highly productive and skilled employees with above average pay increases and avoid tax liabilities if the firms’ overall settlement were below the rate that attracted penalties. Firms could also choose to pay more and accept the penalties if they were productive and profitable enough. A TIP has the advantage that it imposes a tariff on non-compliance, but does not criminalise workers or prevent them from bargaining.

Employers may be reluctant to countenance a TIP that falls on them alone and leaves them to resist the wage pressures of their employees. However, a TIP that taxed employees too would be administratively cumbersome and politically unpopular. Given the short-horizon of some unions, it might be the only fully effective policy, however much it is resisted.

A TIP would achieve two objectives: the short-term one of controlling money wage inflation in order to achieve a period of restrained expansionary policy; the longer-term one of reinforcing the pressures toward the reform and re-centralisation of the institutions of wage bargaining.

A TIP would make Co-ordinated Pay Bargaining possible and increase its attractiveness to unions. Given the constraint which a TIP imposes on pay bargaining with employers, unions would seek trade-offs from public policy (along similar lines to the original model of the ALP-ACCTU Accord) in return complying with the objectives of CPB. They can also expect that, if they do comply, then the norms in the TIP will become less necessary and can be relaxed. A TIP is thus a valuable lever in promoting institutional reform. This was not the case with the unpopular 1960s and 1970s style incomes policies. Labour opinion is gradually evolving in the direction of the reform of the country’s wage bargaining institutions. But it will have to go one major, and difficult, stage further if it is to be effective. Labour is going to have to break its barrier of fear and its obsession with past failure in respect of incomes policy. A new style policy will be the only option if Labour is to become a modernising and reforming government in 1990s Britain.

PAUL HIRST is Professor of Social Theory at Birkbeck College, University of London. He is the author of After Thatcher and, with Jonathan Zevin, of An Incomes Policy for the 1990s.